METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Financial Statements Together with Reports of Independent Public Accountants

For the Year Ended June 30, 2010

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June 30, 2010

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying statement of net assets of the Metropolitan Washington Council of Governments, Inc. (COG), as of June 30, 2010, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements and supplemental schedules are the responsibility of COG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2010, 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 25, 2010, 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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The accompanying management's discussion and analysis on pages 3 through 6 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental 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.

SB & Company, LLC

Washington, DC
October 25, 2010

Management's Discussion and Analysis
As of June 30, 2010

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, 2010 and 2009. This information is best understood if read in conjunction with COG's financial statements.

The following information is an analysis as of and for the years ended June 30, 2010 and 2009.

Comparative Statements of Net Assets
As of June 30,

	2010	2009	Variance	% Change
Assets				
Current assets	$ 20,773,256	$ 18,372,466	$ 2,400,790	13.07%
Capital assets	643,992	539,015	104,977	19.48%
Total Assets	21,417,248	18,911,481	2,505,767	13.25%
Total Liabilities	6,858,696	5,562,334	1,296,362	23.31%
Net Assets				
Invested in capital assets	643,992	539,015	104,977	19.48%
Restricted for project fund	4,108,337	3,707,700	400,637	10.81%
Unrestricted net assets	9,806,223	9,102,432	703,791	7.73%
Total Net Assets	$ 14,558,552	$ 13,349,147	$ 1,209,405	9.06%

FINANCIAL HIGHLIGHTS (continued)

Metropolitan Washington Council of Governments, Inc. completed fiscal year 2010 with positive results from its financial operations. The organization's financial performance finished the fiscal year by adding approximately $704,000 to the unrestricted net assets. The balance sheet as of June 30, 2010, still demonstrated the organization's continued strong cash position by having the required funds on hand to make payments to vendors who provide support to COG's program operations without relying on capital from its line of credit or general reserve funds.

Current assets increased by 13% or approximately $2.4 million mainly due to increases in cash and investments. The increase in cash was primarily a result of improved accounts receivable collections from Federal and State funding from the prior year. COG also took advantage of the competitive market rates by purchasing more investments during the year from the investment's interest earnings and the investment income received from its co-ownership of the building it leases and the results from operations for the year.

COG purchased capital assets of approximately $306,063. Major capital assets acquired consisted of computer hardware servers, software licenses, and a document management program.

Liabilities increased by 23% due to an increase in unearned revenue from projects in progress.

COG's unrestricted net assets fund increased by approximately $704,000 from $9.1 million to $9.8 million. This is primarily due to interest earnings from COG's investment portfolio and investment income received from the Center for Public Administration Services, Inc. (CPAS). COG is an equal shareholder in CPAS along with International City Management Association (ICMA) and the International City Management Retirement Corporation Association (ICMA-RC). CPAS is a real estate investment trust (REIT) that owns an office building located at 777 North Capitol Street, Washington, DC. Because CPAS is a REIT, it must distribute most of its earnings to its owners each year.

FINANCIAL HIGHLIGHTS (continued)

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

	2010	2009	Variance	% Change
Revenue				
Federal grants	$ 17,884,699	$ 13,499,545	$ 4,385,154	32.48%
State and local grants	10,171,581	10,158,189	13,392	0.13%
Member contributions	3,215,052	3,263,509	(48,457)	-1.48%
Other	2,876,102	2,623,849	252,253	9.61%
Total Revenue	34,147,434	29,545,092	4,602,342	15.58%
Expenses				
Personnel	12,258,715	12,123,437	135,278	1.12%
Professional fees	11,406,089	10,123,909	1,282,180	12.66%
Other direct costs	5,149,829	2,762,120	2,387,709	86.44%
Indirect costs	4,123,396	3,757,896	365,500	9.73%
Total Expenses	32,938,029	28,767,362	4,170,667	14.50%
Changes in net assets	1,209,405	777,730	431,675	55.50%
Net assets, beginning of year	13,349,147	12,571,417	777,730	6.19%
Net Assets, End of Year	$ 14,558,552	$ 13,349,147	$ 1,209,405	9.06%

Revenue for the year ended June 30, 2010, was $34.1 million which was approximately $4.6 million higher than during the year ended June 30, 2009. Revenue increased primarily due to receiving new grants for the Urban Area Security Initiative for the National Capital Region and new funding for three Federal Transit Administration programs.

