

**METROPOLITAN WASHINGTON COUNCIL
OF GOVERNMENTS**

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2020



ASSURANCE, TAX & ADVISORY SERVICES

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Metropolitan Washington Council of Governments

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining fund information of Metropolitan Washington Council of Governments (MWCOG), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise MWCOG's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MWCOG'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 MWCOG'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the remaining fund information of MWCOG as of June 30, 2020, and the respective changes in financial position thereof for the year 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 the Management's Discussion and Analysis and the required supplementary information on pages 4-8 and 36-38, respectively, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MWCOG's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2020 on our consideration of MWCOG'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 solely 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 effectiveness of MWCOG's 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 MWCOG's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
December 3, 2020

MANAGEMENT’S DISCUSSION AND ANALYSIS

The Executive Director, Deputy Executive Director, and Chief Financial Officer of the Metropolitan Washington Council of Governments (MWCOG) have provided this MD&A to give the reader of these statements an overview of the financial position and activities of MWCOG for the fiscal year covered by this audit report.

What We Do

MWCOG is an independent, nonprofit association that brings area leaders together to address major regional issues in the District of Columbia, suburban Maryland, and Northern Virginia. Membership is comprised of 300 elected officials from 24 local governments, the Maryland and Virginia state legislatures, and U.S. Congress.

FINANCIAL HIGHLIGHTS AND ANALYSIS

Statement of Net Position

The following table presents a summary of the Statement of Net Position for MWCOG as of June 30, 2020 and 2019:

Summary Statement of Net Position				
June 30, 2020 and 2019				
	Governmental Activities		Increase	%
	2020	2019	(Decrease)	Change
Assets:				
Current and other assets	\$ 25,777,132	\$ 19,874,970	\$ 5,902,162	29.7%
Capital assets, net	2,231,145	2,150,767	80,378	3.7%
Total assets	28,008,277	22,025,737	5,982,540	27.2%
Deferred outflows of resources	3,183,769	5,942,614	(2,758,845)	-46.4%
Liabilities:				
Current and other liabilities	5,724,620	9,836,050	(4,111,430)	-41.8%
Long-term liabilities	634,553	534,406	100,147	18.7%
Total liabilities	6,359,173	10,370,456	(4,011,283)	-38.7%
Deferred inflows of resources	7,976,271	511,344	7,464,927	1459.9%
Net Position:				
Net investment in capital assets	2,231,145	2,150,767	80,378	3.7%
Restricted	1,900,471	2,714,100	(813,629)	-30.0%
Unrestricted	12,724,986	12,221,684	503,302	4.1%
Total net position	\$ 16,856,602	\$ 17,086,551	\$ (229,949)	-1.3%

Current and other assets increased by \$5.9 million due to a \$6.8 million increase in the pension asset because actual performance exceeded actuarial assumptions and was partially offset by a decrease in the amounts due from other governments of \$1.0 million due to increased focus on reducing days of accounts receivable outstanding. Deferred outflows of resources decreased by \$2.8 million and deferred inflows of resources increased by \$7.5 million due to changes in the pension valuation. Current and other liabilities decreased by \$4.1 million, primarily due to the net pension liability decrease of \$3.8 million because actual performance exceeded actuarial assumptions and a \$0.2 million decrease in accounts payable. The net result was a decrease in total net position of \$0.2 million primarily driven by a \$0.8 million in spend of project funds received in prior years offset by a \$0.5 million increase in unrestricted funds.

Statement of Activities

The following table presents a summary of the Statement of Activities for MWCOG for the years ended June 30, 2020 and 2019:

Summary Statement of Activities Years Ended June 30, 2020 and 2019

	Governmental Activities		Increase (Decrease)	% Change
	2020	2019		
Revenue:				
Federal, state and local revenue	\$ 33,253,518	\$ 33,218,314	\$ 35,204	0.1%
Member dues	4,385,993	4,223,142	162,851	3.9%
Building revenue	517,755	601,956	(84,201)	-14.0%
Miscellaneous	2,386,709	3,391,409	(1,004,700)	-29.6%
Total Revenues	<u>40,543,975</u>	<u>41,434,821</u>	<u>(890,846)</u>	-2.1%
Expenses:				
Personnel	16,657,109	16,038,001	619,108	3.9%
Professional fees	9,950,828	7,655,081	2,295,747	30.0%
Subrecipient pass-through funds	4,647,400	6,388,225	(1,740,825)	-27.3%
Other direct expense	5,070,909	7,266,950	(2,196,041)	-30.2%
Pension expense adjustment	(359,564)	1,079,386	(1,438,950)	-133.3%
Non-personnel support service costs	4,807,242	4,996,583	(189,341)	-3.8%
Total Expenses	<u>40,773,924</u>	<u>43,424,226</u>	<u>(2,650,302)</u>	-6.1%
Change in net position	(229,949)	(1,989,405)	1,759,456	-88.4%
Beginning net position	<u>17,086,551</u>	<u>19,075,956</u>	<u>(1,989,405)</u>	-10.4%
Ending net position	\$ <u>16,856,602</u>	\$ <u>17,086,551</u>	\$ <u>(229,949)</u>	-1.3%

Total operating revenue in fiscal year 2020 was \$40.5 million. Of the total operating revenue, \$33.3 million (82%) was from federal, state, and local funds, of which \$4.6 million was passed through to subrecipients. Member dues generated an additional \$4.4 million in revenue and were used to provide member services and funding for specific regional programs, as approved by the Board of Directors. MWCOG also owns one-third of the common stock of the Center for Public Administration and Services, Inc., a real estate investment trust (REIT) which owns and operates the building that houses MWCOG's offices. In fiscal year 2020, MWCOG recorded \$517,755 in revenue from the REIT and from the sublease of a portion of its office space.

Revenue decreased by \$0.9 million and expenses decreased by \$2.7 million in fiscal year 2020 compared to fiscal year 2019. The decrease in revenue is due primarily to a reduction in sponsor funds for the diesel repower programs. There was also a corresponding decrease in expenses related to diesel repower programs and a \$1.4 million pension expense reduction.

Net position refers to the resources that would remain if all obligations were settled. The table below identifies categories of net position as non-cash (invested in capital assets), restricted for program use, designated for future capital projects and programs, operating reserves designated for emergencies and unexpected cash flow interruptions, the net pension asset based on the actuarial report as of January 1, 2020, and assets available for current and future general expenditures (undesignated).

Net Position by Category	Balance			Balance June 30, 2020
	June 30, 2019	Increase	Decrease	
Net investment in capital assets	\$ 2,150,767	\$ 329,481	\$ 249,103	\$ 2,231,145
Restricted program funds	2,714,100	773,058	1,586,687	1,900,471
Unrestricted				
Capital expenditure reserve	5,256,385	249,103	329,481	5,176,007
Operating reserve	5,284,597	-	40,719	5,243,878
Net pension asset (includes deferred inflows and outflows)	1,680,702	7,824,491	7,464,927	2,040,266
Undesignated	-	264,835	-	264,835
Total Net Position	\$ 17,086,551	\$ 9,440,968	\$ 9,670,917	\$ 16,856,602

The decrease in net position in fiscal year 2020 of \$0.2 million is due to a \$0.8 million decrease in restricted program funds which are funds received in a prior year reserved for expenditures in future fiscal years, partially offset by a \$0.4 million increase in the net pension asset and a \$0.3 million increase in undesignated funds. Undesignated net assets were increased by \$0.3 million primarily due to conscious cost cutting efforts.

