

**METROPOLITAN WASHINGTON COUNCIL
OF GOVERNMENTS**

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2018



ASSURANCE, TAX & ADVISORY SERVICES

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining fund information of Metropolitan Washington Council of Governments (MWCOG), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise MWCOG's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MWCOG's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MWCOG's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the remaining fund information of MWCOG as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 4-8 and 34-36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 on our consideration of MWCOC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 MWCOC's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
December 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 MWCOG for the fiscal year covered by this audit report.

What We Do

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

FINANCIAL HIGHLIGHTS AND ANALYSIS

Statement of Net Position

The following table presents a summary of the Statement of Net Position for MWCOG as of June 30, 2018 and 2017:

Summary Statement of Net Position				
June 30, 2018 and 2017				
	Governmental Activities		Increase	%
	2018	2017	(Decrease)	Change
Assets:				
Current and other assets	\$ 25,326,389	\$ 24,821,962	\$ 504,427	2.0%
Capital assets, net	1,634,561	1,479,845	154,716	10.5%
Total assets	26,960,950	26,301,807	659,143	2.5%
Deferred outflows of resources	800,912	1,628,522	(827,610)	-50.8%
Liabilities:				
Current and other liabilities	5,057,012	9,527,377	(4,470,365)	-46.9%
Long-term liabilities	575,987	664,585	(88,598)	-13.3%
Total liabilities	5,632,999	10,191,962	(4,558,963)	-44.7%
Deferred inflows of resources	3,052,907	344,042	2,708,865	787.4%
Net Position:				
Net investment in capital assets	1,634,561	1,479,845	154,716	10.5%
Restricted	3,194,069	8,207	3,185,862	38818.8%
Unrestricted	14,247,326	15,906,273	(1,658,947)	-10.4%
Total net position	\$ 19,075,956	\$ 17,394,325	\$ 1,681,631	9.7%

Current assets were used to reduce current liabilities by \$3.0 million. This, along with a decrease in due from other governments and other receivables of \$1.5 million and an increase of \$4.1 million in the net pension asset, resulted in an overall net increase of 2.0% in current and other assets. Current and other liabilities were further reduced by \$1.5 million, primarily due to recognition of revenue that had previously been deferred.

Changes in Net Position

The following table presents a summary of the Statement of Changes in Net Position for MWCOG as of June 30, 2018 and 2017:

Summary Statement of Changes in Net Position Years Ended June 30, 2018 and 2017

	Governmental Activities		Increase (Decrease)	% Change
	2018	2017		
Revenue:				
Federal, state and local revenue	\$ 36,285,350	\$ 47,225,457	\$ (10,940,107)	-23.2%
Member dues	4,058,169	3,914,858	143,311	3.7%
Building revenue	651,177	720,488	(69,311)	-9.6%
Contributed services	-	433,160	(433,160)	-100.0%
Miscellaneous	2,991,528	2,084,417	907,111	43.5%
Total Revenues	43,986,224	54,378,380	(10,392,156)	-19.1%
Expenses:				
Personnel	16,372,186	15,245,412	1,126,774	7.4%
Professional fees	8,330,958	7,875,269	455,689	5.8%
Subrecipient pass-through funds	6,205,741	21,178,838	(14,973,097)	-70.7%
Other direct expense	7,188,647	4,909,910	2,278,737	46.4%
Contributed services	-	433,160	(433,160)	-100.0%
Pension expense adjustment	(628,354)	258,228	(886,582)	-343.3%
Non-personnel support service costs	4,835,415	5,098,722	(263,307)	-5.2%
Total Expenses	42,304,593	54,999,539	(12,694,946)	-23.1%
Change in net position	1,681,631	(621,159)	2,302,790	-370.7%
Beginning net position	17,394,325	18,015,484	(621,159)	-3.4%
Ending net position	\$ 19,075,956	\$ 17,394,325	\$ 1,681,631	9.7%

Total operating revenue in fiscal year 2018 was \$44.0 million. Of the total operating revenue, \$36.3 million (82%) was from federal, state and local funds, of which \$6.2 million was passed through to subrecipients. Member dues generated an additional \$4.1 million in revenue, and were used to provide member services and funding for specific regional programs, as approved by the Board of Directors. MWCOG also owns one-third of the common stock of the Center for Public Administration and Services, Inc., a real estate investment trust (REIT) which owns and operates the building that houses MWCOG's offices. In fiscal year 2018, MWCOG recorded \$651,177 in revenue from the REIT and from the sublease of a portion of its office space. Starting in fiscal year 2018, contributed services are no longer recognized as revenue and a corresponding expense on MWCOG's financial statements, based on a review of the nature of the contributions.

Revenue decreased by \$10.4 million and expenses decreased by \$12.7 million in fiscal year 2018 compared to fiscal year 2017. The decrease is due primarily to a reduction in subrecipient pass-through funds from the federal Urban Area Security Initiative (UASI) and Secure the Cities (STC) programs.

Net position refers to the resources that would remain if all obligations were settled. The table below identifies categories of net position as non-cash (invested in capital assets), restricted for program use, designated for future capital projects and programs, operating reserves designated for emergencies and unexpected cash flow interruptions, the net pension asset based on the actuarial report as of January 1, 2018, and assets available for current and future general expenditures (undesignated).

Net Position by Category	Balance			Balance June 30, 2018
	June 30, 2017	Increase	Decrease	
Net investment in capital assets	\$ 1,479,845	\$ 484,425	\$ 329,709	\$ 1,634,561
Restricted program funds	1,543,182	1,888,197	237,310	3,194,069
Restricted - other	8,207	-	8,207	-
Unrestricted				
Capital expenditure reserve	5,927,308	329,708	484,425	5,772,591
Operating reserve	5,248,900	-	162,866	5,086,034
Net pension asset (includes deferred inflows and outflows)	2,131,734	3,337,219	2,708,865	2,760,088
Undesignated	1,055,149	171,074	597,610	628,613
Total Net Position	\$ 17,394,325	\$ 6,210,623	\$ 4,528,992	\$ 19,075,956

The increase in net position in fiscal year 2018 or \$1.7 million is due to an increase in restricted program funds, which are reserved for expenditures in future fiscal years. Undesignated net assets were reduced by \$426,536, primarily due to a shortfall in UASI and STC funding, unrealized revenue from MWCOG's cooperative purchasing program, and a book entry to adjust investments to market value as of June 30, 2018.

