

**METROPOLITAN WASHINGTON COUNCIL  
OF GOVERNMENTS, INC.**

**Financial Statements Together with  
Reports of Independent Public Accountants**

**For the Year Ended June 30, 2014**



**JUNE 30, 2014**

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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 financial statements of Metropolitan Washington Council of Governments, Inc. (COG) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise COG's basic financial statements as listed in the table of contents.

### ***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.



### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of COG as of June 30, 2014, and the respective changes in its net position and, where applicable, cash flows thereof 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, and the required schedules of changes in employer net pension liability, employer net position, employer contributions and investment returns 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 Supplementary 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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations* 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.



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### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014, 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 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.

Washington, DC  
December 17, 2014

*SB & Company, LLC*

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Management's Discussion and Analysis As of June 30, 2014

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

### FINANCIAL HIGHLIGHTS

Net revenue from operations and investments for the twelve months ending June 30, 2014 was \$70,444. As per the approved budget, the surplus funds were designated for future capital projects.

#### 1. Changes in Net Position

“Net position” refers to the resources that would remain if all obligations were settled. The table below categorizes net assets into those that are non-cash (invested in capital assets), those that are designated for future capital projects and programs, board-designated reserves for emergencies and cash flow interruptions, and assets that are available for future plans (unrestricted).

Investment in information technology equipment, software upgrades, and the telephone system increased capital assets by approximately \$277,500 in FY14, utilizing a portion of the funds designated for capital projects. The amount designated for program funds was reduced by \$2.1 million, based on an analysis of project balances and work plans. The re-categorization of these funds resulted in an increase and full funding of Board-Designated Reserves as of June 30, 2014.

	<u>June 30, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>June 30, 2014</u>
<b>Net Position</b>				
Net investments in capital assets	\$ 567,803	\$ 276,472	\$ -	\$ 844,275
Unrestricted for:				
Project funds	5,198,343	-	2,142,026	3,056,317
Capital plans	200,000	200,000	240,662	159,338
Unrestricted	8,936,999	1,976,660	-	10,913,659
<b>Net Position</b>	<u>\$ 14,903,145</u>	<u>\$ 2,453,132</u>	<u>\$ 2,382,688</u>	<u>\$ 14,973,589</u>

#### 2. Revenues and Program Expenses

Grant revenue in FY14 increased by \$3.0 million compared to FY13, primarily due to an increase in funding from the U.S. Department of Homeland Security for public safety, health and environmental projects and programs, and from the U.S. Department of Transportation for programs that support the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2005. Direct program expenses and pass through funding increased accordingly, resulting in a net surplus of \$70,444 in FY14, which is comparable to the FY13 net surplus of \$125,439.

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Management's Discussion and Analysis As of June 30, 2014

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Change</u>
<b>Revenue</b>				
Federal, state, and local grants	\$ 41,220,461	\$ 38,291,276	\$ 2,929,185	7.65%
Member dues	3,579,957	3,413,478	166,479	4.88%
Contributed services	1,541,268	974,197	567,071	58.21%
Other	1,592,522	1,307,102	285,420	21.84%
<b>Total Revenue</b>	<b>47,934,208</b>	<b>43,986,053</b>	<b>3,948,155</b>	<b>8.98%</b>
<b>Expenses</b>				
Personnel	12,844,451	13,139,866	(295,415)	-2.25%
Professional fees	25,295,490	22,776,864	2,518,626	11.06%
Other direct expenses/pass through	3,369,029	2,198,199	1,170,830	53.26%
Contributed services	1,541,268	974,197	567,071	58.21%
GASB pension obligation	203,598	396,185	(192,587)	-48.61%
Indirect costs	4,609,928	4,375,303	234,625	5.36%
<b>Total Expenses</b>	<b>47,863,764</b>	<b>43,860,614</b>	<b>4,003,150</b>	<b>9.13%</b>
Changes in net position	70,444	125,439	(54,995)	-43.84%
Net position, beginning of year	14,903,145	14,777,706	125,439	0.85%
<b>Net Position, End of Year</b>	<b>\$ 14,973,589</b>	<b>\$ 14,903,145</b>	<b>\$ 70,444</b>	<b>0.47%</b>

### 3. Significant Events and Trends

Accounts receivable increased by \$4.4 million (45%) and accounts payable increased by \$4.3 million (101%), reflective of increased revenue in FY14, as well as vacancies and turnover in the finance office near the end of the fiscal year.

## ANALYSIS OF FINANCIAL INFORMATION

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

### 1. What Does COG Do?

COG 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 22 local governments, the Maryland and Virginia state legislatures, and U.S. Congress.

