

**METROPOLITAN WASHINGTON
COUNCIL OF GOVERNMENTS**

**BASIC FINANCIAL STATEMENTS AND
OMB CIRCULAR A-133 SINGLE AUDIT**

JUNE 30, 2007

**BERTSMITH
& Co.**

Certified Public Accountants and Management Consultants

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Metropolitan Washington Council of Governments

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Metropolitan Washington Council of Governments (COG), as of and for the year ended June 30, 2007 which collectively comprises COG's basic financial statements as listed in the table of contents. These financial statements are responsibility of COG's management. 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 that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of COG as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the governmental fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2007, on our consideration of COG's internal control over financial reporting and on our test of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise COG's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

The summary departmental revenue, expenditures, and changes in net asset schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bert Smith & Co.

Washington, D.C.
October 10, 2007

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

Management's discussion and analysis of the Metropolitan Washington Council of Governments' (COG) financial performance provides an overview of COG's financial activities for the year ended June 30, 2007. The financial statements, accompanying notes, and additional information should be read in conjunction with the following discussion.

Overview of the Financial Statements

COG's basic financial statements are comprised of three components: (1) government wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

- (a) **Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of COG's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of COG's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets serve an indicator of whether the financial position of COG is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements can be found on pages 10 and 11.

- (b) **Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. COG has only one fund and this is the governmental fund. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on inflows and outflows of spendable resources. COG's maintains two governmental funds: General Fund and Project Fund. The General Fund accounts for all activities that are not allocated to a project. The General Fund is used to record the receipt of the annual members' contributions, income received from investments, and to pay for matching funds that may be required by Federal or State grants and contracts. The Project fund accounts for all direct and indirect project costs.

COG adopts an annual budget for its governmental fund. A budgetary comparison schedule has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12 and 13.

- (c) **Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and can be found on pages 16 through 23.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS continued
 JUNE 30, 2007

A summary of COG's financial statements and an analysis of the financial activity for Fiscal Year 2007 are below:

Comparative Balance Sheet

	June 30 2007	June 30 2006	Variance	% Change
Assets				
Current Assets	\$ 15,438,418	\$ 13,951,028	\$ 1,487,390	10.66%
Capital Assets	178,487	368,255	(189,768)	-51.53%
Total Assets	<u>\$ 15,616,905</u>	<u>\$ 14,319,283</u>	<u>\$ 1,297,622</u>	<u>9.06%</u>
Liabilities				
Current Liabilities	\$ 5,415,690	\$ 3,853,868	\$ 1,561,822	40.53%
Net Assets				
Invested in capital assets	\$ 178,487	\$ 368,255	\$ (189,768)	-51.53%
Restricted Project Fund	2,271,963	3,170,648	(898,685)	-28.34%
Unrestricted	7,750,765	6,926,512	824,253	11.90%
Total Net Assets	<u>\$ 10,201,215</u>	<u>\$ 10,465,415</u>	<u>\$ (264,200)</u>	<u>-2.52%</u>

**Comparative Statement of Revenues, Expenditures and
Changes in Fund Balance**

	June 30 2007	June 30 2006	Variance	% Change
Revenues				
Federal Revenue	\$ 17,662,132	\$ 14,479,211	\$ 3,182,921	21.98%
State and Local Revenue	7,685,267	5,986,687	1,698,580	28.37%
Member Contributions	2,974,203	2,830,703	143,500	5.07%
Other	1,787,647	1,795,470	(7,823)	-0.44%
Total Revenues	<u>30,109,249</u>	<u>25,092,071</u>	<u>5,017,178</u>	<u>20.00%</u>
Expenses:				
Personnel	11,008,853	10,723,349	285,504	3%
Professional Fees	12,318,695	6,424,915	5,893,780	92%
Other Direct Costs	3,146,872	3,716,384	(569,512)	-15%
Indirect Costs	3,899,029	3,375,289	523,740	16%
Total Expenses	<u>30,373,449</u>	<u>24,239,937</u>	<u>6,133,512</u>	<u>25%</u>
(Decrease) Increase in Net Assets	(264,200)	852,134	(1,116,334)	-131.00%
Net Assets-beginning	10,465,415	9,613,281	852,134	8.86%
Net Assets-ending	<u>\$ 10,201,215</u>	<u>\$ 10,465,415</u>	<u>\$ (264,200)</u>	<u>-2.52%</u>

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS continued
JUNE 30, 2007

FINANCIAL HIGHLIGHTS

The following information is an analysis of the fiscal year ended June 30, 2007.

- Metropolitan Washington Council of Governments (COG) continued its strong financial performance by finishing the fiscal year 2007 with positive results from its financial operations. The balance sheet at June 30, 2007 demonstrated the organization's cash position by having the required funds on hand to make payments to vendors who provide support to COG's program operations without using its line of credit or general reserve funds.
- Current assets increased by 10.66% or \$1,487,390 mainly due to increases in receivables and investments. Receivables increased primarily as a result of more federal and state funding in COG's Transportation program and Urban Area Security Initiative (UASI) program. COG also took advantage of the higher market rates by purchasing more investments during the year and benefited from the investment's interest earnings and the investment income received from its co-ownership of the building it leases.
- Current liabilities increased by 40.53% or \$1,561,822 due to the untimely reimbursement of funds from a state government, the receipt of COG 50th Anniversary funds before year-end, and unearned revenue from projects that have not met all the program eligibility requirements to recognize the revenue.
- COG's Unrestricted Net Assets Fund increased by \$824,253 from \$6,926,512 to \$7,750,765. This is primarily due to interest earnings from COG's investment portfolio and investment income received from the Public Administration Holding Corporation (PAHC), a District of Columbia for profit stock corporation. COG is an equal shareholder in PAHC along with International City Management Association (ICMA) and the International City Management Retirement Corporation (ICMA-RC). PAHC is the sole shareholder of 777 North Capitol Corporation, a District of Columbia for profit corporation which was organized in November, 1989 to lease, manage, and operate an office building located at 777 North Capitol Street, N.E. Washington, D.C.
- Restricted Net Assets decreased by \$898,685. The decrease is due to COG receiving the funds for some of the projects in Fiscal Year 2006 while the expenditures were incurred in Fiscal Year 2007.
- Operating revenues for fiscal year 2007 were \$30,109,249, which was \$5,017,178 higher than Fiscal Year 2006. Operating revenues increased primarily due to increased funding from the U.S Department of Homeland Security for the Urban Area Security Initiative (UASI) program and the U.S Department of Transportation for the Transportation program. State and local revenue increased by \$1,698,580 mainly due to a new pedestrian/bicycle safety project and additional funding for the TDM Mass Marketing project and the environmental programs.
- Member contributions increased to \$ 2,974,203 from \$ 2,830,703 for two reasons. The first one is the increase in member's population. Under COG's Bylaws, contributions are calculated on a prorata share of the region's population multiplied by a capita rate. The second was the increase in per capita rate from \$ 0.60482 to \$ 0.62478.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS continued
JUNE 30, 2007

