QUAD CITY GARAGE
POLICY GROUP

Audited Financial Statements
and Supplementary Information
for the years ended

June 30, 2009 and 2008

McGOVERN & GREENE LLP

CPAs & Forensic Accountants

200 W. Jackson Blvd. Suite 2325
Chicago, Illinois • 60606
Telephone: (312) 692-1000 • Fax: (312) 692-0128

www.mcgoverngreene.com

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Audited Financial Statements and Supplementary Material

for the years ended June 30, 2009 and 2008

Contents

McGOVERN & GREENE LLP
CPAs & Forensic Accountants

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, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Quad City Garage Policy Group's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Quad City Garage Policy Group, as of the years ended June 30, 2009 and 2008, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2009 on our consideration of the Quad City Garage Policy Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

200 W. Jackson Blvd. • Suite 2325 • Chicago • Illinois • 60606-6910 • Tel: 312.692.1000 • Fax: 312.692.0128 •

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

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

McGovern & Greene LLP

Chicago, Illinois
October 27, 2009

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2009 and 2008

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, 2009 and 2008. Please read it in conjunction with the Group's financial statements. The financial statements of the Group are presented on an accrual basis. Accounting principles used are similar to principles applicable in the private sector. The Group's basic financial statements consist of the Statements of Net Assets; the Statements of Revenue, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These statements are the measures used to evaluate the short-term and long-term outlook of the Group's finances and are used in conjunction with the Annual Budget, which is the Group's financial plan for the fiscal year. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The Notes to the Financial Statements can be found on pages 13 - 18 of this report. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information is limited to this Management Discussion and Analysis and Schedule of Expenses Compared to Budget on pages 3–7 and 20–24, respectively.

Financial Highlights

The Group is showing a net operating loss for the fiscal years ended 2009 and 2008. The operating losses are ($15,170) and ($21,159), respectively. These losses are largely due to year end-only accruals for expenses like payroll and unrecorded accounts payable. Because they are accrued only at year end, they will not be billed until the next fiscal year, resulting in a loss for the current year. The loss will be recovered in the following fiscal year when the expenses are billed.

- The June 30, 2008 the accrual for unrecorded accounts payable was $5,363 and for accrued payroll was $28,903, totaling $34,266. If this had been billed in fiscal year 2008, the operating loss would have become an operating gain of $13,107.

- The June 30, 2009 the accrual for unrecorded accounts payable was $32,538 and for accrued payroll was $29,484, totaling $62,022. If this had been billed in fiscal year 2009, the operating loss would have become an operating gain of $46,852.

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2009 and 2008

Statements of Net Assets

The Statements of Net Assets present the assets and liabilities of the Group similar to the private sector on an accrual basis. Revenues and expenses are recognized when incurred rather than when cash is paid or received. The 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).

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

	2009	2008
Current and other assets	$ 152	$ 130
Inventories	563	612
Capital assets	14	7
Total assets	729	749
Current and other liabilities	278	290
Total liabilities	278	290
Net assets:		
Invested in capital assets	14	7
Restricted	0	0
Unrestricted	437	452
Total Net Assets	$ 451	$ 459

QUAD CITY GARAGE POLICY GROUP
Management's Discussion and Analysis
for the years ended June 30, 2009 and 2008

Overall Financial Position

For the year ended June 30, 2009, the Group's net assets decreased by 1.8 percent ($450,961 compared to $459,004). Unrestricted net assets used to finance the Group's operations decreased by 3.5 percent ($436,402 compared to $452,429). The Group has no restricted assets. This year's decrease of $8,043 in net assets is illustrated in the Changes in Net Assets schedule below (Table 2).

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

	2009	2008
Operating Revenues		
Sale of Maintenance	$ 4,635.6	$ 4,502.4
Total Operating Revenue	4,635.6	4,502.4
Operating Expenses	4,650.7	4,523.5
(Deficit)/Surplus from Operations	(15.1)	(21.1)
Non-Operating Revenues		
Other	7.1	9.5
Total Non-Operating Revenue	7.1	9.5
Increase (Decrease) in Net Assets	$ (8.0)	$ (11.6)

For the year ended June 30, 2009, the Group's operating revenue increased by 3.0 percent ($133,222). The Group's revenue is based on a direct reimbursement for expenses. Therefore, the increase in revenue is attributable to increased costs of fuel and maintenance parts.