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Management's Discussion and Analysis As of June 30, 2014

### 2. Where Do the Resources Come From?

Total revenue in FY14 was \$47.9 million, an increase of \$4.0 million over FY13. Of this amount, \$41.2 million was from federal, state and local funds, of which \$21.0 million was passed through to sub-recipients. Member dues generated an additional \$3.6 million in revenue, and were used to provide member services and additional funding for specific programs, as approved by the Board of Directors. Contributed services, in the form of vendor discounts for certain transportation programs, provided an additional \$1.5 million in revenue. COG also owns one-third of the common stock of the Center for Public Administration and Services, Inc., which owns and operates the office building housing the COG's offices. In FY14, COG recorded \$455,314 in revenue from its share in the Real Estate Investment Trust.

### 3. What Is the Cost?

Transportation planning, support and services makes up 64% of the expenditure budget, with the Department of Environmental Programs and Department of Public Safety & Health accounting for 17% and 16% of expenses respectively. Increased federal grant funds in FY14 supported programs in the Department of Public Safety and Health and the Department of Environmental Protection.

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Change</u>
Transportation	\$ 30,452,698	\$ 30,010,470	\$ 442,228	1.47%
Community planning and services	930,379	814,771	115,608	14.19%
Public safety and health	7,703,198	5,437,851	2,265,347	41.66%
Environmental	8,070,171	6,508,845	1,561,326	23.99%
Member services	503,720	569,992	(66,272)	-11.63%
Additional required pension	203,598	518,685	(315,087)	-60.75%
<b>Total Operating Expenses</b>	<b>\$ 47,863,764</b>	<b>\$ 43,860,614</b>	<b>\$ 4,003,150</b>	<b>9.13%</b>



# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Management's Discussion and Analysis As of June 30, 2014

### 4. What are the Capital Assets of COG?

Capital assets are made up of furniture and fixtures (\$1.7 million), IT equipment (\$872,900), software (\$1.2 million), and leasehold improvements (\$434,100), recorded at cost. Accumulated depreciation at June 30, 2014 was \$3.3 million, for a net book value of \$844,300. The year's major additions included \$308,922 in computer hardware, \$91,293 in leasehold improvements, \$66,543 in computer software and \$50,376 in furniture and office equipment.

	<u>June 30, 2013</u>	<u>Additions</u>	<u>June 30, 2014</u>	<u>Useful Live</u>
Furniture and equipment	\$ 1,638,300	\$ 50,376	\$ <b>1,688,676</b>	7 years
Leasehold improvements	342,841	91,293	<b>434,134</b>	10 years
Computer hardware	563,972	308,922	<b>872,894</b>	5 years
Computer software	803,453	66,543	<b>869,996</b>	3 years
Local area network	300,032	-	<b>300,032</b>	3 years
Total capital assets	<u>3,648,598</u>	<u>517,134</u>	<u><b>4,165,732</b></u>	
Less: accumulated depreciation	<u>3,080,795</u>	<u>240,662</u>	<u><b>3,321,457</b></u>	
Capital Assets, net	<u>\$ 567,803</u>	<u>\$ 276,472</u>	<u>\$ <b>844,275</b></u>	

### 5. What Changes and Trends Affect COG's Future?

In April of 2014, COG added a new department, the Homeland Security Program Management Office, with an expected increase in federal funding of \$600,000 - \$800,000 in FY 2015. Other programs and funding are stable at this time, with nothing known, enacted, adopted, contracted or agreed upon that will impact COG's revenue, expenses, or assets.

## NEW ACCOUNTING PRONOUNCEMENT

In June 2012 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 (GASB 68), effective for fiscal years beginning after June 15, 2014. While COG is still in the process of determining the effect of implementing GASB 68 it is expected to have a material effect on the financial position of COG.

## 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, NE, Washington, D.C. 20002.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Statement of Net Position  
As of June 30, 2014**

**ASSETS**

**Current Assets**

Cash	\$ 3,132,493
Investments	9,253,837
Accounts receivable	14,082,003
Prepaid expenses and other current assets	482,928
<b>Total Current Assets</b>	<b>26,951,261</b>

**Non-Current Assets**

Investment in noncontributory executive retirement plan	26,251
Capital assets, net	844,275
<b>Total Assets</b>	<b>27,821,787</b>

**LIABILITIES**

**Current Liabilities**

Accounts payable	8,574,113
Accrued expenses	525,580
Accrued vacation	729,236
Unearned revenue	1,705,388
<b>Total Current Liabilities</b>	<b>11,534,317</b>

**Non-Current Liabilities**

Noncontributory executive retirement plan	26,251
Net pension obligation	1,287,630
<b>Total Liabilities</b>	<b>12,848,198</b>

