Quad City Garage Policy Group
Audited Financial Statements
and
Supplementary Information
for the years ended June 30, 2007 and 2006

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Contents

Independent Auditor's Report

The Board of Members
Quad City Garage Policy Group
Rock Island, Illinois

We have audited the accompanying financial statements of the Quad City Garage Policy Group as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Quad City Garage Policy Group's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Quad City Garage Policy Group, as of the years ended June 30, 2007 and 2006, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2007 on our consideration of the Quad City Garage Policy Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements of the Quad City Garage Policy Group. The schedule of expenses compared to budget is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenses compared to budget has been subjected to the auditing procedures applied in the audit of financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Chicago, Illinois
October 16, 2007

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2007 and 2006

About the Financial Statements of Quad City Garage Policy Group

This section of the financial report presents management's discussion and analysis of the Quad City Garage Policy Group ("Group")'s financial performance during the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the Group's financial statements. The financial statements of the Group are presented on an accrual basis. Accounting principles used are similar to principles applicable in the private sector. The Group's basic financial statements consist of the Statements of Net Assets; the Statements of Revenue, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These statements are the measures used to evaluate the short-term and long-term outlook of the Group's finances and are used in conjunction with the Annual Budget, which is the Group's financial plan for the fiscal year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The Notes to the Financial Statements can be found on pages 13 - 18 of this report. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information is limited to this Management Discussion and Analysis and Schedule of Expenses Compared to Budget on pages 3 - 7 and 20 – 25 respectively.

Financial Highlights

- The operating loss being shown for the year ended June 30, 2007 is due to a combination of factors which should be recovered in fiscal year 2008:
  - Accrual of unrecorded vendor payables totaling $30,000. $23,000 of this was due to the discovery that the service contract for bus cleaning services with APEE, Ltd. had been under-billed for several years.
  - Adjustment for accrual of payroll and leave to actual of $10,000.

- From July 1, 2006 to June 30, 2007 the price paid for fuel varied from a low of $1.85 per gallon to a high of $3.05 per gallon. In April, after a two month test cycle, the Group made the decision to switch to B20**,** a mixture of 80 percent #2 ULS Diesel fuel and 20 percent bio-fuel, from the #1 ULS Diesel fuel that it had been using. While using the B20 fuel, the Group lowered its cost of fuel by approximately $0.20 per gallon. Fuel purchases in the fiscal year ended June 30, 2007 approximated 425,000 gallons. The Group expects to purchase a similar volume in fiscal year 2008, approximately 75 percent (319,000 gallons) of which will be the B20 bio-diesel. If the pricing difference remains at $0.20 per gallon, the Group should save approximately $63,700 over running #1 ULS Diesel fuel year-round. During the winter months the Group will continue to run #1 ULS Diesel fuel to prevent cold weather issues.

- During the 2007 fiscal year the Group completed the engine rebuild campaign on Davenport's fleet of six 1994-model Orion buses. Due to the City of Davenport's limited availability of spare vehicles the Group elected to utilize rebuilt engines, which were rebuilt by Interstate Detroit Diesel. This allowed the Group to reduce the amount of time each vehicle was out of service but increased the average cost of the rebuilds from around $8,500 each to approximately $14,000 each.

- There are currently four 1997-model New Flyer buses which have not yet had their engines rebuilt. Three belong to MetroLINK and one to the City of Davenport. These engines have been in service for approximately 500,000 miles each. It is almost certain that at least these four buses will need to have their engines rebuilt during fiscal year 2008. The current intention is to rebuild them in-house.

Statements of Net Assets

The Statements of Net Assets present the assets and liabilities of the Group similar to the private sector on an accrual basis. Revenues and expenses are recognized when incurred rather than when cash is paid or received. The difference between assets and liabilities as reflected on the Statements of Net Assets represents the financial position of the Group or the net assets. A comparative analysis of the Group's net assets is presented below (Table 1).

Table 1
Net Assets at June 30
(000's)

	2007	2006
Current and other assets	$ 231	$ 254
Inventories	522	506
Capital assets	8	3
Total assets	761	763
Current and other liabilities	240	207
Total liabilities	240	207
Net assets:		
Invested in capital assets	8	3
Restricted	0	0
Unrestricted	513	553
Total Net Assets	$ 521	$ 556

Overall Financial Position

For the year ended June 30, 2007, the Group's net assets decreased by 6.3 percent ($520,700 compared to $556,000). Unrestricted net assets used to finance the Group's operations decreased by 7.2 percent ($513,000 compared to $553,000). The Group has no restricted assets. This year's decrease of $35,100 in net assets is illustrated in the Changes in Net Assets schedule below (Table 2).

