QUAD CITY GARAGE
POLICY GROUP

Audit of Financial Statements
and Supplementary Information
for the years ended

June 30, 2012 and 2011

MCGOVERN & GREENE LLP

Certified Public Accountants & Consultants

200 W. JACKSON BLVD. SUITE 2325
CHICAGO, ILLINOIS • 60606
TELEPHONE: (312) 692-1000 • FAX: (312) 692-0128

www.mcgoverngreene.com

QUAD CITY GARAGE POLICY GROUP

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Contents

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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, 2012 and 2011, 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 the 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, 2012 and 2011, and the respective changes in its financial position and its cash flows thereof, 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 18, 2012 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 22 through 26 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGovern & Greene LLP

Chicago, Illinois
October 18, 2012

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2012 and 2011

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's ("Group") financial performance during the fiscal years ended June 30, 2012 and 2011. 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 Activities; 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 Statements of Net Assets reports the difference between assets and liabilities as net assets. Assets are reported in order of liquidity, or how readily they are expected to be converted to cash, and whether restrictions limit the Group's ability to use the resources. Liabilities are reported based on their maturity, or when cash is expected to be used to liquidate them. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. These statements can be found on page 9 of this report.

The Statements of Activities distinguishes between operating and nonoperating revenues and expenses. It reconciles fund net assets at the beginning and end of the financial period, explaining the relationship between these statements and the Statements of Net Assets. The Statements of Activities can be found on pages 10-11 of this report.

The Statements of Cash Flows provides relevant information about the cash receipts and cash payments of the Group during the period. It categorizes cash activity as resulting from operating and noncapital financing activities. The total cash generated or used reconciles the prior year cash balance to the current year cash balance as shown on the Statements of Net Assets. These statements can be found on pages 12-13 of this report.

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 14-20 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's Discussion and Analysis and the Schedule of Expenses Compared to Budget on pages 3-8 and 22-26, respectively.

Financial Highlights

The Group is showing a net operating loss for the fiscal year ended 2012 and 2011 of ($12,098) and ($18,089), respectively. Both are largely due to year end-only accruals for expenses like unrecorded accounts payable. The accruals are required to properly move the effect of expenses that were recorded in the subsequent year from that year to the current one. However, the accruals do not affect invoicing which results in a gain or loss for the current year that is offset in the following. For example:

- The June 30, 2011 there was no accrual for unrecorded accounts payables so there was no effect on the operating loss. However, the year-end adjustments for things like depreciation and prepaid insurance totaling $16,046 were not offset by additional invoicing. Without these adjustments the operating loss would have been only ($2,043)

- The June 30, 2012 accrual for unrecorded accounts payable was $24,560, an increase of $8,514 from the previous year's accrual. This increase increased the expenses in 2011 without affecting the invoicing. Additionally, the accrual for unpaid wages decreased by $3,877, decreasing the corresponding wage expense. Without these adjustments the Groups' financial reporting would have shown an operating gain of $8,585.

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 earned and when incurred rather than when cash is received or paid. The differences between assets and liabilities as reflected on the Statements of Net Assets represent the financial position of the Group or the net assets. A comparative analysis of the Group's net assets is presented below (Table 1).

Statements of Net Assets (concluded)

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

	2012	2011
Current and other assets	$ 422	$ 280
Inventories, net	612	552
Capital assets	8	10
Total assets	1,042	842
Current and other liabilities	576	370
Total liabilities	576	370
Net assets:		
Invested in capital assets	8	10
Restricted	0	0
Unrestricted	458	461
Total Net Assets	$ 466	$ 471

Overall Financial Position

For the year ended June 30, 2012, the Group's net assets decreased by 1.1 percent ($466,044 compared to $471,203). Unrestricted net assets used to finance the Group's operations decreased by 0.6 percent ($458,259 compared to $461,160). The Group has no restricted assets. This year's decrease of ($5,159) in net assets is illustrated in the Changes in Net Assets schedule below (Table 2).