Member contributions were flat at $3.2 million. COG's membership assessment is calculated on a per capita (population) basis each fiscal year using an assessment rate adopted by the COG Board of Directors. The annual formula was suspended for fiscal year 2010 and membership dues were frozen in response to the economic recession.

FINANCIAL HIGHLIGHTS (continued)

Expenses increased overall by approximately $4.2 million. The increase in professional fees is primarily attributed to the corresponding increase in Federal pass-through revenue mainly for the Urban Area Security Initiative. Other direct costs increased as a result of purchasing retro-fitted vehicles on behalf of the wheel chair accessible taxi cab program, a major advertising campaign for the H1N1 program and spending in temporary services to address retirements.

The economic outlook for COG is based on the outlook of its member governments and the Metropolitan Washington, DC region. COG does not expect any significant change in its operations for the next fiscal year. Questions concerning any of the information provided in this report or requests 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, 2010

ASSETS		
Current Assets		
Cash	$	3,886,314
Investments		8,713,726
Accounts receivable		8,027,379
Prepaid expenses and other current assets		145,837
Total Current Assets		20,773,256
Non-current Assets		
Capital assets, net		643,992
Total Assets		21,417,248
LIABILITIES		
Current Liabilities		
Accounts payable		4,626,059
Accrued expenses		517,225
Deferred revenue		1,001,741
Total Current Liabilities		6,145,025
Non-current Liabilities		
Accrued vacation		713,671
Total Liabilities		6,858,696
NET ASSETS		
Invested in capital assets		643,992
Restricted for project fund		4,108,337
Unrestricted net assets		9,806,223
Total Net Assets	$	14,558,552

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, 2010

Revenue		
Member contributions	$	3,215,052
Federal grants		17,884,699
State grants		8,252,228
Local grants		1,919,353
Foundation contributions		496,228
Other income		1,293,600
Total Revenue		33,061,160
Expenses		
Transportation		19,718,761
Community planning and services		934,413
Public safety and health		5,131,865
Environmental		6,357,530
Member services		795,460
Total Expenses		32,938,029
Operating Income		123,131
Non-operating Income		
Unrealized gain on investments		114,552
Interest income		310,809
Investment income		660,913
Total Non-operating Income		1,086,274
Changes in net assets		1,209,405
Net assets, beginning of year		13,349,147
Net Assets, End of Year	$	14,558,552

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, 2010

Cash Flows from Operating Activities	
Membership and other revenue sources	$ 32,919,779
Payments for people	(12,275,348)
Payments to vendors	(19,563,828)
Net Cash Flows from Operating Activities	1,080,603
Cash Flows from Investing Activities	
Purchase of investments	(336,243)
Interest income	310,809
Investment income	660,913
Net Cash Flows from Investing Activities	635,479
Cash Flows from Capital Financing Activities	
Purchase of furniture and equipment	(306,063)
Net increase in cash	1,410,019
Cash, beginning of year	2,476,295
Cash, End of Year	$ 3,886,314
Reconciliation of Operating Income to Net Cash from Operating Activities:	
Operating income	$ 123,131
Adjustments to reconcile operating income to cash from operating activities:	
Depreciation and amoritzation	201,086
Effect of changes in non-cash operating assets and liabilities:	
Accounts receivable	(469,559)
Prepaid expenses	(70,414)
Accounts payable	984,812
Accrued expenses and vacation	(16,633)
Deferred revenue	328,180
Net Cash Flows from Operating Activities	$ 1,080,603

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, disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amount of change in net assets during the reporting period. Actual results could differ from those estimates.

Investments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2010.