Table 2
Changes in Net Assets at June 30
(000's)

	2007	**2006**
Operating Revenues		
Sale of Maintenance	$ 4,082.6	$ 4,068.7
Total Operating Revenue	4,082.6	4,068.7
Operating Expenses	4,126.7	3,912.1
(Deficit)/Surplus from Operations	(44.1)	156.6
Non-Operating Revenues		
Investment	.3	.4
Other	8.6	20.3
Total Non-Operating Revenue	8.9	20.7
Increase (Decrease) in Net Assets	($ 35.1)	$ 177.3

For the year ended June 30, 2007, the Group's operating revenue increased by 0.3 percent ($13,900). The Group's revenue is based on a direct reimbursement for expenses. Therefore, the increase in revenue is attributable to increased costs due to increased fuel and parts costs.

Investment income decreased 16 percent ($54) due to decreased cash balances in the operating account.

Total operating expenses increased 5.4 percent ($214,600) from 2006 to 2007. A few of the significant line item increases and/or decreases were as follows:

1. Accident repairs were 167 percent of the budgeted amount. This was due to a significant accident that occurred while the Group's employee who performs body work was out on medical leave. This required the repairs to be performed by a contractor, instead of in-house. This single repair was $11,000, the budget overage in this area.

2. Diesel fuel for the MetroLINK fleet was 84 percent of budget, or $123,500, under budget. There were at least two reasons for this. First, the Group began using bio-diesel to help control costs. Second, MetroLINK made a concentrated effort to run their compressed natural gas buses during the periods when fuel prices were at their highest. MetroLINK pays for their natural gas directly.

3. The contract maintenance of the shop was 76 percent of budget. This was primarily due to a timing issue. Necessary repairs to the generator were bid and approved during the 2007 fiscal year. However, due to parts availability, the repairs were not made until the 2008 fiscal year.

Budgetary Highlights

There were no differences between the original and final amended budgets for the fund.

Capital Assets

A comparative analysis of the changes in the Group's capital assets for the year ended June 30, 2007 is presented in Table 4. Net property, plant, and equipment increased by $5,000. The increase is due to the purchase of additional equipment offset by current depreciation. No capital assets were disposed of during 2007.

Table 4
Capital assets at June 30
(000's)

	2007	2006
Vehicle Maintenance	$ 11.4	$ 11.4
Installed Machinery & Equipment	86.3	80.6
Radio Equipment	0.0	0.0
Computer Equipment	0.0	0.0
Office Furniture & Equipment	69.9	69.9
Total Property, Plant & Equipment	167.6	161.9
Accumulated Depreciation	(159.9)	(159.2)
Property, Plant, & Equipment - Net	$ 7.7	$ 2.7

Additional information on the Group's capital assets can be found in Note H on page 15 of this report.

Fraudulent Transactions

In December 2003, management discovered that an employee of the Group was embezzling funds. Upon verification, the employee was terminated. The embezzlement loss exceeded $800,000. The Group referred the case to the Federal Bureau of Investigation, filed a claim with the Group's insurance carrier, and sought civil damages from the audit firm that failed to detect the embezzlement. The employee was charged with the embezzlement and convicted. To date, the Group has received approximately $142,500 towards the theft. The civil damages against the previous auditing firm were settled out of court in 2007 and those damages were awarded directly to the City of Davenport and to MetroLINK.

Economic Trends

As the new fleet ages and the units are no longer under warranty, the maintenance costs for both entities will likely continue to increase. Due to the age of the maintenance facility, wages, fringes, and contract maintenance, as well as materials and supplies for building maintenance may increase. As discussed earlier, the Group began using a bio-diesel mixture in the Spring of 2007. This fuel is cheaper than regular diesel, and has helped to keep the Group's fuel costs stable as overall fuel prices increase. In addition, increased metal prices are also affecting parts pricing; especially body panels and radiator cores.

