METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Financial Statements Together with Reports of Independent Public Accountants

For the Year Ended June 30, 2009

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June 30, 2009

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying statement of net assets of Metropolitan Washington Council of Governments, Inc. (COG), as of June 30, 2009, and the related statements of revenue, expenses and change in net assets and cash flows for the year then ended. These financial statements and supplemental schedule are the responsibility of COG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2009, 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* and should be considered in assessing the results of our audit.

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Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *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. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

SB & Company, LLC

Washington, DC
October 23, 2009

Management's Discussion and Analysis
As of June 30, 2009

FINANCIAL HIGHLIGHTS

This section of the financial statements provides a discussion and analysis of the financial performance of the Metropolitan Washington Council of Governments (COG) and an overview of COG's financial activity for the year ended June 30, 2009. 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 year ended June 30, 2009.

Comparative Statements of Net Assets
As of June 30,

	2009	2008	Variance	% Change
Assets				
Current assets	**$ 18,372,466**	$ 17,535,675	$ 836,791	4.8%
Capital assets	**539,015**	69,708	469,307	673.3%
Total Assets	**18,911,481**	17,605,383	1,306,098	7.4%
Liabilities				
Total liabilities	**5,562,334**	5,033,966	528,368	10.5%
Net Assets				
Invested in capital assets	**539,015**	69,708	469,307	673.3%
Restricted for project fund	**3,707,700**	3,986,531	(278,831)	7.0%
Unrestricted	**9,102,432**	8,515,178	587,254	6.9%
Total Net Assets	**$ 13,349,147**	$ 12,571,417	$ 777,730	6.2%

Management's Discussion and Analysis
As of June 30, 2009

Metropolitan Washington Council of Governments completed fiscal year 2009 with positive results from its financial operations. Although the economic environment produced many challenges, the organization's financial performance finished the fiscal year by adding approximately $587,000 to the unrestricted net assets. The balance sheet as of June 30, 2009, still demonstrated the organization's continued strong cash position by having 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 general reserve funds.

Current assets increased by 4.8% or approximately $836,000 mainly due to increases in cash and investments. The increase in cash was primarily a result of improved accounts receivable collections for Federal and state funding from the prior year. COG also took advantage of the competitive market rates by purchasing more investments during the year from the investment's interest earnings and the investment income received from its co-ownership of the building it leases.

COG purchased capital assets of approximately $592,000. Major capital assets acquired consisted of: HVAC, power distribution supply, storage area network, electronic performance appraisal system, and computer hardware servers.

Liabilities increased by 10.5% due to an increase in unearned revenue from projects in progress.

COG's unrestricted net assets fund increased by approximately $587,000 from $8.5 million to $9.1 million. This is primarily due to 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 Retirement Corporation Association (ICMA-RC). CPAS is a real estate investment trust (REIT) that owns an office building located at 777 North Capitol Street, Washington, DC. Because CPAS is a REIT, it must distribute most of its earnings to its owners each year.

Comparative Statements of Revenue, Expenses and Change in Net Assets For the Years Ended June 30,

	2009	2008	Variance	% Change
Revenue				
Federal	**$ 13,499,545**	$ 16,675,926	$ (3,176,381)	(19.05)%
State and local	**10,158,189**	7,961,196	2,196,993	27.60%
Member Contributions	**3,263,509**	3,125,916	137,593	4.40%
Other	**2,623,849**	3,261,866	(638,017)	(19.56)%
Total Revenue	**29,545,092**	31,024,904	(1,479,812)	(4.77)%
Expenses				
Personnel	**12,123,437**	11,596,547	526,890	4.54%
Professional Fees	**10,123,909**	11,255,420	(1,131,511)	(10.05)%
Other Direct Costs	**2,762,120**	2,138,469	623,651	29.16%
Indirect Costs	**3,757,896**	3,664,266	93,630	2.56%
Total Expenses	**28,767,362**	28,654,702	112,660	0.39%
Change in net assets	**777,730**	2,370,202	(1,592,472)	(67.19)%
Net assets, beginning of year	**12,571,417**	10,201,215	2,370,202	23.23%
Net Assets, End of Year	**$ 13,349,147**	$ 12,571,417	$ 777,730	6.19%

