

QUAD CITY GARAGE POLICY GROUP

Rock Island, Illinois

**Financial Statements**

For the Years Ended

June 30, 2017 and 2016

**C O N T E N T S**

	<i>Page</i>
INDEPENDENT AUDITOR’S REPORT .....	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	4-8
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Position <i>(Exhibit A)</i> .....	9
Statements of Revenues, Expenses, and Changes in Net Position <i>(Exhibit B)</i> .....	10
Statements of Cash Flows <i>(Exhibit C)</i> .....	11
Notes to the Basic Financial Statements .....	12-21
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Proportionate Share of the Net Pension Liability – IPERS (Unaudited) .....	22
Schedule of Contributions – IPERS (Unaudited) .....	23
Notes to Required Supplementary Information – Pension Liability (Unaudited) .....	24
<b>ADDITIONAL REPORT REQUIRED UNDER <i>GOVERNMENT AUDITING STANDARDS</i></b>	
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 <i>Government Auditing Standards</i> .....	25-26

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

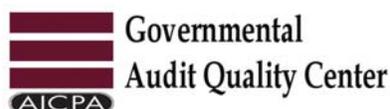
We have audited the accompanying financial statements of Quad City Garage Policy Group (the Group), a blended component unit of the Rock Island County Metropolitan Mass Transit District, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed 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 an opinion 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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 opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of June 30, 2017 and 2016, and the changes in financial position and cash flows 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 on pages 4 through 8 and the Schedule of Proportionate Share of the Net Pension Liability – IPERS and Schedule of Contributions – IPERS and the related notes on pages 22 through 24 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 August 31, 2017, on our consideration of the 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 the Group's internal control over financial reporting and compliance.

*Martin, Wood, Fries & Associates, LLC*

Champaign, Illinois

August 31, 2017

# MANAGEMENT'S DISCUSSION & ANALYSIS

## **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 (the Group) financial performance during the fiscal years ended June 30, 2017, 2016 and 2015. 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 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 report the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, 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: net investment in capital assets; restricted; and unrestricted. These statements can be found on page 9 of this report.

The Statements of Revenues, Expenses, and Changes in Net Position distinguish between operating and non-operating revenues and expenses. They reconcile 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 Net Position can be found on page 10 of this report.

The Statements of Cash Flows provides relevant information about the cash receipts and cash disbursements of the Group during the period. It categorizes cash activity resulting from operating 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 page 11 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 financial statements. The notes to the financial statements can be found on pages 12 through 21 of this report. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information can be found on pages 4 through 8 and pages 22 through 24.

### **FY17 Financial Highlights**

The Group is showing net operating income for the fiscal years 2017 and 2016 of \$33,722 and \$74,896, respectively.

### **FY16 Financial Highlights**

The Group is showing net operating income for the fiscal years 2016 and 2015 of \$74,896 and \$57,741, respectively.

### **Statements of Net Position**

The Statements of Net Position present the assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, represents the net position of the Group. A comparative analysis of the Group's net position is presented below.

#### **Statement of Net Position As of June 30 (in thousands)**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Current Assets	\$ 650.8	\$ 911.5	\$ 797.3
Capital Assets, Net of Depreciation	-	-	4.9
Total Assets	650.8	911.5	802.2
Deferred Outflows of Resources	356.4	238.8	133.5
Total Assets and Deferred Outflows of Resources	1,007.2	1,150.3	935.7
Current Liabilities	209.7	470.4	361.1
Non-Current Liabilities	909.8	760.3	716.0
Total Liabilities	1,119.5	1,230.7	1,077.1
Deferred Inflows of Resources	272.0	337.7	346.6
Total Liabilities and Deferred Inflows of Resources	1,391.5	1,568.4	1,423.7
Net Position:			
Net Investment in Capital Assets	-	-	4.9
Unrestricted	(384.3)	(418.0)	(492.9)
Total Net Position	\$ (384.3)	\$ (418.0)	\$ (488.0)

### **FY17 Overall Financial Position**

For the year ended June 30, 2017, the Group's total net position increased from (\$418,034) to (\$384,312). Unrestricted net position used to finance the Group's operations increased by 8.06 percent from (\$418,034) to (\$384,312). The Group has no restrictions on its net position. This year's increase in net position is illustrated in the Operating Results schedule below.

