

**METROPOLITAN WASHINGTON COUNCIL
OF GOVERNMENTS**

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2017



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, 2017, 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, 2017, 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 35-37, 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 1, 2017 on our consideration of MWCOG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 MWCOG's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
December 1, 2017

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, 2017 and 2016:

Summary Statement of Net Position				
June 30, 2017 and 2016				
	Governmental Activities		Increase	%
	2017	2016	(Decrease)	Change
Assets:				
Current and other assets	\$ 24,821,962	\$ 32,631,756	\$ (7,809,794)	-23.9%
Capital assets, net	1,479,845	1,379,056	100,789	7.3%
Total assets	26,301,807	34,010,812	(7,709,005)	-22.7%
Deferred outflows of resources	1,628,522	2,179,689	(551,167)	-25.3%
Liabilities:				
Current and other liabilities	9,527,377	17,577,774	(8,050,397)	-45.8%
Long-term liabilities	664,585	597,243	67,342	11.3%
Total liabilities	10,191,962	18,175,017	(7,983,055)	-43.9%
Deferred inflows of resources	344,042	-	344,042	
Net Position:				
Net investment in capital assets	1,479,845	1,379,056	100,789	7.3%
Restricted	8,207	8,198	9	0.1%
Unrestricted	15,906,273	16,628,230	(721,957)	-4.3%
Total net position	\$ 17,394,325	\$ 18,015,484	\$ (621,159)	-3.4%

The change in current and other assets is due primarily to a \$7.9 million decrease (33%) in cash, due from other governments and other receivables, following completion of the federal TIGER program as of September 30, 2016. Most of the TIGER funds were passed through to sub-recipients for local transit projects. The change in liabilities is primarily due to a \$6.5 million decrease (48%) in accounts payable and due to other governments, which was also related to the completion of the TIGER program.

Changes in Net Position

The following table presents a summary of the Statement of Changes in Net Position for MWCOG as of June 30, 2017 and 2016:

Summary Statement of Changes in Net Position Years Ended June 30, 2017 and 2016

	Governmental Activities		Increase	%
	2017	2016	(Decrease)	Change
Revenue:				
Federal, state and local revenue	\$ 47,225,457	\$ 61,473,152	\$ (14,247,695)	-23.18%
Member dues	3,914,858	3,766,255	148,603	3.95%
Building revenue	720,488	660,946	59,542	9.01%
Contributed services	433,160	426,584	6,576	1.54%
Miscellaneous	2,084,417	1,206,147	878,270	72.82%
Total Revenues	54,378,380	67,533,084	(13,154,704)	-19.48%
Expenses:				
Personnel	15,245,412	15,090,967	120,565	0.80%
Professional fees	7,875,269	8,113,244	(237,975)	-2.93%
Subrecipient pass-through funds	21,178,838	35,684,816	(14,505,978)	-40.65%
Other direct expense	4,909,910	4,093,223	816,687	19.95%
Contributed services	433,160	426,584	6,576	1.54%
Pension expense adjustment	258,228	(16,940)	241,288	1424.37%
Non-personnel support service costs	5,098,722	4,722,265	376,457	7.97%
Total Expenses	54,999,539	68,181,919	(13,182,380)	-19.33%
Change in net position	(621,159)	(648,835)	27,676	-4.27%
Beginning net position	18,015,484	18,664,319	(648,835)	-3.48%
Ending net position	\$ 17,394,325	\$ 18,015,484	\$ (621,159)	-3.45%

Total operating revenue in fiscal year 2017 was \$54.4 million. Of the total operating revenue, \$47.2 million (87%) was from federal, state and local funds, of which \$21.2 million was passed through to subrecipients. Member dues generated an additional \$3.9 million in revenue, and were used to provide member services and funding for specific regional programs, as approved by the Board of Directors. Contributed services, in the form of vendor discounts for certain transportation programs, provided an additional \$433,160 in revenue. 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 2017, MWCOG recorded \$720,488 in revenue from the REIT and from the sublease of a portion of its office space.

Revenue and expenses decreased by \$13.2 million in fiscal year 2017 compared to fiscal year 2016. The decrease is due primarily to a reduction in subrecipient pass-through funds from the federal TIGER transportation program.

Net position refers to the resources that would remain if all obligations were settled. The table below categorizes net position into those that are non-cash (invested in capital assets), restricted funds, those that are designated for future capital projects and programs, funds available to support specific programs, board-designated operating reserves for emergencies and unexpected cash flow interruptions, the net pension asset based on the actuarial report as of January 1, 2017, and cash assets available for future plans (unrestricted).

