METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Financial Statements Together with Reports of Independent Public Accountants

For the Year Ended June 30, 2013

SB & COMPANY, LLC
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JUNE 30, 2013

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of the
Metropolitan Washington Council of Governments, Inc.

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of Metropolitan Washington Council of Governments, Inc. (COG) as of June 30, 2013, which comprise the statement of net position, the related statement of activities and changes in net position, and cash flows for the year then ended and the related notes to the basic financial statements.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to COG's preparation and fair presentation of the basic 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 COG'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 basic financial statements.

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

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Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of COG as of June 30, 2013, and the changes in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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 Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise COG's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013, on our consideration of COG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering COG's internal control over financial reporting and compliance.

SB & Company, LLC

Washington, DC
October 23, 2013

Management's Discussion and Analysis
June 30, 2013

Financial Highlights

This section of the financial statements provides a discussion and analysis of the financial performance of the Metropolitan Washington Council of Governments, Inc. (COG) and an overview of COG's financial activity as of and for the years ended June 30, 2013 and 2012. This information is best understood if read in conjunction with COG's financial statements.

The following information is an analysis as of and for the years ended June 30, 2013 and 2012.

	2013	2012	Variance	% Change
Assets				
Current assets	**$ 23,415,734**	$ 23,560,187	$ (144,453)	-0.61%
Capital assets	**567,803**	537,057	30,746	5.72%
Total Assets	**23,983,537**	24,097,244	(113,707)	-0.47%
Total Liabilities	**9,080,392**	9,319,538	(239,146)	-2.57%
Net Position				
Invested in capital assets	**567,803**	537,057	30,746	5.72%
Restricted for:				
Project funds	**5,198,343**	5,227,001	(28,658)	-0.55%
Capital plans	**200,000**	250,000	(50,000)	-20.00%
Unrestricted	**8,936,999**	8,763,648	173,351	1.98%
Net Position	**$ 14,903,145**	$ 14,777,706	$ 125,439	0.85%

Metropolitan Washington Council of Governments, Inc. completed fiscal year 2013 with positive results from its financial operations. The balance sheet as of June 30, 2013, continues to demonstrate the organization's strong cash position by maintaining the required funds on hand to make payments to vendors who provide support to COG's program operations without relying on capital from its line of credit or unrestricted net assets. By evidence of its financial performance, COG maintained its financial stability in fiscal year 2013 given the economic climate.

Current assets decreased by 0.6%. Strong collection efforts increased cash position, decreased accounts receivable, and decreased accounts payable. The net impact was a decrease in current assets of approximately $144,000.

COG acquired capital assets of approximately $199,000. Major capital assets acquired consisted primarily of Association Management Software (AMS) and Accounting Software Updates (Deltek).

Management's Discussion and Analysis
As of June 30, 2013

Financial Highlights (continued)

Liabilities reflected an approximate $922,000 decrease in accounts payable from more timely payments to vendors. In addition, liabilities decreased by approximately $180,000 from employees exhausting leave balances during FY 2013. Liabilities also reflected an approximately $519,000 increase for the FY 2013 net pension obligation, less approximately $559,000 related to the FY 2012 payment of the net pension obligation. Liabilities reflected an increase of $893,000 related to advance payments received for Federal and State grants.

COG's unrestricted net assets fund increased overall by approximately $173,000, from $8.8 million to $8.9 million. The increase included interest earnings from COG's investment portfolio and investment income received from the Center for Public Administration Services, Inc. (CPAS). COG is an equal shareholder in CPAS along with International City Management Association (ICMA) and the International City Management Association Retirement Corporation (ICMA-RC). CPAS is a real estate investment trust (REIT) that owns an office building located at 777 North Capitol Street, Washington DC. CPAS is an REIT; therefore, it must distribute most of its earnings to its owners each year.