Contacting the Group's Management

The financial reports of the Group provide an overview for the public of the financial accountability the Group maintains for the resources received. Further questions concerning this report should be directed to Matt Bean, Director of Maintenance, Quad City Garage Policy Group, 2929 5th Ave., Rock Island, IL 61201.

QUAD CITY GARAGE POLICY GROUP
Statements of Net Assets
at June 30, 2007 and 2006

	2007	2006
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 3,056	$ 14,021
Account receivable - City of Davenport	89,489	109,322
Account receivable - MetroLINK	135,171	128,531
Materials and supplies inventory	522,138	505,704
Prepaid expenses and other assets	3,125	2,806
Total current assets	752,979	760,384
Capital assets:		
Property and equipment	167,539	161,867
Less accumulated depreciation and amortization	(159,866)	(159,153)
Net capital assets	7,673	2,714
Total assets	$ 760,652	$ 763,098
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued expenses	$ 239,991	$ 207,301
Total liabilities	239,991	207,301
NET ASSETS:		
Invested in capital assets	7,673	2,714
Unrestricted	512,988	553,083
Total net assets	$ 520,661	$ 555,797

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Statements of Revenue, Expenses, and Changes in Net Assets
for the years ended June 30, 2007 and 2006

	2007	2006
OPERATING REVENUE:		
Revenue from sale of maintenance services	$ 4,082,622	$ 4,068,680
OPERATING EXPENSES:		
Wages and related employee benefits:		
Wages	784,025	710,913
Paid time - holiday, sick, vacation and other	182,748	164,656
Group medical, life and disability insurance	251,141	232,967
Pensions	56,102	51,229
Social security and other payroll taxes	80,103	71,405
Worker's compensation	25,503	24,128
Other	11,276	11,587
	1,390,898	1,266,885
Other operating expenses:		
Materials and supplies consumed	839,872	751,038
Fuel and oil consumed	1,108,363	1,140,333
Contract services	572,527	521,743
Utilities	147,852	169,039
Casualty and liability insurance	24,186	24,553
Lease and rental	17,774	19,747
Depreciation	713	493
Miscellaneous	24,482	18,231
	2,735,769	2,645,177
Total operating expenses	4,126,667	3,912,062
Operating income (loss)	$ (44,045)	$ 156,618

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Statements of Revenue, Expenses, and Changes in Net Assets (Continued)
for the years ended June 30, 2007 and 2006

	2007	2006
NONOPERATING REVENUES:		
Other income	$ 8,574	$ 20,261
Interest income	335	390
Total nonoperating revenues	8,909	20,651
Increase (decrease) in net assets	(35,136)	177,269
BEGINNING OF YEAR NET ASSETS	555,797	378,528
END OF YEAR NET ASSETS	$ 520,661	$ 555,797

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Statements of Cash Flows
for the years ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for sale of maintenance services	$ 4,095,818	$ 3,913,288
Wages and benefits paid to employees	(1,388,238)	(1,250,503)
Payments to suppliers for goods and services	(2,721,782)	(2,726,204)
Net cash (used) by operating activities	(14,202)	(63,419)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Repayment of loans to MetroLINK	0	(60,321)
Other receipts	8,909	20,651
Net cash provided (used) by non-capital financing activities	8,909	(39,670)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash (used) for puchase of capital assets	(5,672)	0
Net cash provided (used) by capital and related financing activities	(5,672)	0
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,965)	(103,089)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	14,021	117,111
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,056	$ 14,021

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Statements of Cash Flows
for the years ended June 30, 2007 and 2006

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	$	(44,045)	$	156,618
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:				
Depreciation		713		493
Decrease (increase) in accounts receivable		13,193		(155,392)
Decrease (increase) in materials and supplies inventory		(16,434)		(83,867)
Decrease (increase) in prepaid expenses and other assets		(319)		5,979
Increase (decrease) in accounts payable and accrued expenses		32,690		12,750
Net cash (used) by operating activities	$	(14,202)	$	(63,419)

The accompanying notes are an integral part of these financial statements.