**NET POSITION**

Net investment in capital assets	844,275
Unrestricted Board Designated:	
Project funds	3,056,317
Capital plans	159,338
Unrestricted	10,913,659
<b>Total Net Position</b>	<b>\$ 14,973,589</b>

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, 2014**

<b>Operating Revenues</b>	
Member contributions	\$ 3,579,957
Federal grants	31,311,218
State grants	6,532,304
Local grants	3,376,939
Foundation contributions	179,229
Other income	2,334,405
<b>Total Operating Revenue</b>	<u>47,314,052</u>
<b>Operating Expenses</b>	
Transportation	30,452,698
Community planning and services	930,379
Public safety and health	7,703,198
Environmental	8,070,171
Member services	503,720
Additional required pension	203,598
<b>Total Operating Expenses</b>	<u>47,863,764</u>
<b>Operating loss</b>	<u>(549,712)</u>
<b>Non-Operating Revenue</b>	
Unrealized gain on investments	6,715
Interest income	158,127
Investment income	455,314
<b>Total Non-Operating Revenue</b>	<u>620,156</u>
Change in net position	70,444
Net position, beginning of year	14,903,145
<b>Net Position, End of Year</b>	<u>\$ 14,973,589</u>

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

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Statement of Cash Flows  
For the Year Ended June 30, 2014**

**Cash Flows from Operating Activities**

Revenue and other support	\$ 42,243,633
Payments to employees	(12,773,397)
Payments to vendors	(30,619,784)
<b>Net Cash Flows from Operating Activities</b>	<u>(1,149,548)</u>

**Cash Flows from Investing Activities**

Purchase of investments	(153,043)
Purchase of investments - noncontributory executive compensation plan	(26,251)
Interest income	158,127
Investment income	455,314
<b>Net Cash Flows from Investing Activities</b>	<u>434,147</u>

**Cash Flows from Capital Financing Activities**

Purchase of capital assets	<u>(517,134)</u>
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Net decrease in cash	(1,232,535)
Cash, beginning of year	4,365,028
<b>Cash, End of Year</b>	<u>\$ 3,132,493</u>

**Reconciliation of Operating Loss to Net Cash  
from Operating Activities**

Operating loss	\$ (549,712)
Adjustments to reconcile operating loss to cash from operating activities:	
Depreciation and amortization	240,662
Effect of changes in non-cash operating assets and liabilities:	
Accounts receivable	(4,364,425)
Prepaid expenses and other current assets	(243,879)
Accounts payable	4,313,259
Accrued expenses	71,054
Accrued vacation	(17,862)
Noncontributory executive retirement plan	26,251
Net pension obligation	81,098
Unearned revenue	(705,994)
<b>Net Cash Flows from Operating Activities</b>	<u>\$ (1,149,548)</u>

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

# **METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

## **Notes to the Financial Statements**

**June 30, 2014**

### **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.

#### **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. COG 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.

# **METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

## **Notes to the Financial Statements**

**June 30, 2014**

### **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, 2014.

#### **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 in the accompanying statement of net position. 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.

#### **Grants and Contracts**

COG 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 COG. COG's management believes such disallowance, if any, would not be material to the financials as of June 30, 2014.

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Notes to the Financial Statements

June 30, 2014

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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 and temporary salaries;
- The leave rate is the ratio of leave benefits over total salary costs;
- The fringe rate is the ratio of fringe benefit expense (excluding leave benefits) over total salary costs less temporary salaries and intern costs plus leave benefits; and
- The indirect non-personnel rate is the ratio of total indirect costs over total salaries and benefits costs and fringe benefit costs.

The M&A, leave, fringe benefit, and indirect costs rates for the fiscal year ended June 30, 2014, were as follows:

M&A personnel costs	23.53%
Leave	19.80%
Fringe benefits	24.83%
Indirect non-personnel costs	35.02%

#### Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. In January 2013, GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective for periods beginning after June 15, 2014. 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.

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Notes to the Financial Statements

June 30, 2014

### 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, 2014, COG's bank balance was \$4,107,176, and its book balance was \$3,132,493.