Overall Financial Position (continued)

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

	2012	2011
Operating Revenue		
Sale of Maintenance	$ 5,244.0	$ 5,171.6
Total Operating Revenue	5,244.0	5,171.6
Operating Expenses	5,256.1	5,189.7
Operating loss	(12.1)	(18.1)
Non-Operating Revenues		
Other	6.9	5.0
Total Non-Operating Revenue	6.9	5.0
Increase (Decrease) in Net Assets	$ (5.2)	$ (13.1)

For the year ended June 30, 2012, the Group's operating revenue increased by $72,441. The Group's revenue is based on a direct reimbursement for expenses. Therefore, the increase in revenue is attributable to increased costs of maintenance parts, and the previously identified year-end loss elements.

Total operating expenses increased by $66,450, or almost 1.3 percent, from 2011 to 2012. A few of the significant line item increases and/or decreases were as follows:

- Wages, including fringe benefits, decreased overall by just under 0.5 percent, or ($5,537). The overall decrease is broken out as follows:
  - ($ 1,597) decrease in regular wages
  - $ 4,391 increase in overtime wages; and
  - ($ 8,330) decrease in other paid time such as sick and vacation leave.

- Employee benefits, including group medical, life and disability insurance have increased in 2012 by 4.8 percent, or $43,626. This was much lower than the approximately 22 percent increase that affected the Group in FY 2011 due to increased insurance premiums and was more in line with the approximately 5 percent increase experienced in FY 2010.

- Materials and supplies decreased by 11.1 percent, or ($143,722) in FY 2012. This was much lower than the 15.3 percent or $172,587 increase experienced in FY 2011. $65,271 of the FY 2011 increase was due to an allowance for obsolete and excess inventory, which remains unchanged in FY 2012. Even after removing the effect of the allowance, FY2011 experienced an increase of $107,316 compared to FY 2012's decrease of ($143,722). The decreased material needs are due to the overall younger age of the fleet since the retirement of older models in FY 2011.

- Fuel and other consumable costs have increased 15.6 percent from 2011 to 2012. The expenditures for diesel fuel in FY 2012 were $1,180,952 as compared to $1,021,183 in FY 2011, a $159,769 increase. The increased cost is attributable to the volatility of pricing in the diesel market.

Budgetary Highlights

There were no differences between the original and final amended budgets for the fund. The total operating expenses were $395,759 higher than budgeted. The variance generally represents an unanticipated increase in regular inspection and maintenance, which had fallen behind schedule in previous years.

Capital Assets

A comparative analysis of the changes in the Group's capital assets for the year ended June 30, 2012 is presented in Table 4. Net property, plant, and equipment decreased by $2,258. The decrease is solely due to depreciation on the capital assets. There were no additions or disposals during the FY 2012.

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

	2011	2011
Vehicle Maintenance	$ 11.4	$ 11.4
Installed Machinery & Equipment	95.8	95.8
Office Furniture & Equipment	69.9	69.9
Total Property, Plant & Equipment	177.1	177.1
Accumulated Depreciation	(169.3)	(167.1)
Property, Plant, & Equipment - Net	$ 7.8	$ 10.0

Capital Assets (concluded)

Additional information on the Group's capital assets can be found in Notes 2(I) and 4 on pages 16 and 18 of this report.

Economic Trends

With the retirement of the older models and the injection of new buses which are covered by warranty, the maintenance costs for both entities will likely stabilize, increasing in line with increases in material prices. Due to the age of the maintenance facility, costs associated with its maintenance: wages, fringes, and contract maintenance, as well as materials and supplies will likely increase.

The Group anticipates price increases for fuel and parts in the coming year.