Total operating expenses increased 2.8 percent ($127,233) from 2008 to 2009. A few of the significant line item increases and/or decreases were as follows:

- Fuel costs have dropped from $3.87 per gallon in June of 2008 to $1.91 per gallon June of 2009, a 51% decline. The expenditures for diesel fuel in FY2009 were $1,025,630 as compared to $1,189,375 in FY2008, a $163,745 decrease.
- Labor costs were $54,749 higher in 2009 than 2008. This can be attributed to overtime labor to compensate for understaffing. One employee was terminated and not replaced in 2009, and another was unavailable due to personal illness. In addition, there was a shortage of service workers to perform fueling and washing duties..

Overall Financial Position (concluded)

- Materials and supplies in 2009 were $130,770 over budget, and $92,923 higher than 2008. This was largely due to the increase in the age of the fleet and the additional maintenance requirements related to age. In addition, the MetroLINK compressed natural gas (CNG) fueling station required extensive repairs which began in June 2009 that had not been budgeted for. Unanticipated and unbudgeted expenses also were incurred when one of the MetroLINK Channel Cat water taxis required an engine overhaul in 2009.
- Employee benefits were $40,921 higher in 2009 than in 2008. Some elements of this include:
  - Higher worker's compensation due to higher payroll and a higher experience modifier of $17,807
  - An increase in health insurance costs of $28,894 in 2009 over 2008 due to rising premium costs.
  - A scheduled increase in Iowa Public Employees' Retirement System (IPERS) employer contributions, resulting in an additional $6,245 pension expense.
  - Decreased usage of paid time off resulting in a decrease of ($16,247) in 2009 from 2008.
  - Additional retirement benefit (IPERS) payments due to the increased quantity of overtime worked, as IPERS contributions are a function of gross pay.

Budgetary Highlights

There were no differences between the original and final amended budgets for the fund. The total operating expenses were $559,698 lower than budgeted. However, fuel was over budgeted by $716,870 due to fears of rising fuel costs. That means that the other operating expenses were $157,152 over budget. $130,770 of this overage was due to the materials and supplies issues highlighted on preceding page.

Capital Assets

A comparative analysis of the changes in the Group's capital assets for the year ended June 30, 2009 is presented in Table 4. Net property, plant, and equipment increased by $7,984. The increase is due to the purchase and installation of a new water heater less the current year's depreciation. No capital assets were disposed of during 2009.

Capital Assets (concluded)

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

	2009	2008
Vehicle Maintenance	$ 11.4	$ 11.4
Installed Machinery & Equipment	95.8	86.3
Radio Equipment	0.0	0.0
Computer Equipment	0.0	0.0
Office Furniture & Equipment	69.9	69.9
Total Property, Plant & Equipment	177.1	167.6
Accumulated Depreciation	(162.5)	(161.0)
Property, Plant, & Equipment - Net	$ 14.6	$ 6.6

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

Economic Trends

As the new fleet ages and the units are no longer under warranty, the maintenance costs for both entities will likely continue to increase. Due to the age of the maintenance facility, costs associated with its maintenance: wages, fringes, and contract maintenance, as well as materials and supplies will likely increase.

The Group began using a bio-diesel mixture (B 20) in the spring of 2007. This fuel was cheaper than regular diesel through the 2007 fiscal year. Unfortunately, the rising commodity prices negated the Group's savings in fiscal year 2008. At the present time, the cost of the bio-diesel fuel is $0.10 to $0.20 cent per gallon greater than the standard (Ultra Low Sulfur #2) diesel fuel. In addition, increased metal prices are also affecting parts pricing, especially body panels and radiator cores. The Group anticipates additional price increases for both 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 James McGovern, 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,

		2009		2008
ASSETS:				
Current assets:				
Cash and cash equivalents	$	(5,982)	$	84,197
Account receivable - City of Davenport		152,333		37,484
Materials and supplies inventory		562,638		612,160
Prepaid expenses and other assets		5,515		9,067
Total current assets		714,504		742,908
Capital assets:				
Property and equipment		177,098		167,539
Less accumulated depreciation and amortization		(162,539)		(160,964)
Net capital assets		14,559		6,575
Total assets	$	729,063	$	749,483
LIABILITIES:				
Current liabilities:				
Accounts payable and accrued expenses	$	195,520	$	215,620
Due to MetroLINK		82,582		74,859
Total current liabilities		278,102		290,479
Total liabilities		278,102		290,479
NET ASSETS:				
Invested in capital assets		14,559		6,575
Unrestricted		436,402		452,429
Total net assets	$	450,961	$	459,004