Revenue for the year ended June 30, 2009, was approximately $29,500,000 which was approximately $1,500,000 lower than during the year ended June 30, 2008. Revenue decreased primarily due to: a major portion of grant funds for the Freddie Mac Foreclosure program were received during the year ended June 30, 2008, with less funds being received during the year ended June 30, 2009; the transition of the Work of Heart Respite and Recruitment program to a local community-based agency; and lesser Federal pass through revenue from programs such as the WMATA Bus Survey project which was completed during the fiscal year June 30, 2008.

Management's Discussion and Analysis
As of June 30, 2009

Member contributions increased to approximately $3.2 million from approximately $3.1 million for two reasons. The first one is the increase in member's population. Under COG's Bylaws, contributions are calculated on a pro-rata share of the region's population multiplied by a capita rate. The second was the increase in per capita rate from $0.63977 to $0.65721.

Expenses increased overall by approximately $113,000. Personnel costs increased during the year as a result of merit increases. The decrease in professional fees is primarily attributed to the corresponding decrease in Federal pass-through revenue mainly for the WMATA Bus Survey project. Other direct costs increased as a result of more spending in special biological supplies for the UASI program and three major traffic surveys for the Department of Transportation program.

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Statement of Net Assets
As of June 30, 2009

ASSETS	
Current Assets	
Cash	$ 2,476,295
Investments	8,262,931
Accounts receivable	7,557,818
Prepaid expenses and other current assets	75,422
Total Current Assets	18,372,466
Non-current Assets	
Capital assets, net	539,015
Total Assets	18,911,481
LIABILITIES	
Current Liabilities	
Accounts payable	3,641,247
Accrued expenses	493,072
Deferred revenue	673,561
Total Current Liabilities	4,807,880
Non-current Liabilities	
Accrued vacation	754,454
Total Liabilities	5,562,334
NET ASSETS	
Invested in capital assets	539,015
Restricted for project fund	3,707,700
Unrestricted net assets	9,102,432
Total Net Assets	$ 13,349,147

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Statement of Revenue, Expenses and Change in Net Assets
For the Year Ended June 30, 2009

Revenue	
Member contributions	$ 3,263,509
Federal	13,499,545
State	8,076,084
Local	2,082,105
Foundation contributions	466,580
Other income	989,615
Total Revenue	28,377,438
Expenses	
Transportation	18,000,054
Community Planning and Services	1,097,956
Public Safety and Health	2,561,877
Environmental	6,551,924
Member Services	555,551
Total Expenses	28,767,362
Operating Loss	(389,924)
Non-operating Income	
Unrealized gain on investments	156,132
Interest income	352,165
Investment income	659,357
Total Non-operating Income	1,167,654
Change in net assets	777,730
Net assets, beginning of year	12,571,417
Net Assets, End of Year	$ 13,349,147

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

Statement of Cash Flows
For the Year Ended June 30, 2009

Cash Flows from Operating Activities:	
Cash Receipts	
Membership and other revenue sources	**$ 29,631,288**
Cash Disbursements	
Payments for people	**(12,546,967)**
Payments to vendors	**(16,171,638)**
Total Cash Disbursement	**(28,718,605)**
Net Cash from Operating Activities	**912,683**
Cash Flows from Investing Activities	
Purchase of Investments	**(597,093)**
Interest income	**352,165**
Investment income	**659,357**
Net Cash Flow from Investing Activities	**414,429**
Cash Flows from Capital Financing Activities	
Purchase of furniture and equipment	**(592,384)**
Net increase in cash	**734,728**
Cash, beginning of year	**1,741,567**
Cash, End of Year	**$ 2,476,295**
Reconciliation of Operating Income to Net Cash From Operating Activity	
Operating loss	**$ (389,924)**
Adjustments to reconcile operating income to cash from operating activities:	
Depreciation and amortization	**123,077**
Effect of changes in non-cash operating assets and liabilities:	
Accounts receivable	**580,289**
Prepaid expenses	**70,873**
Accounts payable	**278,337**
Accrued expenses and vacation	**(349,870)**
Deferred revenue	**599,901**
Net Cash Flow from Operating Activities	**$ 912,683**