Net Position by Category	Balance			Balance June 30, 2017
	June 30, 2016	Increase	Decrease	
Net investment in capital assets	\$ 1,379,056	\$ 457,846	\$ 357,057	\$ 1,479,845
Restricted	8,198	9	-	8,207
Unrestricted				
Capital expenditure reserve	6,300,000	85,154	457,846	5,927,308
Designated for program funds	983,255	559,927	-	1,543,182
Operating reserve	4,727,117	521,783	-	5,248,900
Net pension asset	2,389,962	636,981	895,209	2,131,734
Unrestricted	2,227,896	895,209	2,067,956	1,055,149
Total Net Position	<u>\$ 18,015,484</u>	<u>\$ 3,156,909</u>	<u>\$ 3,778,068</u>	<u>\$ 17,394,325</u>

The change in net position in fiscal year 2017 is comparable to fiscal year 2016, with a net deficit from operations and investments of \$621,159 in fiscal year 2017 compared to a deficit of \$648,835 in fiscal year 2016. In each of those fiscal years, MWCOG's approved budget included a net loss, with a plan to utilize accumulated and unrestricted net position. In fiscal year 2017, the actual net loss exceeded the budgeted amount by \$293,300, due to a delay in the planned expansion of the Cooperative Purchasing Program. Additional revenue from this program will be realized beginning in fiscal year 2018.

Investment in office space and meeting room improvements, furnishings, and the wireless network increased capital assets by \$457,846 in the year ended June 30, 2017, utilizing funds designated for capital projects. Designated program funds were increased by \$559,927 based on analysis of project balances and the fiscal year 2018 work program and budget. Board designated reserves are fully funded at 16.67 percent of adjusted operating expenses as per Board policy, and are invested in laddered certificates of deposits. Accounting standards require inclusion of the net pension asset of \$2,131,734 on MWCOG's financial statements. Unrestricted net position is available for future projects and program needs, 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

Transportation planning and operations makes up 45% of the expenditure budget. The Department of Homeland Security and Public Safety and the Department of Environmental Programs account for 37% and 12% of expenses respectively.

Expenses by Program	June 30, 2017	June 30, 2016
Transportation	\$ 24,701,357	\$ 49,649,530
Community Planning, Health, and Child Welfare	1,210,208	1,028,022
Homeland Security and Public Safety	20,087,537	8,490,869
Environmental	6,798,167	7,146,984
Executive, Governance, and Member Services	1,944,042	1,883,454
Pension Expense Adjustment	258,228	(16,940)
Total Operating Expenses	<u>\$ 54,999,539</u>	<u>\$ 68,181,919</u>

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. Accumulated depreciation at June 30, 2017 was \$4.4 million, for a net book value of approximately \$1.5 million.

	June 30, 2016	Net Additions	June 30, 2017	Useful Life (in Years)
Construction in progress	\$ 271,905	\$ (113,567)	\$ 158,338	
Furniture and equipment	1,858,558	26,956	1,885,514	10
Leasehold improvements	767,967	245,663	1,013,630	10-17
Computer hardware	1,250,191	-	1,250,191	3-5
Computer software	923,721	278,945	1,202,666	5
Local area network	300,032	19,849	319,881	3
Total capital assets	<u>5,372,374</u>	<u>457,846</u>	<u>5,830,220</u>	
Less: accumulated depreciation and amortization	<u>3,993,318</u>	<u>357,057</u>	<u>4,350,375</u>	
Capital assets, net	<u>\$ 1,379,056</u>	<u>\$ 100,789</u>	<u>\$ 1,479,845</u>	

MWCOG's Future Changes and Trends

MWCOG is continuing to develop additional sources of unrestricted revenue to supplement member dues and support MWCOG's Region Forward goals. One of the primary sources of additional revenue will be an administrative fee paid by vendors for MWCOG's role in regional cooperative procurements. MWCOG is currently completing a region-wide procurement for subscriber radios for public safety, emergency services, and other agencies. Revenue from this member-support project will be realized starting in fiscal year 2018.

Staffing and revenue for the federal Urban Area Security Initiative program increased in fiscal year 2017, with additional pass-through and administrative funds from the Securing the Cities program and other homeland security projects.

In fiscal year 2016, the MWCOG Board of Directors designated \$6.3 million of accumulated net position as a reserve for capital expenditures. Starting in the spring of 2018, MWCOG will utilize a significant portion of the reserve for technology and audio-visual infrastructure upgrades, and to remodel of 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.

