

**QUAD CITY GARAGE
POLICY GROUP**

**Audit of Financial Statements
and Supplementary Information
for the years ended**

June 30, 2013 and 2012



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
Audit of Financial Statements and Supplementary Information
for the years ended June 30, 2013 and 2012

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Fund Net Position.....	10-11
Statements of Cash Flows	12-13
Notes to the Financial Statements	14-20
Supplementary Information:	
Schedule of Expenses Compared to Budget	22-26
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
Reportable Conditions / Material Weaknesses.....	29-33



McGOVERN & GREENE LLP

Certified Public Accountants & Consultants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the remaining fund information of Quad City Garage Policy Group as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise Quad City Garage Policy Group's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the remaining fund information of Quad City Garage Policy Group, as of June 30, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 22-26 be presented to supplement the basic financial statements. Such information, although not a 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 historical 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013 on our consideration of 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* in considering Quad City Garage Policy Group's internal control over financial reporting and compliance.



Chicago, Illinois
October 30, 2013

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2013 and 2012

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, 2013 and 2012. 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 Position; the Statements of Revenues, Expenses and Changes in Fund Net Position; 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 Position reports the difference between assets and liabilities as net position. 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 position is 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 Revenues, Expenses and Changes in Fund Net Position distinguish between operating and nonoperating revenues and expenses. They reconcile fund net position at the beginning and end of the financial period, explaining the relationship between these statements and the Statements of Net Position. The Statements of Revenues, Expenses and Changes in Fund Net Position 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 Position. 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.

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2013 and 2012

Financial Highlights

The Group is showing a net operating loss for the fiscal year ended 2013 and 2012 of (\$28,000) and (\$12,098), respectively. Both are largely due to year end-only accruals which do not affect invoicing, resulting in a gain or loss for the current year that is usually offset in the following year. For example:

- 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.
- The June 30, 2013 year-end accruals accounting for unrecorded accounts payables of \$17,608, depreciation of \$2,258, and other adjustments totaling \$3,102 were not offset by additional invoicing, accounting for \$22,968 of the \$28,000 operating loss. Without these adjustments the operating loss would have been \$5,032.

Statements of Net Position

The Statements of Net Position 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 Position represent the financial position of the Group or the net position. A comparative analysis of the Group's net position is presented below (Table 1).

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2013 and 2012

Statements of Net Position (concluded)

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

	2013	2012
Current and other assets	\$ 262	\$ 422
Inventories, net	635	612
Deferred outflows of resources	-	-
Capital assets	6	8
Total assets	903	1,042
Current and other liabilities	462	576
Deferred inflows of resources	-	-
Total liabilities	462	576
Net position:		
Invested in capital assets	6	8
Restricted	0	0
Unrestricted	435	458
Total Net Position	\$ 441	\$ 466

Overall Financial Position

For the year ended June 30, 2013, the Group's net position decreased by 5.3 percent (\$441,281 compared to \$466,044). Unrestricted net position used to finance the Group's operations decreased by 4.9 percent (\$435,755 compared to \$458,259). The Group has no restrictions on its net position. This year's decrease of (\$24,763) in net position is illustrated in the Changes in Net Position schedule below (Table 2).

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2013 and 2012

Overall Financial Position (continued)

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

	2013	2012
Operating Revenue		
Sale of Maintenance	\$ 5,201.7	\$ 5,244.0
Total Operating Revenue	5,201.7	5,244.0
Operating Expenses	5,229.7	5,256.1
Operating loss	(28.0)	(12.1)
Non-Operating Revenues		
Other	3.2	6.9
Total Non-Operating Revenue	3.2	6.9
(Decrease) in Net Position	\$ (24.8)	\$ (5.2)

For the year ended June 30, 2013, the Group's operating revenue decreased by \$42,369. The Group's revenue is based on a direct reimbursement for expenses. Therefore, the decrease in revenue is attributable to decreased costs of maintenance parts, and the previously identified year-end loss elements.