Notes to the Financial Statements
June 30, 2009

1. ORGANIZATION

The Metropolitan Washington Council of Governments, Inc. (COG), is an organization comprised of 21 local governments of the Metropolitan Washington 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 governmental 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, disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amount of change in net assets during the reporting period. 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)

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.

Compensated Absences

Employees are allowed to accumulate unused vacation leave up to certain maximum hours. COG employees earn 13 to 26 vacation days in a year, depending on the length of their employment. All employees receive 13 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.

Deferred Revenue

Funds advanced to COG before the satisfaction of program eligibility requirements are reflected as deferred 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. As of June 30, 2009, COG had a deferred revenue balance of $673,561.

Fringe Benefit and Indirect Cost Allocations

Fringe benefit and indirect costs are allocated to each project based on certain allocation rates. Separate rates are determined for management and administrative personnel costs, fringe benefits (excluding leave), leave, 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
- The indirect non-personnel rate is the ratio of total indirect costs over total personnel and temporary and fringe benefit costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The fringe benefit and indirect costs rates for fiscal years ended June 30, 2009, is as follows:

M&A personnel costs	**23.88%**
Leave	**18.48%**
Fringe benefits	**21.13%**
Indirect non-personnel costs	**30.95%**

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. As of June 30, 2009, COG's bank balance was $3,140,310 and its book balance was $2,476,295. The bank balance was fully insured or collateralized.

4. INVESTMENTS

COG's investments are stated at fair value as determined by quoted market prices. As of June 30, 2009, the investment balance consists of the following:

Certificate of deposits	**$ 7,384,314**
Government securities	**491,308**
Money market	**387,309**
	$ 8,262,931

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 50% of the institution's capital stock or net worth. In addition, financial institutions must have a satisfactory or outstanding Community Reinvestment Act rating, total capitalization of at least $10 million, and a FDIC Capital Classification of "Well Capitalized" or Adequately Capitalized. As of June 30, 2009, 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 S&P.

4. INVESTMENTS (continued)

▪ ***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 bonds are as follows:

One to five years	67%
Five to ten years	33%

5. CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2009:

	Balance as of June 30, 2008	Additions	Balance as of June 30, 2009
Furniture and equipment	**$ 1,407,928**	**$ 379,500**	**$ 1,787,428**
Leasehold improvements	**263,874**	**-**	**263,874**
Computer hardware	**1,260,595**	**177,355**	**1,437,950**
Computer software	**764,469**	**35,529**	**799,998**
Local area network	**319,416**	**-**	**319,416**
Total Capital Assets	**4,016,282**	**592,384**	**4,608,666**
Less: accumulated depreciation	**3,946,574**	**123,077**	**4,069,651**
Net Capital Assets	**$ 69,708**	**$ 469,307**	**$ 539,015**

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. The total amount of depreciation expense that was recorded for the year ended June 30, 2009, was $123,077.

6. 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 65 years 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 five 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 $200 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.

6. 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 6% of their salary in bi-weekly installments to the plan. COG contributed 6% to keep the plan financially sound, based upon annual actuarial valuations. As of July 1, 2009, COG and its participants will be required to contribute 7% of their employee's bi-weekly salary to the Plan. COG's and employee's contributions to the Plan for the year ended June 30, 2009, was $700,000 and $531,718, respectively.