### **FY16 Overall Financial Position**

For the year ended June 30, 2016, the Group's total net position increased from (\$487,993) to (\$418,034). Unrestricted net position used to finance the Group's operations increased by 15.19 percent from (\$492,930) to (\$418,034). The Group has no restrictions on its net position. This year's increase in net position is illustrated in the Operating Results schedule below.

#### **Operating Results For Year Ended June 30 (in thousands)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenue:			
Sale of Maintenance	\$ 3,406.4	\$ 3,543.0	\$ 3,808.5
Less: Operating Expenses	3,372.7	3,468.1	3,750.8
Operating Income	<u>33.7</u>	<u>74.9</u>	<u>57.7</u>
Non-Operating Revenue (Expenses):			
Other	-	(4.9)	-
Increase in Net Position	<u>33.7</u>	<u>70.0</u>	<u>57.7</u>
Net Position, Beginning of Year	<u>(418.0)</u>	<u>(488.0)</u>	<u>(545.7)</u>
Net Position, End of Year	<u><u>\$ (384.3)</u></u>	<u><u>\$ (418.0)</u></u>	<u><u>\$ (488.0)</u></u>

### **FY17 Change in Net Position Analysis**

For the year ended June 30, 2017, the Group's operating revenue decreased by \$136,558. The Group's revenue is based on a direct reimbursement of expenses. Therefore, the decrease in sales is directly attributable to less need from the Rock Island County Metropolitan Mass Transit District (The District) for labor and parts.

Total operating expenses decreased in the current year by \$95,384, or 2.75 percent. A few of the significant line item increases and/or decreases were as follows:

- Wages and related employee benefits were comparable to the prior year, increasing by \$12,610. The average wage increase of 2% was offset by reduced workforce, accounting adjustments for pension liability and vacation and leave accruals.

- Fuel and oil expenses decreased 73 percent (\$111,421). The District elected during FY16 to purchase fuel, thus reducing fuel inventory to zero for the Group. The remaining expense is purely Oil Expense.
- Utilities expense decreased to zero. The entity operates in a building owned by the District and is not charged for utilities. Additionally, during FY17, the Group elected to discontinue phone services.
- Leases and Rentals Expense decreased 72% (\$3,749) due to the end of an equipment lease.
- Miscellaneous Expenses increased 193% (9,068) due to travel expenses incurred to oversee the manufacturer of a bus purchase by the District.

### **FY16 Change in Net Position Analysis**

For the year ended June 30, 2016, the Group's operating revenue decreased by \$265,545. The Group's revenue is based on a direct reimbursement of expenses. Therefore, the decrease in sales is directly attributable to less need from the Rock Island County Metropolitan Mass Transit District (The District) for labor and parts.

Total operating expenses decreased in the current year by \$282,699, or 8 percent. A few of the significant line item increases and/or decreases were as follows:

- Wages and related employee benefits increased by 3 percent from the prior year (\$42,768). This was largely due to an increase in the labor contract, but was offset by the reduction of overtime staffing.
- Materials expense decreased 4 percent (\$40,701), due to better management of warranty issues.
- Fuel expense decreased 45 percent (\$126,318). The District elected mid-year to purchase fuel, thus reducing fuel inventory to zero for the Group.
- Utilities expense decreased 90 percent (\$68,744). In September 2015, the building located at the Group's former location was sold. Utilities expense for the current location will be zero as the District is responsible for these costs in the new building.
- Leases and Rentals Expense decreased 91% (\$55,928) due to the end of a lease for a ride-on floor scrubber.
- Miscellaneous Expenses returned to a normal range after an unusual one-time expense in FY2015.

### **FY 17 Capital Assets**

The Group did not purchase or own any capital assets during FY2017.

### **FY 16 Capital Assets**

The Group disposed of all assets valued at \$4.9 thousand during FY16. There were no additions and no depreciation was taken in the fiscal year ended June 30, 2016, as these capital assets are no longer actively used by the Group. Additional detail regarding capital assets is presented in Note 4.

### **FY17 Long-Term Debt**

The Group's long-term debt, which consists solely of a net pension liability, increased \$149,547 during FY2017. The Group participates in the Iowa Public Employees' Retirement System (IPERS) and the increase in the Group's long-term liability is the result of actual investment returns for IPERS in recent years. Additional detail regarding IPERS is presented in Note 6.