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 Kevin Randall, 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,

		2012		2011
ASSETS:				
Current assets:				
Cash and cash equivalents	$	142,161	$	60,926
Account receivable - City of Davenport		263,732		206,587
Materials and supplies inventory, net of allowance for excess and obsolete inventory		611,752		552,113
Prepaid expenses and other assets		16,745		12,011
Net current assets		1,034,390		831,637
Capital assets:				
Property and equipment		177,098		177,098
Less accumulated depreciation and amortization		(169,313)		(167,055)
Net capital assets		7,785		10,043
Total assets	$	1,042,175	$	841,680
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	$	205,870	$	167,930
Account payable - MetroLINK		370,261		202,547
Total current liabilities		576,131		370,477
Total liabilities		576,131		370,477
NET ASSETS:				
Invested in capital assets		7,785		10,043
Restricted		-		-
Unrestricted		458,259		461,160
Total net assets	$	466,044	$	471,203

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

QUAD CITY GARAGE POLICY GROUP
Statements of Activities
for the years ended June 30,

	2012	2011
OPERATING REVENUE:		
Revenue from sale of maintenance services	$ 5,244,030	$ 5,171,589
OPERATING EXPENSES:		
Wages and related employee benefits:		
Wages	1,229,752	1,235,289
Group medical, life and disability insurance	442,172	423,913
Pensions	103,305	85,284
Social security and other payroll taxes	105,185	99,997
Worker's compensation	64,565	54,385
Other	15,937	15,629
	1,960,916	1,914,497
Other operating expenses:		
Materials and supplies consumed	1,156,626	1,300,348
Fuel and oil consumed	1,180,952	1,021,183
Contract services	762,069	749,861
Utilities	124,267	133,790
Casualty and liability insurance	25,668	23,518
Lease and rental	2,769	2,374
Depreciation	2,258	2,258
Miscellaneous	40,603	41,849
	3,295,212	3,275,181
Total operating expenses	5,256,128	5,189,678
Operating (loss)	$ (12,098)	$ (18,089)

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

QUAD CITY GARAGE POLICY GROUP
Statements of Activities
for the years ended June 30,

	2012	2011
NONOPERATING REVENUES:		
Other income	$ 6,938	$ 4,966
Interest income	1	1
Total nonoperating revenues	6,939	4,967
(Decrease) in net assets	(5,159)	(13,122)
BEGINNING OF YEAR NET ASSETS	471,203	484,325
END OF YEAR NET ASSETS	$ 466,044	$ 471,203

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,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 5,354,599	$ 5,208,311
Cash payments to employees for services, including benefits	(1,977,580)	(1,901,549)
Cash payments to suppliers for goods and services	(3,302,723)	(3,281,789)
Other operating activity cash receipts	6,938	4,967
Net cash provided by operating activities	81,234	29,940
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	1	1
Net cash provided by investing activities	1	1
NET INCREASE IN CASH AND CASH EQUIVALENTS	81,235	29,941
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	60,926	30,985
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 142,161	$ 60,926

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,

	2012	2011
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	$ (12,098)	$ (18,089)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	2,258	2,259
Other income	6,938	4,967
(Increase) in accounts receivable	(57,145)	(103,582)
(Increase) decrease in materials and supplies inventory	(59,639)	50,626
(Increase) in prepaid expenses and other assets	(4,734)	(1,018)
Increase in accounts payable and accrued expenses	205,654	94,777
Net cash provided by operating activities	$ 81,234	$ 29,940

The accompanying notes are an integral part of these 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 directly and jointly owned 58% by MetroLINK and 42% by the City of Davenport. These entities allow the Group to use the facility rent-free.

The Group is administered by a Board of Members ("Board") that acts as the authoritative and legislative body of the entity. The Board is generally 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. The other three members include the Chairperson and two alternates. No alternates were appointed for 2012 or 2011, reducing the number of Board members to five for these years.

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 and an Assistant Director of Maintenance for the Group. The contracts are 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. The Assistant Director's main responsibility is overseeing operations and providing support to the Director as needed.

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

The most significant of the Group's accounting policies are described below:

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 latest extension of the agreement has a term of 5 years ending June 20, 2015 and may be renewed or amended at any time. 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 Enterprise Fund Activities

The Group applies to the enterprise fund activities 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. 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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the even of a bank failure, the Group's deposits may not be returned to it. The Group does not have a deposit policy for custodial credit risk. The Group maintained its cash deposits at one Illinois financial institution as of June 30, 2012 and 2011. The carrying amount of all deposits was $142,161 and $60,926 at June 30, 2012 and 2011, respectively. The Group's bank deposits are insured by Federal Depository Insurance up to $250,000 per institution, creating no custodial credit risk for these deposits.