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, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,758,462
Due from other governments	12,414,603
Other receivables	579,045
Prepaid items	491,812
Restricted cash	8,207
Investments	7,600,831
Investment in noncontributory executive retirement plan	121,748
Net pension asset	847,254
Capital assets, net	<u>1,479,845</u>
Total assets	<u>26,301,807</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension plan	<u>1,628,522</u>
Total deferred outflows of resources	<u>1,628,522</u>
LIABILITIES	
Accounts payable	6,640,653
Due to other governments	357,973
Accrued liabilities	359,995
Unearned revenue	1,806,865
Due within one year:	
Compensated absences	361,891
Noncurrent liabilities:	
Due in more than one year:	
Compensated absences	542,837
Noncontributory executive retirement plan	<u>121,748</u>
Total liabilities	<u>10,191,962</u>
DEFERRED INFLOWS OF RESOURCES	
Pension plan	<u>344,042</u>
Total deferred inflows of resources	<u>344,042</u>
NET POSITION	
Net investment in capital assets	1,479,845
Restricted	8,207
Unrestricted	<u>15,906,273</u>
Total net position	<u><u>\$ 17,394,325</u></u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2017**

Function/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position Governmental Activities
Governmental activities:			
Planning and administration	\$ 27,684,899	\$ 26,281,509	\$ (1,403,390)
Planning and administration - indirect Subrecipient	6,135,802	6,135,802	-
	21,178,838	21,178,838	-
Total governmental activities	\$ 54,999,539	\$ 53,596,149	(1,403,390)
General revenues:			
Use of money and property			782,231
Total general revenues			782,231
Change in net position			(621,159)
Net position, beginning			18,015,484
Net position, ending			\$ 17,394,325

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

**BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017**

	General Fund
ASSETS	
Cash and cash equivalents	\$ 2,758,462
Due from other governments	12,414,603
Other receivables	579,045
Prepaid items	491,812
Restricted cash	8,207
Investments	7,600,831
Investment in noncontributory executive retirement plan	121,748
Total assets	\$ 23,974,708
LIABILITIES	
Accounts payable	\$ 6,640,653
Due to other governments	357,973
Accrued liabilities	359,995
Unearned revenue	1,806,865
Noncontributory executive retirement plan	121,748
Total liabilities	9,287,234
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	971,026
Total deferred inflows of resources	971,026
FUND BALANCE	
Nonspendable	491,812
Committed	11,176,208
Assigned	1,543,182
Restricted	8,207
Unassigned	497,039
Total fund balance	13,716,448
Total liabilities, deferred inflows of resources and fund balance	\$ 23,974,708

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

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

June 30, 2017

	General Fund
Reconciliation of fund balance on the Balance Sheet of the governmental fund to the net position of the governmental activities on the Statement of Net Position:	
Fund balance	\$ 13,716,448
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.	847,254
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental fund.	
Capital assets	\$ 5,830,220
Less accumulated depreciation and amortization	<u>(4,350,375)</u>
	1,479,845
Unearned revenue represents amounts that were not available to fund current expenditures and, therefore, is not reported as revenue in the governmental fund.	971,026
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	1,628,522
Compensated absences are liabilities not due and payable in the current period and, therefore, are not reported in the governmental fund.	(904,728)
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	<u>(344,042)</u>
Net position of governmental activities	<u><u>\$ 17,394,325</u></u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUND AND RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES Year Ended June 30, 2017

	General Fund
<hr/>	
Revenues:	
Intergovernmental:	
Federal grants	\$ 37,273,426
State grants	5,455,109
Local grants	3,965,537
Member dues	3,914,858
Foundation contributions	1,564,236
Use of money and property	782,231
Miscellaneous	891,598
Total revenues	<u>53,846,995</u>
Expenditures:	
Planning and administration	27,056,384
Planning and administration - indirect	6,135,802
Subrecipient	21,178,838
Capital outlay	457,846
Total expenditures	<u>54,828,870</u>
Net change in fund balance	(981,875)
Fund balance, beginning	<u>14,698,323</u>
Fund balance, ending	<u><u>\$ 13,716,448</u></u>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balance	\$ (981,875)
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	\$ 457,846
Deduct - depreciation and amortization expense	<u>(357,057)</u>
Excess of capital outlay over depreciation and amortization	100,789
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	531,385
Deferred outflows of resources - pension plan	(551,167)
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	(13,230)
Pension expense	<u>292,939</u>
	<u>279,709</u>
Change in net position of governmental activities	<u><u>\$ (621,159)</u></u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF NET POSITION