	2013	2012	Variance	% Change
Revenue				
Federal grants	**$ 29,410,200**	$ 21,491,797	$ 7,918,403	36.84%
State and local grants	**8,881,076**	9,382,821	(501,745)	-5.35%
Member contributions	**3,413,478**	3,223,507	189,971	5.89%
Other	**2,281,299**	2,336,478	(55,179)	-2.36%
Total Revenue	**43,986,053**	36,434,603	7,551,450	20.73%
Expenses				
Personnel	**13,536,051**	13,057,112	478,939	3.67%
Professional fees	**22,776,864**	15,503,587	7,273,277	46.91%
Other direct costs	**3,172,396**	3,231,573	(59,177)	-1.83%
Indirect costs	**4,375,303**	4,688,450	(313,147)	-6.68%
Total Expenses	**43,860,614**	36,480,722	7,379,892	20.23%
Changes in net position	**125,439**	(46,119)	171,558	-371.99%
Net position, beginning of year	**14,777,706**	14,823,825	(46,119)	-0.31%
Net Position, End of Year	**$ 14,903,145**	$ 14,777,706	$ 125,439	0.85%

Statement of Net Position
As of June 30, 2013

Financial Highlights (continued)

Revenue for the year ended June 30, 2013, was $44 million, which was approximately $7.5 million higher than for the year ended June 30, 2012. Federal revenue increased primarily due to pass-through funding for the Tiger grant, which increased cost by an equal amount. State and local funding decreased by 5.4%, primarily due to program funding shifting to Federal level. Member contributions were $3.4 and $3.2 million for FY 2013 and 2012, respectively.

Expenses increased overall by approximately $7.4 million. Personnel costs increased 3.7% due to increases in salaries and related benefits. The increase in professional fees is primarily attributed to the corresponding increase in Federal pass-through revenue.

The economic forecast for COG is based on the outlook for its member governments and the Metropolitan Washington, DC region. COG does not expect any significant change in its operations for the next fiscal year. 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, NE, Washington, DC 20002.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Statement of Net Position
As of June 30, 2013

ASSETS		
Current Assets		
Cash	$	4,365,028
Investments		9,094,079
Accounts receivable		9,717,578
Prepaid expenses and other current assets		239,049
Total Current Assets		23,415,734
Non-Current Assets		
Capital assets, net		567,803
Total Assets	$	23,983,537
LIABILITIES		
Current Liabilities		
Accounts payable	$	4,260,854
Accrued expenses		454,526
Accrued Vacation		747,098
Unearned revenue		2,411,382
Total Current Liabilities		7,873,860
Non-Current Liabilities		
Net pension obligation		1,206,532
Total Liabilities		9,080,392
NET POSITION		
Invested in capital assets		567,803
Unrestricted Board Designated:		
Project funds		5,198,343
Capital plans		200,000
Unrestricted		8,936,999
Total Net Position	$	14,903,145

The accompanying notes are an integral part of this financial statement.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2013

Operating Revenues		
Member contributions	$	3,413,478
Federal grants		29,410,200
State grants		5,707,473
Local grants		3,173,603
Foundation contributions		264,000
Other income		1,538,835
Total Operating Revenue		43,507,589
Operating Expenses		
Transportation		30,010,470
Community planning and services		814,771
Public safety and health		5,437,851
Environmental		6,508,845
Member services		569,992
Additional required pension		518,685
Total Operating Expenses		43,860,614
Operating loss		(353,025)
Non-Operating Revenue		
Unrealized loss on investments		(208,002)
Interest income		176,466
Investment income		510,000
Total Non-Operating Revenue		478,464
Changes in net position		125,439
Net position, beginning of year		14,777,706
Net Position, End of Year	$	14,903,145

The accompanying notes are an integral part of this financial statement.

Statement of Cash Flows
For the Year Ended June 30, 2013

Cash Flows from Operating Activities	
Revenue and other support	$ 45,943,948
Payments to employees	(13,317,415)
Payments to vendors	(31,563,352)
Net Cash Flows from Operating Activities	1,063,181
Cash Flows from Investing Activities	
Purchase of investments	(165,065)
Interest income	176,466
Investment income	510,000
Net Cash Flows from Investing Activities	521,401
Cash Flows from Capital Financing Activities	
Purchase of furniture and equipment	(198,796)
Net increase in cash	1,385,786
Cash, beginning of year	2,979,242
Cash, End of Year	$ 4,365,028
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	$ (353,025)
Adjustments to reconcile operating loss to cash from operating activities:	
Depreciation and amortization	168,050
Effect of changes in non-cash operating assets and liabilities:	
Accounts receivable	1,510,790
Prepaid expenses and other current assets	(23,488)
Accounts payable	(921,691)
Accrued expenses	(153,188)
Accrued vacation	(16,749)
Net pension obligation	(40,627)
Unearned revenue	893,109
Net Cash Flows from Operating Activities	$ 1,063,181

The accompanying notes are an integral part of this financial statement.