Expenses increased overall by \$6,133,512. Personnel costs increased during the year as a result of a new salary structure and merit increases. The increase in professional fees is primarily attributed to the corresponding increase in Federal pass-through revenues. Other direct costs decreased as a result of the reduction in special supplies and equipment purchased for the EPA Early Warning Monitoring program.

- The variances of actual revenues and expenditures from original budgeted estimates are primarily attributable to the following:
 - (a) The annual budget approved by COG included estimates of total revenues and expenditures that are based on the life of the budgeted programs. Actual revenues and expenditures, however, are received at different times throughout the fiscal year and may, therefore, span more than one fiscal year.
 - (b) New programs are started with Board approval during the fiscal year that are not included in the original budget, and some grants or contracts anticipated in the original budget may have reduced amounts or may not be awarded.

NEW BUSINESS

Homeland Security

During fiscal year 2007, COG continued its lead role in coordinating the development of homeland security plans for the National Capital Region. During this period, significant progress was made in the work on coordinating the emergency communications, adding additional interoperable equipment for first responders, creating syndromic surveillance for emerging pathogens. The Regional Incident Communication and Coordination System (RICCS) remains the cornerstone of key communications between critical decision and key stakeholders. During this period, COG established the Emergency Operations Center committee. This committee in addition to using the RICCS, have adopted WEBEOC and Washington Area Wide Alert System to provide redundancy in communications between federal, state and local responders. COG continues to participate with the Preparedness Directorate in the development and fielding of the National Response Plan (NCR), the National Incident Management System, National Planning Scenarios, Universal Task List, Interim National Preparedness Goal, and Draft Target Capabilities List in the NCR.

From the Department of Homeland Security under the Urban Area Security Initiative (UASI) through the District of Columbia, serving as the State Administrative Agent, COG was awarded \$ 945,000 to provide secretariat services to the Chief Administrative Officers (CAO) of the National Capital Region and the National Capital Region Emergency Preparedness Council (NCREPC) to include its role as the Urban Area Workgroup under the Urban Area Security Initiative and the Regional Emergency Support Functions (E-ESFs) and to ensure preparedness planning efforts across the NCR are fully coordinated and appropriately integrated. The NCREPC and the CAO Committee and/or its subcommittees continue to be the forum for consideration and review of all projects supported through the Urban Area Security Initiative, both current and prospective. The NCREPC is supported by working groups across the entire range of regional emergency planning functions necessary for ongoing development in the NCR emergency planning, training, and exercise process. Existing work groups include transportation, communications infrastructure, water and wastewater, solid waste and debris management, fire/rescue/hazmat, emergency management (information and planning), resource support, health/mental health/medical services, energy, law enforcement, and media relations/community outreach.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS continued
JUNE 30, 2007

During the review period, the NCREPC adopted and is the custodian of the National Capital Region Homeland Security Plan (Strategic Plan). The Strategic Plan addresses homeland security challenges by defining goals and objectives for the entire COG area for the next three to five years, and by implementing a series of priority and secondary initiatives over the next three years. In addition, it defines a set of overarching themes and Guiding Principles that shape the substance of the Strategic Plan and guide its implementation.

During the process of developing the Strategic Plan, the framers identified four major themes that took the form of four strategic goals. These themes identified the need for:

1. A changed culture that emphasizes more collaboration among COG members and key stakeholders;
2. An engaged community that is well informed and takes responsibility for its own safety and security;
3. An enduring capability in place that serves the National Capital Regions preparedness needs over the long term; and
4. A sustained capacity to respond and recover from any major event on any scale

Water Security

Four Water Security grants were carried out by COG's Department of Environmental Programs during FY 2007. Three were funded by Urban Areas Security grants and one by the United States Environmental Protection Agency. These projects are as follows:

EPA - \$701,000 - Early Warning Monitoring

- This project provided complementary funding to a previously completed UASI grant for selection, sighting, procurement, testing, and operation of early contamination warning system monitors at strategic locations across the National Capital Region. These included both fish biomonitors developed by the United States Army at Ft. Detrick, Maryland, and chemical monitors manufactured by Hach, Co. Both systems are one-of-a-kind systems and are designed to be broad spectrum detectors for low levels of possible contamination in the region's water supply. In addition to obtaining the monitoring equipment and all associated supporting equipment, under this task water utility staff was trained in the operation and maintenance of the monitors, development of response protocols were prepared for responding to monitor alarms.

