METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Financial Statements Together with Report of Independent Public Accountants

For the Year Ended June 30, 2012

SB & COMPANY, LLC
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JUNE 30, 2012

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying statement of net assets of the Metropolitan Washington Council of Governments, Inc. (COG), as of June 30, 2012, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of COG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Accounting 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 financial position of COG as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 17, 2012 on our consideration of COG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 evidence sufficient to express an opinion or provide any assurance.

SB & Company, LLC

Washington, DC
October 17, 2012

Financial Highlights

This section of the financial statements provides a discussion and analysis of the financial performance of the Metropolitan Washington Council of Governments, Inc. (COG) and an overview of COG's financial activity as of and for the years ended June 30, 2012 and 2011. This information is best understood if read in conjunction with COG's financial statements.

The following information is an analysis as of and for the years ended June 30, 2012 and 2011.

	2012	2011	Variance	% Change
Assets				
Current assets	**$ 23,560,187**	$ 21,061,526	$ 2,498,661	11.86%
Capital assets	**537,057**	681,920	(144,863)	-21.24%
Total Assets	**24,097,244**	21,743,446	2,353,798	10.83%
Total Liabilities	**9,319,538**	6,919,621	2,399,917	34.68%
Net Assets				
Invested in capital assets	**537,057**	681,920	(144,863)	-21.24%
Restricted for:				
Project funds	**5,227,001**	4,573,480	653,521	14.29%
Capital plans	**250,000**	200,000	50,000	100.00%
Unrestricted net assets	**8,763,648**	9,368,425	(604,777)	-6.46%
Net Assets	**$ 14,777,706**	$ 14,823,825	$ (46,119)	-0.31%

Financial Highlights (continued)

Metropolitan Washington Council of Governments, Inc. completed fiscal year 2012 with positive results from its financial operations, before adjusting for the net pension obligation. The organization's financial performance finished the fiscal year by adding approximately $513,000, less the net pension obligation expense of approximately $559,000 to complete the year with negative change in net assets of $46,000. The statement of net assets as of June 30, 2012 continues to demonstrate the organization's strong cash position by maintaining the required funds on hand to make payments to vendors who provide support to COG's program operations without relying on capital from its line of credit or unrestricted net assets. By evidence of its financial performance, COG maintained its financial stability in fiscal year 2012 given the economic climate.

Current assets increased by 12% or approximately $2,499,000 mainly due to an increase in cash and accounts receivable relative to the timing of receipts from Federal grants.

COG purchased capital assets of approximately $96,000. Major capital assets acquired consisted primarily of leasehold improvements for the building and computer equipment.

Liabilities reflected changes due to timing of cash payments for payables relative to Federal grant billings. Liabilities also reflected approximately $559,000 increase for the net pension obligation, an additional liability of approximately $390,000 related to the deferred revenue for Federal grant activity, and additional accrual of approximately $98,000 to capture the reduction to grant billings for adjusting the provisional indirect rates to the actual indirect rates.

COG's unrestricted net assets fund decreased overall by approximately $605,000, from $9.4 million to $8.8 million primarily as a result of recording a pension liability of approximately $559,000. Further, the decrease in changes in net assets of approximately $46,000 also contributed to the decrease in unrestricted net assets. The decrease was mitigated by interest earnings from COG's investment portfolio and investment income received from the Center for Public Administration Services, Inc. (CPAS). COG is an equal shareholder in CPAS along with International City Management Association (ICMA) and the International City Management Association Retirement Corporation (ICMA-RC). CPAS is a real estate investment trust (REIT) that owns an office building located at 777 North Capitol Street, Washington DC. CPAS is a REIT; therefore, it must distribute most of its earnings to its owners each year.

Financial Highlights (continued)

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

	2012	2011	Variance	% Change
Revenue				
Federal grants	**$ 21,491,797**	$ 18,685,356	$ 2,806,441	15.02%
State and local grants	**9,382,821**	9,517,706	(134,885)	-1.42%
Member contributions	**3,223,507**	3,244,329	(20,822)	-0.64%
Other	**2,336,479**	2,982,273	(645,794)	-21.65%
Total Revenue	**36,434,604**	34,429,664	2,004,940	5.82%
Expenses				
Personnel	**13,057,112**	12,633,502	423,610	3.35%
Professional fees	**15,503,587**	13,878,331	1,625,256	11.71%
Other direct costs	**3,231,573**	3,126,234	105,339	3.37%
Indirect costs	**4,688,453**	4,526,324	162,129	3.58%
Total Expenses	**36,480,725**	34,164,391	2,316,334	6.78%
Changes in net assets	**(46,119)**	265,273	(311,392)	-117.39%
Net assets, beginning of year	**14,823,825**	14,558,552	265,273	1.82%
Net Assets, End of Year	**$ 14,777,706**	$ 14,823,825	$ (46,119)	-0.31%

Revenue for the year ended June 30, 2012, was $36.4 million, which was approximately $2,000,000 higher than during the year ended June 30, 2011. Revenue increased primarily due to Federal pass-through funding, which increased costs by an equal amount.