FIDUCIARY FUND

June 30, 2017

	Pension Trust Fund
<hr/>	
ASSETS	
Investments held in trust	\$ 56,589,794
Total assets	<u>\$ 56,589,794</u>
NET POSITION	
Held in trust for pension benefits	<u>\$ 56,589,794</u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

STATEMENT OF CHANGES IN NET POSITION

FIDUCIARY FUND

Year Ended June 30, 2017

	Pension Trust Fund
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Additions:	
Contributions	\$ 2,303,781
	<hr/>
Total additions	2,303,781
	<hr/>
Investment income:	
Interest earned on investments	1,554,414
Net increase in fair value of investments	4,645,626
Other receipts	6,138
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Total income from investment activities	6,206,178
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Deductions:	
Benefit payments	2,945,210
Administrative fees	139,421
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Total deductions	3,084,631
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Change in net position	5,425,328
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Net position, beginning	51,164,466
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Net position, ending	\$ 56,589,794
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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 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 Fund: Fiduciary funds (trust and agency 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 sole fiduciary fund is the Pension Trust Fund which accounts for activities of MWCOG's pension benefits.

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. Restricted Cash

Restricted cash was \$8,207 for governmental activities at June 30, 2017 and is comprised of a security deposit held for a sublease of office space to another entity.

5. 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 is 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)

6. Pensions

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.

7. 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.

8. 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.

9. Deferred Outflows/Inflows of Resources

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

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

10. 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.

11. 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)

12. 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, 2017.

13. 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, leave, fringe benefit, and indirect costs rates for the fiscal year ended June 30, 2017 were as follows:

M&A personnel costs	21.83%
Leave	20.49%
Fringe benefits	25.15%
Indirect non-personnel costs	31.30%

14. 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.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Significant Accounting Policies (Continued)

15. Subsequent Events

MWCOG has evaluated subsequent events through December 1, 2017, the date on which the financial statements were available to be issued.

Note 2. Deposits and Investments

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.

Investments

MWCOG's investments are stated at fair value as determined by quoted prices. As of June 30, 2017, 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	\$ 7,439,420	\$ 2,057,116	\$ 4,438,396	\$ 347,862	\$ 596,046
Enterprise Community Impact Note	150,000	-	150,000	-	-
Money market funds - MBS	11,411	11,411	-	-	-
Money market funds - SunTrust	53,197	53,197	-	-	-
Mutual funds - SunTrust	34,405,254	34,405,254	-	-	-
New York Life	22,131,343	22,131,343	-	-	-
Mutual funds	121,748	121,748	-	-	-
Total	\$ 64,312,373	\$ 58,780,069	\$ 4,588,396	\$ 347,862	\$ 596,046

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

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, 2017, 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.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

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.

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	\$ 7,439,420	\$ -	\$ -
Enterprise Community Impact Note	150,000	-	-
Money market funds	64,608	-	-
Mutual funds	34,527,002	-	-
New York Life	-	22,131,343	-

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 4. Due To/From Other Governments

Amounts due from other governments are as follows:

Homeland Security and Emergency Management Agency	\$	3,216,993
Maryland Department of Transportation		1,788,295
Virginia Department of Transportation		1,686,362
District of Columbia - Department of Transportation		1,323,850
District of Columbia - Department of Health		1,050,000
Federal Transit Administration		960,923
Virginia Department of Rail and Public Transportation		292,917
Washington Metropolitan Area Transit Authority		218,805
Washington Suburban Sanitary Commission		137,972
Other governments		<u>1,738,486</u>
	\$	<u><u>12,414,603</u></u>

Amounts due to other governments are as follows:

County of Prince George	\$	96,185
District of Columbia - Treasurer		89,809
County of Montgomery		48,760
County of Arlington		46,373
Other governments		<u>76,846</u>
	\$	<u><u>357,973</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, 2017:

	June 30, 2016	Additions	Transfers	June 30, 2017
Capital assets not being depreciated or amortized:				
Construction in progress	\$ 271,905	\$ 165,378	\$ (278,945)	\$ 158,338
Capital assets being depreciated or amortized:				
Furniture and equipment	1,858,558	26,956	-	1,885,514
Leasehold improvements	767,967	245,663	-	1,013,630
Computer hardware	1,250,191	-	-	1,250,191
Computer software	923,721	-	278,945	1,202,666
Local area network	300,032	19,849	-	319,881
Total capital assets being depreciated or amortized	5,100,469	292,468	278,945	5,671,882
Less accumulated depreciation or amortization for:				
Furniture and equipment	1,594,545	79,741	-	1,674,286
Leasehold improvements	387,877	59,002	-	446,879
Computer hardware	822,478	163,764	-	986,242
Computer software	888,386	52,896	-	941,282
Local area network	300,032	1,654	-	301,686
Total accumulated depreciation and amortization	3,993,318	357,057	-	4,350,375
Total capital assets being depreciated or amortized, net	1,107,151	(64,589)	278,945	1,321,507
Total capital assets, net	\$ 1,379,056	\$ 100,789	\$ -	\$ 1,479,845

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, 2017, was \$357,057.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 6. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended June 30, 2017, were as follows:

Activity	Beginning Balance July 1, 2016	Additions	Reductions	Ending Balance June 30, 2017	Due in One Year
Compensated absences	\$ 891,498	\$ 991,204	\$ (977,974)	\$ 904,728	\$ 361,891
Noncontributory executive retirement plan	76,500	45,248	-	121,748	-
	<u>\$ 967,998</u>	<u>\$ 1,036,452</u>	<u>\$ (977,974)</u>	<u>\$ 1,026,476</u>	<u>\$ 361,891</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, 2017.

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 \$236 is payable to all retirees. The pension benefit is payable in monthly amounts from the normal retirement date until death, with at least 120 monthly payments guaranteed.

Participants who are disabled while working for 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, 2017 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	10
Non-vested	10
Total inactive members	<u>61</u>
Active members	<u>125</u>
Total	<u><u>186</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, 2016 and 2015 was 11.37% and 11.57%, respectively, of covered employee compensation, based on an actuarial valuation as of January 1, 2017 and 2016, 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, 2017 and 2016 was \$2,303,797 and \$2,160,685, respectively.

B. Net Pension Asset

MWCOG's net pension asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of January 1, 2017.

Actuarial Assumptions

Valuation date	January 1, 2017
Actuarial cost method	Entry Age Normal
Asset valuation	4 year smoothed market
Amortization method	20 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, 2016, 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%	5.50%	3.30%
Core Fixed Income	40.00%	2.50%	1.00%
Cash	0.00%	2.00%	0.00%
Total	100.00%		4.30%
Inflation		2.00%	

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 4.58%. 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, 2016 were as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balances at December 31, 2015	\$ 50,453,403	\$ 50,663,676	\$ (210,273)
Changes for the year:			
Service cost	2,211,619	-	2,211,619
Interest (includes interest on service cost)	3,484,954	-	3,484,954
Difference between expected and actual experience	(401,382)	-	(401,382)
Contributions - employer	-	1,210,322	(1,210,322)
Contributions - employee	-	968,242	(968,242)
Net investment income	-	3,829,746	(3,829,746)
Benefit payments, including refunds of member contributions	(3,548,319)	(3,548,319)	-
Administrative expense	-	(76,138)	76,138
Net changes	1,746,872	2,383,853	(636,981)
Balances at December 31, 2016	\$ 52,200,275	\$ 53,047,529	\$ (847,254)

Sensitivity of the Net Pension Asset

The following presents the net pension asset of MWCOG as of December 31, 2016, 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)	\$ 5,731,503	\$ (847,254)	\$ (5,657,485)

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, 2017, MWCOG recognized pension expense of \$1,886,750. 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	\$ -	\$ 344,042
Difference between expected and actual experience	1,013,734	-
Employer contributions made subsequent to the measurement date	614,788	-
	<u>\$ 1,628,522</u>	<u>\$ 344,042</u>

The \$614,788 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, 2018.

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
2018	\$ 158,684
2019	158,684
2020	158,684
2021	150,094
2022	150,094
2023	<u>(106,548)</u>
Total	<u>\$ 669,692</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, 2017, MWCOG held \$121,748, of noncontributory compensation in a trust that is administered by MWCOG, which has been recorded as an asset and liability in the accompanying statement of net position.

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, 2017, CPAS distributed \$670,000 of income to MWCOG.

CPAS's summarized financial information as of and for the year ended December 31, 2016, was as follows:

Total assets	\$ 28,926,466
Total liabilities	<u>37,520,315</u>
Total stockholders' deficit	<u>\$ (8,593,849)</u>
Revenue	\$ 9,809,002
Expenses	<u>7,959,486</u>
Net income	<u>\$ 1,849,516</u>

As of December 31, 2016, CPAS's assets included net rental property of \$19,552,340. The owners of the building are jointly liable for the outstanding note payable of \$37,000,000 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, 2017 are below.