### **FY16 Long-Term Debt**

The Group's long-term debt, which consists solely of a net pension liability, increased \$44,246 during fiscal year 2016. The Group participates in the Iowa Public Employees' Retirement System (IPERS) and the increase in the Group's long-term liability is the result of projected investment returns for IPERS in recent years. Additional detail regarding IPERS is presented in Note 6.

### **Economic Trends**

The Group anticipates that the District will be adding additional buses to the fleet in FY2018, and a number of those will be operated by electricity. The Group's workforce will be trained in the new electric technology in FY2018. The Quad City area is beginning the construction of a new bridge that will improve the traffic flows over the Mississippi between Illinois and Iowa. It is expected that the one billion dollar, multi-year project will result in zero unemployment in the area. The Group expects to retain its current work force and continue to invest in employee training in order to maintain the District's fleet at optimum performance levels.

### **Contacting the Group's Management**

The financial reports of the Group provide an overview for the public of the financial accountability the Group maintains for the resources received. Further questions concerning this report should be directed to Matt Simaytis, Director of Maintenance, Quad City Garage Policy Group, 4501 4<sup>th</sup> Avenue, Rock Island, IL 61201.

QUAD CITY GARAGE POLICY GROUP  
Statements of Net Position  
June 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Current Assets		
Cash and Cash Equivalents	\$ 54,059	\$ 330,615
Accounts Receivable - City of Davenport	-	3,924
Accounts Receivable - Employees	-	194
Materials and Supplies Inventory	551,556	533,191
Prepaid Expenses and Other Assets	45,188	43,560
	650,803	911,484
<b>Deferred Outflows of Resources</b>		
Pension Related Deferred Outflows	356,388	238,817
<b>Liabilities</b>		
Current Liabilities		
Accounts Payable and Accrued Expenses	128,610	173,818
Unearned Revenue - MetroLINK	81,061	296,535
Total Current Liabilities	209,671	470,353
Noncurrent Liabilities		
Net Pension Liability	909,812	760,265
	1,119,483	1,230,618
<b>Deferred Inflows of Resources</b>		
Pension Related Deferred Inflows	272,020	337,717
<b>Net Position</b>		
Unrestricted	(384,312)	(418,034)
Total Net Position	\$ (384,312)	\$ (418,034)

See Accompanying Notes

QUAD CITY GARAGE POLICY GROUP  
 Statements of Revenues, Expenses, and Changes in Net Position  
 For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>Operating Revenue</b>		
Revenue From Sale of Maintenance Services	\$ 3,406,406	\$ 3,542,964
<b>Operating Expenses</b>		
Wages and Related Employee Benefits:		
Wages	1,103,378	1,120,418
Group Medical, Life, and Disability Insurance	308,748	307,582
Social Security and Other Payroll Taxes	90,778	94,564
Pensions	64,280	27,524
Worker's Compensation	45,917	49,130
Other	1,037	2,310
Total Wages and Related Employee Benefits	1,614,138	1,601,528
Other Operating Expenses:		
Materials and Supplies Consumed	978,983	992,606
Contract Services	686,442	666,852
Fuel and Oil Consumed	41,190	152,611
Casualty and Liability Insurance	36,682	37,135
Lease and Rental	1,480	5,229
Utilities	-	7,406
Miscellaneous	13,769	4,701
Total Other Operating Expenses	1,758,546	1,866,540
Total Operating Expenses	3,372,684	3,468,068
<b>Operating Income (Loss)</b>	33,722	74,896
<b>Non-Operating Revenue (Loss)</b>		
Loss on Disposal of Assets	-	(4,937)
<b>Net Increase (Decrease) in Net Position</b>	33,722	69,959
<b>Net Position - Beginning of Year</b>	(418,034)	(487,993)
<b>Net Position - End of Year</b>	\$ (384,312)	\$ (418,034)