Annual Pension Cost

For the year ended June 30, 2009, COG's estimated annual pension cost was $596,746, which was equal to COG's required and actual contributions.

Three Year Trend Information

	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	$ 493,465	100%	$ -
June 30, 2008	531,718	100%	$ -
June 30, 2009	596,746	117%	$ -

Funding Status and Funding Progress

The actuarial valuations were determined using the entry age normal cost method.

	June 30, 2009
Net assets available for plan benefits	**$ 39,951,100**
Actuarial accrued liability (AAL)	**38,129,441**
Overfunded AAL	**$ 1,821,659**

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	$ 10,001,646
Overfunded AAL as a percentage of payroll	18.2%

6. 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	RP-2000 Mortality Table for disabled lives
II. Retirement	All members will retire when first eligible
Economic	
I. Assumed rate of return	7.0%
II. Cost of living benefit increase for actuarial valuation only	4% compound per annum
III. Across the board increase in salaries	4.50% compound per annum
IV. Administrative expenses	Equal to prior year's actual administrative expense

7. 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) (together with the COG Owners). The Owners occupy and/or sublease approximately 93.81% of the building's rentable space. CPAS is a real estate investment trust (REIT) and must distribute most of it's earnings to it's owners each year. During the year ended June 30, 2009, CPAS distributed $659,357 of income to COG.

7. RELATED PARTY TRANSACTIONS (continued)

CPAS's summarized financial information as of and for the year ended December 31, 2008, is as follows:

Total assets	**$ 22,996,270**
Total liabilities	**32,276,948**
Total stockholders' deficit	**$ (9,280,678)**
Revenue	**$ 8,757,972**
Expenses	**6,804,123**
Net income before income tax provision	**1,953,849**
Income tax provision	**-**
Net income	**$ 1,953,849**

CPAS's assets included net rental property of $13,338,629 as of December 31, 2008.

8. LEASE COMMITMENT

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, the share of real estate taxes and operating expenses, and annual rental escalations based on the CPI. The future minimum lease payments for the next five years and thereafter required under the operating lease, excluding real estate taxes, operating expenditures and CPI adjustments is $6,919,088. The payments each fiscal year are as follows:

For the Year Ending June 30,	
2010	**$ 1,064,475**
2011	**1,064,475**
2012	**1,064,475**
2013	**1,064,475**
2014	**1,064,475**
Thereafter	**1,596,713**
Total	**$ 6,919,088**

Rent expense for the fiscal year ended June 30, 2009, was $2,343,229, which included real estate taxes, operating expenses and CPI adjustments. COG subleases a portion of its office space. Rental income from the tenant was $81,540 for the year ended June 30, 2009.

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.

We have audited the financial statements of Metropolitan Washington Council of Governments, Inc. (COG), as of and for the year ended June 30, 2009, and have issued our report thereon dated October 23, 2009. 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 of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered COG's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of COG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of COG's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of COG management, the Board of Directors, others within the entity, Federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

SB & Company, LLC

Washington, DC
October 23, 2009

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

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

Compliance

We have audited the compliance of the Metropolitan Washington Council of Governments, Inc. (COG), with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. COG's major Federal programs are identified in the summary of Independent Public Accountants' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of COG's management. Our responsibility is to express an opinion on COG's compliance based on our audit.

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 of America; and OMB Circular A-133, *Audit 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. Our audit does not provide a legal determination of COG's compliance with those requirements.

In our opinion, COG complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009.