Investment (increase) in capital assets of \$484,425 included continuation of an upgrade to the wireless network, migration of the accounting system to a cloud environment, and preliminary expenses for the planned office remodel, utilizing funds from the capital expenditure reserve. The board-designated operating reserve is fully funded at 25 percent of personnel and support service expenses, as per board policy. The net pension asset of \$2,760,088 is the actuarial value of assets in excess of liabilities in MWCOG's pension plan as of January 1, 2018, and includes deferred inflows and outflows. Net pension assets are not available for use in operations. Undesignated net assets of \$628,613 are available for future operations and projects, and to maintain the board-designated reserves.

ANALYSIS OF FINANCIAL INFORMATION

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

MWCOG's Uses of Funds

The Department of Transportation Planning accounts for 60% of program expenditures, and is by far the largest segment of the organization. The Department of Homeland Security and Public Safety and the Department of Environmental Programs account for 18% and 17% of expenses respectively.

Expenses by Program	Year Ended	
	June 30, 2018	June 30, 2017
Transportation	\$ 25,183,969	\$ 24,701,357
Community Planning, Health, and Child Welfare	874,574	1,210,208
Homeland Security and Public Safety	7,794,493	20,087,537
Environmental	7,128,823	6,798,167
Executive, Governance, and Member Services	1,951,088	1,944,042
Pension Expense Adjustment	(628,354)	258,228
Total Operating Expenses	\$ 42,304,593	\$ 54,999,539

MWCOG's Capital Assets

Capital assets are made up of furniture and equipment (\$1.9 million), computer hardware and networks (\$1.6 million), software (\$1.2 million), and leasehold improvements (\$1.0 million), recorded at cost. Constructions in progress (\$.6 million) includes an ongoing upgrade to the wireless network, and preliminary expenses associated with the office remodel planned for 2019 and 2020. Accumulated depreciation at June 30, 2018 was \$4.7 million, for a net book value of approximately \$1.6 million.

	June 30, 2017	Net Additions	June 30, 2018	Useful Life (in Years)
Construction in progress	\$ 158,338	\$ 433,486	\$ 591,824	
Furniture and equipment	1,885,514	-	1,885,514	10
Leasehold improvements	1,013,630	26,750	1,040,380	10-17
Computer hardware	1,250,191	24,189	1,274,380	3-5
Computer software	1,202,666	-	1,202,666	5
Local area network	319,881	-	319,881	3
Total capital assets	5,830,220	484,425	6,314,645	
Less: accumulated depreciation and amortization	4,350,375	329,709	4,680,084	
Capital assets, net	\$ 1,479,845	\$ 154,716	\$ 1,634,561	

MWCOG's Future Changes and Trends

MWCOG's cooperative purchasing program is expected to provide additional revenue for operations starting in fiscal year 2019. A new Regional Public Safety Fund of approximately \$530,000, managed by MWCOG, has been proposed for fiscal year 2020, to provide a sustainable solution for the region to support its long-term public safety needs. Federal funds available for this purpose are expected to decrease.

Starting in the spring of 2019, MWCOG will utilize a significant portion of its capital expenditure reserve to remodel the office and meeting room space at 777 North Capitol St. N.E. in Washington, D.C., as approved in MWCOG's five-year capital expenditure plan. The estimated cost of the remodel is \$6.6 million. It is expected that financing of up to \$2.0 million may be needed to complete the project and ensure adequate cash flow for operations.

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

CONTACT FOR FURTHER INFORMATION

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

BASIC FINANCIAL STATEMENTS

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,542,364
Due from other governments	11,186,184
Other receivables	338,144
Prepaid items	454,576
Investments	2,183,569
Total current assets	<u>16,704,837</u>
Noncurrent assets:	
Investments	3,609,469
Net pension asset	5,012,083
Capital assets, net	1,634,561
Total noncurrent assets	<u>10,256,113</u>
Total assets	<u>26,960,950</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension plan	<u>800,912</u>
Total deferred outflows of resources	<u>800,912</u>
LIABILITIES	
Current liabilities:	
Accounts payable	3,520,754
Due to other governments	515,164
Accrued liabilities	609,421
Unearned revenue	27,681
Total current liabilities	<u>4,673,020</u>
Noncurrent liabilities:	
Due within one year:	
Compensated absences	383,992
Due in more than one year:	
Compensated absences	575,987
Total noncurrent liabilities	<u>959,979</u>
Total liabilities	<u>5,632,999</u>
DEFERRED INFLOWS OF RESOURCES	
Pension plan	<u>3,052,907</u>
Total deferred inflows of resources	<u>3,052,907</u>
NET POSITION	
Net investment in capital assets	1,634,561
Restricted - program funds	3,194,069
Unrestricted	14,247,326
Total net position	<u>\$ 19,075,956</u>

See Notes to Financial Statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Function/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net Revenue and Change in Net Position Governmental Activities
Governmental activities:			
Planning and administration	\$ 29,486,281	\$ 30,485,788	\$ 999,507
Planning and administration - indirect	5,962,021	5,962,021	-
Subrecipient	6,856,291	6,856,291	-
Total governmental activities	\$ 42,304,593	\$ 43,304,100	999,507
General revenues:			
Use of money and property			682,124
Total general revenues			682,124
Change in net position			1,681,631
Net position, beginning			17,394,325
Net position, ending			\$ 19,075,956

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

**BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2018**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 2,542,364
Due from other governments	11,186,184
Other receivables	338,144
Prepaid items	454,576
Investments	<u>5,793,038</u>
Total assets	<u>\$ 20,314,306</u>
LIABILITIES	
Accounts payable	\$ 3,520,754
Due to other governments	515,164
Accrued liabilities	609,421
Unearned revenue	<u>27,681</u>
Total liabilities	<u>4,673,020</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	<u>310,219</u>
Total deferred inflows of resources	<u>310,219</u>
FUND BALANCE	
Nonspendable	454,576
Committed	10,858,625
Restricted - program funds	3,194,069
Unassigned	<u>823,797</u>
Total fund balance	<u>15,331,067</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 20,314,306</u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

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

June 30, 2018

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

Fund balance \$ 15,331,067

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

Net pension asset is a long-term asset and not a current financial resource and, therefore, not reported in the governmental fund. 5,012,083

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

Capital assets	\$ 6,314,645	
Less accumulated depreciation and amortization	<u>(4,680,084)</u>	
		1,634,561