G. Account Receivable

Account Receivable represent the amount owed to the Group by the City of Davenport for services provided as of the end of the period. As the City of Davenport is also one of the owners of the Group an allowance for doubtful accounts has been deemed unnecessary.

H. 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. An Allowance for Obsolete or Excess Inventory was recorded at June 30, 2011 of ($65,271) due to the retirement of older transit vehicles. No changes to the allowance were deemed necessary at June 30, 2012, so it remains ($65,271) as of that date.

I. 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, 2012 and 2011:

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

J. Compensated Absences

Employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Accumulated vacation at June 30, 2012 and 2011 was $35,958 and $39,835, 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 hours 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, 2012 and 2011.

K. 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.

L. 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, oil recycling and vending machine income.

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.

NOTE 3 – PENSION AND RETIREMENT BENEFITS (concluded)

Through June 30, 2012 plan members were required to contribute 5.38% of their annual salary and the Group was required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. Those percentages are scheduled to increase next year to the following rates:

	07/01/12
Member Rate	5.78%
Employer Rate	8.67%
Combined Rate	14.45%

IPERS has not determined contribution rates for July 1, 2013 and beyond as of the date of this report.

The Group's contributions to IPERS for the three (3) previous years ended June 30 were as follows:

	Contribution Amount	Contribution Percentage
2009	$ 71,338	6.35%
2010	$ 73,756	6.65%
2011	$ 85,284	6.95%

NOTE 4 – CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 107 217	$ 0	$ 0	$ 107,217
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	177,098	0	0	177,098
Less accumulated depreciation for:				
Garage machinery and equipment	(97,174)	(2,258)	0	(99,432)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(164,797)	(2,258)	0	(169,313)
Capital assets, net	$ 10,043	$ (2,258)	$ 0	$ 7,785

NOTE 4 – CAPITAL ASSETS (concluded)

Capital Asset activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 107 217	$ 0	$ 0	$ 107,217
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	177,098	0	0	177,098
Less accumulated depreciation for:				
Garage machinery and equipment	(94,916)	(2,258)	0	(97,174)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(164,797)	(2,258)	0	(167,055)
Capital assets, net	$ 12,301	$ (2,258)	$ 0	$ 10,043

NOTE 5 – RELATED PARTY TRANSACTIONS

The Group’s revenue from sale of maintenance services are derived from providing these services to the joint owners, MetroLINK and the City of Davenport. The associated asset, Accounts Receivable – City of Davenport, and liability, Due to MetroLINK, are also with these parties. The following shows the Group’s total invoicing to and balances due from (to) its joint owners as of June 30:

	2012	2011
City of Davenport:		
Sales of maintenance services	$ 1,526,844	$ 1,463,093
Account Receivable	$ 263,732	$ 206,587
MetroLINK:		
Sales of maintenance services	$ 3,717,186	$ 3,708,496
Due to MetroLINK	$ (370,261)	$ (202,547)

NOTE 6 – 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 7 – 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 2012 and 2011 was $2,769 and $2,374, respectively.

NOTE 8 – INSURANCE RECOVERY

The Group experienced damages to its electrical system and connected equipment due to a power surge in 2012. It expended $3,509 to repair the damage and submitted an insurance claim. Subsequently the Group recovered $2,509 from the insurance provider, representing the amount expended less the $1,000 deductible. The repair was recorded net of the recovery in 2012.