1. ORGANIZATION

The Metropolitan Washington Council of Governments, Inc. (COG), is an organization comprised of 22 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. COG'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 COG, individual counties and cities coordinate their efforts to maintain and improve the physical, economic, and social well being of the area. COG's funding is obtained from member jurisdictions' annual contributions and Federal, State, and other contracts for specified projects, which are designed to further COG's goals and objectives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and financial reporting for the accompanying financial statements follow the enterprise fund reporting model as defined by the Government Accounting Standards Board (GASB), which uses the economic-resources measurement focus and the accrual basis of accounting. The enterprise basis of accounting was used as COG is an entity formed to benefit governments and its members are governmental entities. As such, COG believes the enterprise fund reporting model more properly reflects its reporting entity. Revenue is recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flow. COG has elected to not adopt private sector accounting and reporting standards established by the Financial Accounting Standards Board's (FASB) pronouncement issued after November 30, 1989, unless required by the GASB.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of year-end and the changes therein and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investments

Investments are carried at fair market value. In February 1982, COG adopted a formal investment policy that authorizes staff 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable are primarily from grants and are recorded at their estimated net realizable value. Management believes all receivables are fully collectible as of June 30, 2013.

Capital Assets

Capital assets in excess of $5,000 are recorded at cost. Capital assets are depreciated over their estimated useful lives on the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the life of the lease. Furniture, equipment, computer hardware, and software are depreciated over three years. Maintenance and repairs are expensed as incurred.

Compensated Absences

Employees are allowed to accumulate unused vacation leave up to certain maximum hours. COG 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 vacation leave. Unused sick leave is canceled upon termination of employment, with no compensation to the employee.

Unearned Revenue

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

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 management and administrative personnel costs, fringe benefits (excluding leave), leave (vacation and sick), and indirect non-personnel costs. The rates are calculated as follows:

- The management and administrative (M&A) personnel costs rate is the ratio of M&A salaries over direct salaries;
- The leave rate is the ratio of leave expense over total salary costs less temporary salaries and intern costs;
- The fringe rate is the ratio of fringe benefit expense (excluding leave) over total personnel costs less temporary salaries and intern costs; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fringe Benefit and Indirect Cost Allocations (continued)

- The indirect non-personnel rate is the ratio of total indirect costs over total personnel and temporary and fringe benefit costs.

The M&A, leave, fringe benefit, and indirect costs rates for the fiscal year ended June 30, 2013, were as follows:

	2013	2012
M&A personnel costs	**25.21%**	21.58%
Leave	**20.15%**	18.09%
Fringe benefits	**24.89%**	29.24%
Indirect non-personnel costs	**33.30%**	33.84%

Recent Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2013, and 2014, respectively. In January 2013, GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Guarantees*, effective for periods beginning after June 15, 2013. COG will implement these statements as of their effective dates. While COG is still in the process of determining the effect of implementing these GASB statements, it is expected that Statement No. 68 will have a material effect on the financial position of COG.

Subsequent Events

COG evaluated subsequent events and transactions through October 23, 2013, the date these financial statements were available for issue, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. DEPOSITS

COG 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. As of June 30, 2013, COG's bank balance was $5,458,831, and its book balance was $4,365,028.

4. INVESTMENTS

COG's investments are stated at fair value as determined by quoted market prices. As of June 30, 2013, the investment balance consisted of the following:

Certificate of deposits	$	**7,703,180**
Government backed securities		**1,162,015**
Money market		**228,884**
	$	**9,094,079**

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

Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. COG limits its exposure by ensuring deposits with a financial institution do not exceed the $250,000 FDIC insurance. 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, 2013, COG's bonds with the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Farm Credit Bank had a AAA rating by Moody and AA+ by S&P.