See Accompanying Notes

QUAD CITY GARAGE POLICY GROUP  
 Statements of Cash Flows  
 For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>Cash Flows From Operating Activities</b>		
Cash Receipts from Customers	\$ 3,194,856	\$ 3,634,410
Cash Payments to Employees for Services, Including Benefits	(1,661,002)	(1,661,021)
Cash Payments to Suppliers for Goods and Services	(1,810,410)	(1,842,199)
Net Cash Provided by (Used in) Operating Activities	(276,556)	131,190
 <b>Cash and Cash Equivalents - Beginning of Year</b>	 330,615	 199,425
 <b>Cash and Cash Equivalents - End of Year</b>	 \$ 54,059	 \$ 330,615
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating Income (Loss)	\$ 33,722	\$ 74,896
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Changes in Assets, Liabilities, and Deferred Outflows and Inflows:		
Accounts Receivable	4,118	367
Materials and Supplies Inventory	(18,365)	10,931
Prepaid Expenses and Other Assets	(1,628)	5,732
Pension Related Deferred Outflows	(117,571)	(105,290)
Accounts Payable and Accrued Expenses	(45,208)	13,102
Unearned Revenue	(215,474)	96,121
Net Pension Liability	149,547	44,246
Pension Related Deferred Inflows	(65,697)	(8,915)
Net Adjustments	(310,278)	56,294
Net Cash Provided by (Used in) Operating Activities	\$ (276,556)	\$ 131,190

See Accompanying Notes

QUAD CITY GARAGE POLICY GROUP  
Notes to the Basic Financial Statements  
June 30, 2017 and 2016

**1. Nature of Operations and the Reporting Entity**

The Quad City Garage Policy Group (the Group) was formed in 1979 by the City of Davenport, Iowa (City of Davenport) 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. The purpose of the Group was to oversee and operate a joint maintenance and storage facility for transit revenue vehicles and related equipment for the two local governments. As of June 30, 2015, the City of Davenport discontinued using the services of the Group. The City of Davenport retains representation on the Board of the Group.

The Group is administered by a Board of Members (the Board) that acts as the authoritative and legislative body of the entity. The Board is comprised of three members. Two members are appointed by MetroLINK and one member is appointed by the City of Davenport.

As the Group provides services only to MetroLINK and as MetroLINK appoints the majority of the Group's Board, the Group is considered a blended component unit of MetroLINK effective in the fiscal year end June 30, 2016.

The Group's operations are managed by the Director of Maintenance of MetroLINK with assistance from the Assistant Director of Maintenance of MetroLINK. The Group's operations are housed in a facility located in Rock Island, Illinois at 4501 4th Avenue, that is owned by MetroLINK. The Group is charged no rent for the use of the facility.

**2. Summary of Significant Accounting Policies**

- a. Reporting Entity – In determining the financial reporting entity, the Group complies with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*. For financial reporting purposes, the reporting entity of the Group includes only the operations of the Quad City Garage Policy Group. The reporting entity of the Group was determined based on the oversight responsibility and scope of the public services provided. Oversight responsibility is measured by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, there are no agencies or other units that have been or should be combined into the financial statements of the Group. However, the Group itself is a blended component unit of MetroLINK, which means the Group is operationally a department of MetroLINK, effective starting in fiscal year 2016, due to the operational control MetroLINK assumed with the revision of the Board structure during the fiscal year.

- b. Basis of Accounting – The financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). GASB is responsible for establishing GAAP for state and local governments. GAAP includes all relevant GASB pronouncements plus other sources of accounting and financial reporting guidance noted in GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.
- c. Cash and Cash Equivalents – For purposes of preparing the statements of cash flows, restricted and unrestricted currency, demand deposits, money market accounts, and highly-liquid investments with a maturity of three months or less at issuance are considered cash and cash equivalents.
- d. Accounts Receivable – Accounts receivable includes mainly outstanding balances from the Group’s member entities. No allowance has been provided for these receivables, as management believes these are fully collectible based on past experience with these funding sources.
- e. Inventory – Inventory is stated at the lower of cost (weighted average method) or market, and includes items to support the Group’s operations. The allowance for obsolete or excess inventory was \$0 at June 30, 2017 and 2016.
- f. Capital Assets – Capital assets are stated at historical cost. An asset is capitalized if the cost is greater than \$5,000 and has an estimated useful life longer than one year. Depreciation is provided using the straight-line method over the estimated useful life of the capital assets. There were no capital assets as of June 30, 2017. The major categories of the Group’s typical capital assets and their estimated useful lives are as follows:

	<i>Estimated</i>
	<i>useful life</i>
Garage Machinery and Equipment	<hr style="width: 100%;"/>
Office Furnishings and Equipment	7-40 years
	7 years

- g. Deferred Outflows of Resources – The financial statement element deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Group has one item that qualifies for reporting in this category as of June 30, 2017 and 2016. The item, pension related deferred outflows, consists of unrecognized items not yet charged to pension expense and contributions to the pension from the Group after the measurement date of the net pension liability, June 30, 2016 and 2015, but before the end of the Group’s reporting periods of June 30, 2017 and June 30, 2016, respectively. This item will be included in the net pension liability and pension expense calculation in subsequent fiscal years.
- h. Deferred Inflows of Resources – The financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Group has one item that qualifies for reporting in this category as of June 30, 2017 and 2016.

The item, pension related deferred inflows, consists of unrecognized items not yet applied against pension expense. This item will be included in the net pension liability and pension expense calculation in subsequent fiscal years.

- i. Compensated Absences – Employees accumulate vacation hours for subsequent use or for payment upon separation from employment with the Group. The entire accumulated vacation liability has been presented as a current liability by choice of management, rather than as a result of scheduled payout requirements. The liability is included in accounts payable and accrued expenses on the statements of net position, and was \$41,553 and \$45,917 as of June 30, 2017 and 2016, 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 leaves employment with the Group. However, if an employee retires, he or she is entitled to 70 percent of accumulated sick leave hours in excess of 720 hours up to 2,400 hours, as computed at their straight-time hourly rate at retirement. Holiday hours are lost at the end of the year if not taken. The Group had no vested sick leave liability as of June 30, 2017 or 2016.

- j. Net Position – The Group’s net position is classified as follows:

- Net Investment in Capital Assets – This represents the Group’s total investment in capital assets net of accumulated depreciation and related debt that has been used as of the statement of net position date to finance capital additions. The balance as of June 30, 2017 and 2016 was \$0.
- Restricted Net Position – This includes resources that the Group is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or enabling legislation. The balance as of June 30, 2017 and 2016 was \$0.
- Unrestricted Net Position – This includes resources the Group may use at the discretion of the Board to meet current expenses for any purpose.

When unrestricted resources are available to finance expenses for which restricted resources exist, it is the Group’s policy to first apply restricted resources to such expenses.

- k. Operating Revenue – Operating revenue consists of sales of maintenance services to MetroLINK. Non-operating revenue, if any, generally consists of miscellaneous receipts from sales of obsolete parts, oil recycling, and vending machine income.
- l. Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees’ Retirement System (IPERS) and additions to/deductions from IPERS’ fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose,

benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The net pension liability is a significant estimate as discussed in more detail in Note 6.

- m. Estimates – The preparation of financial statements in conformity with GAAP 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. The Group’s significant estimate at June 30, 2017 is the valuation of the net pension liability.

### 3. Cash and Cash Equivalents

The Group is authorized to invest excess funds in instruments outlined under Chapter 30, Section 235, of the Illinois Compiled Statutes. Such instruments include obligations of the U.S. Treasury, savings accounts, certificates of deposit, and money market mutual funds.

#### *Custodial Credit Risk – Bank Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the Group’s deposits may not be returned to it. The Group does not have a formal investment policy. At June 30, 2017, the Group’s bank deposits of \$90,799, which reconciles to a statement of net position value of \$54,059, were insured fully by federal deposit insurance.

### 4. Capital Assets

The Group had no capital asset activity for the year ended June 30, 2017.

The following table provides a summary of changes in capital assets for the year ended June 30, 2016:

	June 30, 2015	Additions	Disposals	June 30, 2016
Cost:				
Garage Machinery and Equipment	\$ 107,218	\$ -	\$ 107,218	\$ -
Office Furnishings and Equipment	69,881	-	69,881	-
Total Cost	<u>177,099</u>	<u>-</u>	<u>177,099</u>	<u>-</u>
Less Accumulated Depreciation:				
Garage Machinery and Equipment	(102,281)	-	(102,281)	-
Office Furnishings and Equipment	(69,881)	-	(69,881)	-
Total Accumulated Depreciation	<u>(172,162)</u>	<u>-</u>	<u>(172,162)</u>	<u>-</u>
Capital Assets, Net	<u>\$ 4,937</u>	<u>\$ -</u>	<u>\$ 4,937</u>	<u>\$ -</u>

No depreciation has been provided for the capital assets in fiscal years 2017 or 2016 as the assets were no longer actively used by the Group. These capital assets were written off in fiscal year 2016.