SUPPLEMENTARY INFORMATION

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
Fuel station maintenance			
Wages	$ 17,075	$ 23,868	$ (6,793)
Materials and supplies	30,349	25,818	4,531
Total fuel station maintenance	47,424	49,686	(2,262)
Vehicle operations:			
Fuel	1,047,126	1,128,340	(81,214)
Oil	46,645	48,501	(1,856)
Anti-freeze	7,158	10,445	(3,287)
Tires	106,230	91,189	15,041
Total vehicle operations	1,207,159	1,278,475	(71,316)
Maintenance administration:			
Wages	179,645	143,817	35,828
Training wages	894	0	894
Social security	14,549	13,569	980
Pension	15,161	14,144	1,017
Health insurance	67,336	45,462	21,874
Life insurance	930	851	79
Disability insurance	1,582	1,343	239
Unemployment	1,050	1,420	(370)
Sick leave	14,360	10,318	4,042
Holiday	6,915	5,242	1,673
Vacation	15,139	15,538	(399)
Uniform allowance	675	528	147
Casual days	2,235	1,955	280
Professional services	191,810	195,120	(3,310)
Temporary help	220	528	(308)
Utilities	1,900	1,860	40
Miscellaneous	3,500	4,284	(784)
Total maintenance administration	$ 517,901	$ 455,979	$ 61,922

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
Service equipment:			
Wages	$ 155,746	$ 151,802	$ 3,944
Cleanup	4,856	7,680	(2,824)
Social security	9,957	10,475	(518)
Pension	7,899	11,033	(3,134)
Unemployment	1,544	1,990	(446)
Holiday expense	1,957	2,214	(257)
Uniform and tool allowance	2,042	3,265	(1,223)
Break time	3,907	4,861	(954)
Casual days	914	1,622	(708)
Contract maintenance	306,479	304,682	1,797
Materials and supplies	33,338	36,980	(3,642)
Temporary help	0	517	(517)
Total service equipment	528,639	537,121	(8,482)
Inspection and maintenance:			
Wages	553,724	564,573	(10,849)
Cleanup	22,999	21,589	1,410
Training wages	8,650	2,708	5,942
Testing wages	700	1,116	(416)
Social security	65,419	73,334	(7,915)
Pension	65,706	78,128	(12,422)
Health insurance	353,548	382,137	(28,589)
Life insurance	4,459	4,430	29
Disability	7,811	7,949	(138)
Unemployment	6,773	4,398	2,375
Workman's compensation	61,747	64,565	(2,818)
Sick leave	29,738	29,694	44
Holiday expense	33,461	33,486	(25)
Vacation	52,939	48,242	4,697
Other paid time	4,140	2,090	2,050
Uniform	9,994	8,319	1,675

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
Inspection and maintenance (concluded):			
Tool allowance	$ 4,000	$ 3,825	$ 175
Other fringe benefits	165	0	165
Break time	47,264	47,543	(279)
Casual days	9,912	14,192	(4,280)
Contract maintenance	71,765	81,403	(9,638)
Parts and supplies	853,186	813,076	40,110
Miscellaneous materials and supplies	47,991	76,640	(28,649)
Utilities - telephone	315	323	(8)
Total inspection and maintenance	2,316,406	2,363,760	(47,354)
Accident repair:			
Wages	5,640	616	5,024
Contract maintenance	1,694	810	884
Parts	9,934	851	9,083
Total accident repair	17,268	2,277	14,991
Vandalism repair:			
Wages	37	0	37
Contract maintenance	1,694	229	1465
Parts	17	0	17
Total vandalism repair	1,748	229	1,519
Servicing and fueling:			
Contract maintenance	14	155	(141)
Fuel and oil	3,170	4,111	(941)
Tires	250	43	207
Total servicing and fueling	$ 3,434	$ 4,309	$ (875)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
Maintenance of service vehicles:			
Wages	$ 6,025	$ 13,594	$ (7,569)
Contract maintenance	5,500	6,946	(1,446)
Materials and supplies	6,762	13,082	(6,320)
Total maintenance of service vehicles	18,287	33,622	(15,335)
Maintenance of fareboxes:			
Wages	6,441	4,970	1,471
Materials and supplies	14,459	11,198	3,261
Total maintenance of fareboxes	20,900	16,168	4,732
Maintenance of shop, buildings, grounds, and equipment:			
Wages	67,126	76,420	(9,294)
Contract maintenance	73,075	56,360	16,715
Custodial services	57,601	58,843	(1,242)
Parts and supplies	3,285	642	2,643
Miscellaneous materials and supplies	61,642	64,170	(2,528)
Other expenses	1,218	1,002	216
Total maintenance of shop, building grounds, and equipment	263,947	257,437	6,510
Security service:	4,303	2,626	1,677
Injuries and damage premiums	$ 9,328	$ 11,540	$ (2,212)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
Personnel administration:			
Professional services	$ 5,100	$ 5,393	$ (293)
Employee physicals	4,600	2,328	2,272
Other expenses	4,425	4,415	10
Total personnel administration	14,125	12,136	1,989
General legal services	430	2,480	(2,050)
General insurance:			
Premium - fire	14,725	13,401	1,324
Premium - fidelity	714	727	(13)
Total general insurance	15,439	14,128	1,311
Data processing services	484	200	284
Finance and accounting services:	36,200	39,234	(3,034)
Office management - materials and supplies	7,995	9,783	(1,788)
General administration:			
Utilities	144,303	122,084	22,219
Travel	2,572	4,168	(1,596)
Miscellaneous	29,720	33,659	(3,939)
Lease/rental	3,298	2,769	529
Total general administration	179,893	162,680	17,213
Total budgeted expenses	$ 5,211,310	$5,253,870	$ (42,560)
Depreciation		2,258	
Total expenses		$5,256,128	