<u>Years Ending June 30,</u>	<u>Amount</u>
2018	\$ 1,344,600
2019	1,344,600
2020	1,344,600
2021	1,344,600
2022	1,344,600
2023-2027	<u>4,706,100</u>
	<u>\$ 11,429,100</u>

Rent expense for the fiscal year ended June 30, 2017 was \$2,559,232, which included real estate taxes, operating expenses, and CPI adjustments.

MWCOG subleased a portion of its office space during fiscal year 2017. MWCOG had a sublease agreement that expired in October 2016 and a new sublease that began in December 2016 for a one year period. MWCOG is to receive 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, 2017, total rental income for the leased portion of its office space was \$50,488.

Note 12. Pending GASB Statements

At June 30, 2017, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by MWCOG. The statements which might impact MWCOG are as follows:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will improve accounting and financial reporting by state and local governments for OPEB. It will also require the recognition of the entire OPEB liability and a comprehensive measure of OPEB expense. Statement No. 75 will be effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 85, *Omnibus 2017*, will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. Statement No. 85 will be effective for fiscal years beginning after June 15, 2017.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

Note 12. Pending GASB Statements (Continued)

GASB Statement No. 87, *Leases*, will increase the usefulness of MWCOG'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 these new Statements 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
Total pension liability:			
Service cost	\$ 1,771,873	\$ 1,895,939	\$ 2,211,619
Interest (includes interest on service cost)	3,157,400	3,292,604	3,484,954
Difference between expected and actual experience	60,147	203,660	(401,382)
Benefit payments, including refunds of member contributions	(4,183,854)	(2,056,068)	(3,548,319)
Net change in total pension liability	805,566	3,336,135	1,746,872
Total pension liability - beginning	46,311,702	47,117,268	50,453,403
Total pension liability - ending (a)	<u>\$ 47,117,268</u>	<u>\$ 50,453,403</u>	<u>\$ 52,200,275</u>
Plan fiduciary net position:			
Contributions - employer	\$ 1,083,695	\$ 1,221,904	\$ 1,210,322
Contributions - employee	826,530	977,358	968,242
Net investment income	4,021,918	1,129,768	3,829,746
Benefit payments, including refunds of member contributions	(4,183,854)	(2,056,068)	(3,548,319)
Administrative expense	(195,512)	(83,192)	(76,138)
Net change in plan fiduciary net position	1,552,777	1,189,770	2,383,853
Plan fiduciary net position - beginning	47,921,129	49,473,906	50,663,676
Plan fiduciary net position - ending (b)	<u>\$ 49,473,906</u>	<u>\$ 50,663,676</u>	<u>\$ 53,047,529</u>
Net pension asset - ending (a) - (b)	<u>\$ (2,356,638)</u>	<u>\$ (210,273)</u>	<u>\$ (847,254)</u>
Plan fiduciary net position as a percentage of the total pension liability	105.00%	100.42%	101.62%
Covered-employee payroll	\$ 10,331,622	\$ 10,615,561	\$ 12,279,948
Net pension asset as a percentage of covered-employee payroll	22.81%	1.98%	6.90%

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
Actuarially determined contribution	\$ 2,106,242	\$ 2,403,087	\$ 2,367,541
Actual contribution	1,083,695	1,221,904	1,210,322
Contribution deficiency	\$ 1,022,547	\$ 1,181,183	\$ 1,157,219
Covered employee payroll	\$ 10,331,622	\$ 10,615,561	\$ 12,279,948
Actual contribution as a percent of covered payroll	10.49%	11.51%	9.86%

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, 2017

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	20 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 (MWCOC), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise MWCOC's basic financial statements, and have issued our report thereon dated December 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MWCOC'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 MWCOC's internal control. Accordingly, we do not express an opinion on the effectiveness of MWCOC'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 MWCOC'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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 to be a material weakness.

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 1, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR THE 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 the 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 program for the year ended June 30, 2017. MWCOG's major federal program is 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 program 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 the major federal program. However, our audit does not provide a legal determination of MWCOG's compliance.

Opinion on the 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 program for the year ended June 30, 2017.