QUAD CITY GARAGE POLICY GROUP
Notes To The Financial Statements

NOTE 1 – REPORTING ENTITY

The Quad City Garage Policy Group ("Group") was formed by the City of Davenport, Iowa and the Rock Island County Illinois Metropolitan Mass Transit District ("MetroLINK") under Chapters 34, 85, and 127 of the Illinois Revised Statutes and Chapter 28E of the Iowa Code in 1979. The purpose of the Group is to oversee and operate a joint maintenance and storage facility for transit revenue vehicles and related equipment. The Group uses a facility located in Rock Island, Illinois at 2929 Fifth Avenue. The facility has approximately 75,000 square feet and is jointly owned, 58% by MetroLINK and 42% by the City of Davenport. The facility is used by the Group rent-free.

The Group was created by virtue of a Joint Venture Agreement and is administered by a Board of Members ("Board") that acts as the authoritative and legislative body of the entity. The Board is comprised of seven members. Three members are appointed by MetroLINK and three members are appointed by the City of Davenport. The City of Davenport and MetroLINK alternate each year in which entity appoints the seventh member. Board members serve a term of one year; there are no term limits for reappointment. At each meeting, there are four voting members – two from MetroLINK and two from the City of Davenport. In addition, there are two alternate members and the Chairperson.

The Board annually appoints the Chairperson of the Board from existing board members. The Chairperson's responsibilities are to preside at all meetings of the Board; be the chief officer of the Group; perform all duties commonly incident to the presiding officer of a board, commission or business organization and exercise supervision over the business of the Group, its officers and employees.

The Board contracts for a Director of Maintenance for the Group. The contract for the Director is passed by resolution of the Board. The Director's main responsibility is acting as chief executive officer of the Group as prescribed by the Board.

In accordance with the requirements of Statement No. 14, The Financial Reporting Entity, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Group (the primary government and its component units). Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Funding of Operations

The Group is subsidized by MetroLINK and the City of Davenport based upon the amended Joint Ownership Agreement and Operating Rules for the Group dated May 23, 2000. The agreement has a term of 10 years ending June 20, 2010 and may be renewed or amended at anytime. In the event that the agreement is not renewed or amended upon its expiration, liquidation of all assets shall be made within 90 days.

B. Financial Reporting

The accompanying financial statements have been prepared using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. The financial components of the Group consist of one fund classified as an enterprise fund for financial reporting purposes.

C. Accounting for Proprietary Fund Activities

The Group applies to its enterprise funds all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB), issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements to the enterprise fund activities. FASB Statements issued subsequent to November 30, 1989 are not followed.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

E. Cash and Cash Equivalents

Cash and cash equivalents include all bank accounts with an original maturity of less than three months.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash Deposits

At June 30, 2007 the Group maintained its cash deposits at two Illinois financial institutions. This is due to a transition from one bank to another at the end of the fiscal year. All activity at the first bank has ceased as of August 2007. At June 30, 2007, the carrying amount of all deposits was $2,774. The Group's bank deposits are insured by Federal Depository Insurance up to $100,000 at each institution.

G. Materials and Supplies Inventory

Inventory is stated at the lower of cost (weighted average method) or market and includes items to support the Group's operations.

H. Capital Assets

Capital assets are stated at historical cost. An asset is capitalized if the cost is greater than $5,000 and has a useful life greater than one year.

Depreciation is provided on the straight-line method at rates that are designed to amortize the original cost of the property over its estimated useful life. The major categories of Group property in service and their estimated useful lives are as follows at June 30:

	Estimated useful life
Vehicle Maintenance – Group	5-10 years
Installed Machinery and Equipment	7-40 years
Office Equipment and Furniture	7 years

I. Compensated Absences

Employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Accumulated vacation at June 30, 2007 and 2006 was $38,289 and $34,732, respectively.

Two other types of compensated absences that the Group provides are sick leave and holiday hours. Sick leave automatically terminates on the day an employee quits or is terminated. However, if an employee retires, he or she is entitled to 70% of accumulated sick leave hours in excess of 720 up to 2,400 hours, as computed at his or her straight-time hourly rate. Holiday hours are lost at the end of the year if not taken. The Group had no vested sick leave as of June 30, 2007.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Net Assets

Net assets present the difference between assets and liabilities in the statements of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used by the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use or external restrictions by creditors, grantors, laws or regulations of the other governments.

K. Operating and Non-Operating Revenues

Operating revenues consist of sales of maintenance services to MetroLINK and the City of Davenport as described in the amended Joint Ownership Agreement and Operating Rules.