McGOVERN & GREENE LLP
Certified Public Accountants & Consultants

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*

To Board of Members and
Kevin Randall, Director of Maintenance
Quad City Garage Policy Group
Rock Island, Illinois

We have audited the financial statements of the business-type activities of Quad City Garage Policy Group ("Group") as of and for the year ended June 30, 2012, which collectively comprise the Group's basic financial statements and have issued our report thereon dated October 18, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Group is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit we considered the Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2012-01 through 2012-02
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2012-03 through 2012-08 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Group in a separate letter dated October 18, 2012.

The Group's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Group's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Members, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

McGovern & Greene LLP

Chicago, Illinois
October 18, 2012

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

MATERIAL WEAKNESSES

2012-01: Continued Variance Between General Ledger Accounts and Perpetual Inventory Records Creates Opportunity for Theft and Billing Issues.

At year end, two comparisons are made with regards to inventory – physical inventory to the perpetual inventory system, and physical inventory to the associated general ledger accounts. The difference between the physical inventory and the general ledger accounts was more than $65,000 at the end of Fiscal Year 2012. This value has been large for several years now and while it is corrected prior to the issuance of the financial statements, if it were not, it would represent a material misstatement. Additionally, these types of adjustments to inventory should be made an individual or department independent of the Procurement department, which manages the inventory

RECOMMENDATION
Management has implemented a cycle count system so the entire inventory is counted every two or three months. This should have helped with these misstatements, but the adjustments were not functioning properly in FleetNet, which prevented the cycle counts from actually affecting the general ledger balances. We recommend that Management have cycle count adjustments processed by another department, just like other inventory adjustments, to maintain proper segregation of duties. Additionally, Management should monitor the progress of the system to ensure the new process is having the desired effect.

MANAGEMENT'S RESPONSE:
The cycle count is still being done but now the variance is handled manually as the system will not allow it to be done through FleetNet.

CONCLUSION
Management's stated course of action should help to mitigate this risk as the manual adjustments are processed by the Senior Administrative Assistant.

2012-02: Lack of Controls over the Safeguarding of Accounting System Data

User logins continue to be an issue. The Senior Administrative Assistant still has two logins. There is no need for two separate logins, as every access right granted to the secondary login is included in the primary login. The stated cause for the second login is to enable her to help out in the Procurement department. Strong internal control requires that she log off of her main machine and log in on the Procurement Supervisor's machine while working there. By having two logins she may accidentally leave herself logged in on whichever machine she is not currently working at, undermining the internal control represented by the user access login.

Another issue is active users IDs for personnel who are no longer with the Group ("russd", "JuanR" and "davem"). While a fraudster would need both the login data and access to the systems, this is possible if an existing employee retains knowledge of the former personnel's user name and password. All accounts should be terminated or made inactive upon separation of the individual from the Group.