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 2017-002. Our opinion on the 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 the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 2017-002, 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 1, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF AGRICULTURE				
<u>Direct Payments:</u>				
Cooperative Forestry Assistance	10.664		\$ -	\$ 21,601
Urban and Community Forest Program	10.675		-	102,962
Total U.S. Department of Agriculture			-	124,563
DEPARTMENT OF TRANSPORTATION				
<u>Direct Payments:</u>				
Airport Improvement Program	20.106		-	253,018
TIGER Grants Transportation Investment Generating Economic Recovery - ARRA	20.932		1,897,456	2,028,659
Highway Planning and Construction Cluster:				
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	1,691,157
Commuter Connections Program	20.205	N.A.	65,726	415,660
Virginia Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	2,400,776
Commuter Connections Program	20.205	N.A.	246,097	1,556,361
Clean Air Partners	20.205	N.A.	-	130,000
Maryland Department of Transportation:				
Highway Planning and Construction	20.205	N.A.	-	2,825,044
Total Highway Planning and Construction Cluster			311,823	9,018,998
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:				
<u>Direct Payments:</u>				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505		-	318,319
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	411,411
Virginia Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	813,524
Maryland Department of Transportation:				
Transportation Planning Grants	20.505	N.A.	-	994,561
Total Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			-	2,537,815
Transit Services Programs Cluster:				
<u>Direct Payments:</u>				
Enhanced Mobility	20.513		593,323	2,068,587
Job Access and Reverse Commute Program	20.516		373,770	563,973
New Freedom Program	20.521		388,018	397,697
Total Transit Services Programs Cluster			1,355,111	3,030,257

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through 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.	\$ -	\$ 525,461
National Highway Traffic Safety Administration Discretionary Safety Grants and Cooperative Agreements:				
<u>Pass-through Payments:</u>				
D.C. Department of Transportation:				
Discretionary Safety Grants	20.614	N.A.	-	200,000
Virginia Highway & Safety Office:				
Discretionary Safety Grants	20.614	N.A.	-	160,000
Washington Metropolitan Area Transit Authority:				
Discretionary Safety Grants	20.614	N.A.	-	250,000
Total National Highway Traffic Safety Administration Discretionary Safety Grants and Cooperative Agreements			-	610,000
Total Department of Transportation			3,564,390	18,004,208
DEPARTMENT OF ENERGY				
<u>Pass-through Payments:</u>				
Virginia Electric and Power Company:				
Renewable Energy Research and Development	81.087	N.A.	-	18,546
City of Bellevue:				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	N.A.	-	18,609
Total Department of Energy			-	37,155
DEPARTMENT OF ENVIRONMENTAL PROTECTION				
<u>Direct Payments:</u>				
National Clean Diesel Emissions Reduction Program	66.039		-	19,019
Water Pollution Control State, Interstate and Tribal Program Support	66.419		-	24,112
Performance Partnership Grants	66.605		-	16,732
Total Department of Environmental Protection			-	59,863
DEPARTMENT OF HOMELAND SECURITY				
<u>Pass-through Payments:</u>				
D.C. Department of Health				
Disaster Unemployment Assistance	97.034	N.A.	1,176,079	1,228,202