Non-operating revenues consist of miscellaneous receipts from sales of obsolete parts and insurance reimbursement as described in Note 7.

NOTE 3 – PENSION AND RETIREMENT BENEFITS

The Group contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50302-9117.

Through June 30, 2007 plan members were required to contribute 3.70% of their annual salary and the Group was required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. Beginning July 1, 2007 those percentages will increase over the next four years at the following rates:

	07/01/07	07/01/08	07/01/09	07/01/10
Member Rate	3.90%	4.10%	4.30%	4.50%
Employer Rate	6.05%	6.35%	6.65%	6.95%
Combined Rate	9.95%	10.45%	10.95%	11.45%

NOTE 3 – PENSION AND RETIREMENT BENEFITS (continued)

The Group's contributions to IPERS for the years ended June 30 were as follows:

	Contribution Amount	Contribution Percentage
2005	51,348	5.75%
2006	51,229	5.75%
2007	56,101	5.75%

NOTE 4 – CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2007 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 91,986	$ 5,672	$ 0	$ 97,658
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	161,867	0	0	167,539
Less accumulated depreciation for:				
Garage machinery and equipment	(89,272)	(713)	0	(89,985)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(159,153)	(713)	0	(159,866)
Capital assets, net	$ 2,714	$ 4,959	$ 0	$ 7,673

Capital Assets activity for the year ended June 30, 2006 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 91,986	$ 0	$ 0	$ 91,986
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	161,867	0	0	161,867
Less accumulated depreciation for:				
Garage machinery and equipment	(88,779)	(493)	0	(89,272)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(158,660)	(493)	0	(159,153)
Capital assets, net	$ 3,207	$ (493)	$ 0	$ 2,714

NOTE 5 – ENTITY RISK MANAGEMENT

The Group is exposed to various risks of loss during its operations. The Group maintains insurance coverage to protect against losses related to real and personal property, general liabilities, crime, automobile liabilities, workers' compensation and catastrophes. Management does not believe the uninsured risks are significant.

In the normal course of business, the Group may become a party to lawsuits in which they defend or settle such actions. When actions are deemed probable of settlement or loss, estimated provisions for losses are provided in the financial statements.

NOTE 6 – OPERATING LEASES

The Group leases office copiers on an annual basis. There is no commitment for future rental payments. Rent expense for these copiers for 2007 and 2006 was $17,774 and $19,747, respectively.

NOTE 7 – EMBEZZLEMENT LOSS

A former employee embezzled over $800,000 from the Group beginning in 2001 until its discovery in December 2003. The Group filed a claim with its insurance carrier and received $125,000 in 2005, which represented the full policy limit of coverage for employee dishonesty. In addition, restitution payments totaling $17,872 have been received to date. $358 of this amount was received during fiscal year 2007 and has been accounted for in non-operating revenue. A civil lawsuit was filed against the previous auditing firm and was settled out of court in 2007. The damages were awarded directly to the City of Davenport and to MetroLINK.

SUPPLEMENTARY INFORMATION

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
Vehicle operations:			
Fuel	$ 1,240,720	$ 1,067,934	$ 172,786
Oil	26,908	36,504	(9,596)
Anti-freeze	6,513	4,486	2,027
Tires	92,812	83,256	9,556
Total vehicle operations	1,366,953	1,192,180	174,773
Maintenance administration:			
Wages	184,705	157,270	27,435
Social security	16,218	12,740	3,478
Pension	12,190	9,765	2,425
Health insurance	51,500	44,248	7,252
Life insurance	1,354	998	356
Disability insurance	1,852	1,185	667
Unemployment	519	490	29
Workman's compensation	484	0	484
Sick leave	5,982	6,146	(164)
Holiday	6,356	5,954	402
Vacation	13,173	14,179	(1,006)
Other Paid Time	0	1,281	(1,281)
Uniform allowance	794	535	259
Other Fringe Benefits	0	210	(210)
Casual days	2,826	1,670	1,156
Professional services	108,212	105,360	2,852
Temporary help	500	1,301	(801)
Utilities	0	1,158	(1,158)
Miscellaneous	175	1,321	(1,146)
Total maintenance administration	406,840	365,811	41,029