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

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

	2009	2008
OPERATING REVENUE:		
Revenue from sale of maintenance services	$ 4,635,574	$ 4,502,352
OPERATING EXPENSES:		
Wages and related employee benefits:		
Wages	1,070,760	1,032,258
Group medical, life and disability insurance	330,736	301,842
Pensions	71,338	65,093
Social security and other payroll taxes	88,867	84,457
Worker's compensation	53,630	35,823
Other	11,050	11,237
	1,626,381	1,530,710
Other operating expenses:		
Materials and supplies consumed	1,023,170	930,247
Fuel and oil consumed	1,077,291	1,230,761
Contract services	708,399	588,701
Utilities	155,428	166,139
Casualty and liability insurance	24,319	25,493
Lease and rental	4,453	15,531
Depreciation	1,575	1,098
Miscellaneous	29,728	34,831
	3,024,363	2,992,801
Total operating expenses	4,650,744	4,523,511
Operating (loss)	$ (15,170)	$ (21,159)

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

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

	2009	2008
NONOPERATING REVENUES:		
Other income	$ 7,116	$ 9,471
Interest income	11	31
Total nonoperating revenues	7,127	9,502
(Decrease) in net assets	(8,043)	(11,657)
BEGINNING OF YEAR NET ASSETS	459,004	470,661
END OF YEAR NET ASSETS	$ 450,961	$ 459,004

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,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for sale of maintenance services	$ 4,528,448	$ 4,714,387
Wages and benefits paid to employees	(1,621,725)	(1,524,953)
Payments to suppliers for goods and services	(2,994,469)	(3,117,795)
Net cash provided (used) by operating activities	(87,746)	71,639
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Other receipts	7,127	9,502
Net cash provided by non-capital financing activities	7,127	9,502
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash (used) for puchase of capital assets	(9,560)	0
Net cash (used) by capital and related financial activities	(9,560)	0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(90,179)	81,141
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	84,197	3,056
CASH AND CASH EQUIVALENTS - END OF YEAR	$ (5,982)	$ 84,197

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,

		2009		2008
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating (loss)	$	(15,170)	$	(21,159)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:				
Depreciation		1,575		1,098
(Increase) decrease in accounts receivable		(107,127)		212,036
(Increase) decrease in materials and supplies inventory		49,523		(90,024)
(Increase) decrease in prepaid expenses and other assets		3,552		(5,942)
(Decrease) in accounts payable and accrued expenses		(20,099)		(24,370)
Net cash provided (used) by operating activities	$	(87,746)	$	71,639

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 jointly owned, 58% by MetroLINK and 42% by the City of Davenport. The facility is used by the Group 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 comprised of seven members. Three members are appointed by MetroLINK and three members are appointed by the City of Davenport. The City of Davenport and MetroLINK alternate each year in which entity appoints the seventh member. Board members serve a term of one year; there are no term limits for reappointment. At each meeting, there are four voting members – two from MetroLINK and two from the City of Davenport. In addition, there are two alternate members and the Chairperson.

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

The Board contracts for a Director of Maintenance 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

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 Proprietary 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

The Group maintained its cash deposits at one Illinois financial institution as of June 30, 2009 and 2008. The carrying amount of all deposits was ($ 5,982) and $84,197 at June 30, 2009 and 2008, respectively. The Group's bank deposits are insured by Federal Depository Insurance up to $250,000 per institution through December 31, 2013, after which time the insurance is scheduled to return to $100,000 per institution.

G. Materials and Supplies Inventory

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

H. Capital Assets

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

Depreciation is provided on the straight-line method at rates that are designed to amortize the original cost of the property over its estimated useful life. The major categories of Group property in service and their estimated useful lives are as follows at June 30, 2009 and 2008:

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

I. Compensated Absences

Employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Accumulated vacation at June 30, 2009 and 2008 was $32,256 and $35,485, respectively.

Two other types of compensated absences that the Group provides are sick leave and holiday hours. Sick leave automatically terminates on the day an employee quits or is terminated. However, if an employee retires, he or she is entitled to 70% of accumulated sick leave hours in excess of 720 up to 2,400 hours, as computed at his or her straight-time hourly rate. Holiday hours are lost at the end of the year if not taken. The Group had no vested sick leave as of June 30, 2009 and 2008.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

J. Net Assets

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

K. Operating and Non-Operating Revenues

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

Non-operating revenues consist of miscellaneous receipts from sales of obsolete parts, 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.