Unearned revenue represents amounts that were not available to fund current expenditures and, therefore, is not reported as revenue in the governmental fund. 310,219

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

Pension plan 800,912

Compensated absences are liabilities not due and payable in the current period and, therefore, are not reported in the governmental fund. (959,979)

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

Pension plan (3,052,907)

Net position of governmental activities \$ 19,075,956

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND AND RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2018

	General Fund
Revenues:	
Intergovernmental:	
Federal grants	\$ 25,062,246
State grants	7,190,280
Local grants	4,032,824
Member dues	4,058,169
Contributions and local match	2,003,959
Charges for services	1,244,659
Use of money and property	682,124
Miscellaneous	372,770
Total revenues	44,647,031
Expenditures:	
Planning and administration	29,729,675
Planning and administration - indirect	5,962,021
Subrecipient	6,856,291
Capital outlay	484,425
Total expenditures	43,032,412
Net change in fund balance	1,614,619
Fund balance, beginning	13,716,448
Fund balance, ending	\$ 15,331,067
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balance	\$ 1,614,619
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.	
Add - capital outlays	\$ 484,425
Deduct - depreciation and amortization expense	(329,709)
Excess of capital outlay over depreciation and amortization	154,716
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.	
Change in unearned revenue	(660,807)
Deferred outflows of resources - pension plan	658,756
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental fund.	
Compensated absences	(55,251)
Pension expense	(30,402)
	(85,653)
Change in net position of governmental activities	\$ 1,681,631

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2018

	Pension Trust Funds		
	Custodial Fund	Pension Fund	Supplemental Executive Retirement Plan
ASSETS			
Cash and cash equivalents	\$ 256,395	\$ -	\$ -
Investments held in trust at fair value	-	62,555,695	164,230
Total assets	\$ 256,395	\$ 62,555,695	\$ 164,230
NET POSITION			
Restricted for:			
Other governments	\$ 256,395	\$ -	\$ -
Pension benefits	-	62,555,695	164,230
Total net position	\$ 256,395	\$ 62,555,695	\$ 164,230

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

Year Ended June 30, 2018

	Pension Trust Funds		
	Custodial Fund	Pension Fund	Supplemental Executive Retirement Plan
Additions:			
Contributions	\$ 18,480	\$ 2,090,324	\$ 24,250
Total additions	18,480	2,090,324	24,250
Investment earnings:			
Interest earned on investments	-	1,677,495	-
Net increase in fair value of investments	-	4,160,030	18,232
Other receipts	-	122,450	-
Total income from investment activities	-	5,959,975	18,232
Deductions:			
Consultants	13,565	-	-
Miscellaneous	519	-	-
Benefit payments	-	1,951,702	-
Administrative fees	-	132,696	-
Total deductions	14,084	2,084,398	-
Change in fiduciary net position	4,396	5,965,901	42,482
Net position, beginning	251,999	56,589,794	121,748
Net position, ending	\$ 256,395	\$ 62,555,695	\$ 164,230

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Metropolitan Washington Council of Governments (MWCOG) is an organization comprised of 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. MWCOG's mission is to enhance the quality of life and competitive advantages of the Washington Metropolitan region in the global economy by providing a forum for consensus building and policy making; implementing intergovernmental policies, plans, and programs; and supporting the region as an expert information resource.

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements: Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental revenues, consisting of dues from participating jurisdictions and Federal and State funds from the Commonwealth of Virginia, the State of Maryland, and the District of Columbia, are recognized in the period the funding is made available.

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

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

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies

1. Cash and Cash Equivalents

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

2. Investments

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

3. Prepaid Items

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

4. Capital Assets

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

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

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

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies (Continued)

5. Pension

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

6. Compensated Absences

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

7. Unearned Revenue

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

8. Deferred Outflows/Inflows of Resources

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

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies (Continued)

9. Fund Equity

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

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

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

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

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

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

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

10. Net Position

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

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies (Continued)

11. Commitments and Contingencies

MWCOG receives financial assistance from Federal government grants and contracts. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of MWCOG. MWCOG's management believes such disallowance, if any, would not be material to the financial statements as of June 30, 2018.

12. Fringe Benefit and Indirect Cost Allocations

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

- a. The management and administrative (M&A) personnel costs rate is the ratio of M&A salaries over direct and temporary salaries;
- b. The leave rate is the ratio of leave benefits over total salary costs;
- c. The fringe benefits rate is the ratio of fringe benefit expense (excluding leave benefits) over total salary costs less temporary salaries and intern costs plus leave benefits; and
- d. 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 personnel costs, leave, fringe benefits, and indirect non-personnel costs rates for the fiscal year ended June 30, 2018 were as follows:

Central support services personnel expense by office	24.60%
Leave benefits	19.57%
Fringe benefits	25.80%
Central support services non-personnel	34.16%

13. Use of Estimates

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

14. Subsequent Events

MWCOG has evaluated subsequent events through December 12, 2018, the date on which the financial statements were available to be issued.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments

Custodial Credit Risk (Deposits)

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

Investment Policy

General Fund

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

Pension Fund

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

Investments

MWCOG's investments are stated at fair value as determined by quoted prices. As of June 30, 2018, the investment balance consisted of the following:

	Fair Value	Investment Maturities (in years)			
		Less Than 1 Year	1 - 5 Years	6 - 10 Years	10 Years or More
Certificates of deposit	\$ 5,539,531	\$ 2,080,061	\$ 2,889,698	\$ 455,880	\$ 113,892
Enterprise Community Impact Note	150,000	-	150,000	-	-
Money market funds - MBS	103,507	103,507	-	-	-
Money market funds - SunTrust	105,258	105,258	-	-	-
Mutual funds - SunTrust	37,986,428	37,986,428	-	-	-
Guaranteed Investment Contract - New York Life	24,464,009	24,464,009	-	-	-
Mutual funds	164,230	164,230	-	-	-
Total	\$ 68,512,963	\$ 64,903,493	\$ 3,039,698	\$ 455,880	\$ 113,892

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

Credit Risk

Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. In addition, financial institutions must have a satisfactory or outstanding Community Reinvestment Act rating, total capitalization of at least \$10 million, and an FDIC Capital Classification of “Well Capitalized” or “Adequately Capitalized.” As of June 30, 2018, MWCOG’s bonds with the Federal National Mortgage Association had a AAA rating by Moody’s Investments Ratings and AA+ by Standard and Poor’s.