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
Service equipment:			
Wages	$ 126,145	$ 126,475	$ (330)
Cleanup	3,447	2,283	1,164
Social security	6,500	4,921	1,579
Pension	4,800	4,477	323
Unemployment	650	601	49
Workman's compensation	2,500	0	2,500
Holiday expense	2,055	1,560	495
Uniform and tool allowance	1,500	886	614
Other fringe benefits	515	0	515
Break time	3,200	2,277	923
Casual days	869	458	411
Contract maintenance	187,214	210,835	(23,621)
Materials and supplies	49,725	48,079	1,646
Total service equipment	389,120	402,852	(13,732)
Inspection and maintenance:			
Wages	443,179	403,513	39,666
Cleanup	17,000	17,234	(234)
Training wages	7,500	5,716	1,784
Testing wages	4,000	0	4,000
Social security	48,433	59,064	(10,631)
Pension	36,359	41,860	(5,501)
Health insurance	211,308	195,440	15,868
Life insurance	3,300	4,160	(860)
Disability	5,025	5,110	(85)
Unemployment	2,596	2,287	309
Workman's compensation	26,387	25,503	884
Sick leave	25,000	27,133	(2,133)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
Inspection and maintenance (continued):			
Holiday expense	$ 27,000	$ 25,559	$ 1,441
Vacation	51,329	52,890	(1,561)
Uniform	7,000	6,531	469
Tool allowance	2,500	2,704	(204)
Other fringe benefits	750	410	340
Break time	35,000	36,507	(1,507)
Casual days	8,851	8,415	436
Professional services	2,000	0	2,000
Contract maintenance	44,772	53,868	(9,096)
Parts and supplies	574,052	577,460	(3,408)
Miscellaneous materials and supplies	26,500	43,852	(17,352)
Total inspection and maintenance	1,609,841	1,595,216	14,625
Accident repair:			
Wages	6,500	6,152	348
Contract maintenance	2,000	11,512	(9,512)
Parts	7,000	8,200	(1,200)
Total accident repair	15,500	25,864	(10,364)
Vandalism repair:			
Wages	500	148	352
Contract maintenance	983	1,437	(454)
Parts	1,125	30	1,095
Total vandalism repair	2,608	1,615	993
Servicing and fueling:			
Fuel and oil	4,157	3,925	232
Contract maintenance	2,000	0	2,000
Tires	850	0	850
Total servicing and fueling	7,007	3,925	3,082

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
Maintenance of service vehicles:			
Wages	$ 9,290	$ 11,316	$ (2,026)
Contract maintenance	650	0	650
Materials and supplies	1,200	3,570	(2,370)
Total maintenance of service vehicles	11,140	14,886	(3,746)
Maintenance of fareboxes:			
Wages	7,175	6,891	284
Materials and supplies	8,000	8,216	(216)
Total maintenance of fareboxes	15,175	15,107	68
Maintenance of shop, buildings, grounds, and equipment:			
Wages	41,500	45,746	(4,246)
Temporary help	500	0	500
Contract maintenance	45,000	34,424	10,576
Custodial services	55,000	53,864	1,136
Parts and supplies	100	1,936	(1,836)
Miscellaneous materials and supplies	50,000	46,304	3,696
Other expenses	400	1,000	(600)
Total maintenance of shop, building grounds, and equipment	192,500	183,274	9,226
Security service:			
Contract maintenance	4,500	2,267	2,233
Security system	1,000	25	975
Total security services	5,500	2,292	3,208

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
Injuries and damage premiums	$ 11,743	$ 9,113	$ 2,630
Personnel administration:			
Professional services	1,000	1,274	(274)
Employee physicals	1,750	3,050	(1,300)
Other expenses	2,500	3,417	(917)
Materials and Supplies	0	0	0
Total personnel administration	5,250	7,741	(2,491)
General legal services	25,750	72,543	(46,793)
General insurance:			
Premium - fire	14,471	14,409	62
Premium - fidelity	1,093	664	429
Total general insurance	15,564	15,073	491
Data processing services	500	537	(37)
Finance and accounting services:			
Finance and accounting services	15,500	17,350	(1,850)
Miscellaneous materials and supplies	158	0	158
Miscellaneous	0	5,038	(5,038)
Total finance and accounting services	15,658	22,388	(6,730)
Office management - materials and supplies	19,666	14,696	4,970