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Internal Control Over Compliance

The management of the COG is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered COG's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program, that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, COG's management, others within the entity, Federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

SB & Company, LLC

Washington, DC
October 23, 2009

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Agency/Program Name	Pass-Through Identifying Number	CFDA #	Expenditures
U.S. Department of Transportation			
Airport Improvement Program	-	20.106	$ 248,869
Airport Improvement Program	-	20.106	61,628
Total Airport Improvement Program			310,497
Passed through Virginia, Maryland and D.C. Department of Transportations			
Regional Transportation Coordination Program	N.A.	20.505	548,719
Sensitivity Project	N.A.	20.505	19,985
Highway Performance Monitoring System	N.A.	20.505	44,725
Transportation Planning Work Program	N.A.	20.505	8,557,752
Care Free Day Project	N.A.	20.505	23,839
Total passed through Virginia, Maryland, and D.C. Department of Transportations			9,195,020
Job Access Reverse Commute Program	DC-37-X020-01	20.516	504,391
New Freedom Program	DC-57-X020-01	20.521	194,167
			698,558
Total U.S. Department of Transportation			10,204,075
U.S. Environmental Protection Agency			
Reducing Emissions	N.A.	66.039	73,487
EPA Anacostia Restoration Partnership	N.A.	66.436	88,172
Passed Through Virginia Department of Environment Quality			
FY08 Air Pollution Section 105	N.A.	66.001	2,650
Passed Through Virginia Department of Transportation			
Clean Air Partners	N.A.	66.600	151,598
Macroinvertebrate Monitoring	N.A.	66.600	5,207
Passed Through DC Department of Environment			
Macroinvertebrate Monitoring	N.A.	66.605	8,813
Total U.S. Environmental Protection Agency			329,927
U.S. Department of Energy			
Passed Through District of Columbia Energy Office			
Promoting AQ W/ Clean Energy		81.119	29,592

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

Federal Agency/Program Name	Pass-Through Identifying Number	CFDA #	Expenditures
U.S. Department of Homeland Security			
Passed through D.C. Office of Deputy Mayor for Public Safety & Justice			
FY 06 USAI Water Security Monitoring Network	03AUAS06	97.008	$ 281,180
FY 06 USAI Water Security Monitoring Network	03BUAS6	97.008	5,522
FY 08 UASI Water Security Monitoring Network	03CUAS6-A	97.008	241,130
FY 08 UASI Water Security Project – Maintenance	7UASI117-03	97.008	156,016
FY 08 UASI (Secretariat Support)	7UASI117-04	97.008	17,964
FY 08 UASI	CIPDUAS6	97.008	53,291
FY 06 UASI	15AUAS6	97.008	23,437
FY 06 UASI (Urban Area Secretariat Initiative)	CIPAUAS6	97.008	122,145
FY 06 UASI (Urban Area Secretariat Initiative)	ETAUAS6	97.008	150,679
FY 06 UASI (Urban Area Secretariat Initiative)	COGBUAS6	97.008	9,284
FY 08 UASI UASI-NCR Region Interoperability Program	10AUAS6-A	97.008	25,548
Total Urban Areas Security Initiative			1,086,196
Wtr Monit Netwk Expansion		97.067	10,608
FY 08 UASI (Urban Area Secretariat Initiative)	7UASI117-04	97.067	378,150
FY 08 UASI (Medical Surge Scenario Base Planning)	7UASI117-06	97.067	3,592
FY 08 UASI (Senior Leader Seminar)	7UASI117-07	97.067	94,471
FY 09 UASI (Urban Area Secretariat Initiative)	7UASI117-09	97.067	194,607
FY 09 UASI (Urban Area Secretariat Initiative)	8UASI117-01	97.067	2,497
FY 09 UASI (Urban Area Secretariat Initiative)	8UASI117-02	97.067	391,494
FY 09 UASI (Urban Area Secretariat Initiative)	7UASI117-10	97.067	29,969
FY 09 UASI (Urban Area Secretariat Initiative)	6SHSP117-01	97.067	122,917
FY 09 UASI (Urban Area Secretariat Initiative)	7UASI117-11	97.067	39,956
FY 09 UASI (Urban Area Secretariat Initiative)	7UASI117-13	97.067	343,070
FY 09 UASI (Urban Area Secretariat Initiative)	8UASI117-03	97.067	60,335
FY 09 UASI (Urban Area Secretariat Initiative)	7UASI117-14	97.067	1,497
FY 09 UASI (Urban Area Secretariat Initiative)	6SHSP117-02	97.067	59,926
FY 09 UASI (Urban Area Secretariat Initiative)	7UASI117-15	97.067	34,361
FY 09 UASI (Urban Area Secretariat Initiative)	8UASI117-04	97.067	9,525
FY 09 UASI (Urban Area Secretariat Initiative)	8UASI117-06	97.067	7,636
FY 09 UASI (Urban Area Secretariat Initiative)	7UASI117-16	97.067	927
Total Homeland Security Grant Program			1,785,538
Total U.S. Department of Homeland Security			2,871,734
U.S. Department of Agriculture			
Community Woodlands	N.A.	10.678	20,002
Passed Through D.C. Department of Transportation			
Urban Forestry Initiative	N.A.	10.675	30,000
Urban/Community Forestry	N.A.	10.675	14,215
Total U.S. Department of Agriculture			64,217
Total Expenditures of Federal Awards			$ 13,499,545