Total operating expenses decreased by \$26,467, or 0.5 percent, from 2012 to 2013. A few of the significant line item increases and/or decreases were as follows:

- Wages, including paid time off, increased overall by 1.2 percent, or \$15,012. The overall increase is broken out as follows:
 - \$ 11,951 increase in regular wages
 - \$ 5,985 increase in overtime wages; and
 - (\$ 2,925) decrease in other paid time such as sick and vacation leave.
- Employee benefits, including group medical, life and disability insurance have decreased in 2013 by 6.9 percent, or \$46,953, a savings that offsets last year's increase of \$43,626.
- Materials and supplies decreased by 6.0 percent, or (\$65,815). This is not as significant a decrease as the 11.1 percent, or (\$143,722), decrease in FY 2012, but stems from the same source, the overall younger age of the fleet since the retirement of older models in FY 2011.

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2013 and 2012

- Custodial services have increased 12.6 percent, or \$52,404 due to increased cost of services.
- Fuel and other consumable costs have decreased 2.7 percent, or (\$31,554) from 2012 to 2013. QCGPG purchased \$1,149,398 for fuel and consumables in FY 2013, down from \$1,180,952 in FY 2012. The decreased 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 only \$54,481, or just over 1.0 percent, over budget in FY 2013, a significant improvement over FY 2012, when operating expenses were \$395,759 higher than budgeted. This is generally attributed to an improved budget projection for diesel fuel and replacing 7 older vehicles with 7 new New Flyer Excelsior CNG vehicles.

Capital Assets

A comparative analysis of the changes in the Group's capital assets for the year ended June 30, 2013 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)

	2013	2012
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	(171.6)	(169.3)
Property, Plant, & Equipment - Net	\$ 5.5	\$ 7.8

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2013 and 2012

Capital Assets (concluded)

Additional information on the Group's capital assets can be found in Notes 1(J) and 3 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 move to the new Facility, projected for March 2014 or April 2014, will reduce those costs for the final few months of the FY 2014 budget. Davenport plans to become a non-paying member of QCGPG with the move to the new facility, servicing their buses elsewhere, which will also reduce expenses for this same period.

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 Position
at June 30,

	2013	2012
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 162,795	\$ 142,161
Account receivable - City of Davenport	78,001	263,732
Materials and supplies inventory, net of allowance for excess and obsolete inventory	634,578	611,752
Prepaid expenses and other assets	22,194	16,745
Net current assets	897,568	1,034,390
Capital assets:		
Property and equipment	177,098	177,098
Less accumulated depreciation and amortization	(171,572)	(169,313)
Net capital assets	5,526	7,785
Deferred outflows of resources:		
	-	-
Total assets	\$ 903,094	\$ 1,042,175
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 204,124	\$ 205,870
Account payable - MetroLINK	257,689	370,261
Total current liabilities	461,813	576,131
Deferred inflows of resources:		
	-	-
Total liabilities	461,813	576,131
NET POSITION:		
Net investment in capital assets	5,526	7,785
Restricted	-	-
Unrestricted	435,755	458,259
Total net position	\$ 441,281	\$ 466,044

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

QUAD CITY GARAGE POLICY GROUP
Statements of Revenues, Expenses and Changes in Fund Net Position
for the years ended June 30,

	2013	2012
OPERATING REVENUE:		
Revenue from sale of maintenance services	\$ 5,201,661	\$ 5,244,030
OPERATING EXPENSES:		
Wages and related employee benefits:		
Wages	1,244,919	1,229,752
Group medical, life and disability insurance	401,193	442,172
Pensions	108,184	103,305
Social security and other payroll taxes	104,370	105,185
Worker's compensation	56,079	64,565
Other	14,385	15,937
	1,929,130	1,960,916
Other operating expenses:		
Materials and supplies consumed	1,090,811	1,156,626
Fuel and oil consumed	1,149,398	1,180,952
Contract services	839,934	762,069
Utilities	154,645	124,267
Casualty and liability insurance	22,908	25,668
Lease and rental	2,656	2,769
Depreciation	2,258	2,258
Miscellaneous	37,921	40,603
	3,300,531	3,295,212
Total operating expenses	5,229,661	5,256,128
Operating (loss)	\$ (28,000)	\$ (12,098)