UASI - \$425,000 - Water Emergency Operations Plan/Best Management Practices Forum

- With substantial contractor support, research was conducted necessary to support the development of regional water emergency operations plans for providing potable water, water for fire suppression, water for sanitation, and water for hospitals. A series of work sessions and technical products were developed, and numerous meetings were held with relevant regional committees (fire, health, emergency managers, mass care, hospitals, water utilities) to discuss approaches for water emergency operations plans. In a separate but related task, a Best Management Practice Forum was established among the region's water utilities that focused on peer exchange for a range of security issues common to the region. This included physical security, cyber security, protection of the water supply system from contamination, mutual aid planning, pandemic flu continuity of operations planning, and related projects.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS continued
JUNE 30, 2007

UASI – \$300,000 Water Security Radiation Monitoring

- In an effort to enhance the existing NCR Drinking Water Security Monitoring Network monitoring capabilities, UASI project funding was secured. The objective of this grant is to assist the NCR to identify, procure, and operate 3 to 4 radiological monitors. Under this grant, significant staff research and discussions with radiological experts was conducted, and along with numerous meetings, conference calls and correspondence with water utilities and EPA radiological personnel, a radiological monitor was selected for consideration. In order to insure system reliability and accuracy of the monitor for its use in drinking water systems and prior to its final purchase, the monitors are undergoing testing and assessment by EPA. Final results of that testing will be made available sometime after January 2008. If deemed acceptable, the monitors will be purchased, installed and operated at strategic locations throughout the NCR by trained drinking water utility personnel.

UASI - \$75,000 Drinking Water Security Maintenance

- As part of the NCR efforts to operate the existing Drinking Water Security Monitoring Network UASI grant funding was awarded to assist in the ongoing maintenance and operation of Network monitors. The NCR Network currently operates 9 biological (fish biomonitors) and 8 chemical monitors located at strategic drinking source water and distribution system locations throughout the NCR. In order to keep these monitors operational and running properly regular on-site maintenance service is required. Service includes chemical replenishment, cleaning, recalibration, technical support, monitoring, as well as care, feeding and change-out of fish. In addition and as part of this maintenance, fish stocking operations are required in order to keep a fresh supply and distribution of sentinel fish for the biomonitors. The systems require on-going monitoring, coordination, and care that are primarily provided by COG staff, water utility personnel, and support staff from the United States Army Center for Environmental Health Research at Ft. Detrick, MD.

Foster and Respite Parent Recruitment Services

- Through the Congressional appropriation process, COG received an additional appropriation of \$247,500 to continue to provide Foster and Respite Parent Recruitment Services in tandem with the Child and Family Services Agency of the District of Columbia (CFSA). Funding enables COG and CFSA to serve the children of the District who are in need of a safe and stable environment through efforts to license an adequate supply of safe foster and adoptive homes and to provide mental health services to foster care children.

Through the support COG created a “Work of Heart Respite Program dedicated to providing safe and loving homes to the foster children of the District of Columbia. This is accomplished by the recruitment, training facilitating licenses of foster parents, and by providing a much needed break for foster parents. Specific programs and outcomes during the review period are as follows:

- There have been over **1300 overnight and weekend respite placements**.
- On any given weekend we have at least **10** available overnight respite slots.
- In FY07 there have been between **10 and 20** overnight respite placements per month.
- **141** total foster families have been registered.
- **266** total foster children have been registered.
- Over **177** volunteer respite providers have been trained.
- **80** volunteer respite providers have been licensed as DC foster parents or will be licensed in the next 60 days

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS continued
JUNE 30, 2007

FISCAL MANAGEMENT AND CONTROLS

The Metropolitan Washington Council of Governments (COG) exercises prudent fiscal discipline and ethics and follows stringent regulatory reporting and compliance requirements. In addition to fiscal policies and procedures, an accounting system, with project budgetary and reporting capabilities, is in place to provide accurate and generally accepted financial statements.

SUBSEQUENT EVENTS

No information or activities were identified subsequent to the close of the fiscal year that would have a material impact on fiscal year 2007 audit.

CONCLUSION

The above discussion and analysis is presented to provide additional information regarding the activities of the Council and also to meet the disclosure requirements of GASB Statement No. 34. If you have questions about the report or need additional financial information, contact the Chief Financial Officer, Raymond R. Rawlins, Metropolitan Washington Council of Governments, (202) 962-3362, 777 North Capital Street, N.W., Washington D.C. 20001, rrawlins@mwkog.org or go to COG's website at <http://www.mwcog.org>.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
STATEMENT OF NET ASSETS
JUNE 30, 2007

	2007
Assets	
Cash and Cash equivalents	\$ 1,603,185
Investments	7,146,520
Receivables	6,513,213
Prepaid Expenses and Other Assets	175,500
Capital Assets, net	
Computer	60,845
Software	62,819
Leasehold Improvements	54,823
Total Assets	15,616,905
 Liabilities	
Accounts Payable	3,589,380
Accrued Expenses	1,160,619
Accrued Vacation	665,691
Total Liabilities	5,415,690
 Net Assets	
Invested in Capital Assets	178,487
Restricted-Project Fund	2,271,963
Unrestricted	7,750,765
Total Net Assets	\$ 10,201,215

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Program Revenues		Net (Expense) over Revenue and Changes in Net Assets
Program Functions	Expenses	Charges for Services	Operating Grants and Contributions
Transportation	\$ 16,131,813	\$ 79,063	\$14,992,829
Human Services, Planning, and Public Safety	7,215,023	13,205	5,274,269
Environmental	6,609,173	6,980	5,683,967
Member Services	417,440	118,074	169,984
Total Governmental Activities	30,373,449	217,322	26,121,049
Member Contributions			2,974,203
Other Investment Income			282,330
Unrestricted Investment Earnings			514,345
Total General Revenues			3,770,878
Change in Net Assets			(264,200)
Net Assets-beginning			10,465,415
Net Assets-ending			\$ 10,201,215

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General Fund</u>	<u>Project Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 604,244	\$ 998,941	\$ 1,603,185
Investments	7,146,520	-	7,146,520
Receivables	-	6,513,213	6,513,213
Prepaid Expenses and Other Assets	-	175,500	175,500
Total Assets	<u>7,750,764</u>	<u>7,687,654</u>	<u>15,438,418</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	-	3,589,380	3,589,380
Accrued Expenses	-	1,160,619	1,160,619
Total Liabilities	<u>-</u>	<u>4,749,999</u>	<u>4,749,999</u>
Fund Balances:			
Reserved for Project Fund	-	2,937,655	2,937,655
Unreserved	<u>7,750,764</u>	<u>-</u>	<u>7,750,764</u>
Total Fund Balances	<u>7,750,764</u>	<u>2,937,655</u>	10,688,419
Total Liabilities and Fund Balances	<u>\$7,750,764</u>	<u>\$ 7,687,654</u>	