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. As of June 30, 2010, COG had a deferred revenue balance of $1,001,741.

Fringe Benefit and Indirect Cost Allocations

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

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

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, 2010, are as follows:

M&A personnel costs	**24.52%**
Leave	**18.75%**
Fringe benefits	**21.97%**
Indirect non-personnel costs	**33.23%**

Subsequent Events

COG evaluated the accompanying financial statements for subsequent events and transactions through October 25, 2010, the date these 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. As of June 30, 2010, COG's bank balance was $4,466,715 and its book balance was $3,886,314. The bank balance was fully insured or collateralized.

4. INVESTMENTS

COG's investments are stated at fair value as determined by quoted market prices. As of June 30, 2010, the investment balance consists of the following:

Certificate of deposits	**$ 7,583,431**
Government securities	**611,912**
Money market	**518,383**
	$ 8,713,726

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

4. INVESTMENTS (continued)

■ ***Credit Risk*** is the risk that an issuer to an investment will not fulfill its obligations. COG limits its exposure by ensuring deposits with a financial institution do not exceed 50% of the institution's capital stock or net worth. In addition, financial institutions must have a satisfactory or outstanding Community Reinvestment Act rating, total capitalization of at least $10 million, and a FDIC Capital Classification of "Well Capitalized" or Adequately Capitalized. As of June 30, 2010, 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 of loss attributed to the magnitude of a government's investment in a single issuer. There is no limit on the amount that may be invested in any one issuer.

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

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

5. CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2010:

	Balance as of June 30, 2009	**Additions**	**Retirements**	**Balance as of June 30, 2010**
Furniture and equipment	$ 1,787,428	$ -	$ 91,783	**$ 1,695,645**
Leasehold improvements	263,874	-	-	**263,874**
Computer hardware	1,437,950	89,905	1,147,690	**380,165**
Computer software	799,998	216,158	383,561	**632,595**
Local area network	319,416	-	19,384	**300,032**
Total Capital Assets	4,608,666	306,063	1,642,418	**3,272,311**
Less: accumulated depreciation	4,069,651	201,086	1,642,418	**2,628,319**
Net Capital Assets	$ 539,015	$ 104,977	$ -	**$ 643,992**

5. CAPITAL ASSETS (continued)

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, 2010, was $201,086.

6. PENSION PLAN

Plan Description

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

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

Under the terms of the Plan, a participant may retire at 65 years with at least five years of service or at age 60 with at least 25 years of service. Normal retirement benefits are received on the first day of the month following the month the participant retires. Normal retirement benefits paid each year represent 80% of the average final compensation participants received from COG during the five calendar years in which participants received the highest compensation, multiplied by the ratio of service. In addition, effective July 1, 2004, a monthly supplemental insurance benefit of $200 is payable to all retirees. The pension benefit is payable in monthly amounts from the normal retirement date until death, with at least 120 monthly payments guaranteed.

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

6. PENSION PLAN (continued)

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% of their salary in bi-weekly installments to the Plan. COG contributed 7% to keep the Plan financially sound, based upon annual actuarial valuations. COG's and the Employee's contributions to the Plan for the year ended June 30, 2010, was $798,879 and $717,971, respectively.

Annual Pension Cost

For the year ended June 30, 2010, COG's estimated annual pension cost was $711,323, which was equal to COG's required contributions.

Three Year Trend Information

	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	$ 531,718	100%	$ -
June 30, 2009	700,000	100%	-
June 30, 2010	711,323	112%	-

Funding Status and Funding Progress

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

	June 30, 2010
Net assets available for plan benefits	$ 39,348,107
Actuarial accrued liability (AAL)	39,038,054
Overfunded AAL	$ 310,053

6. PENSION PLAN (continued)

Funding Status and Funding Progress (continued)

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, 2010
Estimated covered payroll	**$ 10,161,763**
Overfunded AAL as a percentage of payroll	**3.10%**

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 approximately 93.81% 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, 2010, CPAS distributed $660,913 of income to COG.