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.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. COG mitigates the interest rate risk by investing in callable bonds and segmenting its investments with various maturity dates. The segmented maturity of the Federal agency and corporate bonds are as follows:

One to five years	9%
Five to ten years	58%
Ten or more years	34%

5. CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2013:

	June 30, 2012	Additions	June 30, 2013
Furniture and equipment	$ 1,592,927	$ 45,373	**$ 1,638,300**
Leasehold improvements	342,841	-	**342,841**
Computer hardware	538,982	24,990	**563,972**
Computer software	675,020	128,433	**803,453**
Local area network	300,032	-	**300,032**
Total capital assets	3,449,802	198,796	**3,648,598**
Less: accumulated depreciation	2,912,745	168,050	**3,080,795**
Capital Assets, net	$ 537,057	$ 30,746	**$ 567,803**

COG calculates depreciation expense each year based on its capital assets' estimated useful lives. The depreciation expense is then allocated to each of COG's projects through its indirect cost rate. Depreciation expense for the year ended June 30, 2013, was $168,050.

6. NON-CURRENT LIABILITIES

Changes in non-current liabilities for the year ended June 30, 2013, were as follows:

Activity	Beginning Balance July 1, 2012	Additions	Reductions	Ending Balance June 30, 2013	Due Within One Year
Pension obligation	$ 1,247,159	$ 518,685	$ 559,312	**$ 1,206,532**	$ -
Accrued vacation	763,847	836,878	853,627	**747,098**	747,098
	$ 2,011,006	$ 1,355,563	$ 1,412,939	**$ 1,953,630**	$ 747,098

7. PENSION PLAN

Plan Description

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

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

Cost of living adjustments (COLA) equaling 50% of the consumer price index, if any, up to a maximum of 3% are made each July 1. By action of the Board of Directors, COG 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.

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 COG 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 $234 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 COG 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 COG'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 COG, other than by death or disability, before completing eight 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.

7. PENSION PLAN (continued)

Funding Policy

The contribution requirements of the Plan participants are established and may be amended by COG's Board of Directors. Currently, participants are required to contribute 7.5% of their salary in bi-weekly installments to the Plan. In fiscal year 2013, the board approved an increase in employee contribution rate from 7.5% to 8%, effective January 1, 2014. The employer contribution was 9% during FY13, with an increase to 10% effective July 1, 2013. COG's and the employee's contributions to the Plan for the year ended June 30, 2013, was $1,484,683 and $843,651, respectively.

Annual Pension Cost

For the year ended June 30, 2013, COG's estimated annual pension cost was $1,449,494. The table below represents the funded status of the Plan as of June 30, 2013.

Three Year Trend Information

	Annual Pension Cost	Actual COG Contribution	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	$ 1,467,847	$ 780,000	53%	$ 687,847
June 30, 2012	1,402,963	843,651	60%	1,247,159
June 30, 2013	**1,449,494**	**1,484,683**	**102%**	**1,206,532**

Funding Status and Funding Progress

The actuarial valuation was determined using the entry age normal cost method.

	June 30, 2013
Net assets available for plan benefits	**$ 38,954,055**
Actuarial accrued liability (AAL)	**41,385,895**
Unfunded AAL	**$ 2,431,840**

The actuarial value of the assets was determined using the techniques of the asset smoothing method that provides a cushion in case of a market correction.

Estimated covered payroll	**$ 11,420,249**
Unfunded AAL as a percentage of payroll	**21.29%**

7. PENSION PLAN (continued)

Significant Assumptions

Factor	Method
Demographic	
I. Mortality	
a. Active employees and non-disabled retirees	The 1994 Uninsured Pensioners Mortality Table.
b. Disabled retirees	No disability is assumed.
II. Retirement	75% of members are assumed to retire when first eligible for normal retirement benefits, then 25% each year thereafter.
Economic	
I. Investment return	7% compounded per annum.
II. Cost of living benefit increase	Assume inflation of 4.00% compounded per annum, which means annual benefit increases of 2% per annum.
III. Across the board increase in salaries	4.50% compounded per annum.
IV. Administrative expenses	Assumed future administrative expense is set equal to the prior year's actual administrative expense.

8. RELATED PARTY TRANSACTIONS

COG 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 the COG's offices. 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, 2013, CPAS distributed $510,000 of income to COG.