Investment (increase) in capital assets of \$329,481 included the completion of an upgrade to the Cisco network, cloud migration and expenses for replacing the network copiers, utilizing funds from the capital expenditure reserve. The board-designated operating reserve is one hundred percent funded at 25 percent of personnel and support service expenses, as per board policy. The net pension asset of \$2,040,266 is the actuarial value of assets in excess of liabilities in MWCOG's pension plan as of January 1, 2020 and includes deferred inflows and outflows. Net pension assets are not available for use in operations. There are \$0.3 million in undesignated net assets available for future operations and projects or to maintain the board-designated reserves.

ANALYSIS OF FINANCIAL INFORMATION

The following analysis is provided to help the reader understand the major operations of MWCOG, where the resources come from, and how the resources are used.

MWCOG's Uses of Funds

The Department of Transportation Planning accounts for 58% of program expenditures and is by far the largest segment of the organization. The Department of Environmental Programs and the Department of Homeland Security and Public Safety account for 21% and 15% of expenses, respectively.

Expenses by Program	Year Ended	
	June 30, 2020	June 30, 2019
Transportation	\$ 23,673,563	\$ 23,486,993
Community Planning, Health, and Child Welfare	868,597	913,959
Homeland Security and Public Safety	6,189,320	7,457,696
Environmental	8,699,886	8,615,593
Executive, Governance, and Member Services	1,702,122	1,870,599
Pension Expense Adjustment	(359,564)	1,079,386
Total Operating Expenses	\$ 40,773,924	\$ 43,424,226

MWCOG's Capital Assets

Capital assets are made up of furniture and equipment (\$1.9 million), computer hardware and networks (\$2.2 million), software (\$1.2 million), and leasehold improvements (\$1.0 million), recorded at cost. Constructions in progress (\$.7 million) includes expenses associated with the future remodel of the office and meeting room space at 777 North Capitol St. N.E. in Washington office. Accumulated depreciation at June 30, 2020 was \$5.2 million, for a net book value of approximately \$2.2 million.

	June 30, 2019	Net Additions	June 30, 2020	Useful Life (in Years)
Construction in progress	\$ 721,948	\$ (12,838)	\$ 709,110	
Furniture and equipment	1,885,514	-	1,885,514	10
Leasehold improvements	1,040,380	-	1,040,380	10-17
Computer hardware	1,903,357	328,973	2,232,330	3-5
Computer software	1,202,666	-	1,202,666	5
Local area network	319,881	13,346	333,227	3
Total capital assets	7,073,746	329,481	7,403,227	
Less: accumulated depreciation and amortization	4,922,979	249,103	5,172,082	
Capital assets, net	\$ 2,150,767	\$ 80,378	\$ 2,231,145	

MWCOG's Future Changes and Trends

MWCOG is the designated recipient for the Federal Transit Administration's Enhanced Mobility of Older Adults and Individuals with Disabilities Program which provides matching grants to non-profits and other organizations for specialized transportation. In fiscal year 2022 staff will solicit and award over \$7 million in federal grants to implement this program.

Other than what has been noted above, nothing known, enacted, adopted, contracted, or agreed upon will impact MWCOG's future revenue, expenses, or assets.

CONTACT FOR FURTHER INFORMATION

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to: Metropolitan Washington Council of Governments, Inc., 777 North Capitol Street N.E., Suite 300, Washington, D.C. 20002.

BASIC FINANCIAL STATEMENTS

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

June 30, 2020

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,663,273
Due from other governments	8,873,455
Other receivables	476,342
Prepaid items and other assets	890,740
Investments	2,395,546
Total current assets	14,299,356
Noncurrent assets:	
Investments	4,645,008
Net pension asset	6,832,768
Capital assets, net	2,231,145
Total noncurrent assets	13,708,921
Total assets	28,008,277
DEFERRED OUTFLOWS OF RESOURCES	
Pension plan	3,183,769
Total deferred outflows of resources	3,183,769
LIABILITIES	
Current liabilities:	
Accounts payable	3,770,068
Due to other governments	508,506
Accrued liabilities	425,576
Unearned revenue	597,434
Total current liabilities	5,301,584
Noncurrent liabilities:	
Due within one year:	
Compensated absences	423,036
Due in more than one year:	
Compensated absences	634,553
Total noncurrent liabilities	1,057,589
Total liabilities	6,359,173
DEFERRED INFLOWS OF RESOURCES	
Pension plan	7,976,271
Total deferred inflows of resources	7,976,271
NET POSITION	
Net investment in capital assets	2,231,145
Restricted - program funds	1,900,471
Unrestricted	12,724,986
Total net position	\$ 16,856,602

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2020**

Function/Programs	Expenses	Program Revenues		Net Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Planning and administration	\$ 30,068,610	\$ 2,119,480	\$ 26,934,197	\$ (1,014,933)
Planning and administration - indirect	6,057,914	-	6,057,914	-
Subrecipient	4,647,400	-	4,647,400	-
Total governmental activities	\$ 40,773,924	\$ 2,119,480	\$ 37,639,511	(1,014,933)
General revenues:				
Use of money and property				780,704
Miscellaneous				4,280
Total general revenues				784,984
Change in net position				(229,949)
Net position, beginning				17,086,551
Net position, ending				\$ 16,856,602

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

**BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2020**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,663,273
Due from other governments	8,873,455
Other receivables	476,342
Prepaid items and other assets	890,740
Investments	7,040,554
	<hr/>
Total assets	\$ 18,944,364
	<hr/> <hr/>
LIABILITIES	
Accounts payable	\$ 3,770,068
Due to other governments	508,506
Accrued liabilities	425,576
Unearned revenue	597,434
	<hr/>
Total liabilities	5,301,584
	<hr/>
FUND BALANCE	
Nonspendable	890,740
Restricted - program funds	1,900,471
Committed	10,575,564
Unassigned	276,005
	<hr/>
Total fund balance	13,642,780
	<hr/>
Total liabilities and fund balance	\$ 18,944,364
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METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION

June 30, 2020

Reconciliation of fund balance on the Balance Sheet of the governmental fund to the net position of the governmental activities on the Statement of Net Position:

Fund balance \$ 13,642,780

Amounts reported for governmental activities in the Statement of Net Position are different because:

Net pension asset is a long-term asset and not a current financial resource and, therefore, not reported in the governmental fund. 6,832,768

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental fund.

Capital assets	\$ 7,403,227	
Less accumulated depreciation and amortization	<u>(5,172,082)</u>	
		2,231,145

Deferred outflows of resources represent a consumption of net position that applies to a future period and, therefore, are not recognized as expenditures in the governmental fund until then.