Member contributions remained flat at $3.2 million for both 2012 and 2011, in response to the economic recession.

Expenses increased overall by approximately $2.3 million. Personnel costs increased 3% due to increases in salaries and related benefits. The increase in professional fees is primarily attributed to the corresponding increase in Federal pass-through revenue.

Financial Highlights (continued)

The economic forecast for COG is based on the outlook for its member governments and the Metropolitan Washington, DC region. COG does not expect any significant change in its operations for the next fiscal year. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to: Metropolitan Washington Council of Governments, Inc. 777 North Capitol Street, NE, Washington, DC 20002.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Statement of Net Assets
As of June 30, 2012

ASSETS		
Current Assets		
Cash	$	2,979,242
Investments		9,137,016
Accounts receivable		11,228,368
Prepaid expenses and other current assets		215,561
Total Current Assets		23,560,187
Non-Current Assets		
Capital assets, net		537,057
Total Assets	$	24,097,244
LIABILITIES		
Current Liabilities		
Accounts payable	$	5,182,545
Accrued expenses		607,714
Deferred revenue		1,518,273
Total Current Liabilities		7,308,532
Non-Current Liabilities		
Accrued vacation		763,847
Net pension obligation		1,247,159
Total Liabilities		9,319,538
NET ASSETS		
Invested in capital assets		537,057
Unrestricted Board Designated:		
Project funds		5,227,001
Capital plans		250,000
Unrestricted net assets		8,763,648
Total Net Assets	$	14,777,706

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Statement of Revenue, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

Operating Revenues		
Member contributions	$	3,223,507
Federal grants		21,491,797
State grants		7,052,678
Local grants		2,330,143
Foundation contributions		511,414
Other income		1,017,295
Total Operating Revenue		35,626,834
Operating Expenses		
Transportation		20,690,410
Community planning and services		1,748,077
Public safety and health		4,567,599
Environmental		8,335,280
Member services		580,044
Additional required pension		559,312
Total Operating Expenses		36,480,722
Operating Loss		(853,888)
Non-Operating Revenue		
Unrealized gain on investments		(10,609)
Interest income		191,220
Investment income		627,158
Total Non-Operating Revenue		807,769
Changes in net assets		(46,119)
Net assets, beginning of year		14,823,825
Net Assets, End of Year	$	14,777,706

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Statement of Cash Flows
For the Year Ended June 30, 2012

Cash Flows from Operating Activities		
Revenue and other support	$	34,293,505
Payments to employees		(12,937,264)
Payments to vendors		(21,155,995)
Net Cash Flows from Operating Activities		200,246
Cash Flows from Investing Activities		
Purchase of investments		(147,933)
Interest income		180,611
Investment income		627,158
Net Cash Flows from Investing Activities		659,836
Cash Flows from Capital Financing Activities		
Purchase of furniture and equipment		(96,118)
Net increase in cash		763,964
Cash, beginning of year		2,215,278
Cash, End of Year	$	2,979,242
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$	(853,888)
Adjustments to reconcile operating income to cash from operating activities:		
Depreciation and amortization		240,981
Effect of changes in non-cash operating assets and liabilities:		
Accounts receivable		(1,723,463)
Prepaid expenses and other current assets		136,699
Accounts payable		1,305,777
Accrued expenses		119,848
Accrued vacation		24,846
Net pension obligation		559,312
Deferred revenue		390,134
Net Cash Flows from Operating Activities	$	200,246

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

1. ORGANIZATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and financial reporting for the accompanying financial statements follow the enterprise fund reporting model as defined by the Government Accounting Standards Board (GASB) which uses the economic-resources measurement focus and the accrual basis of accounting. The enterprise basis of accounting was used as COG is an entity formed to benefit governments and its members are governmental entities. As such, COG believes the enterprise fund reporting model more properly reflects its reporting entity. Revenue is recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flow. COG has elected to not adopt private sector accounting and reporting standards established by the Financial Accounting Standards Board's (FASB) pronouncement issued after November 30, 1989, unless required by the GASB.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of year-end and the changes therein and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

Accounts receivable are primarily from grants and are recorded at their estimated net realizable value. Management believes all receivables are fully collectible as of June 30, 2012.