### 4. INVESTMENTS

COG's investments are stated at fair value as determined by quoted market prices. As of June 30, 2014, the investment balance consisted of the following:

Certificate of Deposits	\$	7,928,988
Government backed securities		1,069,738
Money market		255,111
Mutual Funds		26,251
<b>Total</b>	<b>\$</b>	<b>9,280,088</b>

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, 2014, 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	24%
Five to ten years	41%
Ten or more years	35%



**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Notes to the Financial Statements  
June 30, 2014**

**5. CAPITAL ASSETS**

Capital assets consisted of the following as of June 30, 2014:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>June 30, 2014</u>	<u>Useful Live</u>
Furniture and equipment	\$ 1,638,300	\$ 50,376	<b>\$ 1,688,676</b>	7 years
Leasehold improvements	342,841	91,293	<b>434,134</b>	10 years
Computer hardware	563,972	308,922	<b>872,894</b>	5 years
Computer software	803,453	66,543	<b>869,996</b>	3 years
Local area network	300,032	-	<b>300,032</b>	3 years
Total capital assets	<u>3,648,598</u>	<u>517,134</u>	<b><u>4,165,732</u></b>	
Less: accumulated depreciation	<u>3,080,795</u>	<u>240,662</u>	<b><u>3,321,457</u></b>	
Capital Assets, net	<u>\$ 567,803</u>	<u>\$ 276,472</u>	<b><u>\$ 844,275</u></b>	

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, 2014, was \$240,662.

**6. NON-CURRENT LIABILITIES**

Changes in non-current liabilities for the year ended June 30, 2014, were as follows:

<u>Activity</u>	<u>Beginning Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance June 30, 2014</u>	<u>Due Within One Year</u>
Pension obligation	\$ 1,206,532	\$ 203,598	\$ 122,500	<b>\$ 1,287,630</b>	\$ -
Noncontributory executive retirement plan	-	26,251	-	<b>26,251</b>	-
Accrued vacation	747,098	1,688,864	1,706,726	<b>729,236</b>	729,236
	<u>\$ 1,953,630</u>	<u>\$ 1,918,713</u>	<u>\$ 1,829,226</u>	<b><u>\$ 2,043,117</u></b>	<u>\$ 729,236</u>

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Notes to the Financial Statements June 30, 2014

### 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 \$236 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 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.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Notes to the Financial Statements  
June 30, 2014**

**7. PENSION PLAN (continued)**

A summary of the Plan's financial information as of and for the year ended June 30, 2014, is as follows:

**Statement of Net Position Held in Trust for Pension Benefits**

**ASSETS:**

Investments, at fair value:		
Equity securities pool	\$	30,013,288
Fixed income pool		18,208,737
Income receivable		10
<b>Net Position Held in Trust for Pension Benefits</b>	<b>\$</b>	<b>48,222,035</b>

**Statement of Changes in Net Position Held in Trust for Pension Benefits**

**ADDITIONS:**

Employer contributions	\$	1,162,140
Employee contributions		805,306
Investment earnings:		
Interest income	\$	1,304,677
Net appreciation in fair value of investments		5,415,665
Net investment earnings		6,720,342
<b>Total Additions</b>		<b>8,687,788</b>

**DEDUCTIONS:**

Benefit payments		3,292,256
Administrative expenses		158,634
Total deductions		3,450,890
Change in net position		5,236,898
Net position held in trust for pension benefits, July 1, 2013		42,985,137
<b>Net Position Held in Trust for Pension Benefits, June 30, 2014</b>	<b>\$</b>	<b>48,222,035</b>

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Notes to the Financial Statements June 30, 2014

### 7. PENSION PLAN (continued)

#### Net Pension Liability

The components of the net pension liability of the participating employers at June 30, 2014, were as follows:

Total Pension Liability (TPL)	\$ 45,813,811
Fiduciary Net Position	<u>48,222,035</u>
Net Pension Asset	<u>\$ (2,408,224)</u>
Ratio - Fiduciary Net Position/TPL	105.3%

#### Investments

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 the Board after considering input from the COG's investment consultant(s) and actuary(s), for each major asset class that is included in the COG's target asset allocation as of June 30, 2014, these best estimates are summarized in the following table:

#### Expected Return Assumptions

<u>Asset Class</u>	<u>Target Weight</u>	<u>Expected Real Returns</u>	<u>Contribution to Real Return</u>
U.S. Equities	60.00%	5.50%	3.30%
Core Fixed Income	40.00%	2.50%	1.00%
Cash	0.00%	2.00%	0.00%
<b>Total</b>	<b><u>100.00%</u></b>		<b><u>4.30%</u></b>

Inflation	2.00%
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The above was the Board of Directors adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2014.

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 17.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Notes to the Financial Statements June 30, 2014

### 7. PENSION PLAN (continued)

#### Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### Sensitivity of the Net Pension Liability

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.00%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	<b>1% Decrease 6.00%</b>	<b>Discount Rate 7.00%</b>	<b>1% Increase 8.00%</b>
Total Pension Liability	\$ 51,588,437	\$ 45,813,811	\$ 40,995,448
Plan Fiduciary Net Position	48,222,035	48,222,035	48,222,035
Net Pension Liability (Asset)	<u>\$ 3,366,402</u>	<u>\$ (2,408,224)</u>	<u>\$ (7,226,587)</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.5%	105.3%	117.6%
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#### Key Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry Age Normal
Asset valuation	4 year smoothed market
Amortization method	30 year open period, level dollar amortization
Discount rate	7.00%
Amortization growth rate	0.00%
Price inflation	4.00%
Salary increases	3.50% plus merit component based on employee's years of service
Mortality	Sex distinct RP-2000 Combined Mortality with generation projection using Scale AA

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Notes to the Financial Statements  
June 30, 2014**

**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 8% 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 increased to 10% effective July 1, 2013. COG's and the employee's contributions to the Plan for the year ended June 30, 2014, was \$1,162,140.