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
DEPARTMENT OF HOMELAND SECURITY (Continued)				
Homeland Security Grant Program:				
<u>Pass-through Payments:</u>				
D.C. Office of Deputy Mayor for Public Safety & Justice:				
District Recovery Plan	97.067	14-UASII17-09	\$ 18,658	\$ 19,534
District Prevention Protection	97.067	14-UASII17-13	19,262	19,846
PMO & Secretariat Support	97.067	15-UASII17-01	-	808,040
District Emergency Response	97.067	15-UASII17-02	431,080	458,594
NCR Situational Awareness	97.067	15-UASII17-03	234,063	248,013
Regional Information	97.067	15-UASII17-04	-	1,242
Metro Shutdown	97.067	15-UASII17-05	411,858	429,629
WMATA Shutdown Planning	97.067	15-UASII17-06	212,132	219,659
Tactical Response Multi-Site	97.067	15-UASII17-07	171,500	179,334
Technical Rescue PPE	97.067	15-UASII17-08	-	1,753
District Preparedness System Plans	97.067	15-UASII17-09	30,120	32,165
District Preparedness Frame	97.067	15-UASII17-11	267,982	281,590
District All Hazards Incident Management Team	97.067	15-UASII17-12	247,400	255,606
State Program Manager	97.067	15-UASII17-15	96,580	101,299
District Snow Storm After Act	97.067	15-UASII17-16	62,915	65,691
WMATA Rail Operations Control	97.067	15-UASII17-17	131,202	133,101
Metro Public Safety Communication	97.067	15-UASII17-18	39,416	44,099
District Recovery Plan	97.067	15-UASII17-19	243,153	255,058
ReadyDC Campaign & HSEMA	97.067	15-UASII17-20	15,000	15,292
NCR Homeland Security Executive Committee	97.067	16-UASII17-01	219,347	224,057
DC Emergency Response System	97.067	16-UASII17-02	215,749	224,217
Situational Awareness Dashboard	97.067	16-UASII17-03	286,474	291,461
NCR HS Program Staff Support	97.067	16-UASII17-04	-	678,858
District Consequences	97.067	16-UASII17-07	14,113	14,113
HSEMA Admin Support	97.067	16-UASII17-05	-	5,082
Emergency Preparedness Website	97.067	14-SHSP17-02	15,070	15,946
District Full Scale Exercise	97.067	14-SHSP17-03	18,373	19,688
Strategic Support HSEMA	97.067	15-SHSP17-01	111,236	113,427
DC Training & Exercise	97.067	15-SHSP17-02	67,750	67,750
Inaugural Preparedness Support	97.067	15-SHSP17-03	374,097	387,822
District Core Capability	97.067	15-SHSP17-04	4,045	4,045
District Preparedness Technology	97.067	15-SHSP17-05	2,510	2,510
District Community Profile	97.067	15-SHSP17-06	2,244	2,244
Strategic Support HSEMA	97.067	16-SHSP17-01	142,658	148,244
Total Homeland Security Grant Program			4,105,987	5,769,009
Securing the Cities Program:				
<u>Pass-through Payments:</u>				
D.C. Office of Deputy Mayor for Public Safety & Justice:				
Programmatic Support STC	97.106	15-STC117-01	-	68,973
STC Equipment	97.106	15-STC117-02	-	11,657,776
Programmatic Support STC	97.106	16-STC117-01	-	323,677
Total Securing the Cities Program			-	12,050,426
Total Department of Homeland Security			5,282,066	19,047,637
Total Federal Awards Expended			\$ 8,846,456	\$ 37,273,426

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2017

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, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MWCOG, it is not intended to and does not present the financial position or changes in financial position of MWCOG.

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

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

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

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

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

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

Note 2. Summary of Significant Accounting Policies

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

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Note 3. Indirect Cost Rate

MWCOG's indirect cost rates as allowed under the Uniform Guidance are disclosed in Note 1. D. 13 to the financial statements.

Note 4. Subrecipients

Expenditures reported on the Schedule as passed through 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, passed through to subrecipients on the Schedule only includes funds for federal programs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Section I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes √ No

Federal Awards

Internal control over major program:

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

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

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

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
97.106	Securing the Cities Program

Dollar threshold used to distinguish between type A and type B programs \$ 1,118,203

Auditee qualified as low-risk auditee? √ Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Section II. FINANCIAL STATEMENT FINDINGS

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.

View of Responsible Officials: This finding is based on a draft Schedule which had not been fully adjusted and reviewed prior to the beginning of audit fieldwork. It is management's responsibility to ensure that schedules and entries are complete prior to the beginning of audit fieldwork. Plans for improvement are detailed in the Corrective Action Plan.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

Section III. 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.

View of Responsible Officials: Management agrees that the CFDA number for one program was recorded incorrectly. Additional procedures will be put in place to ensure correct reporting on the Schedule of Expenditure of Federal Awards in the future.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

CORRECTIVE ACTION PLAN

Year Ended June 30, 2017

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

Finding:

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

Corrective Action Taken or Planned:

We agree that the draft Schedule that was audited did not correctly allocate the federal and state revenue in one program. The Chief Financial Officer has developed a revised timeline for year-end procedures to ensure timely completion and review of schedules prior to the beginning of audit fieldwork. Starting in January, 2018, the Chief Financial Officer will ensure that preliminary schedules and reconciliations are prepared and reviewed quarterly. The Chief Financial Officer will regularly monitor and review preliminary and year-end schedules and entries to ensure completeness and correctness prior to the start of audit fieldwork.

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

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.

Corrective Action Taken or Planned:

We agree that an incorrect CFDA number was recorded on the Schedule of Expenditure of Federal Awards. Starting in January, 2018, the Chief Financial Officer will ensure that preliminary schedules are prepared quarterly, and will establish an additional level of review to ensure that the identifying information recorded on the Schedule is correct, and matches the underlying award or memorandum of agreement, including amendments.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2017

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from prior audit's Summary Schedule of Prior Audit Findings.