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

QUAD CITY GARAGE POLICY GROUP
Statements of Revenues, Expenses and Changes in Fund Net Position
for the years ended June 30,

	2013	2012
NONOPERATING REVENUES:		
Other income	\$ 3,236	\$ 6,938
Interest income	1	1
Total nonoperating revenues	3,237	6,939
 (Decrease) in net position	 (24,763)	 (5,159)
 BEGINNING OF YEAR NET POSITION	 466,044	 471,203
 END OF YEAR NET POSITION	 \$ 441,281	 \$ 466,044

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,**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 5,274,820	\$ 5,354,599
Cash payments to employees for services, including benefits	(1,924,052)	(1,977,580)
Cash payments to suppliers for goods and services	(3,333,370)	(3,302,723)
Other operating activity cash receipts	3,235	6,938
Net cash provided by operating activities	<u>20,633</u>	<u>81,234</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>1</u>	<u>1</u>
Net cash provided by investing activities	<u>1</u>	<u>1</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,634	81,235
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>142,161</u>	<u>60,926</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 162,795</u></u>	<u><u>\$ 142,161</u></u>

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,

	2013	2012
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (28,000)	\$ (12,098)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	2,258	2,258
Other income	3,235	6,938
(Increase) in accounts receivable	185,731	(57,145)
(Increase) decrease in materials and supplies inventory	(22,826)	(59,639)
(Increase) in prepaid expenses and other assets	(5,450)	(4,734)
Increase in accounts payable and accrued expenses	(114,315)	205,654
Net cash provided by operating activities	\$ 20,633	\$ 81,234

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

QUAD CITY GARAGE POLICY GROUP
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

QUAD CITY GARAGE POLICY GROUP
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

B. 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.

C. 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.

D. 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.

E. 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.

F. Cash and Cash Equivalents

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

QUAD CITY GARAGE POLICY GROUP
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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, 2013 and 2012. The carrying amount of all deposits was \$162,795 and \$142,161 at June 30, 2013 and 2012, 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.

H. 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.

I. 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. No changes were made to the existing Allowance for Obsolete or Excess Inventory due to the retirement of older transit, so it remains (\$65,271) as of June 30, 2013.

J. 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, 2013 and 2012:

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

QUAD CITY GARAGE POLICY GROUP
Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

K. Compensated Absences

Employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Accumulated vacation at June 30, 2013 and 2012 was \$35,958 as of June 30, 2013 and 2012.

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, 2013 and 2012.

L. Net Position

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

M. 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 2 – 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.

QUAD CITY GARAGE POLICY GROUP
Notes to the Financial Statements

NOTE 2 – PENSION AND RETIREMENT BENEFITS (concluded)

Through June 30, 2013 plan members were required to contribute 5.78% of their annual salary and the Group was required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. Those percentages are scheduled to increase next year to the following rates:

	<u>07/01/13</u>
Member Rate	5.95%
Employer Rate	<u>8.93%</u>
Combined Rate	<u><u>14.88%</u></u>

IPERS has not determined contribution rates for July 1, 2014 and beyond as of the date of this report.