Through June 30, 2009 plan members were required to contribute 4.10% of their annual salary and the Group was required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. Those percentages are scheduled to increase over the next two years at the following rates:

	07/01/09	07/01/10
Member Rate	4.30%	4.50%
Employer Rate	6.65%	6.95%
Combined Rate	10.95%	11.45%

NOTE 3 – PENSION AND RETIREMENT BENEFITS (concluded)

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

	Contribution Amount	Percentage
2007	56,102	5.75%
2008	65,093	6.05%
2009	71,338	6.35%

NOTE 4 – CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2009 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 97,658	$ 9,560	$ 0	$ 107,218
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	167,539	$ 9,560	0	177,099
Less accumulated depreciation for:				
Garage machinery and equipment	(91,083)	(1,575)	0	(92,658)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(160,964)	(1,575)	0	(162,539)
Capital assets, net	$ 6,575	$ 7,985	$ 0	$ 14,560

Capital Assets activity for the year ended June 30, 2008 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Garage machinery and equipment	$ 97,658	$ 0	$ 0	$ 97,658
Office furnishings and equipment	69,881	0	0	69,881
Total capital assets	167,539	0	0	167,539
Less accumulated depreciation for:				
Garage machinery and equipment	(89,985)	(1,098)	0	(91,083)
Office furnishings and equipment	(69,881)	0	0	(69,881)
Total accumulated depreciation	(159,866)	(1,098)	0	(160,964)
Capital assets, net	$ 7,673	$ (1.098)	$ 0	$ 6,575

NOTE 5 – ENTITY RISK MANAGEMENT

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

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

NOTE 6 – OPERATING LEASES

The Group leases office copiers on an annual basis. There is no commitment for future rental payments. Rent expense for these copiers for 2009 and 2008 was $4,453 and $15,531, respectively.

SUPPLEMENTARY INFORMATION

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Fuel station maintenance			
Wages	$ 13,000	$ 16,862	$ (3,862)
Materials and supplies	7,500	15,855	(8,355)
Total fuel station maintenance	20,500	32,717	(12,217)
Vehicle operations:			
Fuel	1,742,500	1,025,630	716,870
Oil	33,500	48,579	(15,079)
Anti-freeze	3,500	5,979	(2,479)
Tires	96,000	81,739	14,261
Total vehicle operations	1,875,500	1,161,927	713,573
Maintenance administration:			
Wages	161,500	170,026	(8,526)
Training wages	3,500	3,322	178
Social security	15,000	14,611	389
Pension	12,500	12,355	145
Health insurance	52,500	57,489	(4,989)
Life insurance	1,200	997	203
Disability insurance	1,650	1,448	202
Unemployment	520	380	140
Workman's compensation	485	0	485
Sick leave	7,500	7,880	(380)
Holiday	7,750	5,202	2,548
Vacation	15,000	11,121	3,879
Other paid time	250	0	250
Uniform allowance	650	1,084	(434)
Other fringe benefits	0	0	0
Casual days	3,500	1,607	1,893
Professional services	181,280	180,775	505
Temporary help	885	445	440
Utilities	1,500	1,532	(32)
Miscellaneous	1,250	3,076	(1,826)
Total maintenance administration	$ 468,420	$ 473,350	$ (4,930)

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Service equipment:			
Wages	$ 119,000	$ 120,405	$ (1,405)
Cleanup	7,000	16,384	(9,384)
Social security	6,500	5,238	1,262
Pension	5,000	4,180	820
Unemployment	650	371	279
Workman's compensation	2,500	0	2,500
Holiday expense	1,750	1,510	240
Other paid time	500	281	219
Uniform and tool allowance	1,250	860	390
Other fringe benefits	0	0	0
Break time	3,000	2,661	339
Casual days	750	401	349
Contract maintenance	276,000	284,682	(8,682)
Materials and supplies	40,000	22,106	17,894
Total service equipment	463,900	459,079	4,821
Inspection and maintenance:			
Wages	452,500	452,906	(406)
Cleanup	19,000	18,717	283
Training wages	7,500	7,662	(162)
Testing wages	2,000	0	2,000
Social security	65,000	66,991	(1,991)
Pension	52,500	54,803	(2,303)
Health insurance	255,250	259,769	(4,519)
Life insurance	4,500	4,158	342
Disability	7,000	6,875	125
Unemployment	1,000	1,276	(276)
Workman's compensation	33,500	53,630	(20,130)
Sick leave	35,000	30,281	4,719
Holiday expense	32,500	25,013	7,487
Vacation	65,250	52,416	12,834
Other paid time	9,000	7,907	1,093
Uniform	7,000	5,628	1,372