Concentration of Credit Risk

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

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

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

Interest Rate Risk

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

Note 3. Fair Value Measurement

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

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

	Level 1	Level 2	Level 3
Certificates of deposit	\$ 5,539,531	\$ -	\$ -
Enterprise Community Impact Note	150,000	-	-
Money market funds	208,765	-	-
Mutual funds	38,150,658	-	-
Guaranteed Investment Contract	-	24,464,009	-

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 4. Due To/From Other Governments

Amounts due from other governments are as follows:

District of Columbia - Department of Transportation	\$ 2,044,733
Maryland Department of Transportation	1,951,901
Homeland Security and Emergency Management Agency	1,567,907
Federal Transit Administration	1,020,583
Virginia Department of Transportation	811,946
Virginia Department of Transportation - Commuter Connection	811,158
US Environment Protection Agency	506,735
Washington Suburban Sanitary Commission	304,148
District of Columbia - Water and Sewer Authority	283,902
Virginia Department of Rail and Public Transportation	239,412
Metropolitan Washington Airports Authority	233,333
Federal Aviation Administration	163,087
Maryland Aviation Administration	116,667
Other governments	<u>1,130,672</u>
	<u><u>\$ 11,186,184</u></u>

Amounts due to other governments are as follows:

Federal City Council	\$ 143,448
County of Montgomery	121,804
County of Prince George	95,867
Other governments	<u>154,045</u>
	<u><u>\$ 515,164</u></u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Capital assets consisted of the following as of June 30, 2018:

	June 30, 2017	Additions	Transfers	June 30, 2018
Capital assets not being depreciated or amortized:				
Construction in progress	\$ 158,338	\$ 433,486	\$ -	\$ 591,824
Capital assets being depreciated or amortized:				
Furniture and equipment	1,885,514	-	-	1,885,514
Leasehold improvements	1,013,630	26,750	-	1,040,380
Computer hardware	1,250,191	24,189	-	1,274,380
Computer software	1,202,666	-	-	1,202,666
Local area network	319,881	-	-	319,881
Total capital assets being depreciated or amortized	5,671,882	50,939	-	5,722,821
Less accumulated depreciation or amortization for:				
Furniture and equipment	1,674,286	79,748	-	1,754,034
Leasehold improvements	446,879	62,784	-	509,663
Computer hardware	986,242	150,113	-	1,136,355
Computer software	941,282	33,094	-	974,376
Local area network	301,686	3,970	-	305,656
Total accumulated depreciation and amortization	4,350,375	329,709	-	4,680,084
Total capital assets being depreciated or amortized, net	1,321,507	(278,770)	-	1,042,737
Total capital assets, net	\$ 1,479,845	\$ 154,716	\$ -	\$ 1,634,561

MWCOG calculates depreciation and amortization expense each year based on its capital assets' estimated useful lives. The depreciation and amortization expense is then allocated to each of MWCOG's projects through its indirect cost rate. Depreciation and amortization expense for the year ended June 30, 2018, was \$329,709.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2018, were as follows:

Activity	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Due in One Year
Compensated absences	\$ 904,728	\$ 1,072,552	\$ (1,017,301)	\$ 959,979	\$ 383,992
Noncontributory executive retirement plan	121,748	42,482	-	164,230	-
	<u>\$ 1,026,476</u>	<u>\$ 1,115,034</u>	<u>\$ (1,017,301)</u>	<u>\$ 1,124,209</u>	<u>\$ 383,992</u>

Note 7. Short-Term Debt

MWCOG has a \$3,000,000 revolving line of credit that can be used for operations or finance certain grant-funded projects prior to the receipt of reimbursements from the granting agencies. The revolving line of credit was not used during the year ended June 30, 2018.

Note 8. Pension Plan

A. Plan Description

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

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

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

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

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

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

Plan Membership

As of the January 1, 2018 actuarial valuation, the following members were covered by the benefit terms of the Plan:

	<u>Number</u>
Inactive member or their beneficiaries currently receiving benefits	41
Inactive members:	
Vested	<u>19</u>
Total inactive members	<u>60</u>
Active members	<u>131</u>
Total	<u><u>191</u></u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

A. Plan Description (Continued)

Contributions

MWCOG actuarially determined contribution rate for the years ended December 31, 2017 and 2016 was 10.57% and 11.37%, respectively, of covered employee compensation, based on an actuarial valuation as of January 1, 2018 and 2017, respectively. The contribution requirements of the Plan participants are established and may be amended by MWCOG's Board of Directors. Currently, MWCOG is required to contribute 10% and participants are required to contribute 8% of their salary in bi-weekly installments to the Plan. The contributions to the Plan from MWCOG and the participants for the years ended June 30, 2018 and 2017 was \$2,363,083 and \$2,303,797, respectively.

B. Net Pension Asset

MWCOG's net pension asset was measured as of December 31, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of January 1, 2018.

Actuarial Assumptions

Valuation date	January 1, 2018
Actuarial cost method	Entry Age Normal
Asset valuation	4 year smoothed market
Amortization method	19 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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by MWCOG after considering input from MWCOG’s investment consultant(s) and actuary(s), for each major asset class that is included in MWCOG’s target asset allocation as of December 31, 2017, these best estimates are summarized in the following table.

Asset Class (Strategy)	Target Weight	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	60.00%	5.12%	3.07%
Core Fixed Income	40.00%	1.00%	0.40%
Cash	0.00%	0.25%	0.00%
Total	100.00%		3.47%
Inflation		4.00%	

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 13.8%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

C. Changes in the Net Pension Asset

The changes in the net pension asset as of December 31, 2017 were as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balances at December 31, 2016	\$ 52,200,275	\$ 53,047,529	\$ (847,254)
Changes for the year:			
Service cost	2,221,553	-	2,221,553
Interest (includes interest on service cost)	3,711,023	-	3,711,023
Difference between expected and actual experience	(394,776)	-	(394,776)
Contributions - employer	-	1,268,864	(1,268,864)
Contributions - employee	-	1,015,076	(1,015,076)
Net investment income	-	7,532,245	(7,532,245)
Benefit payments, including refunds of member contributions	(592,887)	(592,887)	-
Administrative expense	-	(113,556)	113,556
Net changes	4,944,913	9,109,742	(4,164,829)
Balances at December 31, 2017	<u>\$ 57,145,188</u>	<u>\$ 62,157,271</u>	<u>\$ (5,012,083)</u>