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

	Contribution	
	<u>Amount</u>	<u>Percentage</u>
2011	\$ 85,284	6.95%
2012	\$ 103,305	8.07%
2013	\$ 108,184	8.67%

NOTE 3 – CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Garage machinery and equipment	\$ 107,217	\$ 0	\$ 0	\$ 107,217
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	<u>177,098</u>	<u>0</u>	<u>0</u>	<u>177,098</u>
Less accumulated depreciation for:				
Garage machinery and equipment	(99,432)	(2,258)	0	(101,691)
Office furnishings and equipment	<u>(69,881)</u>	<u>0</u>	<u>0</u>	<u>(69,881)</u>
Total accumulated depreciation	<u>(169,313)</u>	<u>(2,258)</u>	<u>0</u>	<u>(171,572)</u>
Capital assets, net	<u>\$ 7,785</u>	<u>\$ (2,258)</u>	<u>\$ 0</u>	<u>\$ 5,526</u>

QUAD CITY GARAGE POLICY GROUP
Notes to the Financial Statements

NOTE 3 – CAPITAL ASSETS (concluded)

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Garage machinery and equipment	\$ 107,217	\$ 0	\$ 0	\$ 107,217
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	<u>177,098</u>	<u>0</u>	<u>0</u>	<u>177,098</u>
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	<u>(167,055)</u>	<u>(2,258)</u>	<u>0</u>	<u>(169,313)</u>
Capital assets, net	<u>\$ 10,043</u>	<u>\$ (2,258)</u>	<u>\$ 0</u>	<u>\$ 7,785</u>

NOTE 4 – 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:

	<u>2013</u>	<u>2012</u>
City of Davenport:		
Sales of maintenance services	\$ 1,554,589	\$ 1,526,844
Account Receivable	\$ 78,001	\$ 263,732
MetroLINK:		
Sales of maintenance services	\$ 3,647,072	\$ 3,717,186
Due to MetroLINK	\$ (257,689)	\$ (370,261)

QUAD CITY GARAGE POLICY GROUP
Notes to the Financial Statements

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.

SUPPLEMENTARY INFORMATION

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Fuel station maintenance			
Wages	\$ 18,500	\$ 16,123	\$ 2,377
Materials and supplies	24,900	20,948	3,952
Total fuel station maintenance	<u>43,400</u>	<u>37,071</u>	<u>6,329</u>
Vehicle operations:			
Fuel	1,088,000	1,086,546	1,454
Oil	44,850	56,627	(11,777)
Anti-freeze	7,700	20,148	(12,448)
Tires	73,350	98,759	(25,409)
Total vehicle operations	<u>1,213,900</u>	<u>1,262,080</u>	<u>(48,180)</u>
Maintenance administration:			
Wages	148,900	146,532	2,368
Training wages	2,000	170	1,830
Social security	14,800	12,825	1,975
Pension	15,500	14,767	733
Health insurance	56,600	56,236	364
Life insurance	930	911	19
Disability insurance	1,500	1,490	10
Unemployment	1,100	1,090	10
Sick leave	5,400	6,615	(1,215)
Holiday	5,400	5,138	262
Vacation	10,000	11,209	(1,209)
Uniform allowance	500	392	108
Other Fringe Benefits	0	28	(28)
Casual days	2,400	2,071	329
Professional services	196,100	195,733	367
Temporary help	400	813	(413)
Utilities	1,750	1,644	106
Miscellaneous	3,750	5,950	(2,200)
Total maintenance administration	<u>\$ 467,030</u>	<u>\$ 463,614</u>	<u>\$ 3,416</u>