Capital Assets

Capital assets in excess of $5,000 are recorded at cost. Capital assets are depreciated over their estimated useful lives on the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the life of the lease. Furniture, equipment, computer hardware, and software are depreciated over three years.

Compensated Absences

Employees are allowed to accumulate unused vacation leave up to certain maximum hours. COG employees earn 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.

Deferred Revenue

Funds advanced to COG before the satisfaction of program eligibility requirements are reflected as deferred revenue. The eligibility requirements applicable to COG relate to reimbursement or expenditure driven programs. COG must incur allowable costs under a program before the revenue can be recognized.

Fringe Benefit and Indirect Cost Allocations

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

- The management and administrative (M&A) personnel costs rate is the ratio of M&A salaries over direct salaries;
- The leave rate is the ratio of leave expense over total salary costs less temporary salaries and intern costs;
- The fringe rate is the ratio of fringe benefit expense (excluding leave) over total personnel costs less temporary salaries and intern costs; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fringe Benefit and Indirect Cost Allocations (continued)

- The indirect non-personnel 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 the fiscal year ended June 30, 2012, were as follows:

M&A personnel costs	**21.58%**
Leave	**18.09%**
Fringe benefits	**29.24%**
Indirect non-personnel costs	**33.84%**

Reclassifications

Certain amounts related to fiscal year 2011 have been reclassified in the Management's Discussion and Analysis to conform to the 2012 presentation.

Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB No. 68, *Accounting and Financial Reporting for Pensions*. GASB No. 62 is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. GASB No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB No. 62 are effective for financial statements for periods beginning after December 15, 2011. The provisions in GASB No. 68 are effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the implications of GASB Statement No. 62 and No. 68, and the effect on the financial statements is unknown at this time.

Subsequent Events

COG evaluated the accompanying financial statements for subsequent events and transactions through October 17, 2012, the date these financial statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. DEPOSITS

COG maintains its deposits at several financial institutions. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, for interest bearing accounts. As of June 30, 2012, COG's bank balance was $4,033,424, and its book balance was $2,979,242. The bank balance was fully insured.

4. INVESTMENTS

COG's investments are stated at fair value as determined by quoted market prices. As of June 30, 2012, the investment balance consisted of the following:

Certificate of deposits	**$**	**7,457,440**
Government backed securities		**1,588,068**
Money market		**391,508**
Net Unsettled Purchases		**(300,000)**
	$	**9,137,016**

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

Credit Risk is the risk that an issuer to an investment will not fulfill its obligations. COG limits its exposure by ensuring deposits with a financial institution do not exceed the $250,000 FDIC insurance. In addition, financial institutions must have a satisfactory or outstanding Community Reinvestment Act rating, total capitalization of at least $10 million, and a FDIC Capital Classification of "Well Capitalized" or Adequately Capitalized. As of June 30, 2012, COG's bonds with the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Farm Credit Bank had a AAA rating by Moody and AA+ by S&P.

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

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. COG mitigates the interest rate risk by investing in callable bonds and segmenting its investments with various maturity dates. The segmented maturity of the Federal agency bonds are as follows:

One to five years	70%
Five to ten years	30%

5. CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2012:

	June 30, 2011	Additions	Retirements	June 30, 2012
Furniture and equipment	$ 1,592,927	$ -	$ -	**$ 1,592,927**
Leasehold improvements	298,906	43,935	-	**342,841**
Computer hardware	492,599	46,383	-	**538,982**
Computer software	669,220	5,800	-	**675,020**
Local area network	300,032	-	-	**300,032**
Total capital assets	3,353,684	96,118	-	**3,449,802**
Less: accumulated depreciation	2,671,764	240,981	-	**2,912,745**
Capital Assets, net	$ 681,920	$ (144,863)	$ -	**$ 537,057**

COG calculates depreciation expense each year based on its capital assets' estimated useful lives. The depreciation expense is then allocated to each of COG's projects through its indirect cost rate. Depreciation expense for the year ended June 30, 2012, was $240,981.

6. PENSION PLAN

Plan Description

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

As a tax-exempt agent of general-purpose local governments, COG discontinued its participation in Social Security. Contributions, which would normally have gone to the Social Security Administration, are now added to COG's Plan, which provides retirement, disability, and death benefits to participants and beneficiaries. Cost of living adjustments (COLA) equaling 50% of the consumer price index, if any, up to a maximum of 3% are made each July 1. By action of the Board of Directors, COG may, at any time, amend, in any respect, or terminate the Plan, except that no amendment may reduce the accrued benefits of any participant or beneficiary. Participants are entitled to receive a summary of the Plan's financial reports upon written request to the Director of Human Resource Management.