Sensitivity of the Net Pension Asset

The following presents the net pension asset of MWCOG as of December 31, 2017, calculated using the discount rate of 7.00%, as well as what MWCOG's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset)	<u>\$ 1,374,818</u>	<u>\$ (5,012,083)</u>	<u>\$ (9,680,919)</u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

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

For the year ended June 30, 2018, MWCOG recognized pension expense (benefit) of (\$628,354). MWCOG also reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	\$ -	\$ 3,052,907
Difference between expected and actual experience	142,156	-
Employer contributions made subsequent to the measurement date	658,756	-
	<u>\$ 800,912</u>	<u>\$ 3,052,907</u>

The \$658,756 reported as deferred outflows of resources related to pensions resulting from MWCOG's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	Amount
2019	\$ (411,609)
2020	(411,609)
2021	(420,199)
2022	(420,199)
2023	(686,446)
2024	(560,689)
Total	<u><u>\$ (2,910,751)</u></u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 9. Supplementary Retirement Plans

Defined Contribution Plan

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

Supplemental Executive Retirement Plan

Effective November 14, 2012, MWCOG provides a noncontributory supplemental executive retirement plan (the SERP plan) for a certain executive under section 457(f) of the Internal Revenue Code of 1986, as amended. MWCOG's contributions to the SERP plan are established each year at the discretion of the Board of Directors. The participant is vested based on the provisions set forth in the SERP plan document. As of June 30, 2018, MWCOG held \$164,230, of noncontributory compensation in a trust that is administered by MWCOG, which has been recorded as a Fiduciary Pension Trust Fund.

Note 10. Related Party Transactions

MWCOG owns one-third of the common stock of the Center for Public Administration and Services, Inc. (CPAS), which owns and operates the office building housing MWCOG's offices. There is no agreement between the owners for sharing in the profits or losses of the CPAS and, therefore, MWCOG has not recorded an equity interest for their one-third ownership. The remainder of the CPAS stock is held equally by the International City Management Association Retirement Corporation (ICMA-RC) and the International City Management Association (ICMA). The owners occupy and/or sublease the majority of the building's rentable space. CPAS is a real estate investment trust (REIT) and must distribute most of its earnings to its owners each year. During the year ended June 30, 2018, CPAS distributed \$620,000 of income to MWCOG.

CPAS's summarized financial information as of and for the year ended December 31, 2017, was as follows:

Total assets	\$ 28,216,876
Total liabilities	<u>37,336,050</u>
Total stockholders' deficit	<u><u>\$ (9,119,174)</u></u>
Revenue	\$ 9,778,095
Expenses	<u>8,427,796</u>
Net income	<u><u>\$ 1,350,299</u></u>

As of December 31, 2017, CPAS's assets included net rental property of \$18,928,812. The owners of the building are jointly liable for the outstanding note payable of \$37,300,000 included in total liabilities above.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 11. Lease Commitments

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

The future minimum lease payments required under the various operating leases, excluding real estate taxes, operating expenditures and CPI adjustments as of June 30, 2018 are below.

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,344,600
2020	1,344,600
2021	1,344,600
2022	1,344,600
2023	1,344,600
2024-2027	<u>3,361,500</u>
	<u>\$ 10,084,500</u>

Rent expense for the fiscal year ended June 30, 2018 was \$2,557,213, which included real estate taxes, operating expenses, and CPI adjustments.

MWCOG subleased a portion of its office space during fiscal year 2018. MWCOG receives an annual rent of \$16,800 plus 0.2863% of the buildings operating costs and 0.2834% of the buildings real estate taxes for the new lease. For the year ended June 30, 2018, total rental income for the leased portion of its office space was \$31,177.

Note 12. Pending GASB Statements

At June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by MWCOG. The statement which might impact MWCOG is as follows:

GASB Statement No. 87, *Leases*, will increase the usefulness of the County's financial statements by requiring reporting of certain lease assets and liabilities and deferred inflows of resources for leases that previously were classified as operating leases. Statement No. 87 will be effective for fiscal years beginning after December 15, 2019.

Management has not determined the effects this new Statement may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

SCHEDULE OF CHANGES IN EMPLOYER NET PENSION ASSET

	As of December 31,			
	2014	2015	2016	2017
Total pension liability:				
Service cost	\$ 1,771,873	\$ 1,895,939	\$ 2,211,619	\$ 2,221,553
Interest (includes interest on service cost)	3,157,400	3,292,604	3,484,954	3,711,023
Difference between expected and actual experience	60,147	203,660	(401,382)	(394,776)
Benefit payments, including refunds of member contributions	(4,183,854)	(2,056,068)	(3,548,319)	(592,887)
Net change in total pension liability	805,566	3,336,135	1,746,872	4,944,913
Total pension liability - beginning	46,311,702	47,117,268	50,453,403	52,200,275
Total pension liability - ending (a)	\$ 47,117,268	\$ 50,453,403	\$ 52,200,275	\$ 57,145,188
Plan fiduciary net position:				
Contributions - employer	\$ 1,083,695	\$ 1,221,904	\$ 1,210,322	\$ 1,268,864
Contributions - employee	826,530	977,358	968,242	1,015,076
Net investment income	4,021,918	1,129,768	3,829,746	7,532,245
Benefit payments, including refunds of member contributions	(4,183,854)	(2,056,068)	(3,548,319)	(592,887)
Administrative expense	(195,512)	(83,192)	(76,138)	(113,556)
Net change in plan fiduciary net position	1,552,777	1,189,770	2,383,853	9,109,742
Plan fiduciary net position - beginning	47,921,129	49,473,906	50,663,676	53,047,529
Plan fiduciary net position - ending (b)	\$ 49,473,906	\$ 50,663,676	\$ 53,047,529	\$ 62,157,271
Net pension asset - ending (a) - (b)	\$ (2,356,638)	\$ (210,273)	\$ (847,254)	\$ (5,012,083)
Plan fiduciary net position as a percentage of the total pension liability	105.00%	100.42%	101.62%	108.77%
Covered payroll	\$ 10,331,622	\$ 10,615,561	\$ 12,279,948	\$ 12,219,765
Net pension asset as a percentage of covered payroll	22.81%	1.98%	6.90%	41.02%

Note to Schedule:

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

	Year Ended December 31,			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 2,106,242	\$ 2,403,087	\$ 2,367,541	\$ 2,464,185
Actual contribution	1,083,695	1,221,904	1,210,322	1,268,864
Contribution deficiency	\$ 1,022,547	\$ 1,181,183	\$ 1,157,219	\$ 1,195,321
Covered payroll	\$ 10,331,622	\$ 10,615,561	\$ 12,279,948	\$ 12,219,765
Actual contribution as a percent of covered payroll	10.49%	11.51%	9.86%	10.38%

Note to Schedule:

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2018

Note 1. Changes of Benefit Terms

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

Note 2. Changes of Assumptions

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

Note 3. Contractually Required Contributions

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

Methods and assumptions used to determine contribution rates:

Actuarial Assumptions

Actuarial cost method	Entry Age Normal
Asset valuation	4 year smoothed market
Amortization method	19 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

COMPLIANCE SECTION



**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the remaining fund information of Metropolitan Washington Council of Governments (MWCOG), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise MWCOG's basic financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MWCOG's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

MWCOG's Response to Findings

MWCOG's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. MWCOG's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
December 12, 2018



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

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

Report on Compliance for Each Major Federal Program

We have audited Metropolitan Washington Council of Governments’ (MWCOG) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on MWCOG’s major federal programs for the year ended June 30, 2018. MWCOG’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, MWCOG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002. Our opinion on each major federal program is not modified with respect to this matter.

MWCOG's Response to Noncompliance Finding

MWCOG's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. MWCOG's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002, which we consider to be a material weakness.

MWCOG's Response to Noncompliance Finding

MWCOG's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. MWCOG's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
December 12, 2018

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<u>Direct Payments:</u>				
Cooperative Forestry Assistance	10.664	N.A.	\$ -	\$ 36,820
Urban and Community Forest Program	10.675	N.A.	-	745
Rural Development Cooperative Agreement Program	10.890	N.A.	-	41,708
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Urban and Community Forest Program	10.675	N.A.	-	28,286
Total U.S. Department of Agriculture			-	107,559
DEPARTMENT OF TRANSPORTATION				
<u>Direct Payments:</u>				
Airport Improvement Program	20.106	N.A.	-	207,934
Highway Planning and Construction Cluster:				
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	2,075,510
Commuter Connections Program	20.205	N.A.	-	449,633
Virginia Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	2,727,660
Commuter Connections Program	20.205	N.A.	-	1,604,819
Clean Air Partners	20.205	N.A.	-	150,000
Maryland Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	3,518,800
Total Highway Planning and Construction Cluster			-	10,526,422
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:				
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	482,402
Virginia Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	1,261,999
Maryland Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	1,234,691
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			-	2,979,092
Transit Services Programs Cluster:				
<u>Direct Payments:</u>				
Enhanced Mobility	20.513	N.A.	985,017	2,896,597
Job Access and Reverse Commute Program	20.516	N.A.	167,285	360,562
New Freedom Program	20.521	N.A.	53,982	257,096
Total Transit Services Programs Cluster			1,206,284	3,514,255

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
DEPARTMENT OF TRANSPORTATION (Continued)				
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program	20.528	N.A.	\$ -	\$ 705,711
Total Department of Transportation			<u>1,206,284</u>	<u>17,933,414</u>
DEPARTMENT OF ENERGY				
<u>Pass-through Payments:</u>				
National Association of Regional Councils:				
Conservation Research and Development	81.086	N.A.	-	95,932
Virginia Electric and Power Company:				
Renewable Energy Research and Development	81.087	N.A.	-	17,369
City of Bellevue:				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	N.A.	-	615
New York State Energy Research and Development Authority:				
State Energy Program	81.119	N.A.	-	26,004
Total Department of Energy			<u>-</u>	<u>139,920</u>
DEPARTMENT OF ENVIRONMENTAL PROTECTION				
<u>Direct Payments:</u>				
National Clean Diesel Emissions Reduction Program	66.039	N.A.	-	517,899
Performance Partnership Grants	66.605	N.A.	-	25,000
<u>Pass-through Payments:</u>				
D.C. Department of Energy and Environment:				
Chesapeake Bay Program	66.466	N.A.	-	111,079
Maryland Department of Natural Resources:				
Chesapeake Bay Program	66.466	N.A.	-	58,310
National Fish and Wildlife Foundation:				
Chesapeake Bay Program	66.466	N.A.	-	8,508
Total Department of Environmental Protection			<u>-</u>	<u>720,796</u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
DEPARTMENT OF HOMELAND SECURITY				
Homeland Security Grant Program:				
<u>Pass-through Payments:</u>				
D.C. Office of Deputy Mayor for Public Safety & Justice:				
Bomb Squad X-ray Systems	97.067	15-UASII17-22	\$ 45,900	\$ 65,190
District Logistics Planning	97.067	15-UASII17-23	35,563	39,008
NCR Homeland Security	97.067	16-UASII17-01	28,452	28,453
DC Emergency Response System	97.067	16-UASII17-02	418,995	418,995
Situational Awareness Dashboard	97.067	16-UASII17-03	100,460	100,460
NCR HS Program Staff Support	97.067	16-UASII17-04	-	516,282
District Incident (DCERS)	97.067	16-UASII17-06	243,563	243,563
District Consequences	97.067	16-UASII17-07	325,854	325,854
ASTI Training for NCI	97.067	16-UASII17-08	249,750	249,750
DCERS- District Emergency	97.067	17-UASII17-02	223,446	223,446
Situational Awareness Dashboard	97.067	17-UASII17-03	225,486	225,486
Metrorail Station Emergency	97.067	17-UASII17-04	73,321	73,321
National Level Exercise	97.067	17-UASII17-06	215,161	215,161
HSEMA Admin Support	97.067	16-UASII17-05	-	110,776
HSEMA Admin Support	97.067	17-UASII17-05	-	81,552
Inaugural Preparedness Support	97.067	15-SHSP117-03	46,929	54,262
District Core Capability	97.067	15-SHSP117-04	120,151	127,166
District Preparedness Tec	97.067	15-SHSP117-05	55,487	60,401
District Community Profile	97.067	15-SHSP117-06	129,252	135,890
Strategic Support 4 HSEMA	97.067	16-SHSP117-01	210,381	221,712
District Training & Exercise	97.067	16-SHSP117-02	68,825	72,245
NCR STAFF SUPPORT	97.067	17-UASII17-01	-	1,295,755
Total Homeland Security Grant Program			<u>2,816,976</u>	<u>4,884,728</u>
Securing the Cities Program:				
<u>Pass-through Payments:</u>				
D.C. Office of Deputy Mayor for Public Safety & Justice:				
Equipment	97.106	15-STC117-02	-	1,076,974
Programmatic Support	97.106	16-STC117-01	-	368,937
Total Securing the Cities Program			<u>-</u>	<u>1,445,911</u>
Total Department of Homeland Security			<u>2,816,976</u>	<u>6,330,639</u>
Total Federal Awards Expended			<u>\$ 4,023,260</u>	<u>\$ 25,232,328</u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2018

Note 1. Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Metropolitan Washington Council of Governments (MWCOG) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MWCOG, it is not intended to and does not present the financial position or changes in financial position of MWCOG.