**Annual Pension Cost**

For the year ended June 30, 2014, COG's estimated annual pension cost, under GASB Statement No. 27, was \$1,243,238. The table below represents the funded status of the Plan as of June 30, 2014.

*Three Year Trend Information*

	<b>Annual Pension Cost</b>	<b>Actual COG Contribution</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
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
June 30, 2014	1,243,238	1,162,140	93%	1,287,630

**Funding Status and Funding Progress (GASB – Statement No. 27)**

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

	<b>June 30, 2013</b>
Net assets available for plan benefits	<b>\$ 40,484,336</b>
Actuarial accrued liability (AAL)	<b>44,197,572</b>
Unfunded AAL	<b><u>\$ 3,713,236</u></b>

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.

	<b>June 30, 2014</b>
Estimated covered payroll	<b>\$ 10,968,422</b>
Unfunded AAL as a percentage of payroll	<b>33.85%</b>

# METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

## Notes to the Financial Statements June 30, 2014

### 8. RETIREMENT PLAN

#### Defined Contribution Plan

COG 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 COG. COG is not required, and has not made, discretionary or non-elective contributions to the defined contribution 403(b) plan.

#### Supplemental Executive Retirement Plan

Effective November 14, 2012, COG 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. COG'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, 2014, COG held \$26,251, of noncontributory compensation in a trust that is administered by COG, which has been recorded as a non-current asset in the accompanying statement of net position.

### 9. 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, 2014, CPAS distributed \$455,314 of income to COG.

CPAS's summarized financial information as of and for the year ended December 31, 2013, was as follows:

Total assets	\$ 19,651,021
Total liabilities	<u>27,835,586</u>
<b>Total Stockholders' Deficit</b>	<b><u><u>\$ (8,184,565)</u></u></b>
Revenue	\$ 8,629,761
Expenses	<u>7,192,920</u>
<b>Net Income</b>	<b><u><u>\$ 1,436,841</u></u></b>

As of December 31, 2013, CPAS's assets included net rental property of \$14,106,407.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Notes to the Financial Statements  
June 30, 2014**

**10. 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.

The future minimum lease payments for the next three years required under the various operating leases, excluding real estate taxes, operating expenditures and CPI adjustments as of June 30, 2014 are below.

<u>For the Years Ending June 30,</u>	
2015	\$ 1,064,475
2016	1,064,475
2017	532,238
<b>Total</b>	<b><u><u>\$ 2,661,188</u></u></b>

Rent expense for the fiscal year ended June 30, 2014, was \$2,342,228, which included real estate taxes, operating expenses, and CPI adjustments.

COG subleases a portion of its office space. For the year ended June 30, 2014, rental income from the tenant was \$111,700. The future minimum rental payments for the next three years required to be paid by the sublessee as of June 30, 2014 are below.

<u>For the Years Ending June 30,</u>	
2015	\$ 94,458
2016	94,458
2017	47,229
<b>Total</b>	<b><u><u>\$ 236,145</u></u></b>



**REQUIRED SUPPLEMENTARY INFORMATION**

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Required Supplementary Information  
June 30, 2014**

**Schedule of Changes in Employer Net Pension Liability**

<b>Total Pension Liability</b>	
Service cost	\$ 1,864,632
Interest (includes interest on service cost)	3,043,863
Charges of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(3,292,256)</u>
<b>Net Change in Total Pension Liability</b>	<b>1,616,239</b>
Total pension liability, beginning	<u>44,197,572</u>
<b>Total Pension Liability, Ending (a)</b>	<b><u>\$ 45,813,811</u></b>
<b>Plan Fiduciary Net Position</b>	
Contributions - employer	\$ 1,162,140
Contributions - member	805,306
Net investment income	6,722,843
Benefit payments, including refunds of member contributions	(3,292,256)
Administrative expenses	<u>(161,135)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<b>5,236,898</b>
Plan fiduciary net position, beginning	<u>42,985,137</u>
<b>Plan Fiduciary Net Position, Ending (b)</b>	<b><u>\$ 48,222,035</u></b>
<b>Net Pension Liability - Ending (a) - (b)</b>	<b><u>\$ (2,408,224)</u></b>
<b>Plan Fiduciary Net Position as a Percentage of the Total</b>	
<b>Pension Liability</b>	<b>105.26%</b>
<b>Covered-employee Payroll</b>	<b>\$ 10,968,422</b>
<b>Net Position Liability as a Percentage of Covered- Employee Payroll</b>	<b>-21.96%</b>