## 5. Long-term Liabilities Activity

The Group had the following long-term liability activity during the fiscal year ended June 30, 2017:

	June 30, 2016	Additions	Deletions	June 30, 2017	Due Within One Year
Liability:					
Compensated Absences	\$ 45,917	\$ 63,159	\$ 67,523	\$ 41,553	\$ 41,553
Net Pension Liability	760,265	242,194	92,647	909,812	-
Total	<u>\$ 806,182</u>	<u>\$ 305,353</u>	<u>\$ 160,170</u>	<u>\$ 951,365</u>	<u>\$ 41,553</u>

The Group had the following long-term liability activity during the fiscal year ended June 30, 2016:

	June 30, 2015	Additions	Deletions	June 30, 2016	Due Within One Year
Liability:					
Compensated Absences	\$ 43,973	\$ 60,586	\$ 58,642	\$ 45,917	\$ 45,917
Net Pension Liability	716,019	138,391	94,145	760,265	-
Total	<u>\$ 759,992</u>	<u>\$ 198,977</u>	<u>\$ 152,787</u>	<u>\$ 806,182</u>	<u>\$ 45,917</u>

## 6. Pension and Retirement Benefits

Plan Description – Employees of the Group are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service)
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65. Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. The statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year closed amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, regular members contributed 5.95 percent of pay and the Group contributed 8.93 percent for a total rate of 14.88 percent.

The Group's total contributions to IPERS for the year ended June 30, 2017 were \$92,259.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the Group reported a liability

of \$909,812 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Group's proportion of the net pension liability was based on the Group's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, the Group's collective proportion was .014589 percent, which was a decrease of .0007037 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Group recognized IPERS pension expense of \$58,539, which is included in Pensions operating expense on the statement of revenues, expenses, and changes in net position along with other non-IPERS pension expenses incurred by the Group. At June 30, 2017, the Group reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 8,041	\$ 10,858
Changes of Assumptions	13,881	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	242,207	112,587
Changes in Proportion and Difference Between Group Contributions and Proportionate Share of Contributions	-	148,575
Group Contributions Subsequent to the Measurement Date	<u>92,259</u>	<u>-</u>
Total	<u><u>\$ 356,388</u></u>	<u><u>\$ 272,020</u></u>

The \$92,259 reported as deferred outflows of resources related to pensions resulting from the Group's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30,	
2018	\$ (53,245)
2019	(53,245)
2020	65,338
2021	35,033
2022	(1,772)
Total	<u>\$ (7,891)</u>

There were no non-employer contributing entities in relation to the Group's IPERS pension. Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (Effective June 30, 2016)	3.00 percent per annum
Rates of Salary Increases (Effective June 30, 1999)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term Investment Rate of Return (Effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the most recent actuarial experience study. The most recent analysis was performed for the period covering fiscal years 2010 to 2013, and was reported in May 2014.

Mortality rates were based on the RP-2000 Employee and Healthy Annuitant Tables with generational scaling and age adjustments.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by

weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation Percentage</u>	<u>L-T Expected Real Rate of Return</u>
U.S. Equity	24	5.85%
Non U.S. Equity	16	6.32%
Private Equity	11	10.31%
Real Estate	8	3.87%
Core Plus Fixed Income	28	1.90%
Credit Opportunities	5	4.48%
TIPS	5	1.36%
Other Real Estate	2	6.42%
Cash	1	-0.26%
Total	<u>100</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Group will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Group’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Group’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Group’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate Used (7.5%)</u>	<u>1% Increase (8.5%)</u>
Group's Proportionate Share of the Net Pension Liability	\$ 1,471,952	\$ 909,812	\$ 435,358

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS’ website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan – At June 30, 2017, the Group reported payables to the defined benefit pension plan of \$8,733 for legally required employer contributions and \$5,818 for legally required employee contributions, which had been withheld from employee wages but not yet remitted to IPERS.