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Inspection and maintenance (concluded):			
Tool allowance	$ 3,400	$ 3,368	$ 32
Other fringe benefits	750	110	640
Break time	41,500	42,516	(1,016)
Casual days	12,500	7,867	4,633
Professional services	1,000	0	1,000
Contract maintenance	27,000	88,585	(61,585)
Parts and supplies	600,500	751,506	(151,006)
Miscellaneous materials and supplies	51,500	49,754	1,746
Utilities - telephone	1,100	979	121
Total inspection and maintenance	1,787,750	1,992,717	(204,967)
Accident repair:			
Wages	7,000	8,221	(1,221)
Contract maintenance	3,000	1,949	1,051
Parts	8,000	14,514	(6,514)
Total accident repair	18,000	24,684	(6,684)
Vandalism repair:			
Wages	650	54	596
Contract maintenance	1,000	555	445
Parts	1,100	279	821
Total vandalism repair	2,750	888	1,862
Servicing and fueling:			
Fuel and oil	5,000	3,082	1,918
Contract maintenance	1,500	0	1,500
Tires	450	138	312
Total servicing and fueling	$ 6,950	$ 3,220	$ 3,730

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Maintenance of service vehicles:			
Wages	$ 19,500	$ 13,387	$ 6,113
Contract maintenance	150	90	60
Materials and supplies	5,050	7,372	(2,322)
Total maintenance of service vehicles	24,700	20,849	3,851
Maintenance of fareboxes:			
Wages	8,000	6,912	1,088
Materials and supplies	7,250	8,238	(988)
Total maintenance of fareboxes	15,250	15,150	100
Maintenance of shop, buildings, grounds, and equipment:			
Wages	45,500	39,239	6,261
Temporary help	0	0	0
Contract maintenance	55,000	55,040	(40)
Custodial services	58,000	55,545	2,455
Parts and supplies	1,000	1,405	(405)
Miscellaneous materials and supplies	50,000	55,916	(5,916)
Other expenses	5,300	1,500	3,800
Total maintenance of shop, building grounds, and equipment	214,800	208,645	6,155
Security service:			
Contract maintenance	3,500	2,625	875
Security system	0	0	0
Total security services	3,500	2,625	875
Injuries and damage premiums	$ 12,500	$ 8,878	$ 3,622

QUAD CITY GARAGE POLICY GROUP
Schedule of Expenses Compared to Budget (Continued)
for the year ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Personnel administration:			
Professional services	$ 1,400	$ 1,182	$ 218
Employee physicals	3,000	2,233	767
Other expenses	3,000	3,732	(732)
Total personnel administration	7,400	7,147	253
General legal services	5,000	817	4,183
General insurance:			
Premium - fire	16,500	14,823	1,677
Premium - fidelity	1,000	618	382
Total general insurance	17,500	15,441	2,059
Data processing services	850	329	521
Finance and accounting services:			
Finance and accounting services	25,000	30,095	(5,095)
Miscellaneous materials and supplies	200	0	200
Miscellaneous	0	0	0
Total finance and accounting services	25,200	30,095	(4,895)
Office management - materials and supplies	19,500	8,042	11,458
General administration:			
Utilities	178,000	152,917	25,083
Travel	1,250	4,712	(3,462)
Miscellaneous	22,100	20,440	1,660
Lease/rental	17,500	4,453	13,047
Total general administration	218,850	182,522	36,328
Total budgeted expenses	$ 5,208,820	$ 4,649,122	$ 559,698
Depreciation		1,575	
Total expenses		$ 4,650,697	

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Quad City Garage Policy Group (Group) as of and for the year ended June 20, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Group's internal control over financial reporting (internal control) 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 Governmental Unit's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies presented in the Schedule of Findings attached to this letter to be significant deficiencies in internal control: 2009-01 through 2009-07.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies presented in the Schedule of Findings attached to this letter to constitute material weaknesses: 2009-08 and 2009-09.

In addition, we noted other matters involving the internal control and its operation that we have reported to management of the Group in a separate memorandum dated October 27, 2009.