Amount reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	178,487
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds	<u>(665,691)</u>
Net assets of governmental activities	<u>\$ 10,201,215</u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>	<u>Project Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Member Contributions	\$ 2,974,203	\$ -	\$ 2,974,203
Federal Revenue	-	17,662,132	17,662,132
State Revenue	-	5,551,581	5,551,581
Local Revenue	-	2,133,686	2,133,686
Foundation Contributions	-	381,702	381,702
Other Income	282,050	609,550	891,600
Investment Income	514,345	-	514,345
Total Revenues	<u>3,770,598</u>	<u>26,338,651</u>	<u>30,109,249</u>
EXPENDITURES			
Transportation	-	16,044,840	16,044,840
Human Services, Planning, and Public Safety	-	7,160,204	7,160,204
Environmental	-	6,549,171	6,549,171
Member Services	41,351	375,549	416,900
Total Expenditures	<u>41,351</u>	<u>30,129,764</u>	<u>30,171,115</u>
Excess(deficiency) of revenues over(under) expenditures	<u>3,729,247</u>	<u>(3,791,113)</u>	<u>(61,866)</u>
OTHER FINANCING SOURCES (USES)			
Member Contributions Transfers in (out)	(2,966,401)	2,966,401	-
Other Transfers	61,406	(61,406)	-
Total Other Financing sources(uses)	<u>(2,904,995)</u>	<u>2,904,995</u>	<u>-</u>
Net Change in Fund Balances	824,252	(886,118)	(61,866)
Fund Balances, beginning	6,926,512	3,823,773	10,750,285
Fund Balances, ending	<u>\$ 7,750,764</u>	<u>\$ 2,937,655</u>	<u>\$ 10,688,419</u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ (61,866)
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 expense.	(189,767)
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 governmental funds.	<u>(12,567)</u>
Changes in net assets of governmental activities	<u><u>\$(264,200)</u></u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Member Contributions	\$ 2,970,824	\$ 2,974,203	\$ (3,379)
Federal	12,545,990	17,662,132	(5,116,142)
State	5,521,728	5,551,581	(29,853)
Special Contributions	3,539,678	2,515,388	1,024,290
Other Revenue	540,000	1,405,945	(865,945)
Total Revenues	<u>25,118,220</u>	<u>30,109,249</u>	<u>(4,991,029)</u>
EXPENDITURES			
Transportation	16,642,000	16,044,840	597,160
Human Services, Planning, and			
Public Safety	3,219,297	7,160,204	(3,940,907)
Environmental	4,382,550	6,549,171	(2,166,621)
Direct Services	874,373	416,900	457,473
	<u>25,118,220</u>	<u>30,171,115</u>	<u>(5,052,895)</u>
Deficiency of Revenues over Expenditures-			
Budgetary Basis	<u>\$ -</u>	<u>\$ (61,866)</u>	<u>\$ (61,866)</u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1: REPORTING ENTITY

The Metropolitan Washington Council of Governments (COG) is an organization comprised of 21 local governments of the Metropolitan Washington area, plus area members of the Maryland and Virginia legislatures, the U.S. Senate, and the U.S. House of Representatives. COG's mission is to enhance the quality of life and competitive advantages of the Washington metropolitan region in the global economy by providing a forum for consensus building and policy making; implementing intergovernmental policies, plans, and programs, and supporting the region as an expert information resource.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Under GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, reporting entities are required to present the following financial information: (a) Government-Wide Financial Statements, (b) Fund Financial Statements, and (c) Management's Discussion and Analysis.

The government wide financial statements include a statement of net assets and statement of activities. The statement of net assets presents COG's financial position. The statement of activities presents COG's expenses and revenues by program function.

The fund financial statements report financial transactions by fund. COG has only one fund the governmental fund. Its governmental fund is comprised of a general fund and a project fund. The general fund accounts for all transactions that are not allocable to a particular project. The project fund accounts for transactions that are restricted to expenditure for a particular purpose.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues are considered available if collected within one year. Expenditures are recorded when the liability is incurred.

Deposits

Cash and cash equivalents consist of cash demand deposits and government securities with original maturities of three months or less from the date of purchase.

Investments

Investments are carried at fair market value. In February 1982, COG adopted a formal investment policy that authorizes staff to deposit funds not immediately needed for operating activities in short-term investment accounts, including money market funds, where such accounts or funds are invested in securities of the United States or insured by the Federal Government

Capital Assets

Capital assets in excess of \$5,000 are recorded at cost. Capital assets are depreciated over their estimated useful lives on the straight-line method. Capital assets purchased during the year that are more than six months by year-end receive a full year’s depreciation. Capital assets that are less than six months received half of year’s depreciation. Leasehold improvements are amortized over the life of the lease. Furniture, equipment, and computer hardware and software are depreciated over three years.

Compensated Absences

Employees are allowed to accumulate unused vacation leave up to certain maximum hours. COG employees earn from thirteen to twenty six vacation days in a year, depending on the length of their employment. All employees receive thirteen sick days a year. Upon termination or retirement, employees are entitled to receive compensation at their current base salary for all unused vacation leave. Unused sick leave is canceled upon termination of employment, with no compensation to the employee.

Fringe Benefit and Indirect Cost Allocations

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

- Management and Administrative (M&A) personnel costs rate is the ratio of M&A salaries over direct salaries.
- Leave rate is the ratio of leave expense over total salary costs less temporary salaries and intern’s costs.
- Fringe rate is the ratio of fringe benefit expenses (excluding leave) over total personnel costs less temporary salaries and intern costs.
- Indirect nonpersonnel rate is the ratio of total indirect costs over total personnel and temporary and fringe benefit costs.