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Metropolitan Washington Council of Governments (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 2009 cash or non-cash expenditures activities. For our single audit testing, all Federal award programs with 2009 cash and non-cash expenditures in excess of $404,986 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 was 71.8%.

Major Program	CFDA Numbers	Federal Expenditures
TP Work Program	20.505	$ 9,195,020
Job Access Reverse Commute Program	20.516	504,391
		$ 9,699,411

2. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards has been accounted for on the accrual basis of accounting**.**

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section I - Summary of Independent Public Accountants' Results

Financial Statements:

Type of report of independent public accountants report:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies 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 deficiencies(s) identified that are not considered to be material weaknesses?	None Noted
Type of report of independent public accountants issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

Identification of Major Programs:

Major Program	CFDA Numbers	Federal Expenditures
TP Work Program	20.505	$ 9,195,020
Job Access Reverse Commute Program	20.516	504,391
Total		$ 9,699,411
Threshold for distinguishing between Type A and B programs		$ 404,986

Did the entity qualify as a low risk auditee? Yes

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

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, 2009

2008-1 Budget Process

Condition: COG makes significant changes to its annual work plan budget during the fiscal year, since the budget is prepared one year in advance. Although COG has some budget procedures in place, more formal, written budget procedures are needed in the process to improve the organization's monitoring of its fiscal operations. In our review of COG's budget process, we identified instances of (a) active projects with no budgets; (b) inactive projects with budgets; and (c) outdated project budgets.

In addition, COG utilizes an account entitled "revenue transfer" in its accounting system as a budgeted line item that reflects transfer of funds between current and new projects. For those projects that span over several fiscal years, the source of the revenue transfers were not easily determined. The use of a revenue transfer account for each revenue source and the identification of the source in the budget documents will provide an audit trail of the budgeted resources used to fund COG's different projects.

Recommendation: We recommend COG establish written budget procedures that summarize the organization's process for updating and closing budgets in its accounting system. We also recommend COG establish a budgeted revenue transfer account for each revenue account and to document in its budget documents the source of the revenue transfers.

Current Year Status: Recommendation was implemented. Finding has been satisfied.

2008-2 Adjusting Entries

Condition: COG records recurring and nonrecurring adjusting entries in its accounting system throughout the fiscal year. We identified in our testing of COG's adjusting entries that some adjusting entries had no evidence of supervisory approval and no supporting documentation attached. Management was able to subsequently provide supporting documentation for those adjusting entries with missing documentation. However, adjusting entries should be self explanatory and stand-alone documents.

Recommendation: We recommend COG establish written procedures for processing and recording adjusting entries in its accounting system. At minimum, the procedures should require management signature approval on all adjusting entries and the attachment of supporting documents to the adjusting entries.

Current Year Status: Recommendation was implemented. Finding has been satisfied.