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

McGovern & Greene LLP

Chicago, Illinois
October 27, 2009

QUAD CITY GARAGE POLICY GROUP
Schedule of Findings
for the year ended June 30, 2009

Findings Related to the Financial Statements

Significant Deficiencies

2009-01: Incomplete Accruals for Payroll not in Accordance with GAAP

The Senior Administrative Assistant has been accruing for the effects of leave time used but not yet paid as of the end of the fiscal period. However, no such accrual has been being made for the actual time worked but not yet paid as of the end of the fiscal period, as required by Generally Accepted Accounting Principles (GAAP). The matching principle of GAAP requires that expenses be recorded to the same period as the corresponding revenue they helped generate. For example, hours worked help to generate revenue. So, time worked at the end of June, but which won't be paid until the following July, must be shown as an expense in June, by recording both the expense, and a corresponding payable. We suggested, and Management authorized us to make, correcting journal entries of approximately $29,000 to the accrued payroll balance as of June 30, 2009.

Recommendation

We recommend that the Senior Administrative Assistant be directed to make the additional accruals as required by GAAP, including any necessary instruction as to the proper methods and general ledger accounts.

Management's Response

Agreed and will be implemented.

Conclusion

Implementation of our recommendation should address the risk.

2009-02: Cutoff Treatment not in Accordance with GAAP

As stated above, GAAP requires that expenses be recorded to the period during which the activity took place and the associated revenue was earned. Thus, part of the recording of expenses is to review them to ensure that they are entered to the appropriate period, in compliance with this principle. The usual cause for poor cutoff treatment is the arrival of invoices in a subsequent period. For example, a fuel load might be received on June 29, but the invoice might not be issued until July 1, and not received until July 5. The invoice should be entered to June, not July. Poor cutoff treatment may be due to inattentiveness on the recorder's part, or the arrival of the invoice after the period's records have already been closed. Our audit procedures identified many expenses which did not receive the appropriate cutoff treatment. This is not unusual, especially in light of the latter cause, but the amount (over $32,000) was almost material this year, making this is significant weakness. We proposed, and Management authorized us to make, adjustments to correct the treatment of these items.

2009-02: Cutoff Treatment not in Accordance with GAAP (concluded)

Recommendation

We recommend that they Finance Specialist receive additional training on the appropriate cutoff treatment of expenses. In addition, we recommend that Management track the number of invoices arriving after the close of each period, which should properly have been included in that period. If this is a consistent issue, perhaps the close of each period needs to be delayed to accommodate the late arrivals. Alternatively, an estimate of the invoices outstanding at the end of the period could be made, and an accrual entered to the records to account for the unrecorded expenses. Any such accrued estimate should be reversed in the following period.

Management's Response

Agreed and will be implemented.

Conclusion

Implementation of our recommendation should address the risk.

2009-03: Work Order Labor Not Clearing Properly

Our audit procedures revealed that work order labor is not being consistently recorded, such that the clearing account being used carried a debit balance of roughly $22,000 after hours worked but not yet paid had been accrued for. Due to the complexities of the system, a clearing account has been used 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 will not be equal to zero at the end of a given period until the hours worked but not yet paid have been accrued for. After that accrual through June 30, 2009, however, the clearing account had the above debit balance. That indicates that roughly $22,000 of labor had been paid, but not yet recorded as an expense via work orders. This was not a timing difference as work order labor posts to the labor date, not the posting day. We suggested an adjusting journal entry to zero the account and record the missing expenses, which Management adopted.

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 labor have been made. Any material variances should be investigated to ensure that all transactions are being captured and recorded correctly.

Management's Response

Agreed and will be implemented.

Conclusion

Implementation of our recommendation should address the risk.

2009-04: Administrative Timesheets Not Being Reviewed by Supervisor Enables Possible Abuse

The administrative staff submits timesheets directly to the Payroll and Benefits Coordinator. No supervisor review and authorization is required. This creates an opportunity for possible abuse in reporting actual time worked.

Recommendation

Management should change procedures to include supervisor review and authorization of timesheets, especially of any overtime, prior to processing by the Payroll and Benefits Coordinator. The supervisor's authorization must indicated by a visual mark, such as the date and their initials. The supervisors should be tasked with ensuring the timely review of the timesheets so as not to cause delays in the processing of payroll.

Management's Response

Agreed and the individual timecard process will be implemented for all hourly employees.

Conclusion

If processes are designed and implemented to ensure supervisory authorization is required for all hourly and salaried individuals, we feel the risk will be effectively addressed.

2009-05: Lack of Controls over Payroll Check Stock Creates Opportunity for Fraud

Our audit procedures found that no log of the payroll check stock usage was being maintained. Previously the beginning and ending check stock used was recorded to a log and compared for any sequence gaps. This control is no longer in use. In addition, the file cabinet which houses the check stock is kept locked, but the key is stored on top of the file cabinet, under a coaster. These circumstances could easily lead to abuse of the system.