The fringe benefit and indirect costs rates for Fiscal Year 2007 were:

M&A personnel costs	23.60%
Leave	18.10%
Fringe Benefits	18.45%
Indirect nonpersonnel costs	35.28%

Deferred Revenue

Under GASB 33, a receivable and revenue should be recognized when all the eligibility requirements of a particular program are met. Funds advanced to COG before the satisfaction of program eligibility requirements are reflected as deferred revenue. The eligibility requirement applicable to COG is reimbursements or expenditure driven programs. COG must incur allowable costs under a program before the revenue can be recognized. Under governmental funds, funds that are not considered to be available to liquidate liabilities of the current period are also deferred. As of June 30, 2007, COG had a deferred revenue balance of \$798,116, which is reflected in accrued expenses in the statement of net assets.

Income Taxes

COG is a District of Columbia non-profit corporation exempt from Federal taxes under section 501 (c)(3) of the Internal Revenue Code.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and expenditures at the date of the basic financial statements. Actual results could differ from the estimates.

NOTE 3 DEPOSITS

COG maintains its deposits at several financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of June 30, 2007, COG’s uninsured bank balances totaled \$1,991,062. While \$1,991,062 is uninsured, the majority of the funds are subject to overnight sweeps that are invested in government securities.

NOTE 4 INVESTMENTS

COG’s investments are stated at fair value as determined by quoted market prices. As of June 30, 2007, the investment balance consists of the following:

Certificate of Deposits	\$ 5,556,141
Government Securities	1,187,252
Money Market	<u>403,127</u>
	<u>\$ 7,146,520</u>

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

- **Credit Risk** is the risk that an issuer to an investment will not fulfill its obligations. COG limits its exposure by ensuring deposits with a financial institution do not exceed 50% of the institution’s capital stock or net worth. In addition, financial institutions must have a satisfactory or outstanding Community Reinvestment Act rating, total capitalization of at least \$10M, and a FDIC Capital Classification of “Well Capitalized” or Adequately Capitalized. As of June 30, 2007, COG’s bonds with the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Farm Credit Bank had an AAA rating by Moody and S&P.

- **Concentration of Credit Risk** is the risk related to the amount of investments in any one entity. COG has no limit on investments carrying the full faith and credit of the U.S. Government, including repurchase agreements collateralized by such investments. Investments in any single federal agency not carrying the full faith and credit of the U.S government however are limited to no more than 50% of COG’s portfolio. As of June 30, 2007, more than 5% of COG’s investments are in government securities with the Federal Home Loan Bank. These investments represent about 13% of COG’s total investments.
- **Interest rate risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. COG mitigates the interest rate risk by investing in callable bonds and segmenting its investments with various maturity dates. The segmented maturity of the federal agency bonds are as follows:

One to Five years	73%
Five to Ten Years	27%

NOTE 5 TRANSFERS

Consistent with the approved Fiscal Year 2007 COG Budget to fund the operations of certain projects and to meet the organization’s matching requirements, COG transferred \$2.9M of member contribution from the General Fund to the Project Fund.

NOTE 6 RECEIVABLES

COG has several project agreements with governmental entities and organizations that have agreed to provide funds to COG for certain services. The receivable at year-end represent funds owed from those entities either for costs incurred on the projects or from approved funding commitments. COG’s largest customer is the U.S Department of Transportation. COG’s receivables, which consist of billed and unbilled amounts, were as follows at June 30, 2007:

Federal	\$ 4,525,059
State and Local	1,899,319
Other Receivables	<u>88,835</u>
	<u>\$ 6,513,213</u>

NOTE 7: CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2007:

	Balance at June 30, 2006	Additions	Balance at June 30, 2007
Furniture and Equipment	\$ 1,407,929	\$ -	\$ 1,407,929
Leasehold Improvements	263,874	-	263,874
Computer Hardware	1,251,403	-	1,251,403
Computer Software	708,115	-	708,115
Local Area Network	319,416	-	319,416
Total Capital Assets	3,950,737	-	3,950,737
Accumulated Depreciation	(3,582,483)	(189,767)	(3,772,250)
Net Capital Assets	\$ 368,254	\$ (189,767)	\$ 178,487

COG calculates depreciation expense each year based on its capital assets estimated useful lives. The depreciation expense is then allocated to each of the organization’s projects through its indirect cost rate. The total amount of depreciation expense that was recorded for the year was \$189,767.

NOTE 8 LONG TERM LIABILITIES

A summary of changes in long-term liabilities is as follows:

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Balance June 30, 2007</u>
Accrued Vacation	\$ 653,125	\$ 12,566	\$ 665,691

NOTE 9: PENSION PLAN

Plan Description

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

As a tax-exempt agent of general-purpose local governments, COG discontinued its participation under social security. Contributions, which would normally have gone to the Social Security Administration, are now added to COG’s plan which provides retirement, disability, and death benefits to participants and beneficiaries. Cost of living adjustments (COLA) equaling fifty percent of the consumer price index, if any, up to a maximum of three percent are made each July 1. By action of the Board of Directors, COG may, at any time, amend, in any respect, or terminate the plan, except that no amendment may reduce the accrued benefits of any participant or beneficiary. Participants are entitled to receive a summary of the plan’s financial reports upon written request to the Director of Human Resource Management.

Under the terms of the pension plan, a participant may retire at sixty-five years with at least five years of service or at age sixty with at least twenty-five 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 eighty percent of the average final compensation participants received from COG during the five calendar years in which participants received the highest compensation, multiplied by the ratio of service. In addition, effective July 1, 2004, a monthly health insurance benefit of \$200 is payable to all retirees. The pension benefit is payable in monthly amounts from the normal retirement date until death, with at least one hundred twenty monthly payments guaranteed.

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

Participants who terminate employment with COG, other than by death or disability, before completing eight years of vesting services, are entitled to receive, beginning after the normal retirement date, a benefit equal in value to the sum of the participants’ contributions to the plan, plus interest at five percent 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.