\* These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plan should present information for those years for which the information is available.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Required Supplementary Information  
June 30, 2014**

**Schedule of Employer Net Position**

Total Pension Liability	\$ 45,813,811
Plan Fiduciary Net Position	48,222,035
Net Pension Liability	<u>\$ (2,408,224)</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	105.3%
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**Schedule of Employer Contributions**

Actuarially determined contribution	\$ 1,243,238
Actual contribution	1,162,140
<b>Contribution deficiency</b>	<u>\$ 81,098</u>

<b>Covered employee payroll</b>	\$ 10,968,422
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<b>Actual contribution as a percent of covered payroll</b>	10.60%
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**Schedule of Investment Returns**

<u>Fiscal Year Ended</u>	<u>Annual money weighted rate of return, net of investment expenses</u>
2014	17.38%

\* These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plan should present information for those years for which the information is available.

## **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 business-type activities of Metropolitan Washington Council of Governments, Inc. (COG), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise COG's basic financial statements, and have issued our report thereon dated December 17, 2014.

***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.

Washington, DC  
December 17, 2014

*SB & Company, LLC*



**SB & COMPANY, LLC**  
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## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE**

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, 2014. 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.



### ***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, 2014.

### **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.

Washington, DC  
December 17, 2014

*SB & Company, LLC*



**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014**

Federal Agency/Program Name	Pass-Through Identifying Number	CFDA Number	Expenditures
<b>U.S. Department of Agriculture</b>			
DC Watershed Forestry	N.A.	10.675	\$ 2,919
MWUrban TreeCanopyAnalys	N.A.	10.675	16,014
DC Marshalling Yard	N.A.	10.675	47,479
DC Urban Forest Health Matrix	N.A.	10.675	18,004
Maximizing iTree Canopy	N.A.	10.675	72,376
DDOT & COG Partnership	N.A.	10.675	33,217
<b>Total U.S. Department of Agriculture</b>			<b>190,009</b>
<b>U.S. Department of Transportation</b>			
CA27-Continuous Airport System Planning PROG XXVII (CASP)	N.A.	20.106	76,162
CA28-Continuous Airport System Planning PROG XXVII (CASP)	N.A.	20.106	88,651
			<b>164,813</b>
FY12 TCSP - Transportation, Community	N.A.	20.205	43,275
FY13 Memorial Bridge	N.A.	20.205	11,286
Regional Transportation Coordination Program-FHWA	N.A.	20.205	6,768,668
			<b>6,823,229</b>
MATOC FY 13 Work Program	N.A.	20.505	417,549
Commuter Connections	N.A.	20.505	1,796,410
Regional Transportation Coordination Program-FTA	N.A.	20.505	1,844,060
			<b>4,058,019</b>
Job Access_Reverse Commute (JARC) Program	N.A.	20.516	11,589
Job Access_Reverse Commute (JARC) Program	N.A.	20.516	61,171
FY12 Job Access Reverse	N.A.	20.516	1,692,639
Job Access_Reverse Commute (JARC) Program	N.A.	20.516	465,326
Job Access_Reverse Commute (JARC) Program	N.A.	20.516	50,356
New Freedom Program	N.A.	20.521	47,803
FY11 New Freedom	N.A.	20.521	236,800
FY12 New Freedom	N.A.	20.521	116,341
FY13 New Freedom	N.A.	20.521	118,733
			<b>2,800,758</b>
StreetSmart	N.A.	20.614	422,478
Priority Bus Transit - ARRA	N.A.	20.932	7,335,626
<b>Total U.S. Department of Transportation</b>			<b>21,604,923</b>
<b>U.S. Environmental Protection Agency</b>			
DC Marine Engine Repower	N.A.	66.039	928,711
<b>U.S. Department of Energy</b>			
MARC Solar			
ASTI	N.A.	81.117	17,322
	N.A.	81.117	12,932
<b>Total U.S. Department of Energy</b>			<b>30,254</b>