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2007

	Budget	Actual	Variance Favorable (Unfavorable)
General administration:			
Utilities	$ 170,194	$ 146,694	$ 23,500
Travel	1,250	0	1,250
Miscellaneous	17,010	16,374	636
Lease/rental	19,026	17,774	1,252
Total general administration	207,480	180,842	26,638
Total budgeted expenses	$ 4,312,656	$ 4,111,065	$ 201,591
Depreciation		713	
Total expenses		$ 4,111,778	

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Members
Quad City Garage Policy Group
Rock Island, Illinois

We have audited the accompanying financial statements of Quad City Garage Policy Group as of and for the year ended June 30, 2007, and have issued our report thereon dated October 16, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Quad City Garage Policy Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Quad City Garage Policy Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Quad City Garage Policy Group's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Quad City Garage Policy Group's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Quad City Garage Policy Group's financial statements that is more than inconsequential will not be prevented or deleted by Quad City Policy Group's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Quad City Garage Policy Group's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Quad City Garage Policy Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under Government Auditing Standards. However, we have issued a separate management letter regarding procedural items considered too immaterial for inclusion in the Schedule of Findings.

Comments involving statutory and other legal matters about the Group's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Group. Since our audit was based on tests and samples, not all transaction that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Quad City Garage Policy Group's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Association's responses, we did not audit Quad City Garage Policy Group's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of Quad City Garage Policy Group and other parties to whom the Group may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Chicago, Illinois
October 16, 2007

Quad City Garage Policy Group

Schedule of Findings

Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I. Lack of Internal Controls over Materials Inventory

Our audit found that a basic internal control of segregation of duties was not adequate over the Group's materials inventory. Segregation of duties requires that the functions of authorizing the procurement of an asset; custody of that asset; and recording of the asset should be separated. We found that the Group has one individual that is responsible for ordering, receiving, reconciling and adjusting the perpetual inventory system.

The current policy is that all purchases and adjustments require approval of the Group's manager. On a monthly basis, the Financial Specialist reconciles the inventory to the extended price book and general ledger. In addition, the Financial Specialist reviews the adjustment log to ensure that all adjustments to inventory were properly approved. All discrepancies, are investigated, documented and if necessary, corrected. However, despite these control procedures, the current controls can be circumvented. Since the Purchasing Manager is responsible for ordering, receiving and entering inventory into FleetNet, inventory ordered could be easily ordered and received and never recorded on the books. The lack of segregated duties and lack of controls over inventory are not adequate to deter theft or fraud.

Additionally, our audit testing revealed several instances where the unit prices in the perpetual inventory system did not agree with the supporting invoices. This is because the purchase orders do not contain the current unit price. The correct unit price is not changed in the perpetual inventory system until the actual invoice is received. This is a problem because if work is completed and billed out prior to the invoice being received, the part may be billed at an incorrect price. Management is addressing this issue by ensuring all purchase orders reflect current unit prices. Furthermore, a three-way match of purchase orders versus receiving documents versus invoices is not being performed. This is important because it ensures that all expenses are bona fide and were properly authorized prior to payment of invoice.

Recommendation – We recommend that the Group further segregate the duties over inventory control by having the Administrative Assistant responsible for all inventory adjustments. In addition, the purchase orders in the perpetual inventory system must contain the correct unit prices and a three-way match should be performed as a final control. Finally, the ordering and receiving functions should be separated.

Response – The Group recognizes the short-comings that have been identified and plans to initiate the following changes.

1. Effective January 2, 2008 all inventory adjustments will be completed in the following manner: The Procurement Manager will complete the Inventory Adjustment sheet and present it to the Director of Maintenance, or the Assistant Director of Maintenance, who will review and approve the form with a signature. The form will then be given to the Administrative Assistant to make the inventory adjustment. After the adjustment is made the Administrative Assistant will give the form to the Finance Specialist to verify against the adjustment log during her month-end process.

2. With the addition of the Assistant Director of Maintenance the Group will institute spot checks of the procurement process to include a 3-way check of the Purchase Orders, Receiving Documents, and Accounts Payables.

3. Although the Group understands the concern expressed with the same individual ordering and receiving parts, with the current staffing level and the minimal variance that occurs during the annual inventory, Management does not feel the risk outweighs the cost of the additional staff that would be required.

Conclusion – We believe that the proposed changes will mitigate the risk.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.