Pension plan 3,183,769

Compensated absences are liabilities not due and payable in the current period and, therefore, are not reported in the governmental fund. (1,057,589)

Deferred inflows of resources represent an acquisition of net position that applies to a future period and, therefore, are not recognized as revenue in the governmental fund.

Pension plan (7,976,271)

Net position of governmental activities \$ 16,856,602

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND AND RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2020

	General Fund
Revenues:	
Intergovernmental:	
Federal grants	\$ 22,971,110
State grants	6,154,597
Member dues	4,385,993
Contributions and local match	4,127,811
Charges for services	2,119,480
Use of money and property	780,704
Miscellaneous	4,280
Total revenues	40,543,975
Expenditures:	
Planning and administration	30,012,159
Planning and administration - indirect	6,057,914
Subrecipient	4,647,400
Capital outlay	329,481
Total expenditures	41,046,954
Net change in fund balance	(502,979)
Fund balance, beginning	14,145,759
Fund balance, ending	\$ 13,642,780
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balance	\$ (502,979)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation.	
Add - capital outlays	\$ 329,481
Deduct - depreciation and amortization expense	(249,103)
Excess of capital outlay over depreciation and amortization	80,378
Deferred outflows of resources - contributions subsequent to measurement date - pension plan	598,368
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.	
Compensated absences	(166,912)
Pension expense	(238,804)
Change in net position of governmental activities	\$ (229,949)

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2020

		Pension Trust Funds	
	Custodial Fund	Pension Fund	Supplemental Executive Retirement Plan
ASSETS			
Cash and cash equivalents	\$ 731,021	\$ -	\$ -
Due from other governments	44,656	-	-
Other receivables	-	448,737	-
Investments held in trust at fair value	-	60,610,862	224,234
	Total assets	\$ 61,059,599	\$ 224,234
LIABILITIES			
Accrued liabilities	\$ -	\$ 30,789	\$ -
NET POSITION			
Restricted for:			
Other governments	\$ 775,677	\$ -	\$ -
Pension benefits	-	61,028,810	224,234
	Total net position	\$ 61,028,810	\$ 224,234

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

Year Ended June 30, 2020

	Pension Trust Funds		
	Custodial Fund	Pension Fund	Supplemental Executive Retirement Plan
Additions:			
Contributions	\$ 3,437,031	\$ 2,117,610	\$ 25,500
Total additions	3,437,031	2,117,610	25,500
Investment earnings:			
Interest earned on investments	-	2,266,735	-
Net increase in fair value of investments	-	1,040,158	5,728
Other receipts	-	35,554	-
Total income from investment activities	-	3,342,447	5,728
Deductions:			
Subrecipient	2,879,544	-	-
Consultants	9,042	-	-
Benefit payments	-	6,399,355	-
Administrative fees	-	152,780	-
Miscellaneous	2,200	-	-
Total deductions	2,890,786	6,552,135	-
Change in fiduciary net position	546,245	(1,092,078)	31,228
Net position, beginning	229,432	62,120,888	193,006
Net position, ending	\$ 775,677	\$ 61,028,810	\$ 224,234

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Metropolitan Washington Council of Governments (MWCOG) is an organization comprised of 24 local governments of the Washington Metropolitan area, plus area members of the Maryland and Virginia legislatures, the U.S. Senate, and the U.S. House of Representatives. MWCOG's mission is to enhance the quality of life and competitive advantages of the Washington Metropolitan region in the global economy by providing a forum for consensus building and policy making; implementing intergovernmental policies, plans, and programs; and supporting the region as an expert information resource.

Through MWCOG, individual counties and cities coordinate their efforts to maintain and improve the physical, economic, and social wellbeing of the area. MWCOG's funding is obtained from member jurisdictions' annual dues and Federal, State, and other contracts for specified projects, which are designed to further MWCOG's goals and objectives.

The financial statements of MWCOG have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information of the governmental activities supported by intergovernmental revenues.

The government-wide Statement of Net Position reports net position as restricted when externally imposed constraints are in effect. Internally imposed designations of resources are not presented as restricted net position.

The government-wide Statement of Activities is designed to report the degree to which the expenses of a given function are offset by program revenues. Expenses are those that are clearly identifiable with a specific function. Program revenues include contributions that are restricted to meet the operational requirements of a particular function.

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. Given that governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented which explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Separate fund financial statements are provided for the General Fund. In the fund financial statements, financial transactions and accounts of MWCOG are organized on the basis of funds. The operation of the fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The General Fund is reported on a Balance Sheet and a Statement of Revenues, Expenditures and Change in Fund Balance (fund equity). Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the government-wide financial statements.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements: Government-wide financial statements are reported 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 flows. Intergovernmental revenues, consisting of dues from participating jurisdictions and Federal and State funds from the Commonwealth of Virginia, the State of Maryland, and the District of Columbia, are recognized in the period the funding is made available.

Governmental Fund Financial Statements: The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. MWCOG considers revenues to be available if they are collected within 90 days after year end. In addition, reimbursement grants are considered to be available to the extent that expenditures have been incurred. Expenditures are recorded when a liability is incurred under the full accrual method of accounting. The individual Governmental Fund is:

General Fund – The General Fund is the primary operating fund of MWCOG and is used to account for and report all revenues and expenditures applicable to the general operations of MWCOG. Revenues are derived primarily from intergovernmental activities. The General Fund is considered a major fund for financial reporting purposes.

Fiduciary Funds: Fiduciary funds (trust and custodial funds) account for assets held by MWCOG in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These funds utilize the accrual basis of accounting. Fiduciary funds are not included in the government-wide financial statements. MWCOG's fiduciary funds are the Pension Trust Funds which account for activities of MWCOG's pension benefits and one Custodial Fund which accounts for funds held on behalf of other governmental entities.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies

1. Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with maturities of three months or less.

2. Investments

Investments are stated at fair value based on quoted market prices. MWCOG has adopted a formal investment policy that authorizes management to deposit funds, not immediately needed for operating activities, in short-term investment accounts, including money market funds, where such accounts or funds are invested in securities of the United States of America or insured by the Federal government.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements using the consumption method.

4. Capital Assets

Capital assets include furniture and equipment, leasehold improvements, computer hardware, computer software, and local area network with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Repairs and maintenance are charged to operations as they are incurred. Additions and betterments are capitalized. The costs of assets retired and accumulated depreciation are removed from the accounts.

Depreciation and amortization of all exhaustible equipment, leasehold improvements and intangibles are charged as an expense against operations using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 - 10 years
Leasehold improvements	Shorter of useful life or life of lease
Computer hardware	5 - 15 years
Computer software	3 years
Local area network	5 years

When, in the opinion of management, certain assets are impaired, any estimated decline in value is accounted for as an expense. There were no impaired assets at year end.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies (Continued)

5. Pension

For purposes of measuring the net pension liability or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Metropolitan Washington Council of Governments Pension Plan (“the Plan”) and the additions to/deductions from the Plan’s fiduciary net position have been determined on the basis as they were reported by the Plan, which are prepared using the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

6. Compensated Absences

Employees are allowed to accumulate unused annual leave up to a maximum of 320 hours from the previous calendar year plus the amount of unused annual leave credited to the employee during the current calendar year. MWCOG’s employees earn thirteen to twenty-six vacation days in a year, depending on the length of their employment. All employees receive thirteen sick days a year. Upon termination or retirement, employees are entitled to receive compensation at their current base salary for all unused annual leave. Unused sick leave is cancelled upon termination of employment, with no compensation to the employee.