Other issues include the Parts Clerk being able to edit purchase orders; the Financial Specialist having the ability to adjust inventory levels and access to the Accounts Receivable module; and the Senior Administrative Assistant having the ability to generate a new Work Order. Overly broad access rights create too much exposure within the system to the possibility of employees manipulating and overriding data. Access should be limited to the exact needs of the position, and nothing more. This has become a material weakness due to the fact that this general topic has been identified as a significant deficiency previously and not been corrected.

RECOMMENDATION

Management needs to review user logins and access for minimum required access levels, and direct their Information Technology support at MetroLINK to implement the resultant changes. Once these changes have been made, Management should review the revised login access rights for agreement with their directions. The access rights then need to be reviewed on an ongoing basis to ensure they reflect any changes in position and authority over time.

MANAGEMENT'S RESPONSE

Management will meet with MetroLINK's FleetNet IT person and review the changes as suggested.

CONCLUSION

Management's stated course of action should help to mitigate this risk as long as it is accompanied by routine monitoring and updating for changes in the Group's personnel.

<u>**SIGNIFICANT DEFICIENCIES**</u>

2012-03: Expenses Not Recorded to Proper Fiscal Year Could Cause Material Misstatement.

Accrual accounting requires that expenses be recorded to the period in which they were incurred. This is especially important at the end of a fiscal year to ensure that all of the costs incurred in that year have been properly recorded to it. Our audit procedures identified 24 invoices totaling $24,560 which had been incurred in Fiscal Year 2012 based on shipping dates and terms, or the date the service was performed, but which were recorded to Fiscal Year 2013. By recording the expenses to the wrong period the financial activity of the Group is underreported in the current period and overreported in the subsequent period. This affects not only the Group, but also its owners/customers which need to accurately appropriate funds for each year.

RECOMMENDATION

Management needs to communicate proper cutoff procedures to the Finance Specialist and monitor subsequent activity for compliance with these procedures, ensuring expenses are recorded to the proper period.

MANAGEMENT'S RESPONSE

Management will go over the findings with the Finance Specialist to ensure they follow the proper cutoff procedures.

CONCLUSION

Management's stated course of action should help to mitigate this risk as long as it is accompanied by monitoring throughout the year.

2012-04: Payroll Authorizations Missing and Not Investigated Create Opportunity for Abuse.

The audit team observed three instances during its auditing procedures where supervisor authorization was missing. Mike Shannon's original timecard for July 12, 2012 included a handwritten entry for a "service Call" and was not initialed by the supervisor as required by the Group's policies and procedures. T.J. Vaughn's original timecard for July 30, 2012 showed 2 hours of overtime, which was not initialed by his supervisor as required by the Group's policies and procedures. The Daily Personnel Report for July 30, 2012 did not note Vaughn's overtime as required by the Group's policies and procedures. In addition, the Senior Administrative Assistant processed these payroll elements without having confirmed the missing authorizations with a supervisor, as required by the Group's policies and procedures.

The requirement for these authorization elements to be in place is designed to prevent abuse of the system. The Senior Administrative Assistant is supposed to verify any items without the approprate authorization because she has neither the responsibility nor authority to judge whether the time charged was acceptable. Ignoring these two important sets of controls seriously undermines the Group's attempts to prevent improper payment of its employees. This was also a finding in Fiscal Year 2011.

RECOMMENDATION

All payroll items requiring supervisory approval must be reviewed and either initialed or signed to document the supervisor's actions and approval. If a required authorization is not present, the Senior Administrative Assistant must not process the item until such approval has been obtained.

MANAGEMENT'S RESPONSE

Management reviews the payroll, including overtime, looking for discrepancies before it is sent to Sheakley for processing. Management will review controls to see what changes may need to be made.

CONCLUSION

Management's stated course of action should help to mitigate this risk.