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

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies

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

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

For fiscal year 2018, MWCOG recognized amounts in the Schedule associated with prior year expenditures. Expenditures should be recognized in the fiscal year spent for reporting purposes. In the current fiscal year, \$170,000 of prior year expenditures associated with various grants were included in the Schedule.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018**

Note 3. Indirect Cost Rate

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

Note 4. Subrecipients

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Section I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? Yes √ No
 Significant deficiency identified? √ Yes None Reported

Noncompliance material to financial statements noted? Yes √ No

Federal Awards

Internal control over major programs:

Material weakness identified? √ Yes No
 Significant deficiencies identified? Yes √ None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a)? √ Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.205	Highway Planning and Construction Cluster: Highway Planning and Construction
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research

Dollar threshold used to distinguish between type A and type B programs \$ 756,970

Auditee qualified as low-risk auditee? Yes √ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Section II. FINANCIAL STATEMENT FINDING

A. Significant Deficiency in Internal Control

2018-001: Proper Recognition of Federal and State Grant Revenue

Criteria: Federal grant revenue and state grant revenue should be properly recorded based on the source of the funding.

Condition: Upon auditing the year-end balances in revenues, there was a significant adjustment identified between federal and state grant revenues.

Context: MWCOG receives funding for various projects from state agencies and, at times, the source of the funding is from the federal government, which is passed through those state agencies. Therefore, MWCOG must allocate funding received from the state agencies to federal revenues. MWCOG receives funding agreement letters from the funding agency detailing the source of the funding; federal, state, or local match. Upon reviewing a sample of these funding letters, discrepancies were noted related to the allocation of federal and state revenues for two funding agencies related to the Commuter Connections Program and the Metropolitan Area Transportation Operations Coordination (MATOC) project. As such, federal revenues were understated by \$189,106 from the District of Columbia Department of Transportation (DCDOT) and overstated by \$351,562 from the Virginia Department of Transportation (VDOT) for the Commuter Connections Program and overstated by \$79,686 from VDOT for the MATOC project, with the offset going to state revenues.

Cause: There was lack of supervisory review of the allocation between federal and state revenues from the funding agreements that were provided, which resulted in improper classification of state and federal grant revenues.

Repeat Finding: This is a repeat finding, as the prior year finding was identified as 2017-001.

Effect: As a result, audit adjustments were required to properly record amounts in federal and state grant revenues.

Recommendation: We recommend MWCOG implement procedures to ensure all expenditures incurred involving federal funds are accounted for properly and reconciled to the funding agreements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Section II. FINANCIAL STATEMENT FINDING (Continued)

A. Significant Deficiency in Internal Control (Continued)

2018-001: Proper Recognition of Federal and State Grant Revenue (Continued)

View of Responsible Officials: Funds received from states, the district, and other entities often include pass-through funds from federal agencies. Determining the amount of federal funds to report on the SEFA is a manual process, complicated by the receipt of funds from multiple sources, each with different federal percentages that support a single program. In addition, the percentage of federal funds from those sources can change from year to year. Some awards were also not recorded correctly on the SEFA when they were originated in years prior to 2014, and subsequent SEFA's were prepared with the assumption that previously audited schedules were correct.

The recommendations and corrective action noted in the FY2017 audit report were implemented in FY2018. The Schedule was reconciled on a quarterly basis and completed in a timely manner prior to the audit fieldwork. Two senior members of the accounting staff worked together to prepare and review the SEFA, and researched award documents to ensure completeness and correctness. This resulted in the inclusion of awards previously overlooked. However, an error was still made in the separation of state and federal funds for the Commuter Connections Program, and funds for the MATOC program were incorrectly recorded as 100% federal funds instead of 80%, based on previous Schedules. We understand the importance of correctly identifying federal funds for MWCOG's funders to be able to rely on the Schedule for their reporting and reconciliation purposes, for the auditors to do the required amount of testing, and for compliance with OMB administrative requirements. The Corrective Action Plan details improvements that will be made in FY2019.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Section III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Material Weakness

2018-002: Material Weakness Related to Preparation of Schedule of Expenditures of Federal Awards

Program Identification: Highway Planning and Construction Cluster, CFDA Number 20.205, and Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research, CFDA Number 20.505; Department of Transportation; Award period: year ended June 30, 2018; No pass-through entity.

Criteria: Code of Federal Regulations 2 CFR 200.510, Financial Statements. “The auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with CFR 200.502 – Basis for determining Federal awards expended.”

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

Condition: The Schedule originally provided improperly stated federal expenditures for the Commuter Connections Program, CFDA Number 20.205, and the Metropolitan Area Transportation Operations Coordination (MATOC) project, CFDA Number 20.505. For the Commuter Connections Program, federal expenditures were understated by \$189,106 from DCDOT and overstated by \$351,562 from VDOT. For the MATOC project, federal expenditures were overstated by \$79,686 from the VDOT.

Context: It was noted in the significant deficiency in internal controls, Finding 2018-001, the allocation between federal and state expenditures was not properly presented on the original Schedule provided for the Commuter Connections Program, CFDA Number 20.205, and the MATOC project, CFDA Number 20.505.

Cause: There was lack of supervisory review of the Schedule that was provided which resulted in improper classification of state and federal expenditures.

Repeat Finding: This is a repeat finding, as the prior year finding was identified as 2017-002.

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

Questioned Costs: Undeterminable

Recommendation: We recommend MWCOG implement procedures to reconcile and review the Schedule to ensure the proper federal and state splits per the funding agreements are being properly recorded and presented on the Schedule.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018**

Section III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

A. Material Weakness (Continued)

2018-002: Material Weakness Related to Preparation of Schedule of Expenditures of Federal Awards (Continued)

View of Responsible Officials: Funds received from states, the district, and other entities often include pass-through funds from federal agencies. Determining the amount of federal funds to report on the SEFA is a manual process, complicated by the receipt of funds from multiple sources, each with different federal percentages that support a single program. In addition, the percentage of federal funds from those sources can change from year to year. Some awards were also not recorded correctly on the SEFA when they were originated in years prior to 2014, and subsequent SEFA's were prepared with the assumption that previously audited schedules were correct.