Contributions

The contribution requirements of the plan participants are established and may be amended by COG’s Board of Directors. Currently, participants are required to contribute 5% of their salary in bi-weekly installments to the plan. COG contributed 5% to keep the plan financially sound, based upon annual actuarial valuations. COG’s and employee’s contributions to the Plan for the fiscal year totaled \$493,465 and \$468,465, respectively.

Actuarial Valuation

The actuarial valuations were determined using the age normal cost method. The valuation date was July 1, 2006. The actuarial assumptions include the following:

	<u>Factor</u>	<u>Method</u>
Demographic		
I.	Mortality	
	a. Active employees and non-disabled retirees*	The 1994 Uninsured Pensioners Mortality Table
	b. Disabled retirees	RP-2000 Mortality Table for disabled lives
II.	Disability	1955 UAW Disability Rates Table
III.	Retirement	All members will retire when first eligible
Economic		
I.	Assumed rate of term	7.0%
II.	Cost of Living Benefit Increase for Actuarial Valuation Only	4% compound per annum
III.	Across the Board Increase in Salaries	4.50% compound per annum
IV.	Administrative Expenses	Equal to prior year’s actual administrative expense.

The actuarial value of the assets was determined using the techniques of the asset smoothing method that provides a cushion in case of a market correction. The financial information provided under the plan data is presented under the cash basis of accounting. Under this method, revenues, including contributions, are recorded upon receipt, and expenses, including benefits and refunds, are recorded upon payment or issuance of checks.

Participant Data

Number of Active Members	\$ 130
Number of Retired Members	14
Number of Vested Deferred Members and Others	<u>34</u>
Total Participants	<u>178</u>

Annual Payroll	<u>\$ 9,343,722</u>
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Plan Data

Net assets available for plan benefits	\$ 36,391,709
Present Value of future benefits	50,244,986
Present Value of future normal costs	<u>(15,637,463)</u>
Actuarial Liabilities	<u>34,607,523</u>

Excess of net assets available for plan benefits over actuarial liabilities	<u>\$ 1,784,186</u>
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NOTE 10 RELATED PARTY TRANSACTIONS

COG, along with the International City Management Association, (ICMA), and the International City Management Association Retirement Corporation, (ICMA-RC), is a member of the Center for Public Administration and Services, Inc. (CPAS), a non-profit membership District of Columbia Corporation, which was, incorporated on June 26,1987. CPAS owns the land and building at 777 North Capitol Street. On November 30, 1989, the original members of CPAS assigned their membership interest in CPAS to the Public Administration Holding Corporation (PAHC) a District of Columbia for profit Stock Corporation. PAHC became the sole member of CPAS.

COG is an equal shareholder in PAHC along with the ICMA and the ICMA-RC. PAHC is the sole shareholder of 777 North Capitol Corporation, a District of Columbia for profit stock corporation which was organized on November 30, 1989 to lease, manage, and operate an office building located at 777 North Capitol Street, NE, Washington, D.C. The 777 North Capitol Corporation leases the aforementioned office building from CPAS. COG has an operating lease agreement with 777 North Capitol Corporation for office space.

On December 8, 2005, CPAS refinanced its building at 777 North Capitol through a loan for \$34,000,000. The non-recourse loan is due and payable on January 5, 2016. It is secured by the real estate located at 777 North Capitol Street, NE.

COG uses the equity method of accounting to account for its investment in PAHC. During the year ended June 30, 1990, COG suspended the equity method of accounting for its investment, when COG’s share of losses equaled the carrying amount of the investment of \$1,000. COG will recognize income in the future when its capital and equity are restored to a positive position. During the year, COG received a distribution of \$282,330 for its share of the profits realized by 777 North Capitol Corporation from the operation of the property. The profit distribution is reflected as investment income in the financial statements.

Note 10 – Related Party Transaction**(Continued)**

Following is a summary of financial position and results of operations of PAHC, CPAS, and 777 North Capitol Corporation for the year ended December 31, 2006.

Total Assets	<u>\$ 28,689,009</u>
Total Liabilities	34,392,733
Total Stockholder's deficit	<u>(5,703,634)</u>
Total Liabilities and Stockholder's deficit	<u>\$ 28,689,099</u>
Total Revenues	\$ 7,560,969
Total Expenses	<u>6,377,003</u>
Net Income	<u>\$ 1,183,966</u>

NOTE 11: LEASE COMMITMENT

COG is obligated under a ten year operating lease agreement with 777 North Capitol Corporation. The lease expires on December 31, 2016. The lease includes basic rent, share of real estate taxes and operating expenses, and annual rental escalations based on the CPI. The future minimum lease payments for the next five years and thereafter required under the operating lease, excluding real estate taxes, operating expenditure and CPI adjustments totals \$9,048,038. The payments each fiscal year are as follows:

Fiscal Year 2008	1,064,475
Fiscal Year 2009	1,064,475
Fiscal Year 2010	1,064,475
Fiscal Year 2011	1,064,475
Thereafter	<u>4,790,138</u>
Total	<u>\$ 9,048,038</u>