7. RELATED PARTY TRANSACTIONS (continued)

CPAS's summarized financial information as of and for the year ended December 31, 2009, is as follows:

Total assets	$	22,588,302
Total liabilities		31,814,542
Total stockholders' deficit	$	(9,226,240)
Revenue	$	8,600,673
Expenses		6,880,610
Net income before income tax provision		1,720,063
Income tax provision		-
Net income	$	1,720,063

As of December 31, 2009, CPAS's assets included net rental property of $12,784,575.

8. LEASE COMMITMENT

COG is obligated under a ten year operating lease agreement with 777 North Capitol Corporation. The lease expires on December 31, 2016. The lease includes basic rent, the share of real estate taxes and operating expenses, and annual rental escalations based on the CPI. The future minimum lease payments for the next five years and thereafter required under the operating lease, excluding real estate taxes, operating expenditures and CPI adjustments is $5,854,613. The payments each fiscal year are as follows:

For the Years Ending June 30,		
2011	$	1,064,475
2012		1,064,475
2013		1,064,475
2014		1,064,475
2015		1,064,475
2016		532,238
Total	$	5,854,613

Rent expense for the fiscal year ended June 30, 2010, was $2,326,671, which included real estate taxes, operating expenses and CPI adjustments. COG subleases a portion of its office space. For the year ended June 30, 2010, rental income from the tenant was $86,195.

SINGLE AUDIT

SB & COMPANY, LLC
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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, 2010, and have issued our report thereon dated October 25, 2010. 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.

SB & Company, LLC

Washington, DC
October 25, 2010

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

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

Compliance

We have audited the compliance of Metropolitan Washington Council of Governments, Inc. (COG) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of COG's major Federal programs for the year ended June 30, 2010. COG's major Federal programs are identified in the summary of independent public accountants' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of COG's management. Our responsibility is to express an opinion on COG's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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Internal Control Over Compliance

The management of COG is responsible for establishing and maintaining effective internal control over compliance with 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 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 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.

SB & Company, LLC

Washington, DC
October 25, 2010

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Agency/Program Name	Pass-Through Identifying Number	CFDA #	Expenditures
U.S. Department of Transportation			
Airport Improvement Program	-	20.106	$ 112,030
Airport Improvement Program	-	20.106	54,942
Total Airport Improvement Program			166,972
Passed through Virginia, Maryland and D.C. Department of Transportations			
Regional Transportation Coordination Program	N.A.	20.505	490,140
Transportation Planning Work Program	N.A.	20.505	9,657,946
Total passed through Virginia, Maryland, and D.C. Department of Transportations			10,148,086
Job Access Reverse Commute Program	DC-37-X002-01	20.516	24,380
Job Access Reverse Commute Program	DC-37-X002-01	20.516	151,616
Job Access Reverse Commute Program	DC-37-X002-01	20.516	136,906
Total Job Access Reverse Commute Program			312,902
New Freedom Program	DC-57-X002-01	20.521	68,898
New Freedom Program	DC-57-X002-02	20.521	644,213
New Freedom Program	DC-57-X003-01	20.521	303,463
Total New Freedom Program			1,016,574
Total U.S. Department of Transportation			11,644,534
U.S. Environmental Protection Agency			
Reducing Emissions	N.A.	66.039	208,554
Passed through Virginia Department of Transportation			
Clean Air Partners	N.A.	66.000	24,964
Diesel Anti-Idling	N.A.	66.000	224,541
Total passed through Virginia Department of Transportation			249,505
Passed through Virginia Department of Environment Quality			
FY08 Air Pollution Section 105	N.A.	66.001	2,843
Total U.S. Environmental Protection Agency			460,902
U.S. Department of Homeland Security			
Passed through D.C. Office of Deputy Mayor for Public Safety & Justice			
FY 08 UASI Water Security Monitoring Network	7UASI 117-04	97.008	485,013
FY 08 UASI Water Security Project – Maintenance	7UASI 117 -03	97.008	63,089
Total Urban Areas Security Initiative			548,102