8. RELATED PARTY TRANSACTIONS (continued)

CPAS's summarized financial information as of and for the year ended December 31, 2012, was as follows:

Total assets	$	20,788,296
Total liabilities		29,134,077
Total stockholders' deficit	$	(8,345,781)
Revenue	$	8,707,083
Expenses		6,829,615
Net Income	$	1,877,468

As of December 31, 2012, CPAS's assets included net rental property of $13,937,637.

9. LEASE COMMITMENTS

COG is obligated under a ten year operating lease agreement with 777 North Capitol Corporation. The lease expires on December 31, 2016. The lease includes basic rent, a share of real estate taxes and operating expenses, and annual rental escalations based on the CPI.

COG is also obligated under various leases for equipment, the longest of which runs through December 2016. The leases are for copy, scanning and printing services.

The future minimum lease payments for the next five years and thereafter required under the various operating leases, excluding real estate taxes, operating expenditures and CPI adjustments as of June 30, 2013 are below.

For the Years Ending June 30,		
2014	$	1,200,428
2015		1,064,475
2016		1,064,475
2017		532,238
Total	$	3,861,616

Rent expense for the fiscal year ended June 30, 2013, was $2,334,241, which included real estate taxes, operating expenses, and CPI adjustments. COG subleases a portion of its office space. For the year ended June 30, 2013, rental income from the tenant was $108,379.

SINGLE AUDIT

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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*

Board of Directors of the
Metropolitan Washington Council of Governments, Inc.

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Metropolitan Washington Council of Governments, Inc. (COG), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise COG's basic financial statements, and have issued our report thereon dated October 23, 2013.

Internal Control Over Financial Reporting

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

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

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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether COG'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

SB & Company, LLC

Washington, DC
October 23, 2013

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors and Officers of the
Metropolitan Washington Council of Governments, Inc.

Report on Compliance for Each Major Federal Program

We have audited Metropolitan Washington Council of Governments, Inc. (COG)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of COG's major federal programs for the year ended June 30, 2013. COG'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of COG'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that 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 COG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that 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 COG's compliance.

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Opinion on Each Major Federal Program

In our opinion, COG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of COG 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 COG'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 that are 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 OMB Circular A-133, 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 COG'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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

SB & Company, LLC

Washington, DC
October 23, 2013

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Agency/Program Name	Pass-Through Identifying Number	CFDA #	Expenditures
U.S. Department of Agriculture			
Community Woodlands-FED	N.A.	10.675	$ **31,567**
DC Marshalling Yard	N.A.	10.675	**5,013**
DC Urban Forest Health Matrix	N.A.	10.675	**3,802**
MWUrban TreeCanopyAnalys	N.A.	10.675	**20,464**
Total U.S. Department of Agriculture			**60,846**
U.S. Department of Transportation			
CASPXXV	N.A.	20.106	**127,859**
FY12CASP PROG XXVI-FedRev	N.A.	20.106	**139,969**
			267,828
FY12 TCSP - Transporation, Community	N.A.	20.205	**1,984**
Regional Transportation Coordination Program - FHWA	N.A.	20.205	**6,308,533**
			6,310,517
Regional Transportation Coordination Program - FTA	N.A.	20.505	**1,992,168**
FY13 Memorial Bridge	N.A.	20.505	**59,251**
MATOC FY 13 Work Program	N.A.	20.505	**413,875**
Commuter Connections	N.A.	20.505	**2,227,227**
			4,692,521
Job Access_Reverse Commute (JARC) Program	N.A.	20.516	**733,010**
FY12 Job Access Reverse	N.A.	20.516	**400,969**
New Freedom Program	N.A.	20.521	**75,488**
FY11 New Freedom	N.A.	20.521	**25,461**
FY12 New Freedom	N.A.	20.521	**358,233**
FY13 New Freedom	N.A.	20.521	**4,531**
			1,597,692
StreetSmart	N.A.	20.614	**204,000**
Priority Bus Transit - ARRA	N.A.	20.932	**10,560,850**
Total U.S. Department of Transportation			**23,633,408**
U.S. Environmental Protection Agency			
DC Marine Engine Repower	N.A.	66.039	**311,816**
Reducing Emisions	N.A.	66.039	**162,905**
Reducing Emissions UnionStn	N.A.	66.039	**26,267**
			500,988
FY10 Diesel Anti-Idling	N.A.	66.04	**31,899**
DDOE Foundary Branch TMDL	N.A.	66.454	**225,343**
Total U.S. Environmental Protection Agency			**758,230**