Under the terms of the Plan, a participant may retire at 65 years with at least five years of service or at age 60 with at least 25 years of service. Normal retirement benefits are received on the first day of the month following the month the participant retires. Normal retirement benefits paid each year represent 80% of the average final compensation participants received from COG during the five calendar years in which participants received the highest compensation, multiplied by the ratio of service. In addition, effective July 1, 2004, a monthly supplemental insurance benefit of $200 is payable to all retirees.

6. PENSION PLAN (continued)

Plan Description (continued)

The pension benefit is payable in monthly amounts from the normal retirement date until death, with at least 120 monthly payments guaranteed.

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

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

Funding Policy

The contribution requirements of the Plan participants are established and may be amended by COG's Board of Directors. Currently, participants are required to contribute 7.5% of their salary in bi-weekly installments to the Plan. COG's and the employee's contributions to the Plan for the year ended June 30, 2012, was $843,651 and $750,156, respectively.

Annual Pension Cost

For the year ended June 30, 2012, COG's estimated annual pension cost was $1,402,963. The table below represents the funded status of the Plan as of June 30, 2012.

Three Year Trend Information

	Annual Pension Cost	Actual COG Contribution	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	$ 759,697	$ 759,697	100%	$ -
June 30, 2011	1,467,847	780,000	53%	687,847
June 30, 2012	**1,402,963**	**843,651**	**60%**	**1,247,159**

6. PENSION PLAN (continued)

Funding Status and Funding Progress

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

	June 30, 2012
Net assets available for plan benefits	$ 35,218,821
Actuarial accrued liability (AAL)	37,518,882
Unfunded AAL	$ (2,300,061)

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.

	June 30, 2012
Estimated covered payroll	$ 10,723,026
Unfunded AAL as a percentage of payroll	21.4%

Significant Assumptions

Factor	Method
Demographic	
I. Mortality	
a. Active employees and non-disabled retirees	The 1994 Uninsured Pensioners Mortality Table
b. Disabled retirees	No disability is assumed
II. Retirement	75% of members are assumed to retire when first eligible for normal retirement benefits, then 25% each year thereafter
Economic	
I. Assumed rate of return	7%
II. Cost of living benefit increase for actuarial valuation only	4% compound per annum
III. Across the board increase in salaries	4.50% compound per annum
IV. Administrative expenses	Equal to prior year's actual administrative expense

7. RELATED PARTY TRANSACTIONS

COG owns one-third of the common stock of the Center for Public Administration and Services, Inc. (CPAS), which owns and operates the office building housing the COG's offices. The remainder of the CPAS stock is held equally by the International City Management Association Retirement Corporation (ICMA-RC) and the International City Management Association (ICMA). 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, 2012, CPAS distributed $525,000 of income to COG.

CPAS's summarized financial information as of and for the year ended December 31, 2011, is as follows:

Total assets	$ 20,886,034	$ 21,980,771
Total liabilities	29,563,658	30,985,674
Total stockholders' deficit	$ (8,677,624)	$ (9,004,903)
Revenue	$ 8,406,042	$ 8,577,688
Expenses	6,488,138	6,735,726
Net Income	$ 1,917,904	$ 1,841,962

As of December 31, 2011, CPAS's assets included net rental property of $12,345,268.

8. LEASE COMMITMENTS

COG is obligated under a ten year operating lease agreement with 777 North Capitol Corporation. The lease expires on December 31, 2016. The lease includes basic rent, a share of real estate taxes and operating expenses, and annual rental escalations based on the CPI. The future minimum lease payments for the next five years and thereafter required under the operating lease, excluding real estate taxes, operating expenditures and CPI adjustments is $181,093.

COG is also obligated under various leases for equipment, the longest of which runs through April 30, 2014. The leases are for copy, scanning and printing services.

8. LEASE COMMITMENTS (continued)

The payments each fiscal year are as follows:

For the Years Ending June 30,		
2013	$	1,380,202
2014		1,200,428
2015		1,064,475
2016		1,064,475
2017		532,238
Total	**$**	**5,241,818**

Rent expense for the fiscal year ended June 30, 2012, was $2,309,649, which included real estate taxes, operating expenses and CPI adjustments. COG subleases a portion of its office space. For the year ended June 30, 2012, rental income from the tenant was $102,158.

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

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

We have audited the financial statements of Metropolitan Washington Council of Governments, Inc. (COG), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012. 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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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*.

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

Washington, DC
October 17, 2012

SB + Company, LLC