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Agency/Program Name	Pass-Through Identifying Number	CFDA #	Expenditures
U.S. Department of Homeland Security (continued)			
Passed through D.C. Office of Deputy Mayor for Public Safety & Justice (continued)			
FY 08 UASI (Urban Area Security Initiative)	7UASI117-04	97.067	$ 285
FY 08 UASI (Urban Area Security Initiative)	7UASI 117-12	97.067	293,247
FY 09 UASI (Urban Area Security Initiative)	8UASI117-01	97.067	32,665
FY 09 UASI (Urban Area Security Initiative)	8UASI117-02	97.067	542,172
FY 09 UASI (Urban Area Security Initiative)	7UASI117-13	97.067	15,408
FY 09 UASI (Urban Area Security Initiative)	7UASI117-14	97.067	4,675
FY 09 UASI (Urban Area Security Initiative)	8UASI117-04	97.067	65,630
FY 09 UASI (Urban Area Security Initiative)	8UASI 117-05	97.067	109,749
FY 09 UASI (Urban Area Security Initiative)	8UASI117-06	97.067	138,976
FY 09 UASI (Urban Area Security Initiative)	7UASI117-16	97.067	182,762
FY 09 DOJ Office of Cops	N.A.	97.067	11,250
FY 10 UASI (Urban Area Security Initiative)	8UASI 117-07	97.067	113,599
FY 10 UASI (Urban Area Security Initiative)	7UASI117-17	97.067	99,628
FY 10 UASI (Urban Area Security Initiative)	9UASI 117 -07	97.067	176,269
FY 10 UASI (Urban Area Security Initiative)	9UASI 117-02	97.067	87,263
FY 10 UASI (Urban Area Security Initiative)	7UASI 117-18	97.067	135,202
FY 10 UASI (Urban Area Security Initiative)	9UASI 117-06	97.067	276,402
FY 10 UASI (Urban Area Security Initiative)	8UASI 117-09	97.067	295,386
FY 10 UASI (Urban Area Security Initiative)	8UASI 117-10	97.067	1,875,959
FY 10 UASI (Urban Area Security Initiative)	8UASI 117-11	97.067	4,971
FY 10 UASI (Urban Area Security Initiative)	8UASI 117-12	97.067	64,267
FY 10 UASI (Urban Area Security Initiative)	8UASI 117-13	97.067	609,095
Total Homeland Security Grant Program			5,134,860
Total U.S. Department of Homeland Security			5,682,962
Total Expenditures of Federal Awards			$ 17,788,398

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Metropolitan Washington Council of Governments (COG) are included in the scope of the *Office of Management and Budget (OMB) Circular A-133* audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the Schedule of Expenditures of Federal Awards represent all Federal award programs and other grants with fiscal year 2009 cash or non-cash expenditures activities. For our single audit testing, all Federal award programs with 2010 cash and non-cash expenditures in excess of $533,652 were considered a major program to evaluate for testing. We tested those major programs listed below which covered at least 25% of Federally granted funds. Our actual coverage was 34.52%.

Major Program	CFDA Numbers	Federal Expenditures
New Freedom	20.521	$ 5,123,610
Urban Area Security Initiative	97.067	1,016,574
		$ 6,140,184

2. BASIS OF PRESENTATION

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

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I - Summary of Independent Public Accountants' Results

Financial Statements:

Type of report of independent public accountants report:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Noted
Noncompliance material to the financial statements noted?	No

Federal Awards

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

Identification of Major Programs:

Major Program	CFDA Numbers	Federal Expenditures
New Freedom	20.521	$ 5,123,610
Urban Area Security Initiative	97.067	1,016,574
Total		$ 6,140,184
Threshold for distinguishing between Type A and B programs		$ 533,652

Did the entity qualify as a low risk auditee? Yes

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section II – Financial Statement Findings

None Noted.

Section III - Federal Award Findings

None Noted.

METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS, INC.

Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2010

No findings noted in prior year.