7. Unearned Revenue

Funds advanced to MWCOG before the satisfaction of program eligibility requirements are reflected as unearned revenue in the accompanying Statement of Net Position. The eligibility requirements applicable to MWCOG relate to reimbursement or expenditure driven programs. MWCOG must incur allowable costs under a program before the revenue can be recognized.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. MWCOG currently has two items that qualify for reporting in this category related to pension. Accordingly, employer contributions made subsequent to the measurement date and the difference between expected and actual experience are reported as deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. MWCOG currently has one item that qualifies for reporting in this category related to pension. Accordingly, the item related to pension is the net difference between projected and actual earnings on plan investments is reported as deferred inflows of resources.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies (Continued)

9. Fund Equity

MWCOG reports fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance classification includes amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact (corpus of a permanent fund).

Restricted fund balance classification includes amounts constrained to specific purposes by their providers (higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance classification includes amounts constrained to specific purposes by the government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance classification includes amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official body to which the governing body delegates the authority.

Unassigned fund balance classification includes the residual balance of the General Fund that has not been restricted, committed or assigned to specific purposes within the General Fund.

When fund balance resources are available for a specific purpose in more than one classification, MWCOG will consider the use of restricted, committed or assigned funds prior to the use of unassigned fund balance as they are needed.

10. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by MWCOG or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MWCOG first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies (Continued)

11. Commitments and Contingencies

MWCOG receives financial assistance from Federal government grants and contracts. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of MWCOG. MWCOG's management believes such disallowance, if any, would not be material to the financial statements as of June 30, 2020.

12. Fringe Benefit and Indirect Cost Allocations

Fringe benefit and indirect costs are allocated to each project based on approved allocation rates. Separate rates are determined for indirect costs, fringe benefits (excluding leave), leave (vacation and sick), and indirect non-personnel costs. The rates are calculated as follows:

- a. The indirect cost rate is the ratio of the total indirect cost pool over direct staffing expenses;
- b. The leave rate is the ratio of leave benefits over total salary costs; and
- c. The fringe benefits rate is the ratio of fringe benefit expense (excluding leave benefits) over total salary costs less temporary salaries and intern costs plus leave benefits

The indirect costs, leave benefits, and fringe benefits rates for the fiscal year ended June 30, 2020 were as follows:

Indirect costs	56.52%
Leave benefits	20.88%
Fringe benefits	25.74%

13. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

14. Subsequent Events

MWCOG has evaluated subsequent events through December 3, 2020, the date on which the financial statements were available to be issued.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

Custodial Credit Risk (Deposits)

MWCOG maintains its deposits at several financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, for interest bearing accounts. The amount on deposit throughout the year sometimes exceeds the federally insured limits.

Investment Policy

General Fund

The Operating Reserve will be maintained as cash or cash equivalents, with a primary investment objective of capital preservation and liquidity.

Pension Fund

MWCOG adopted a formal investment policy in June 2011 for MWCOG's pension plan. The objective of the policy is to provide benefits as anticipated through a carefully planned and executed investment program, which achieves a reasonable long term total return consistent with the level of risk assumed. MWCOG appointed a Pension Plan Administrative Committee to administer the investment policies and provide oversight for the management of the assets.

Investments

MWCOG's investments are stated at fair value as determined by quoted prices. As of June 30, 2020, the investment balance consisted of the following:

	Fair Value	Investment Maturities (in years)		
		Less Than 1 Year	1 - 5 Years	6 - 10 Years
Certificates of deposit (General Fund)	\$ 5,148,115	\$ 503,107	\$ 3,754,009	\$ 890,999
Money market funds (General Fund)	1,892,439	1,892,439	-	-
Money market funds (Fiduciary Fund)	25,911	25,911	-	-
Mutual funds (Fiduciary Fund)	40,018,961	40,018,961	-	-
Guaranteed Investment Contract (Fiduciary Fund)	20,565,990	20,565,990	-	-
Mutual funds (Fiduciary Fund)	224,234	224,234	-	-
Total	\$ 67,875,650	\$ 63,230,642	\$ 3,754,009	\$ 890,999

MWCOG's investments are subject to certain risks; credit risk, concentration of credit risk, and interest rate risk.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligations. In addition, financial institutions must have a satisfactory or outstanding Community Reinvestment Act rating, total capitalization of at least \$10 million, and an FDIC Capital Classification of “Well Capitalized” or “Adequately Capitalized.” As of June 30, 2020, MWCOG’s bonds with the Federal National Mortgage Association had a AAA rating by Moody’s Investments Ratings and AA+ by Standard and Poor’s.

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. There is no limit on the amount that may be invested in any one issuer.

The limitations provided in the investment policy for the Pension Fund percentages of the portfolio for each category of investment are as follows:

Asset Class	Allowable Range	Target
Domestic equities	50-70%	60%
Fixed income	30-50%	40%
Cash equivalents	0-5%	0%

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MWCOG mitigates the interest rate risk by investing in callable bonds and segmenting its investments with various maturity dates.

Note 3. Fair Value Measurement

MWCOG categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three levels of the fair value hierarchy are described below.

- Level 1 Valuation based on quoted prices in active markets for identical assets or liabilities.
- Level 2 Valuation based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets and liabilities.
- Level 3 Valuations based on unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

	Level 1	Level 2	Level 3
Certificates of deposit	\$ 5,148,115	\$ -	\$ -
Money market funds	1,918,350	-	-
Mutual funds	40,243,195	-	-
Guaranteed Investment Contract	-	20,565,990	-

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 4. Due To/From Other Governments

Amounts due from other governments are as follows:

Maryland Department of Transportation	\$ 2,040,799
District of Columbia - Department of Transportation	1,718,830
Virginia Department of Transportation	1,636,308
Homeland Security and Emergency Management Agency	1,496,565
Federal Transit Administration	462,295
Virginia Department of Rail and Public Transportation	327,460
District of Columbia - Department of Health	311,818
Washington Suburban Sanitary Commission	267,932
Metropolitan Washington Airports Authority	221,060
Other governments	<u>390,388</u>
	<u><u>\$ 8,873,455</u></u>

Amounts due to other governments are as follows:

University of Maryland	\$ 243,125
County of Montgomery, MD	91,267
County of Prince George, MD	63,242
Fairfax County, VA	39,193
Other governments	<u>71,679</u>
	<u><u>\$ 508,506</u></u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Capital assets consisted of the following as of June 30, 2020:

	June 30, 2019	Additions	Transfers	June 30, 2020
Capital assets not being depreciated or amortized:				
Construction in progress	\$ 721,948	\$ 256,657	\$ (269,495)	\$ 709,110
Capital assets being depreciated or amortized:				
Furniture and equipment	1,885,514	-	-	1,885,514
Leasehold improvements	1,040,380	-	-	1,040,380
Computer hardware	1,903,357	59,478	269,495	2,232,330
Computer software	1,202,666	-	-	1,202,666
Local area network	319,881	13,346	-	333,227
Total capital assets being depreciated or amortized	6,351,798	72,824	269,495	6,694,117
Less accumulated depreciation or amortization for:				
Furniture and equipment	1,795,834	38,557	-	1,834,391
Leasehold improvements	575,152	61,309	-	636,461
Computer hardware	1,238,898	115,061	-	1,353,959
Computer software	1,003,470	29,094	-	1,032,564
Local area network	309,625	5,082	-	314,707
Total accumulated depreciation and amortization	4,922,979	249,103	-	5,172,082
Total capital assets being depreciated or amortized, net	1,428,819	(176,279)	269,495	1,522,035
Total capital assets, net	\$ 2,150,767	\$ 80,378	\$ -	\$ 2,231,145

MWCOG calculates depreciation and amortization expense each year based on its capital assets' estimated useful lives. The depreciation and amortization expense is then allocated to each of MWCOG's projects through its indirect cost rate. Depreciation and amortization expense for the year ended June 30, 2020, was \$249,103.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2020 were as follows:

Activity	Beginning Balance July 1, 2019	Additions	Reductions	Ending Balance June 30, 2020	Due in One Year
Compensated absences	\$ 890,677	\$ 533,096	\$ (366,184)	\$ 1,057,589	\$ 423,036
	\$ 890,677	\$ 533,096	\$ (366,184)	\$ 1,057,589	\$ 423,036

Note 7. Short-Term Debt

MWCOG has a \$3,000,000 revolving line of credit that can be used for operations or to finance certain grant-funded projects prior to the receipt of reimbursements from the granting agencies. The revolving line of credit was not used during the year ended June 30, 2020.

Note 8. Pension Plan

A. Plan Description

MWCOG has a single employer defined benefit pension plan known as the Metropolitan Washington of Governments Pension Plan (the Plan), covering substantially all of its employees. The Plan is administered by the Pension Plan Administrative Committee of MWCOG.

As a tax-exempt agent of general-purpose local governments, MWCOG discontinued its participation in Social Security. Contributions, which would normally have gone to the Social Security Administration, are now added to MWCOG's Plan, which provides retirement, disability, and death benefits to participants and beneficiaries.

Cost of living adjustments (COLA) of the lesser of 3% or one-half of the increase in the cost-of-living index as measured from May 31 of the preceding year to May 31 preceding the determination date are made each July 1. By action of the Board of Directors, MWCOG may, at any time, amend, in any respect, or terminate the Plan, except that no amendment may reduce the accrued benefits of any participant or beneficiary. Participants are entitled to receive a summary of the Plan's financial reports upon written request to the Director of Human Resource Management.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

Under the terms of the Plan, a participant may retire at age 65 with at least five years of service or at age 60 with at least 25 years of service. Normal retirement benefits are received on the first day of the month following the month the participant retires. Normal retirement benefits paid each year represent 80% of the average final compensation participants received from MWCOG during the three calendar years in which participants received the highest compensation, multiplied by the ratio of service. In addition, effective July 1, 2004, a monthly supplemental insurance benefit of \$240 is payable to all retirees. The pension benefit is payable in monthly amounts from the normal retirement date until death, with at least 120 monthly payments guaranteed.

Participants who are disabled while working for MWCOG will receive disability payments until the normal retirement date, unless they recover or die. Disability payments are two-thirds of the participant's salary up to a maximum of \$10,000 per month. Death benefits are equal to the greater of the present value of the participant's accrued benefit immediately before the date of death, or the amount of benefits that are paid under MWCOG's group term life insurance policy. The policy will pay an amount equal to three times the annual salary (rounded up to the nearest thousand) at the time of death.

Participants who terminate employment with MWCOG, other than by death or disability, before completing five years of vesting services, are entitled to receive, beginning after the normal retirement date, a benefit equal in value to the sum of the participant's contributions to the Plan, plus interest at 5% per year compounded annually (or the applicable Federal rate for temporary employees), and the vested portion of the part of the accrued benefits that is not based on the contributions.

Plan Membership

As of the January 1, 2020 actuarial valuation, the following members were covered by the benefit terms of the Plan:

	<u>Number</u>
Inactive member or their beneficiaries currently receiving benefits	46
Inactive members:	
Vested	<u>25</u>
Total inactive members	<u>71</u>
Active members	<u>122</u>
Total	<u><u>193</u></u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

Contributions

MWCOG actuarially determined contribution rate for the years ended December 31, 2019 and 2018 was 10.88% and 12.17%, respectively, of covered employee compensation, based on an actuarial valuation as of January 1, 2020 and 2019, respectively. The contribution requirements of the Plan participants are established and may be amended by MWCOG's Board of Directors. Currently, MWCOG is required to contribute 9% and participants are required to contribute 7% of their salary in bi-weekly installments to the Plan. The contributions to the Plan from MWCOG and the participants for the fiscal years ended June 30, 2020 and 2019 were \$2,117,626 and \$2,121,413, respectively.

B. Net Pension Liability (Asset)

MWCOG's net pension liability (asset) was measured as of December 31, 2019. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of January 1, 2020.

Actuarial Assumptions

Valuation date	January 1, 2020
Actuarial cost method	Entry Age Normal
Asset valuation	Closed period of 20 years level dollar which began January 1, 2017
Amortization method	Expected value at valuation date plus 25% of the difference between market value and expected value
Discount rate	7.00%
Price inflation	4.00%
Salary increases	Starting at 6.5% and decreasing to 3.50% based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality with generation projection using Scale AA

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

B. Net Pension Liability (Asset) (Continued)

Long-Term Expected Rate of Return

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 of return (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. Best estimates of geometric real rates of return were adopted by MWCOG after considering input from MWCOG’s investment consultant(s) and actuary(s), for each major asset class that is included in MWCOG’s target asset allocation as of December 31, 2019, these best estimates are summarized in the following table.

Asset Class (Strategy)	Target Weight	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	60.00%	6.23%	3.74%
Core Fixed Income	40.00%	2.13%	0.85%
Cash	0.00%	0.60%	0.00%
Total	100.00%		4.59%
Inflation		2.50%	

For the year ended December 31, 2019, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 20.1%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will continue at the current rate and employer contributions would continue at 9.00% of payroll. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods and projected benefit payments to determine the total pension liability.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

C. Changes in the Net Pension Liability (Asset)

The changes in the net pension liability (asset) as of December 31, 2019 were as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at December 31, 2018	\$ 61,114,385	\$ 57,363,817	\$ 3,750,568
Changes for the year:			
Service cost	2,632,703	-	2,632,703
Interest (includes interest on service cost)	3,827,439	-	3,827,439
Difference between expected and actual experience	(648,148)	-	(648,148)
Changes of assumptions	(3,073,225)	-	(3,073,225)
Contributions - employer	-	1,162,994	(1,162,994)
Contributions - employee	-	904,534	(904,534)
Net investment income	-	11,399,215	(11,399,215)
Benefit payments, including refunds of member contributions	(3,275,611)	(3,275,611)	-
Administrative expense	-	(144,638)	144,638
Net changes	(536,842)	10,046,494	(10,583,336)
Balances at December 31, 2019	\$ 60,577,543	\$ 67,410,311	\$ (6,832,768)