Recommendation

Management should emphasize the importance of the check stock log and its proper and constant usage. In addition, the key to the filing cabinet where the check stock is stored should be secured, preferably on the person of the authorized user(s).

Management's Response

To be reviewed with the Director of Finance and the Director of Maintenance and implemented following review.

Conclusion

Implementation of our recommendation should address the risk.

2009-06: Lack of Segregation of Payroll Duties Creates Opportunity for Fraud

The Payroll and Benefits Coordinator is able to change payroll hours, rates and employee names; issue payroll checks; and process direct deposits. She also receives the signed checks to be distributed. This lack of segregation of duties creates an opportunity for the Coordinator to issue a payroll check to a non-existent employee or for a fraudulent amount and remove the associated check before anyone else may review the records.

Recommendation

Changes to pay rates, and names should be processed by Human Resources (HR) personnel upon receiving the appropriate documentation. Reports of actual payroll issued should be compared to preliminary payroll documents for agreement in total hours and dollar amount, by a person independent of the payroll function. Signed checks should be distributed by a person independent of the payroll function, as well.

Management's Response

To be reviewed with the Director of Finance and the Director of Maintenance.

Conclusion

We believe that the Directors of Finance and Maintenance will design and implement a reasonable response to this risk.

2009-07: Lack of Controls over Parts Tracking May Contribute to Inventory Variances

There are no controls in place to ensure that employees record inventory usage properly if at all. This likely means that parts are being used and not recorded to the appropriate work order, or are being recorded incorrectly.

Recommendation

If all inventory usage had to be requested through one designated person, it would provide consistency of procedures and centralize the responsibility for properly handling. This likely would help to improve the likelihood that all parts usage was recorded properly and in a timely fashion. This person could be the Parts Clerk, but that would require additional oversight on procedures to ensure that no fraud could be committed by manipulating the records for both receipts and issuances.

Management's Response

To be reviewed by the Director of Maintenance.

Conclusion

We believe that the Director of Maintenance will design and implement a reasonable response to this risk.

Material Weaknesses

2009-08: Check Issuance Procedures Create Opportunity for Theft

Our audit found that the current check issuance processes are insufficient to prevent theft or fraud. The Director of Maintenance reviews the list of checks to be issued, but no supporting documentation is provided at that time. The electronic signature file is maintained in the Director of Maintenance unlocked desk, and the office is occasionally left unattended and the door open. No record is maintained of the sequential check numbers already authorized to be issued. The signed checks are run by the Finance Specialist, and mailed out by her as well. The Director of Maintenance does receive supporting documentation for the checks which were issued, but frequently not until well after the checks have already been mailed out. On at least one occasion, checks were issued and signed which were not included on the original approval list, and no documentation could be found showing supervisor review or authorization. These significant deficiencies combine to create a material weakness. It should be noted that these circumstances are very similar to those that existed when the former employee's fraud was perpetrated.

Recommendation

The list of checks the Finance Specialist is requesting authorization to issue should be accompanied by all supporting documents. The Director of Finance should review the supporting documents, agreeing all line items to be paid with the corresponding invoices for payee, invoice number and amount, as well as general reasonableness in appearance and nature. Only the authorized checks should be issued. If additional checks are required, they should be subject to the same review process first. The Director of Maintenance should create an expectation for the number of checks to be issued based on the authorized list. He should also maintain a log of the checks he has authorized to be issued, recording beginning and ending check numbers. The expectation of total checks to be issued should be added to the previous run's ending check number to form an expectation for the ending check number for this run. Any variances from these expectations should be investigated, resolved and documented. The Director of Maintenance should also compare the total payments authorized to the total payments issued (per both the report and the physical checks), treating any variances in the same way. The electronic signature file should be kept in a locked container while not in use, and the key maintained on the Director's person. The signed checks should be given to someone besides the Finance Specialist for distribution, but only after the complete review by the Director of Maintenance. Any such reviews should be designated by notation on the face of relevant documents and reports.

Management's Response

Agreed and will be implemented.

Conclusion

Implementation of our recommendation should address the risk.

2009-09: Continued Variance Between General Ledger Accounts and Perpetual Inventory Records Creates Opportunity for Theft.

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 perpetual inventory was fairly small. However, the difference between the physical inventory and the general ledger accounts was almost $50,000. This value has been high 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.