Rent expense for the fiscal year ended June 30, 2007 was \$2,104,049, which included real estate taxes, operating expenditures and CPI adjustments. COG subleases a portion of its office space. Rental income from the tenant totaled \$74,550. All of the rental income except for \$6,212 is reflected net of COG's rent expense. The future rental income from the tenant is \$78,810.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
SUMMARY DEPARTMENTAL REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	Transportation Programs	Human Services Planning/Public Safety Programs	Environmental Programs	Member Services	COG	Total
Revenues						
Federal Revenue	\$ 11,145,994	\$ 4,629,169	\$ 1,886,969	\$ -	\$ -	\$ 17,662,132
State Revenue	3,600,166	150,000	1,752,415	49,000	-	5,551,581
Local Revenue	246,667	87,600	1,682,694	116,725	-	2,133,686
Membership Contributions	1,157,000	1,102,297	707,104	-	7,802	2,974,203
Foundation Grants	-	349,000	32,702	-	-	381,702
Interest Income	-	-	-	-	514,345	514,345
Other Income	79,064	71,704	336,167	122,335	282,330	891,600
Total Revenue	16,228,891	6,389,770	6,398,051	288,060	804,477	30,109,249
Expenses						
Salaries	4,523,427	1,391,398	1,914,980	55,599	924	7,886,328
Benefits	1,802,184	535,540	762,245	22,187	369	3,122,525
Consultants	4,260,163	3,867,808	1,789,538	182,343	17,566	10,117,418
Pass-through Funds	1,004,617	-	-	8,500	-	1,013,117
Promotion	902,102	57,711	228,347	-	-	1,188,160
Temporary Services	240,932	16,124	5,658	48,000	-	310,714
Conferences and Meetings	110,405	206,334	120,174	13,245	4,419	454,577
Data Processing	361,392	136,268	36,570	-	-	534,230
Printing	196,278	15,027	17,807	6,057	1,420	236,589
Other Costs	494,321	303,152	787,128	9,965	16,196	1,610,762
Indirect Costs	2,235,992	685,661	946,726	30,194	456	3,899,029
Total Expenses	16,131,813	7,215,023	6,609,173	376,090	41,350	30,373,449
Changes in Net Assets	\$ 97,078	\$ (825,253)	\$ (211,122)	\$ (88,030)	\$ 763,127	\$ (264,200)



**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***

Board of Directors of the
Metropolitan Washington Council of Governments

We have audited the financial statements of the Metropolitan Washington Council of Governments (COG) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 10, 2007. 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.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (2007-1, 2007-2, and 2007-3) to be significant deficiencies in the internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted a certain matter that we reported to management of COG in a separate letter dated October 10, 2007.

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

A handwritten signature in black ink that reads "BERT Smith & Co." with a period at the end. The signature is written in a cursive style.

Washington D.C.
October 10, 2007

OMB CIRCULAR A-133 SINGLE AUDIT



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

Board of Directors of the
Metropolitan Washington Council of Governments

Compliance

We have audited the compliance of the Metropolitan Washington Council of Governments (COG), with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. COG's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of COG's management. Our responsibility is to express an opinion on COG's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about COG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of COG's compliance with those requirements.

In our opinion, COG complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the COG is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered COG's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of COG's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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



Washington D.C.
October 10, 2007

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<u>Federal Agency/Program Name</u>	<u>Federal Award #</u>	<u>Pass-Through Identifying Number</u>	<u>CFDA #</u>	<u>Expenditures</u>
U.S. Department of Transportation				
Airport Improvement Program	3-11-8840-002-2003	-	20.106	58,227
Continuous Airport System Planning XXII			20.106	97,623
Total Airport Improvement Program				<u>155,850</u>
<i>Passed through Virginia, Maryland, and D.C Department of Transportations</i>				
TPB Work Program			20.505	8,671,264
Commuter Operation Ctr.		-	20.505	221,825
Telecommuting		-	20.505	22,436
Infoexpress Kiosks		-	20.505	37,706
Employer Outreach		-	20.505	480,410
Guaranteed Ride Home		-	20.505	223,999
TDM Mass Marketing		-	20.505	896,620
Monitoring & Evaluation		-	20.505	296,699
Reg'l Value Pricing Study		-	20.505	162,696
US 340 Interchange Const		-	20.505	13,145
<i>Total Virginia, Maryland, and D.C Department of Transportations</i>				<u>11,026,800</u>
Total U.S. Department of Transportation				<u>11,182,650</u>
U.S Environmental Protection Agency				
EPA Drinking Water	X-983489-01-3	-	66.606	50,416
Loudoun County Baseline		-	66.606	29,275
				<u>79,691</u>
Early Warning Monitors	XP-97319901-0	-	66.709	94,742
<i>Passed Through Maryland Department of Environment</i>				
EWS Public Water Supply		N.A.	66.000	614,338

The accompanying notes are an integral part of this schedule.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS continued
FOR THE YEAR ENDED JUNE 30, 2007

<u>Federal Agency/Program Name</u>	<u>Federal Award #</u>	<u>Pass-Through Identifying Number</u>	<u>CFDA #</u>	<u>Expenditures</u>
<i>Passed Through Virginia Department of Environment Quality Air Pollution Sec 105</i>	-	N.A.	66.001	15,806
<i>Passed Through Virginia Department of Transportation 2007 Clean Air Partners</i>	-	N.A.	66.000	108,000
<i>Passed through P.G. County Gov't Dept of Environmental Resources LID National Conference and Monitoring Program</i>	-	C-0270-03	66.000	180,923
Total Environmental Protection Agency				<u>1,093,500</u>
U.S Department of Energy				
<i>Passed Through District of Columbia Energy Office SEP Clean Cities</i>	-	COG-02R340591	81.041	2,822
Total U.S. Department of Energy				<u>2,822</u>
U.S. Department of Housing and Urban Development				
<i>Pass through Arlington County Planning Department HUD WS 2004-2007</i>	-	N.A.	14.512	25,083
Total U.S Department of Housing and Urban Development				<u>25,083</u>
U.S. Department of Education				
<i>Passed Through Office of Innovation and Improvement Mentors in Technology</i>	-	N.A.	84.000	24,822

The accompanying notes are an integral part of this schedule.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS continued
FOR THE YEAR ENDED JUNE 30, 2007