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, 2014**

<u>Federal Agency/Program Name</u>	<u>Pass-Through Identifying Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b>U.S. Department of Homeland Security</b>			
<i>Passed through D.C. Office of Deputy Mayor for Public Safety &amp; Justice</i>			
Water Security Monitoring Network Maintenance	12UASII 17-02	97.067	\$ 12,032
Cyber Enterprise Security Framework Development	12UASII 17-05	97.067	393,537
Hospital Wtr & Power Res	12UASII 17-06	97.067	903,776
Water Agency Response Network (WARN) - no data	12UASII 17-01	97.067	5,030
Back-up Power Assessment for Shelters - no data	11UASII 17-11	97.067	178,415
Water Agency Response Network (WARN) - no data	11UASII 17-04	97.067	10,000
Water Security Monitoring	13UASII 17-02	97.067	124,803
Supply Chain Exercise	13UASII 17-06	97.067	526
Secretariat Support FY2011	11UASII 17-01	97.067	2,675
Health Planners (Continuation)	10SHSP1 17-02	97.067	3,990
Business Integration Implementation Plan (BIIP)	10SHSP1 17-03	97.067	21,450
Regional Incident Communication & Coordination System (RICCS)	11UASII 17-07	97.067	15,863
Regional Incident Communication & Coordination System (RICCS)	11UASII 18-08	97.067	74,348
Situational Awareness Dashboard Development (SADD)	11UASII 17-10	97.067	156,737
District Response Plan DCERS	11UASII 17-12	97.067	306,189
District Emergency Response	11UASII 17-13	97.067	165,174
Mobile Wide-Area Radiation & Nuclear Detection	12UASII 17-07	97.067	1,744,177
Health Planners (Continuation)	12UASII 17-04	97.067	1,293,049
Secretariat Support (Continuation)	12UASII 17-03	97.067	778,128
NCR 2013 Senior Leaders Seminar	12UASII 17-08	97.067	90,564
ETOP Logistics & Support	10UASII 17-17	97.067	138,316
ETOP Logistics & Support	12UASII 17-09	97.067	1,905
Grants Division Administration	11UASII 17-08	97.067	84,232
MEMA Exercise & Training	12UASII 17-11	97.067	30,847
THIRA for NCR 2013	12UASII 17-12	97.067	39,613
District Preparedness	12UASII 17-13	97.067	234,687
District Recovery Mitigation	12UASII 17-14	97.067	154,461
District Prevention Protect	12UASII 17-15	97.067	48,837
District Joint All-Hazards	12UASII 17-16	97.067	239,217
Metro Station Emergency	12UASII 17-17	97.067	231,434
Text Alert Notification	12UASII 17-18	97.067	169,086
Regional Incident Coordination	13UASII 17-01	97.067	647
Situational Awareness Dashboard Development (SADD)	13UASII 17-03	97.067	285,199
Emergency Evacuation Transportation	13UASII 17-04	97.067	11,979
Long-term Recovery Seminar	13UASII 17-10	97.067	4,303
District Emergency Response	13UASII 17-13	97.067	784
WMATA Exercise Program	13UASII 17-15	97.067	18,618
PMO & Secretariat Support	13UASII 17-18	97.067	82,438
District Terrorism Exercise	13UASII 17-19	97.067	598
Text Alert Notification	11SHSP1 17-01	97.067	13,706
District Hurricane Exercise	11SHSP1 17-02	97.067	485,951
<b>Total U.S. Department of Homeland Security</b>			<b>8,557,321</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 31,311,218</b>

The accompanying notes are an integral part of this schedule.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014**

**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 2014 cash or non-cash expenditures activities. For our single audit testing, all Federal award programs with 2014 cash and non-cash expenditures in excess of \$939,337 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 53.7%.

<b>Major Programs</b>	<b>CFDA Numbers</b>	<b>Federal Expenditures</b>
Priority Bus Transit - ARRA	20.932	\$ 7,335,626
DC Marine Engine Repower	66.039	928,711
Water Security Monitoring Network Maintenance	97.067	12,032
Cyber Enterprise Security Framework Development	97.067	393,537
Hospital Wtr & Power Res	97.067	903,776
Water Agency Response Network (WARN) - no data	97.067	5,030
Back-up Power Assessment for Shelters - no data	97.067	178,415
Water Agency Response Network (WARN) - no data	97.067	10,000
Water Security Monitoring	97.067	124,803
Supply Chain Exercise	97.067	526
Secretariat Support FY2011	97.067	2,675
Health Planners (Continuation)	97.067	3,990
Business Integration Implementation Plan (BIIP)	97.067	21,450
Regional Incident Communication & Coordination System (RICCS)	97.067	15,863
Regional Incident Communication & Coordination System (RICCS)	97.067	74,348
Situational Awareness Dashboard Development (SADD)	97.067	156,737
District Response Plan DCERS	97.067	306,189
District Emergency Response	97.067	165,174
Mobile Wide-Area Radiation & Nuclear Detection	97.067	1,744,177
Health Planners (Continuation)	97.067	1,293,049
Secretariat Support (Continuation)	97.067	778,128