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Service equipment:			
Wages	\$ 141,250	\$ 160,864	\$ (19,614)
Cleanup	8,500	9,843	(1,343)
Social security	8,050	10,436	(2,386)
Pension	11,055	11,833	(778)
Unemployment	1,500	5,242	(3,742)
Holiday expense	2,000	3,290	(1,290)
Uniform and tool allowance	2,100	2,545	(445)
Break time	5,000	4,662	338
Casual days	1,000	1,897	(897)
Contract maintenance	325,200	358,574	(33,374)
Materials and supplies	34,000	27,165	6,835
Temporary help	0	0	0
Total service equipment	<u>539,655</u>	<u>596,351</u>	<u>(56,696)</u>
Inspection and maintenance:			
Wages	541,800	584,590	(42,790)
Cleanup	22,000	19,619	2,381
Training wages	8,500	15,493	(6,993)
Testing wages	2,000	126	1,874
Social security	75,500	71,045	4,455
Pension	80,550	81,584	(1,034)
Health insurance	360,000	330,810	29,190
Life insurance	4,500	4,202	298
Disability	8,250	7,543	707
Unemployment	5,700	3,733	1,967
Workman's compensation	52,491	56,079	(3,588)
Sick leave	38,100	33,063	5,037
Holiday expense	30,500	34,370	(3,870)
Vacation	67,000	51,306	15,694
Other paid time	6,600	1,536	5,064
Uniform	7,075	7,533	(458)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Inspection and maintenance (concluded):			
Tool allowance	\$ 3,825	\$ 4,443	\$ (618)
Other fringe benefits	100	(557)	657
Break time	48,098	46,551	1,547
Casual days	13,300	12,361	939
Contract maintenance	68,260	84,421	(16,161)
Parts and supplies	833,800	770,317	63,483
Miscellaneous materials and supplies	57,510	51,608	5,902
Utilities - telephone	635	279	356
Total inspection and maintenance	<u>2,336,094</u>	<u>2,272,055</u>	<u>64,039</u>
Accident repair:			
Wages	5,750	2,131	3,619
Contract maintenance	1,900	346	1,554
Parts	8,700	18,520	(9,820)
Total accident repair	<u>16,350</u>	<u>20,997</u>	<u>(4,647)</u>
Vandalism repair:			
Wages	25	0	25
Contract maintenance	1,625	759	866
Parts	100	0	100
Total vandalism repair	<u>1,750</u>	<u>759</u>	<u>991</u>
Servicing and fueling:			
Contract maintenance	0	0	0
Fuel and oil	3,750	6,226	(2,476)
Tires	275	416	(141)
Total servicing and fueling	<u>\$ 4,025</u>	<u>\$ 6,642</u>	<u>\$ (2,617)</u>

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Maintenance of service vehicles:			
Wages	\$ 8,725	\$ 412	\$ 8,313
Contract maintenance	3,180	8,131	(4,951)
Materials and supplies	7,700	1,323	6,377
Total maintenance of service vehicles	<u>19,605</u>	<u>9,866</u>	<u>9,739</u>
Maintenance of fareboxes:			
Wages	6,400	6,320	80
Materials and supplies	11,150	15,314	(4,164)
Total maintenance of fareboxes	<u>17,550</u>	<u>21,634</u>	<u>(4,084)</u>
Maintenance of shop, buildings, grounds, and equipment:			
Wages	63,000	68,624	(5,624)
Contract maintenance	58,700	66,764	(8,064)
Custodial services	60,954	57,357	3,597
Parts and supplies	2,750	8,523	(5,773)
Miscellaneous materials and supplies	64,400	49,536	14,864
Other expenses	1,300	3,039	(1,739)
Total maintenance of shop, building grounds, and equipment	<u>251,104</u>	<u>253,843</u>	<u>(2,739)</u>
Security service:	<u>3,255</u>	<u>2,641</u>	<u>614</u>
Injuries and damage premiums	<u>\$ 8,975</u>	<u>\$ 15,411</u>	<u>\$ (6,436)</u>