Sensitivity of the Net Pension Asset

The following presents the net pension asset of MWCOG as of December 31, 2019, calculated using the discount rate of 7.00%, as well as what MWCOG's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension asset	\$ (2,905,876)	\$ (6,832,768)	\$ (10,446,976)

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, MWCOG recognized pension expense of \$831,465. MWCOG also reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	\$ -	\$ (7,976,271)
Difference between expected and actual experience	2,585,401	-
Employer contributions made subsequent to the measurement date	598,368	-
	<u>\$ 3,183,769</u>	<u>\$ (7,976,271)</u>

The \$598,368 reported as deferred outflows of resources related to pensions resulting from MWCOG’s contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2021	\$ (766,308)
2022	(766,308)
2023	(1,031,555)
2024	(916,402)
2025	(346,110)
Thereafter	<u>(1,564,187)</u>
Total	<u>\$ (5,390,870)</u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 9. Supplementary Retirement Plans

Defined Contribution Plan

MWCOG sponsors defined contribution 403(b) plans. An eligible employee may, on a voluntary basis, begin participation in the defined contribution plans immediately following the date that he or she becomes an employee of MWCOG. MWCOG is not required, and has not made, discretionary or non-elective contributions to the defined contribution 403(b) plans.

Supplemental Executive Retirement Plan

Effective November 14, 2012, MWCOG provides a noncontributory supplemental executive retirement plan (the SERP plan) for a certain executive under section 457(f) of the Internal Revenue Code of 1986, as amended. MWCOG's contributions to the SERP plan are established each year at the discretion of the Board of Directors. The participant is vested based on the provisions set forth in the SERP plan document. As of June 30, 2020, MWCOG held \$224,234 of noncontributory compensation in a trust that is administered by MWCOG, which has been recorded as a Fiduciary Pension Trust Fund.

Note 10. Related Party Transactions

MWCOG owns one-third of the common stock of the Center for Public Administration and Services, Inc. (CPAS), which owns and operates the office building housing MWCOG's offices. There is no agreement between the owners for sharing in the profits or losses of the CPAS and, therefore, MWCOG has not recorded an equity interest for their one-third ownership. The remainder of the CPAS stock is held equally by the International City Management Association Retirement Corporation (ICMA-RC) and the International City Management Association (ICMA). The owners occupy and/or sublease the majority of the building's rentable space. CPAS is a real estate investment trust (REIT) and must distribute most of its earnings to its owners each year. During the year ended June 30, 2020, CPAS distributed \$485,000 of income to MWCOG.

CPAS's summarized financial information as of and for the year ended December 31, 2019, was as follows:

Total assets	\$ 28,162,173
Total liabilities	<u>37,782,157</u>
Total stockholders' deficit	<u><u>\$ (9,619,984)</u></u>
Revenue	\$ 9,990,589
Expenses	<u>8,843,598</u>
Net income	<u><u>\$ 1,146,991</u></u>

As of December 31, 2019, CPAS's assets included net rental property of \$16,914,074. The owners of the building are jointly liable for the outstanding note payable of \$37,300,000 included in total liabilities above.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 11. Lease Commitments

MWCOG is obligated under a ten year operating lease agreement with 777 North Capitol Corporation. The lease expires on December 31, 2026. The lease includes basic rent, a share of real estate taxes and operating expenses, and annual rental escalations based on the Consumer Price Index (CPI).

The future minimum lease payments required under the various operating leases, excluding real estate taxes, operating expenditures and CPI adjustments, as of June 30, 2020 are below.

Year(s) Ending June 30,	Amount
2021	\$ 1,344,600
2022	1,344,600
2023	1,344,600
2024	1,344,600
2025	1,344,600
2026-2027	<u>2,016,900</u>
	<u>\$ 8,739,900</u>

Rent expense for the fiscal year ended June 30, 2020 was \$2,551,607, which included real estate taxes, operating expenses, and CPI adjustments.

MWCOG subleased a portion of its office space during fiscal year 2020. MWCOG receives an annual rent of \$16,800 plus 0.2863% of the buildings operating costs and 0.2834% of the buildings real estate taxes for the new lease. For the year ended June 30, 2020, total rental income for the leased portion of its office space was \$32,755.

Note 12. Pending GASB Statements

At June 30, 2020, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by MWCOG. The statements which might impact MWCOG are as follows:

GASB Statement No. 87, *Leases*, will increase the usefulness of the financial statements by requiring reporting of certain lease assets and liabilities and deferred inflows of resources for leases that previously were classified as operating leases. Statement No. 87 will be effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 will be effective for reporting periods beginning after December 15, 2019.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 12. Pending GASB Statements (Continued)

GASB Statement No. 92, *Omnibus 2020*, will improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics, including intra-entity transfers, the effective date of No. 87, *Leases*, the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits, the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, terminology used to refer to derivative instruments. Statement No. 92 will be effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, will address accounting and financial reporting implications that result from the replacement of an interbank offered rate—most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Portions of Statement No. 93 will be effective for fiscal years beginning after June 15, 2020, June 15, 2021, and December 31, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. Statement No. 94 will be effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, will provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). Statement No. 96 will be effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, will (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 will be effective for fiscal years beginning after June 15, 2021.

Management has not determined the effects these new Statements may have on prospective financial statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 13. Risks and Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the MWCOG operates.

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

SCHEDULE OF CHANGES IN EMPLOYER NET PENSION LIABILITY (ASSET)