The accompanying notes are an integral part of this schedule.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2013

Federal Agency/Program Name	Pass-Through Identifying Number	CFDA #		Expenditures
U.S. Department of Health and Human Services				
Health Emergency Preparedness and Response Administration (HEPRA)	N.A.	93.069	**$**	**140,483**
U.S. Department of Homeland Security				
Passed through D.C. Office of Deputy Mayor for Public Safety & Justice				
Back-up Power Assessment for Shelters	11UASI117-11	97.067		**13,183**
Business Integration Implementation Plan (BIIP)	10SHSP117-03	97.067		**152,007**
Cyber Enterprise Security Framework Development	12UASI117-05	97.067		**5,733**
ETOP Logistics & Support	12UASI117-09	97.067		**750**
ETOP RPWG Logistics and Support	10UASI117-11	97.067		**4,407**
Hazard Vulnerability Assessment	10UASI117-13	97.067		**208,094**
Health Planners (Continuation)	10SHSP117-02/12UASI117-04	97.067		**1,916,365**
ICS Position Specific Training for NCR Regional EOCS	10UASI117-16	97.067		**306,907**
Hospital Wtr & Power Res	12UASI117-06	97.067		**6,320**
Incident Command System Practicum Phase II	10UASI117-15	97.067		**44,467**
Water Monitoring Network Maintenance	9UASI117-02	97.067		**23,690**
LINX Rapid Maintenance	10UASI117-13	97.067		**4,030**
Mobile Wide-Area Radiation & Nuclear Detection	12UASI117-07	97.067		**1,058**
NCR 2013 Senior Leaders Seminar	12UASI117-08	97.067		**21,249**
NCR Water/Wastewater Agency Response (NCR Warn)	10UASI117-07	97.067		**15,104**
Regional Incident Communication & Coordination System (RICCS)	10UASI117-04/11UASI117-07	97.067		**126,044**
Regional Incident Coordination Program Manager	10UASI117-14	97.067		**75,012**
Secretariat Support (Continuation)	12UASI117-03	97.067		**24,042**
Secretariat Support for NCR	10UASI117-05	97.067		**12,566**
Secretariat Support FY2011	11UASI117-01	97.067		**749,726**
Situational Awareness Dashboard Development (SADD)	11UASI117-10	97.067		**729,526**
THIRA for National Capitol Region	11UASI117-09	97.067		**96,843**
Water Security Monitoring Network Maintenance	11UASI117-03/12UASI117-02	97.067		**267,135**
Total U.S. Department of Homeland Security				**4,804,258**
Total Expenditures of Federal Awards			**$**	**29,397,225**

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Metropolitan Washington Council of Governments, Inc. (COG) are included in the scope of the *Office of Management and Budget (OMB) Circular A-133* audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the schedule of expenditures of Federal awards represent all Federal award programs and other grants with fiscal year 2013 cash or non-cash expenditures activities. For our single audit testing, all Federal award programs with 2013 cash and non-cash expenditures in excess of $882,306 were considered a major program to evaluate for testing. We tested those major programs listed below which covered at least 25% of federally granted funds. Our actual coverage is 78.79%.

Major Programs	CFDA Numbers		Federal Expenditures
FY12 TCSP - Transporation, Community	20.205	$	1,984
Regional Transportation Coordination Program - FHWA	20.205		6,308,533
Regional Transportation Coordination Program - FTA	20.505		1,992,168
FY13 Memorial Bridge	20.505		59,251
MATOC FY 13 Work Program	20.505		413,875
Commuter Connections	20.505		2,227,227
Job Access_Reverse Commute (JARC) Program	20.516		733,010
FY12 Job Access Reverse	20.516		400,969
New Freedom Program	20.521		75,488
FY11 New Freedom	20.521		25,461
FY12 New Freedom	20.521		358,233
FY13 New Freedom	20.521		4,531
Priority Bus Transit - ARRA	20.932		10,560,850
Total		$	23,161,580