## **7. Related-Party Transactions**

The Group's operating revenue for the years ended June 30, 2017 and 2016 was earned entirely from MetroLINK, one of the Group's joint owners. At June 30, 2017 and 2016, the Group had accounts receivable resulting from the excess of earned revenue versus estimated payments from services of \$0 and \$3,924, respectively, due from the City of Davenport, one of the Group's joint owners. At June 30, 2017 and 2016, the Group had unearned revenue resulting from the excess of estimated payments versus earned revenue in the amount of \$81,061 and \$296,535, respectively, for MetroLINK.

## **8. Risk of Loss**

Significant losses are covered by commercial insurance for property, liability, and worker's compensation. During 2017 and 2016, there were no significant reductions in coverage. Also, there have been no settlement amounts that have exceeded insurance coverage in the past three years.

## **9. Commitment**

The Group has contracted for maintenance management services with an unrelated entity. The agreement has an expiration date of March 31 2020, but may be cancelled by either party with a 60-day notice. The remaining commitment on this contract, after costs incurred through June 30, 2017, was approximately \$317,000. The remaining amount is scheduled to be paid in fiscal years 2018, 2019, and 2020, in the approximate amounts of \$113,000, \$116,000, and \$88,000, respectively.

## **10. Retirement Plan**

All full-time and part-time employees hired after September 2013 participate in the Group's contributory retirement plan, which is administered by an unrelated third party. The plan requires an employer nondiscretionary contribution of 5 percent of gross earnings per pay period. The plan requires employees to contribute 5 percent of gross earnings with the Group making a matching contribution of 3 percent of an employee's gross earnings. All plan contributions are vested immediately. Expense incurred by the Group for this retirement plan for the years ended June 30, 2017 and 2016 was \$5,741 and \$4,836.

QUAD CITY GARAGE POLICY GROUP  
Schedule of Proportionate Share of the Net Pension Liability  
Iowa Public Employees' Retirement System  
Last Ten Fiscal Years

Required Supplementary Information  
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Group's Proportion of the Net Pension Liability (Asset)	0.0145890%	0.0152927%	0.0176922%	0.0192930%
Group's Proportionate Share of the Net Pension Liability	\$ 909,812	\$ 760,265	\$ 716,019	\$ 1,092,365
Group's Covered Payroll	\$ 1,033,143	\$ 1,037,474	\$ 1,054,250	\$ 1,181,399
Group's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	88.06%	73.28%	67.92%	92.46%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.86%	84.19%	87.61%	81.25%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Group will present information for those years for which information is available.

QUAD CITY GARAGE POLICY GROUP  
Schedule of Contributions  
Iowa Public Employees' Retirement System  
Last Ten Fiscal Years

Required Supplementary Information  
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily Required Contribution	\$ 92,259	\$ 92,647	\$ 94,145	\$ 105,499	\$ 108,184	\$ 103,305
Contributions in Relation to the Statutorily Required Contribution	<u>92,259</u>	<u>92,647</u>	<u>94,145</u>	<u>105,499</u>	<u>108,184</u>	<u>103,305</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Group's Covered Payroll	\$ 1,033,143	\$ 1,037,474	\$ 1,054,250	\$ 1,181,399	\$ 1,247,798	\$ 1,283,712
Contribution as a Percentage of Covered Payroll	8.93%	8.93%	8.93%	8.93%	8.67%	8.05%

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Group will present information for those years for which information is available.

QUAD CITY GARAGE POLICY GROUP  
Notes to Required Supplementary Information – Pension Liability  
(Unaudited)  
June 30, 2017

*Changes of Benefit and Funding Terms:*

The following changes were made in the valuation performed as of June 30, 2016:

No changes

*Changes of Actuarial Assumptions:*

The 2016 valuation implemented the following refinements:

No changes

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*

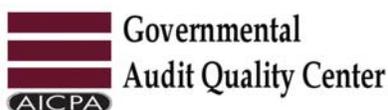
To the Board of Members  
Quad City Garage Policy Group  
Rock Island, Illinois

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 Quad City Garage Policy Group (the Group), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements and have issued our report thereon dated August 31, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control.

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. 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.



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*.

### **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 Group'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 Group's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Martin, Wood, Fries & Associates, LLC*

Champaign, Illinois  
August 31, 2017