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

<b>Major Programs</b>	<b>CFDA Numbers</b>	<b>Federal Expenditures</b>
Situational Awareness Dashboard Development (SADD)	97.067	\$ 156,737
District Response Plan DCERS	97.067	306,189
District Emergency Response	97.067	165,174
Mobile Wide-Area Radiation & Nuclear Detection	97.067	1,744,177
Health Planners (Continuation)	97.067	1,293,049
Secretariat Support (Continuation)	97.067	778,128
NCR 2013 Senior Leaders Seminar	97.067	90,564
ETOP Logistics & Support	97.067	138,316
ETOP Logistics & Support	97.067	1,905
Grants Division Administration	97.067	84,232
MEMA Exercise & Training	97.067	30,847
THIRA for NCR 2013	97.067	39,613
District Preparedness	97.067	234,687
District Recovery Mitigation	97.067	154,461
District Prevention Protect	97.067	48,837
District Joint All-Hazards	97.067	239,217
Metro Station Emergency	97.067	231,434
Text Alert Notification	97.067	169,086
Regional Incident Coordination	97.067	647
Situational Awareness Dashboard Development (SADD)	97.067	285,199
Emergency Evacuation Transportation	97.067	11,979
Long-term Recovery Seminar	97.067	4,303
District Emergency Response	97.067	784
WMATA Exercise Program	97.067	18,618
PMO & Secretariat Support	97.067	82,438
District Terrorism Exercise	97.067	598
Text Alert Notification	97.067	13,706
District Hurricane Exercise	97.067	485,951
<b>Total Major Programs</b>		<b>\$ 16,821,658</b>

**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, 2014**

**Section I –Summary of Independent Public Accountants’ Results**

**Financial Statements**

Type of Independent Public Accountants’ report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported
- Noncompliance material to financial statements? No

**Federal Awards**

Type of Independent Public Accountants’ report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No

**Identification of Major Program:**

Major Programs	CFDA Numbers	Federal Expenditures
Priority Bus Transit - ARRA	20.932	\$ 7,335,626
DC Marine Engine Repower	66.039	928,711
Water Security Monitoring Network Maintenance	97.067	12,032
Cyber Enterprise Security Framework Development	97.067	393,537
Hospital Wtr & Power Res	97.067	903,776
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Water Security Monitoring	97.067	124,803
Supply Chain Exercise	97.067	526
Secretariat Support FY2011	97.067	2,675
Health Planners (Continuation)	97.067	3,990
Business Integration Implementation Plan (BIIP)	97.067	21,450
Regional Incident Communication & Coordination System (RICCS)	97.067	15,863
Regional Incident Communication & Coordination System (RICCS)	97.067	74,348

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**Section I –Summary of Independent Public Accountants’ Results** (continued)

**Financial Statements** (continued)

**Identification of Major Program:** (continued)

<b>Major Programs</b>	<b>CFDA Numbers</b>	<b>Federal Expenditures</b>
Situational Awareness Dashboard Development (SADD)	97.067	\$ 156,737
District Response Plan DCERS	97.067	306,189
District Emergency Response	97.067	165,174
Mobile Wide-Area Radiation & Nuclear Detection	97.067	1,744,177
Health Planners (Continuation)	97.067	1,293,049
Secretariat Support (Continuation)	97.067	778,128
NCR 2013 Senior Leaders Seminar	97.067	90,564
ETOP Logistics & Support	97.067	138,316
ETOP Logistics & Support	97.067	1,905
Grants Division Administration	97.067	84,232
MEMA Exercise & Training	97.067	30,847
THIRA for NCR 2013	97.067	39,613
District Preparedness	97.067	234,687
District Recovery Mitigation	97.067	154,461
District Prevention Protect	97.067	48,837
District Joint All-Hazards	97.067	239,217
Metro Station Emergency	97.067	231,434
Text Alert Notification	97.067	169,086
Regional Incident Coordination	97.067	647
Situational Awareness Dashboard Development (SADD)	97.067	285,199
Emergency Evacuation Transportation	97.067	11,979
Long-term Recovery Seminar	97.067	4,303
District Emergency Response	97.067	784
WMATA Exercise Program	97.067	18,618
PMO & Secretariat Support	97.067	82,438
District Terrorism Exercise	97.067	598
Text Alert Notification	97.067	13,706
District Hurricane Exercise	97.067	485,951
<b>Total Major Programs</b>		<b>\$ 16,821,658</b>

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2014**

**Section II – Financial Statement Findings**

None Noted.

**Section III - Federal Award Findings**

None Noted.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.**

**Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended June 30, 2014**

There were no audit findings that must be reported in accordance with OMB Circular A-133 for the year ended June 30, 2013.