2012-05: Work Order Labor Not Clearing Properly

Due to the complexities of the Group's system, a clearing account has been set up for the work order labor. As time is entered to work orders, it is recorded as an expense (a debit), and a credit to the clearing account. When payroll is entered, all work order time is entered as a lump credit to cash and debit to the clearing account. Thus, as soon as the time worked is both recorded and paid the balance in the clearing account should be zero. This allows for the expense to be entered in detail by the type of work, without burdening the payroll department with that volume of data entry. The balance should not be equal to zero at the end of a given period until the hours worked but not yet paid have been accrued. After the accrual through June 30, 2012, however, the clearing account had a debit balance of more than $9,000, a decrease of over $6,000 from last year. That indicates that roughly $9,000 of labor had been paid, but not yet recorded as an expense via work orders in Fiscal year 2012, which, while an improvement over Fiscal Year 2011, continues to represent a control issue. The balance was expensed during the FY2012 audit procedures at the direction of Management.

RECOMMENDATION

Management needs to review the balance in the clearing account at the end of each period to ensure that it is reasonably close to zero after all accruals for unpaid labor have been made. Any material variances should be investigated to ensure that all transactions are being captured and recorded correctly.

MANAGEMENT'S RESPONSE

The Senior Administrative Assistant is responsible for the clearing account. Management will ensure that they update the account at the end of each month and then Management will check for variances and investigate as needed..

CONCLUSION

Management's stated course of action should help to mitigate this risk.

2012-06: Returns of Inventory Items Being Recorded Twice Causes Misstatements.

The Procurement Supervisor requests that inventory adjustments to quantity and cost (in the general ledger) be recorded by the Senior Administrative Assistant when items are returned to the vendor for credit. However, when the resultant credit memo is received from the vendor, the Finance Specialist is also decreasing the inventory general ledger account. This means that the general ledger is being reduced by the cost of the returned item twice, misstating inventory. This is a significant deficiency because it could be material and was not detected by the Group's Management and personnel in the normal course of their duties.

RECOMMENDATION

Management needs to determine the proper way to record the return of inventory items and train its employees in the proper procedures.

MANAGEMENT'S RESPONSE

Management will contact FleetNet through MetroLINK to develop a program to ensure the credit memos are not being duplicated in the system.

CONCLUSION

Management's stated course of action should help to mitigate this risk.

2012-07: Physical Inventory Deviation Corrections Entered to Wrong Fiscal Year.

The Procurement Supervisor continued to research and resolve year-end physical deviation issues after finalizing the June 30, 2012 extended price book. He produced inventory adjustments to be entered by the Senior Administrative Assistant. These were entered to Fiscal Year 2013 instead of Fiscal Year 2012. The majority of the adjustments were dated July 5, 2012, so likely could have been entered to the proper fiscal year. However, this did not happen. The specific adjustments were not material, but could have been.

RECOMMENDATION

Management needs to communicate to its employees the importance of making such adjustments to the appropriate fiscal year to ensure that the related expense is correctly stated.

MANAGEMENT'S RESPONSE

Management will meet with the staff to go over this finding and review proper procedures to ensure they are being followed.

CONCLUSION

Management's stated course of action should help to mitigate this risk.

2012-08: Issues with Zero-Costing Inventory Items May Mean Costs are Not Being Captured.

We have identified zero-costing inventory items as a significant issue previously. Upon reviewing the Extended Price Book at July 2, 2012 we found that there are still significant items showing zero cost. While it is understood that this is appropriate for a number of inventory items, there are no procedures in place to review these items and determine if a zero-cost is appropriate for all of the items. For example, least year some of the zero costs arose from parts being ordered, received and issued on the same day; or when quantity on hand was zero and physical count was higher; or when inventory items were first issued to and later removed from work orders. If the cost of the items in inventory is not being properly captured, then the associated expenses and billing when they are used will also be inaccurate.

RECOMMENDATION

Management needs to design and enforce procedures to review all zero-cost inventory items fixing any entries which are not appropriate. If these procedures point to a systemic issue, it, too, needs to be addressed by Management.

MANAGEMENT'S RESPONSE

Management will look at the zero cost items to see if any are improper.

CONCLUSION

Management's stated course of action should help to mitigate this risk if it includes establishing and documenting a review process, including how to resolve exceptions.

QUAD CITY GARAGE POLICY GROUP
Schedule of Findings
for the year ended June 30, 2012

FINDINGS OF NON-COMPLIANCE

No matters were found.