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Personnel administration:			
Professional services	\$ 5,700	\$ 4,681	\$ 1,019
Employee physicals	2,250	2,182	68
Other expenses	4,030	3,632	398
Total personnel administration	<u>11,980</u>	<u>10,495</u>	<u>1,485</u>
General legal services	<u>500</u>	<u>18,349</u>	<u>(17,849)</u>
General insurance:			
Premium - fire	13,750	6,724	7,026
Premium - fidelity	250	773	(523)
Total general insurance	<u>14,000</u>	<u>7,497</u>	<u>6,503</u>
Data processing services	<u>500</u>	<u>200</u>	<u>300</u>
Finance and accounting services:	<u>40,000</u>	<u>35,351</u>	<u>4,649</u>
Office management - materials and supplies	<u>8,600</u>	<u>8,237</u>	<u>363</u>
General administration:			
Utilities	138,500	152,722	(14,222)
Travel	2,500	1,087	1,413
Miscellaneous	30,750	27,845	2,905
Lease/rental	2,900	2,656	244
Total general administration	<u>174,650</u>	<u>184,310</u>	<u>(9,660)</u>
Total budgeted expenses	<u>\$ 5,172,923</u>	<u>\$5,227,403</u>	<u>\$ (54,480)</u>
Depreciation		<u>2,258</u>	
Total expenses		<u><u>\$5,229,661</u></u>	



McGOVERN & GREENE LLP

Certified Public Accountants & Consultants

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

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

We have audited, in accordance with the 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, the financial statements of the business-type activities and the remaining fund information of Quad City Garage Policy Group, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Quad City Garage Policy Group's basic financial statements and have issued our report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Quad City Garage Policy Group's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Quad City Garage Policy Group's internal control. Accordingly, we do not express an opinion on the effectiveness of Quad City Garage Policy Group's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 to be material weaknesses: 2013-01 and 2013-02.

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 accompany schedule of findings to be significant deficiencies: 2013-03 and 2013-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Quad City Garage Policy 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 30, 2013.

Quad City Garage Policy Group's Response to Findings

Quad City Garage Policy Group's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Quad City Garage Policy Group's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "McGovern & Greene LLP".

Chicago, Illinois
October 30, 2013

QUAD CITY GARAGE POLICY GROUP
Schedule of Findings
for the year ended June 30, 2013

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

MATERIAL WEAKNESSES

2013-01: Management and Board Undermined Major Control Mechanism Exposing QCGPG to Significant Fraud Risk for More than Four Months.

The Finance Specialist took a planned medical leave that was unexpected and extended, leaving her position unfilled for more than four months. Management, with the Board's approval, chose to address this short staffing situation by having the Senior Administrative Assistant perform both positions. In doing so, Management removed vital segregation of duties controls that had been in place. Specifically, this change enabled one person to enter invoices, issue checks, record deposits, make adjusting journal entries and reconcile the bank accounts. While the position was supervised this is too much opportunity to be compensated for by supervisor oversight, especially when the supervisor is not conversant with accounting concepts and requirements. When McGovern & Greene learned of Management's intentions we advised the Board that this course of action would seriously undermine QCGPG's system of internal control and recommended that QCGPG bring in another individual to handle the Finance Specialist's duties until her return from medical leave. That advice was ignored.

RECOMMENDATION

In future Management and the Board should place greater emphasis on maintaining the quality of the system of internal control when selecting solutions to staffing situations.

MANAGEMENT'S RESPONSE:

The Director of Maintenance did meet with both of the GM's from the two (2) clients. A decision was made and then followed. Should the need occur in the future a meeting will be held and a decision will be made taking into account this finding.

CONCLUSION

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

QUAD CITY GARAGE POLICY GROUP
Schedule of Findings
for the year ended June 30, 2013

2013-02: Employee Also Paid as Contractor Does Not Comply with IRS Standards.

Management agreed to pay the Senior Administrative Assistant \$75 per week plus any necessary overtime to perform both her duties and those of the Finance Specialist while the latter was on extended medical leave. The overtime worked by the Senior Administrative Assistant was properly reported as wages. However, the \$75 per week, which totaled \$1,650 overall, was not recorded as wages. Instead it was paid to the Senior Administrative Assistant on non-payroll checks and was recorded to "Professional & Technical Services," a treatment more consistent with payment of a contractor. This treatment of the \$75 per week was approved by Management as the Director of Maintenance reviewed and authorized all disbursements.