	Year Ended December 31,					
	2014	2015	2016	2017	2018	2019
Total pension liability:						
Service cost	\$ 1,771,873	\$ 1,895,939	\$ 2,211,619	\$ 2,221,553	\$ 2,436,327	\$ 2,632,703
Interest (includes interest on service cost)	3,157,400	3,292,604	3,484,954	3,711,023	3,965,673	3,827,439
Difference between expected and actual experience	60,147	203,660	(401,382)	(394,776)	472,664	(648,148)
Changes of assumptions	-	-	-	-	3,053,404	(3,073,225)
Benefit payments, including refunds of member contributions	(4,183,854)	(2,056,068)	(3,548,319)	(592,887)	(5,958,871)	(3,275,611)
Net change in total pension liability	805,566	3,336,135	1,746,872	4,944,913	3,969,197	(536,842)
Total pension liability - beginning	46,311,702	47,117,268	50,453,403	52,200,275	57,145,188	61,114,385
Total pension liability - ending (a)	\$ 47,117,268	\$ 50,453,403	\$ 52,200,275	\$ 57,145,188	\$ 61,114,385	\$ 60,577,543
Plan fiduciary net position:						
Contributions - employer	\$ 1,083,695	\$ 1,221,904	\$ 1,210,322	\$ 1,268,864	\$ 1,297,517	\$ 1,162,994
Contributions - employee	826,530	977,358	968,242	1,015,076	995,733	904,534
Net investment income	4,021,918	1,129,768	3,829,746	7,532,245	(992,732)	11,399,215
Benefit payments, including refunds of member contributions	(4,183,854)	(2,056,068)	(3,548,319)	(592,887)	(5,958,871)	(3,275,611)
Administrative expense	(195,512)	(83,192)	(76,138)	(113,556)	(135,101)	(144,638)
Net change in plan fiduciary net position	1,552,777	1,189,770	2,383,853	9,109,742	(4,793,454)	10,046,494
Plan fiduciary net position - beginning	47,921,129	49,473,906	50,663,676	53,047,529	62,157,271	57,363,817
Plan fiduciary net position - ending (b)	\$ 49,473,906	\$ 50,663,676	\$ 53,047,529	\$ 62,157,271	\$ 57,363,817	\$ 67,410,311
Net pension liability (asset) - ending (a) - (b)	\$ (2,356,638)	\$ (210,273)	\$ (847,254)	\$ (5,012,083)	\$ 3,750,568	\$ (6,832,768)
Plan fiduciary net position as a percentage of the total pension liability	105.00%	100.42%	101.62%	108.77%	93.86%	111.28%
Covered payroll	\$ 10,331,622	\$ 10,615,561	\$ 12,279,948	\$ 12,219,765	\$ 13,284,225	\$ 12,981,772
Net pension liability (asset) as a percentage of covered payroll	-22.81%	-1.98%	-6.90%	-41.02%	28.23%	-52.63%

Note to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, MWCOG will present information for those years for which information is available.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

SCHEDULE OF CONTRIBUTIONS

	Year Ended December 31,					
	2014	2015	2016	2017	2018	2019
Actuarially determined contribution	\$ 2,086,941	\$ 2,106,242	\$ 2,403,087	\$ 2,367,541	\$ 2,464,185	\$ 2,489,100
Actual contribution	1,910,225	2,199,262	2,178,564	2,283,940	2,293,250	2,067,528
Contribution deficiency (excess)	\$ 176,716	\$ (93,020)	\$ 224,523	\$ 83,601	\$ 170,935	\$ 421,572
Covered payroll	\$ 10,331,622	\$ 10,615,561	\$ 12,279,948	\$ 12,219,765	\$ 13,284,225	\$ 12,981,772
Actual contribution as a percent of covered payroll	18.49%	20.72%	17.74%	18.69%	17.26%	15.93%

Note to Schedule:

- (1) These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, MWCOG will present information for those years for which information is available.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION Year Ended June 30, 2020

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Plan benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

There have been no actuarially material changes to the Plan assumptions since the prior actuarial valuation.

Note 3. Contractually Required Contributions

The actuarially determined contribution rates are calculated as of December 31, six months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Assumptions

Valuation date	January 1, 2020
Actuarial cost method	Entry Age Normal
Asset valuation	Closed period of 20 years level dollar which began January 1, 2017
Amortization method	Expected value at valuation date plus 25% of the difference between market value and expected value
Discount rate	7.00%
Price inflation	4.00%
Salary increases	Starting at 6.5% and decreasing to 3.50% based on years of service
Mortality	Sex distinct RP-2000 Combined Mortality with generation projection using Scale AA

COMPLIANCE SECTION



**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 Directors of the
Metropolitan Washington Council of Governments

We have audited, in accordance with auditing standards generally accepted in the United States of America; 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 governmental activities, each major fund and the remaining fund information of Metropolitan Washington Council of Governments (MWCOG), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise MWCOG's basic financial statements, and have issued our report thereon dated December 3, 2020.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 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 MWCOG's financial statements are free from 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 instance of noncompliance or other matter 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 MWCOG's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MWCOG's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
December 3, 2020



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of the
Metropolitan Washington Council of Governments

Report on Compliance for Each Major Federal Program

We have audited Metropolitan Washington Council of Governments’ (MWCOG) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on MWCOG’s major federal programs for the year ended June 30, 2020. MWCOG’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for MWCOG’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MWCOG’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MWCOG’s compliance.

Opinion on Each Major Federal Program

In our opinion, MWCOG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of MWCOG is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MWCOG's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MWCOG's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we considered to be material weaknesses. However, material weakness may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
December 3, 2020

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<u>Direct Payments:</u>				
Cooperative Forestry Assistance: Strategic Community Engagement - Growing Tree Canopy through Environmental Justice	10.664		\$ -	\$ 11,052
Urban and Community Forest Program: DC Department of Transportation Partnership Projects	10.675		-	21,056
Forest Stewardship Program: Creating Edible Forested Landscapes for People in Washington, DC - Cooperative Forestry Assistance	10.678		-	12,927
Total U.S. Department of Agriculture			-	45,035
DEPARTMENT OF TRANSPORTATION				
<u>Direct Payments:</u>				
Airport Improvement Program	20.106		-	211,299
Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program	20.528		-	123,445
Highway Planning and Construction Cluster:				
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	1,833,169
Commuter Connections Program	20.205	N.A.	-	523,811
Virginia Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	2,850,591
Commuter Connections Program	20.205	N.A.	-	1,553,329
Clean Air Partners	20.205	N.A.	-	198,000
Metropolitan Area Transportation Operations Coordination	20.205	N.A.	-	318,261
Maryland Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	3,165,064
Total Highway Planning and Construction Cluster			-	10,442,225
Federal Transit Cluster:				
<u>Pass-through Payments:</u>				
Maryland Department of Transportation:				
Commuter Connections Program	20.507	N.A.	-	41,153
Total Federal Transit Cluster			-	41,153
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:				
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	412,196
Virginia Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	894,758
Maryland Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	1,068,809
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			-	2,375,763
Transit Services Programs Cluster:				
<u>Direct Payments:</u>				
Enhanced Mobility	20.513		1,257,793	3,143,183
Job Access and Reverse Commute Program	20.516		60,070	94,141
New Freedom Program	20.521		61,422	160,171
Total Transit Services Programs Cluster			1,379,285	3,397,495

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
DEPARTMENT OF TRANSPORTATION (Continued)				
Highway Safety Cluster:				
<u>Pass-through Payments:</u>				
Virginia Department of Transportation: State and Community Highway Safety	20.600	N.A.	\$ -	\$ 204,619
Maryland Department of Transportation: National Priority Safety Programs	20.616	N.A.	-	193,100
Total Highway Safety Cluster			<u>-</u>	<u>397,719</u>
<u>Pass-through Payments:</u>				
D.C. Department of Transportation: National Highway Traffic Safety Administration Discretionary Safety Grants and Cooperative Agreements	20.614	N.A.	-	200,000
Total Department of Transportation			<u>1,379,285</u>	<u>17,189,099</u>
DEPARTMENT OF ENERGY				
<u>Pass-through Payments:</u>				
New York State Energy Research and Development Authority: State Energy Program Special Projects	81.119	N.A.	-	2,133
Maryland Energy Administration: State Energy Program Special Projects	81.119	N.A.	-	6,808
Total Department of Energy			<u>-</u>	<u>8,941</u>
DEPARTMENT OF ENVIRONMENTAL PROTECTION				
<u>Direct Payments:</u>				
National Clean Diesel Emissions Reduction Program	66.039		-	824,298
Diesel Emissions Reduction Act (DERA) State Grants	66.040		-	784
<u>Pass-through Payments:</u>				
D.C. Department of Energy and Environment: Nonpoint Source Implementation Grants: Stream Restoration Monitoring	66.460	N.A.	-	64,908
National Fish and Wildlife Foundation: Performance Partnership Grants	66.605	N.A.	-	23,122
Total Department of Environmental Protection			<u>-</u>	<u>913,112</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<u>Pass-through Payments:</u>				
D.C. Department of Health: Assistant Secretary for Preparedness Response	93.889	N.A.	-	928,917