Recommendation

Management needs to investigate the cause of these continued discrepancies. Likely Management will need to consult with their accounting and inventory software providers to identify the issue, although it seems likely that due to QCGPG's use of the average cost method, it could involve timing differences between the usage of material and the entry of the associated invoices for the purchases.

Management's Response

Agreed and will be implemented.

Conclusion

Implementation of our recommendation should address the risk.

Findings of Non-Compliance

No matters were found.

QUAD CITY GARAGE POLICY GROUP

Supplemental Memorandum on Internal Control

for the year ended June 30, 2009

The following internal control deficiencies were identified during our audit of the Quad City Garage Policy Group's ("Group") financial statements for the year ended June 30, 2009.

<u>Access to Records</u>

The auditor observed that both the Senior Administrative Assistant and Director of Maintenance left their offices in the course of their duties for significant periods of time without locking their doors. The auditor also noted that file cabinets are routinely unlocked upon arrival, and re-locked upon departure. These practices combined allow for unauthorized accessed to financial records.

Recommendation

All office staff who maintain financial and otherwise confidential records should ensure that their office doors are locked when they will be away from their desks for more than a few minutes.

<u>Operating Checking Account Overdrafts</u>

The auditor observed that the operating checking account is frequently becoming overdrawn. As of June 30, 2009 it had a negative balance of ($11,715). This practice exposes the Group to unnecessary expense due to bank fees. It is also difficult to understand given the cash flow practices of the Group. CitiBus makes a $50,000 prepayment at the beginning of each month to help with cash flow, paying any remaining balance on their invoice at month end. MetroLINK transfers cash on an ongoing basis to ensure that all expenditures are covered. The auditor noted at least one instance where additional checks were issued after the preliminary check list, and subsequent request for funds to cover expenditures, were authorized. This is at least a contributor to, if not the primary cause of, the overdrafts.

Recommendation

If additional checks are to be issued after the request for funds transfer has been made, an additional request for funds should be made to ensure that all expenditures are covered.

Segregation of Duties for Vendor Statements

Currently, the Financial Specialist, who processes accounts payable, also receives and reviews all vendor statements. This practice allows for aging invoices, and any issues they represent, to go unnoticed if the Financial Specialist chooses. Strong internal controls require vendor statements to be directed to someone separate from the payables function. That individual then reviews the statements, and investigates any items that are past acceptable payment terms. The statements should be marked and dated to indicate the review has occurred, and then stored for the fiscal year. All items needing to be addressed should be tracked until acceptably resolved.

Recommendation

The Group should appoint someone who is not the Financial Specialist to review the vendor statements. We would recommend either the Director of Maintenance, or possibly the Administrative Assistant. The individual should receive sufficient training to ensure that they can identify and resolve irregularities.

Logical Access Rights

A review of the user logins and rights showed that there are unnecessary access levels allowed for several individuals. For example, MetroLINK's Payroll and Benefits Coordinator has access to all Human Resource (HR) functions. MetroLINK's HR person should be handling any changes needed to be made in that module. MetroLINK's Information Technology (IT) employee has access to the Accounts Payable, General Ledger, and Work Order modules, as well as security settings. IT people are never supposed to have access to live data. Katrina Sersig has two logins – one for her standard work, and another for when she is helping in the Parts Department. There is unnecessary overlap in the rights awarded to these two logins. In addition, her assertion that she needs two logins is questionable.

Recommendation

The Group should review all access rights to ensure that every user has access to only those modules, and functions within each module, which are absolutely necessary for the individual to perform their duties. The logins and rights should be reviewed at least annually for appropriateness.

Receiving Report Includes Parts Ordered

The receiving reports issued by the FleetNet system include the quantity of items ordered. This allows the person receiving the parts to assume that they have received the quantities ordered instead of focusing on accurately counting the items actually received.

Recommendation

The receiving reports should be revised to exclude quantity ordered. This will ensure that the receiving employee must count the items received without a preconceived notion of how many there should be, thus ensuring a more accurate count. This would require that someone independent of the receiving of parts routinely check for discrepancies between items received and items ordered, investigating any variances.

Inventory Adjustments Not Made at Year End

Our audit procedures determined that the adjustment to bring the year-end inventory account balances into agreement with physical inventory had not yet been made by Management, nor had the absence of the adjustment been noted.

Recommendation

Management should ensure that the end of period accounting procedures include verifying that the general ledger has been adjusted for agreement with the perpetual inventory system. Any significant variances should be investigated, resolved and documented.

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