2. BASIS OF PRESENTATION

The schedule of expenditures of Federal awards has been accounted for on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I - Summary of Independent Public Accountants' Results

Financial Statements:

Type of report of Independent Public Accountants:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Noted
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Noted
Type of report of Independent Public Accountants issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section I - Summary of Independent Public Accountants' Results (continued)

Financial Statements (continued)**:**

Major Programs	**CFDA Numbers**		**Federal Expenditures**
FY12 TCSP - Transporation, Community	20.205	**$**	**1,984**
Regional Transportation Coordination Program - FHWA	20.205		**6,308,533**
Regional Transportation Coordination Program - FTA	20.505		**1,992,168**
FY13 Memorial Bridge	20.505		**59,251**
MATOC FY 13 Work Program	20.505		**413,875**
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Job Access_Reverse Commute (JARC) Program	20.516		**733,010**
FY12 Job Access Reverse	20.516		**400,969**
New Freedom Program	20.521		**75,488**
FY11 New Freedom	20.521		**25,461**
FY12 New Freedom	20.521		**358,233**
FY13 New Freedom	20.521		**4,531**
Priority Bus Transit - ARRA	20.932		**10,560,850**
Total		**$**	**23,161,580**
Threshold for distinquishing between Type A and B programs		$	878,797
Did COG qualify as low risk auditee?			Yes

Section II – Financial Statement Findings

None Noted.

Section III - Federal Award Findings

None Noted.

Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2013

Finding 2012-1

Metropolitan Washington Council of Governments, Inc.

CFDA No. 20.505-Metropolitan Transportation Planning
CFDA No. 20.932-Surface Transportation Discretionary Grants for Capital Investment

U.S. Department of Transportation

Compliance Deficiency on Subrecipient Monitoring

Condition:
During our planning phase we conducted interviews with COG program managers who informed us that, as part of subrecipient monitoring, they do not ensure subrecipients are receiving OMB A-133 audits and that if the subrecipient has audit findings that they are corrected.

Criteria:
Per 31 USC 7502(f)(2)(B) states each pass through entity shall monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means.

Per 31 USC 7502(f)(2)(C) states each pass-through entity shall review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by pass-through entity.

Cause:
The Metropolitan Washington Council of Governments, Inc. (COG) was not aware of the compliance requirement as part of the OMB A-133 audit.

Effect:
COG is not aware if sub-recipients are in compliance with OMB A-133 Single Audit Requirements.

Questioned Costs:
Questions costs are undeterminable.

Recommendation:
We recommend that COG implement a program to monitor sub-recipients and determine if they are in compliance with OMB A-133 Single Audit Requirements. Further, that if the sub-recipient has an audit finding, COG should monitor whether the audit finding is corrected in a timely manner and if it is not that funding should be discontinued to the sub-recipient.

Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2013

Auditee Response and Corrective Action Plan:

CFDA No. 20.505-Metropolitan Transportation Planning (Metropolitan Area Transportation Operations Coordination-MATOC):

The finding noted that COG did not obtain the University of Maryland's A-133 audit report prior to audit field work. COG has since reviewed the most recent available State of Maryland A-133 audit report and found no audit findings which would materially impact the sub-award. However, COG will continue to ascertain it is timely with its review of the A-133 audit report for all of its sub-recipients. The Program Manager has provided a detailed memo of his site visits and monitoring of the University of Maryland, and there were no deficiencies or improvements noted in this regard.

CFDA No. 20.932-Surface Transportation Discretionary Grants for Capital Investment (Priority Bus Transit):

The finding noted that COG did not obtain the District of Columbia's A-133 audit report prior to audit field work. COG has since reviewed the most recent available District of Columbia A-133 audit report and found no audit findings which would materially impact the sub-award. Further, it was a requirement of the Federal funding (FTA) to provide the sub-award to the District Department of Transportation (DDOT). However, COG will continue to ascertain it is timely in its review of the A-133 audit report for all of its sub-recipients. The Program Manager has provided a detailed memo of his site visits and monitoring of DDOT. There were no deficiencies or improvements noted in this regard.

Auditor's Conclusion:

Based on the results of current year testing, this finding was remediated in fiscal year 2013.