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
DEPARTMENT OF HOMELAND SECURITY				
Homeland Security Grant Program:				
<u>Pass-through Payments:</u>				
D.C. Office of Deputy Mayor for Public Safety & Justice:				
DCERS - ACC Emergency Serv	97.067	17-UASII17-07	\$ 184,722	\$ 237,500
DCERS - District Emergency	97.067	17-UASII17-10	226,592	233,051
Suspicious Activity Recognition Training	97.067	17-UASII17-11	99,136	101,665
Public Access Bleeding Kits	97.067	17-UASII17-12	288,577	334,786
District Intelligence Center Procedures Update	97.067	17-UASII17-13	78,494	81,386
District Preparedness Strategy	97.067	18-UASII17-03	259,355	269,335
Situational Awareness Dashboard	97.067	18-UASII17-03	-	397
Metrorail Station Emergency	97.067	18-UASII17-04	127,417	128,410
Bomb Squad Robotic Equipment	97.067	18-UASII17-05	751,480	760,705
DCERS- District Emergency	97.067	18-UASII17-06	66,641	74,326
Technical & Production Support	97.067	18-SHSP17-01	72,303	75,023
Water Supply Contaminant	97.067	19-UASII17-02	-	12,820
Situational Awareness Das	97.067	19-UASII17-03	55,195	83,213
MetrorailStationEmergency	97.067	19-UASII17-04	-	7,028
MetrorailStationEmer Trng	97.067	19-UASII17-05	73,592	83,689
NCR STAFF SUPPORT	97.067	18-UASII17-01	-	453,066
NCR STAFF SUPPORT	97.067	19-UASII17-01	31,125	993,937
Total Homeland Security Grant Program			<u>2,314,629</u>	<u>3,930,337</u>
Securing the Cities Program:				
<u>Pass-through Payments:</u>				
D.C. Office of Deputy Mayor for Public Safety & Justice:				
Programmatic Support	97.106	16-STC117-01	57,449	63,441
Total Securing the Cities Program			<u>57,449</u>	<u>63,441</u>
Total Department of Homeland Security			<u>2,372,078</u>	<u>3,993,778</u>
Total Federal Awards Expended			<u>\$ 3,751,363</u>	<u>\$ 23,078,882</u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2020

Note 1. Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Metropolitan Washington Council of Governments (MWCOG) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MWCOG, it is not intended to and does not present the financial position or changes in financial position of MWCOG.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and Uniform Guidance define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the Schedule.

Pass-through Payments – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule.

Major Programs – The Single Audit Act Amendments of 1996 and Uniform Guidance establish the criteria to be used in defining major programs. Major programs for MWCOG were determined using a risk-based approach in accordance with Uniform Guidance.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected on the Schedule.

Cluster of Programs – Closely related programs that share common compliance requirements are grouped into clusters of programs. A cluster of programs is considered as one federal program for determining major programs. The following are the clusters administered by MWCOG: Transit Services Programs Cluster and Highway Planning and Construction Cluster.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through identifying numbers are presented where available and applicable.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2020

Note 3. Indirect Cost Rate

MWCOG's indirect cost rates as allowed under the Uniform Guidance are disclosed in Note 1. D. 12. in the notes to financial statements.

Note 4. Subrecipients

Expenditures reported on the Schedule as provided to subrecipients do not agree to the amount of subrecipient expenditures reported on the Statement of Activities. This is due to MWCOG recording funds that are passed to other organizations, including nonfederal funds, as Subrecipient in the Statement of Activities. Whereas, provided to subrecipients on the Schedule only includes funds for federal programs.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

Section II. FINANCIAL STATEMENT FINDING

No matters were reported.

Section III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters were reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2020

FINANCIAL STATEMENT FINDING

A. Material Weakness

2019-001: Material Weakness Related to Proper Cutoff of Federal Expenditures

Program Identification: Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program, CFDA Number 20.528; Department of Transportation; Award period: year ended June 30, 2019; No pass-through entity.

Criteria: Code of Federal Regulations 2 CFR 200.502, Basis for determining Federal awards expended. “The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force.”

Requirement: Recipients of federal awards are required to track and maintain a complete and accurate accounting of expenditures associated with federal awards. These expenditures are required to be summarized and presented within the Schedule of Expenditures of Federal Awards (Schedule) in the correct period.

Condition: The Schedule originally provided improperly overstated federal expenditures by \$116,000 for the Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program, CFDA Number 20.528.

Context: The expenditures were not properly presented on the original Schedule provided for the Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program, CFDA Number 20.528.

Cause: There was lack of supervisory review of expenditures for the Schedule that was provided which resulted in expenditures being recorded in the improper period.

Effect: The potential exists for federal expenditures to not be properly reflected within the Schedule. As a result of failing to properly record this item, MWCOG could fail to report the proper amounts of federal expenditures associated with specific grants.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Material Weakness (Continued)

2019-001: Material Weakness Related to Proper Cutoff of Federal Expenditures (Continued)

Questioned Costs: MWCOG improperly recognized \$116,000 in federal expenditures during fiscal year 2019, which should have been for fiscal year 2020.

Recommendation: We recommend MWCOG implement procedures to review all invoices to ensure expenditures are recorded in the proper period and properly presented on the Schedule.

View of Responsible Officials: MWCOG's current procedure is to review all invoices. This invoice was reviewed and discussed internally as to proper treatment. This particular transaction was unique to previous as it involved advance payments in a fiscal year prior to the actual expenditures, a situation that had not come up prior at MWCOG. The conclusion of the Office of Finance and Accounting staff was that booking the invoice as an expense on the date of the invoice was the most consistent approach with MWCOG procedures which per Federal Transit Administration (FTA) guidelines is the most important factor. It was recorded as an expenditure in the amount of approximately \$116,000 in June 2019. The reimbursement from FTA was treated as a fiscal year 2019 revenue.

During the audit it was noted that the service date for the invoice was for July and that these funds should have been recorded as an expense in fiscal 2020 and funds received from FTA as unearned revenue at year-end in lieu of revenue fiscal year 2019.

MWCOG will continue to review all invoices for appropriate treatment and will closely examine any advance payment invoices to ensure proper cut-off at year-end. The Controller will be responsible for implementing this action and it will be completed by year-end.

Corrective Action Taken: During fiscal 2020, MWCOG reviewed all invoices for appropriate treatment and closely examined all advance payment invoices to ensure proper cutoff and year end. As a result this item is no longer a finding in the 2020 audit.