There are two specific issues raised by these actions. First, there are very specific requirements for determining if a worker is an employee or an independent contractor, and it is a very rare situation where one individual can qualify as both while working for only one entity. Management did not make inquiries of M&G or a third-party payroll administrator to determine if this treatment was appropriate. Second, if the Senior Administrative Assistant did qualify for independent contractor treatment of the \$75 per week, QCGPG failed to issue her a Form 1099-MISC, as is required by the Internal Revenue Service ("IRS") when an entity pays more than \$600 in a calendar year to an individual or entity for goods or services, and the Senior Administrative Assistant received approximately \$1,050 in such payments prior to December 31, 2012. Either way, QCGPG failed to comply with IRS standards, exposing it to possible fines, penalties and interest for non-compliance, as well as a risk of audit of other payroll reporting as well.

RECOMMENDATION

Management needs to issue an amended and appropriate W-2 tax form to the Senior Administrative Assistant for 2012. This qualifies as a material weakness due to the exposure based by QCGPG due to non-compliance.

MANAGEMENT'S RESPONSE:

The Director of Maintenance contacted Sheakley, our payroll company, and this issue was resolved. The taxes were taken out of the employee's check to make up the taxes not deducted.

CONCLUSION

Management has taken steps to address the situation.

QUAD CITY GARAGE POLICY GROUP
Schedule of Findings
for the year ended June 30, 2013

SIGNIFICANT DEFICIENCIES

2013-03: Hourly Employee Allowed to Forego Required Documentation Creating Opportunity for Time Reporting Abuse.

QCGPG's policies and procedures require hourly employees to maintain time cards, recording their arrival, departure and break time via the time clock in the Garage. The Senior Administrative Assistant has failed to maintain a time card around October 2012. The Senior Administrative Assistant is also the individual who processes payroll. So the only safeguard in place to ensure she was paid for actual time worked was the review of the weekly payroll by her supervisor. This situation was further complicated by the fact that during the period of September 2012 through February 2013 the Senior Administrative Assistant was authorized to work overtime as necessary to complete both her duties, and those of the Finance Specialist, for whom she was covering while the latter was on extended medical leave. Thus the Senior Administrative Assistant's supervisor was reviewing her payroll with no documentation of actual time work and an expectation of overtime. This undermined QCGPG's system of internal control in two ways. First, there was no documentation of actual hours worked to serve as evidence supporting the transaction. Second, this created a double standard within QCGPG as all other hourly employees were required to complete timecards.

RECOMMENDATION

Management should require the Senior Administrative Assistant to return to completing a time card as all other hourly employees must. This includes leaving the timecard on premises at all times, as there were issues with her taking her timecard home with her in the past.

MANAGEMENT'S RESPONSE

All employees are punching time cards and have been since the beginning of October 2013. All the time sheets are examined and approved by the Director of Maintenance each week for hours worked and overtime hours.

CONCLUSION

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

QUAD CITY GARAGE POLICY GROUP
Schedule of Findings
for the year ended June 30, 2013

2013-04: 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, 2013, however, the clearing account had a debit balance of more than \$9,000, roughly the same as 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 2013 which continues to represent a control issue. The balance was expensed during the FY2013 audit procedures at the direction of Management.

RECOMMENDATION

Management should ensure that the activity in this account is closely monitored so that the cause of the ongoing variance can be identified and resolved. Management should work with the individual assigned this task throughout the year to assess their findings and determine the appropriate response(s).

MANAGEMENT'S RESPONSE

The clearing account is being balanced on a weekly basis. This is being done so we can closely monitor and resolve any variances. A past issue with the rebuild GL accounts for overtime was resolved this was a past cause of variances.

CONCLUSION

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

QUAD CITY GARAGE POLICY GROUP
Schedule of Findings
for the year ended June 30, 2013

FINDINGS OF NON-COMPLIANCE

See Findings Related to the Financial Statements No. 2013-02.