The recommendations and corrective action noted in the FY2017 audit report were implemented in FY2018. The Schedule was reconciled on a quarterly basis and completed in a timely manner prior to the audit fieldwork. Two senior members of the accounting staff worked together to prepare and review the SEFA, and researched award documents to ensure completeness and correctness. This resulted in the inclusion of awards previously overlooked. However, an error was still made in the separation of state and federal funds for the Commuter Connections Program, and funds for the MATOC program were incorrectly recorded as 100% federal funds instead of 80%, based on previous Schedules. We understand the importance of correctly identifying federal funds for MWCOG's funders to be able to rely on the Schedule for their reporting and reconciliation purposes, for the auditors to do the required amount of testing, and for compliance with OMB administrative requirements. The Corrective Action Plan details improvements that will be made in FY2019.

CORRECTIVE ACTION PLAN
Year Ended June 30, 2018

FINANCIAL STATEMENT FINDING

A. Significant Deficiency in Internal Control

Identifying Number: 2018-001: Proper Recognition of Federal and State Grant Revenue

Finding: Upon auditing the year-end balances in revenues, there was a significant adjustment identified between federal and state grant revenues.

Corrective Action Taken or Planned: We agree the Schedule that was audited did not correctly identify the portion of federal pass-through revenue in two programs. In addition to the procedures and controls that were implemented in response to this finding in the FY2017 audit, we will establish new procedures for set-up and billing of projects to help differentiate between federal and non-federal funds within the automated accounting system. The preparer of the schedule will also copy and attach the relevant section of each award that specifies the percentage of federal funds, use these source documents to complete the schedule, and provide them to the reviewer to use as reference in the review process.

FINDING AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Material Weakness in Internal Control

Identifying Number: 2018-002 Material Weakness Related to Preparation of Schedule of Expenditures of Federal Awards

Finding: It was noted in the significant deficiency in internal controls, Finding 2018-001, the allocation between federal and state expenditures was not properly presented on the original Schedule of Expenditures of Federal Awards (Schedule) provided for the Commuter Connections Program, CFDA Number 20.205, and Metropolitan Area Transportation Operations Coordination project, CFDA Number 20.505.

Corrective Action Taken or Planned: We agree the Schedule that was audited did not correctly identify the portion of federal pass-through revenue in two programs. In addition to the procedures and controls that were implemented in response to this finding in the FY2017 audit, we will establish new procedures for set-up and billing of projects to help differentiate between federal and non-federal funds within the automated accounting system. The preparer of the schedule will also copy and attach the relevant section of each award that specifies the percentage of federal funds, use these source documents to complete the schedule, and provide them to the reviewer to use as reference in the review process.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

FINANCIAL STATEMENT FINDING

A. Material Weakness in Internal Control

2017-001: Proper Recognition of Federal and State Grant Revenue

Criteria: Federal grant revenue and state grant revenue should be properly recorded based on the source of the funding.

Condition: Upon auditing the year-end balances in revenues, there was a material adjustment identified between federal and state grant revenues.

Context: Upon obtaining the original Schedule of Expenditures of Federal Awards (Schedule) provided, the Schedule was agreed to federal grant revenues and federal expenditures recorded in the general ledger in order to identify whether items were properly recorded. MWCOG maintains Project Summary Reports (PSR) detailing all revenues and expenditures for each project. The PSR's were obtained for each project that were included on the Schedule and the revenues as reported on the PSR's were compared to federal expenditures as reported on the Schedule. There were discrepancies identified between the PSR's and the Schedule, which cumulatively overstated federal grant revenues by \$3,558,590 and understated state grant revenues by this amount.

Cause: There was lack of supervisory review of the Schedule that was provided which resulted in improper classification of state and federal grant revenues.

Effect: As a result, audit adjustments were required to properly record amounts in federal and state grant revenues.

Recommendation: We recommend MWCOG implement procedures to ensure all expenditures incurred involving federal funds are accounted for properly and reconciled timely. We also recommend MWCOG reconciles its Schedule on a quarterly basis at a minimum. By reconciling grant activity on a quarterly basis, MWCOG will be able to identify any potential discrepancies between its financial records and amounts reported on the Schedule in a timely manner.

Corrective Action Taken: We agree the Schedule that was audited did not correctly identify the portion of federal pass-through revenue in two programs. In addition to the procedures and controls that were implemented in response to this finding in the FY2017 audit, we will establish new procedures for set-up and billing of projects to help differentiate between federal and non-federal funds within the automated accounting system. The preparer of the schedule will also copy and attach the relevant section of each award that specifies the percentage of federal funds, use these source documents to complete the schedule, and provide them to the reviewer to use as reference in the review process.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Material Weakness in Internal Control

2017-002: Material Weakness Related to Preparation of Schedule of Expenditures of Federal Awards

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

Context: During preliminary fieldwork, we were not provided a complete and accurate Schedule and we also determined instances in which grant funding received was not properly presented in the Schedule.

Condition: The Schedule provided during preliminary fieldwork improperly listed projects with the CFDA number 97.067 that should have been for CFDA number 97.106, which was correctly identified by MWCOG and updated on the Schedule provided during final fieldwork. However, there were two additional projects that we identified, totaling \$392,651, which had not been properly shown under the CFDA number 97.106.

It was noted in the material weakness in internal controls, Finding 2017-001 previously, federal grant revenues were overstated and state grant revenues were understated by \$3,558,590. Federal expenditures were also overstated by this amount on the Schedule due to MWCOG improperly identifying grant funding as federal or state.

Cause: There was lack of supervisory review of the Schedule that was provided which resulted in improper classification of state and federal expenditures.

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

Corrective Action Taken: We agree the Schedule that was audited did not correctly identify the portion of federal pass-through revenue in two programs. In addition to the procedures and controls that were implemented in response to this finding in the FY2017 audit, we will establish new procedures for set-up and billing of projects to help differentiate between federal and non-federal funds within the automated accounting system. The preparer of the schedule will also copy and attach the relevant section of each award that specifies the percentage of federal funds, use these source documents to complete the schedule, and provide them to the reviewer to use as reference in the review process.