Federal Agency/Program Name	Federal Award #	Pass-Through Identifying Number	CFDA #	Expenditures
U.S. Department of Education				
<i>Passed Through Howard University</i>	-	633092-200950	84.350	7,848
Transition to Teaching				<u>32,670</u>
Total U.S. Department of Education				
U.S. Department of Health and Human Services				
<i>Pass Through District of Columbia Appropriations</i>	-	-	93.000	157,005
Respite Care 1-06				
<i>Pass Through District of Columbia Department of Health</i>	-	N.A.	93.000	498,137
CRI Planning				<u>655,142</u>
Total U.S. Department of Health and Human Services				
U.S. Department of Homeland Security				
<i>Passed through D. C. Office of Deputy Mayor for Public Safety & Justice</i>				
FY 06 UASI - Water Security Monitoring Network	-	03AUAS06	97.008	17,169
FY 06 Water Security Monitoring Network	-	03BUAS6	97.008	60,582
FY 06 UASI (Urban Area Secretariat Imitative)	-	CIPAUAS6	97.008	175,994
FY 06 UASI (Urban Area Secretariat Imitative)	-	COGBUAS6	97.008	359,341
FY 06 UASI (Urban Area Secretariat Imitative)	-	DCDUAS6	97.008	228,856
FY 06 UASI (Urban Area Secretariat Imitative)	-	ETAUAS6	97.008	186,326
FY 05 UASI (Urban Area Secretariat Imitative)	-	04.1.17.15	97.067	240,390
FY 05 UASI (Urban Area Secretariat Imitative)	-	2AUAS5-B	97.067	190,893
Water Supply Emergency Operation	-	3DUAS5	97.067	383,920
Debris Operation Plan	-	3AUAS5	97.067	257,978
Debris Training/Exercising	-	3BUAS5	97.067	46,705
FY 06 UASI (Urban Area Secretariat Imitative)	-	COGAUASA6	97.067	52,648
FY 05 UASI (Urban Area Secretariat Imitative)	-	X1UAS5	97.067	2,982,496
<i>Total D.C. Office of Deputy Mayor for Public Safety & Justice</i>				<u>5,183,298</u>
Total U.S. Department of Homeland Security				<u>5,183,298</u>

The accompanying notes are an integral part of this schedule.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS continued
FOR THE YEAR ENDED JUNE 30, 2007

<u>Federal Agency/Program Name</u>	<u>Federal Award #</u>	<u>Pass-Through Identifying Number</u>	<u>CFDA #</u>	<u>Expenditures</u>
National Science Foundation				
<i>Passed through P. G. Community College</i>	-	N.A.	47,000	44,688
Cyber Watch				<u>44,688</u>
Total National Science Foundation				
U.S Department of Commerce				
<i>Passed through National Fish & Wildlife Foundation</i>				
Herring Restoration/Outreach	-	N.A.	11,463	8,292
Ana C Marine Debris Proposal	-	N.A.	11,481	3,988
Total U.S Department of Commerce				<u>12,280</u>
Total Expenditures of Federal Awards				<u>\$ 18,232,133</u>

N.A. = Not available

The accompanying notes are integral part of this schedule.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of COG and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts may differ from amounts presented in or used in the preparation of, the basic financial statements.

NOTE 2: RECONCILIATION OF FEDERAL EXPENDITURES TO FINANCIAL STATEMENTS

Schedule of Expenditures of Federal Awards	\$ 18,232,133
Revenue Adjustments	(45,100)
GASB 33 Adjustments	<u>(524,901)</u>
Federal Revenue per Financial Statements	<u>\$ 17,662,132</u>

NOTE 3: SUBRECIPIENTS

Of the federal expenditures presented in this schedule, COG provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA#</u>	<u>Amount Provided to Subrecipients</u>
Transportation Program	20.505	\$ 1,004,617

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|-------------|
| 1. Type of auditors' report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | Yes |
| • Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major programs: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | None reported |
| 2. Type of auditors' report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |

4. Identification of Major Programs:

CFDA #	Program
97.067	Homeland Security Grant Program
97.008	Urban Areas Security Initiative
66.000	EWS Public Water Supply

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$546,964 |
| 6. Auditee qualified as a low risk auditee: | Yes |

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section II-Financial Statement Findings

2007-1 Updating Costpoint Project Budget Information

COG's inputs each project budget into its Costpoint accounting system once it receives actual funding awards and commitments from governmental units and organizations. When changes are made to the project's budgets during the fiscal year, COG had not always updated the budget information in Costpoint to reflect the changes. Due to a vacancy in the budget analyst position, COG maintained external records of the project's revised budgets instead of updating Costpoint. Costpoint is the organization's official accounting source document and should accurately present COG's operations.

Recommendation:

We recommend COG fill the vacant budget analyst position. We also recommend COG properly update its Costpoint project budgets to reflect changes approved by the Board of Directors and awarding entity.

2007-2 Costpoint Access Restrictions

COG does not have adequate access restrictions established in Costpoint. No access restrictions exist within the accounting department even though employees have different tasks and responsibilities. Although COG has a relatively small accounting department, employee's access in Costpoint should be limited to accounting functions that the employees are trained to perform. Currently, all employees are able to access the different accounting functional areas of Costpoint.

The accounting department also has the ability to access the Human Resource module of Costpoint. The accounting department has this access because it is currently performing the human resource functions for COG's Human Resource Department. The accounting and human resource functions should be properly segregated to reduce the risk of misappropriation or collusion by employees.

Recommendation:

We recommend COG evaluate each employee's access area in Costpoint. Access to accounting functional areas that are not in accordance with the employee's assigned tasks should be eliminated. In addition, we recommend COG transfer the human resource functions that it is currently being performed by the accounting department to the Human Resource department and eliminate the accounting departments' access to the Human Resource module.

2007-3 Processing and Recording Payroll Transactions

In our review of selected payroll transactions, we noted instances of noncompliance with COG's own internal payroll and personnel policies and procedures. More specifically:

- There was no employee supervisor signature on three timesheets.
- An employee's time was charged to a project incorrectly on one instance.
- The job description indicated on one employee's personnel action form was incorrect.

Enforcement of these policies and procedures is crucial ensuring that employees are paid amounts in accordance with approved salary rates and hours worked.

Recommendation

We recommend COG enforce its internal payroll and personnel policies and procedures. Employee's payroll should be not processed without the required supervisor signature and labor distribution reports should be reviewed each pay period to verify the accuracy of postings. We also recommend that secondary reviews be performed of employee's personnel action forms to ensure that correct pay grades are given to employees.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section III-Federal Award Findings and Questioned Costs

No matters were reported.