

**METROPOLITAN WASHINGTON  
COUNCIL OF GOVERNMENTS**

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

**JUNE 30, 2008**

**BERT SMITH  
& Co.**

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**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, 2008, which collectively comprise 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 opinions.

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, 2008, 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 31, 2008, 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 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 important for 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 schedule of departmental revenue, expenditures, and changes in net assets 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 31, 2008

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2008**

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, 2008. 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 as 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 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 24.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS** continued  
 JUNE 30, 2008

A summary of COG's financial statements and an analysis of the financial activity for Fiscal Year 2008 are below:

**Comparative Statement of Net Assets**

	<u>June 30 2008</u>	<u>June 30 2007</u>	<u>Variance</u>	<u>% Change</u>
<b>Assets</b>				
Current Assets	\$ 17,535,675	\$ 15,438,418	\$ 2,097,257	13.58%
Capital Assets	69,708	178,487	(108,779)	-60.95%
Total Assets	<u>\$ 17,605,383</u>	<u>\$ 15,616,905</u>	<u>\$ 1,988,478</u>	<u>12.73%</u>
<b>Liabilities</b>				
Current Liabilities	\$ 4,541,396	\$ 5,415,690	\$ (874,294)	-16.14%
Long-term Liabilities	492,570	-	492,570	100.00%
Total Liabilities	<u>\$ 5,033,966</u>	<u>\$ 5,415,690</u>	<u>\$ (381,724)</u>	<u>-7.05%</u>
<b>Net Assets</b>				
Invested in Capital Assets	\$ 69,708	\$ 178,487	\$ (108,779)	-60.95%
Restricted Project Fund	3,986,531	2,271,964	1,714,567	75.47%
Unrestricted	8,515,178	7,750,764	764,414	9.86%
Total Net Assets	<u>\$ 12,571,417</u>	<u>\$ 10,201,215</u>	<u>\$ 2,370,202</u>	<u>23.23%</u>

**Comparative Statement of Activities**

	<u>June 30 2008</u>	<u>June 30 2007</u>	<u>Variance</u>	<u>% Change</u>
<b>Revenues</b>				
Federal Revenue	\$ 16,675,926	\$ 17,662,132	\$ (986,206)	-5.58%
State and Local Revenue	7,961,196	7,685,267	275,929	3.59%
Member Contributions	3,125,916	2,974,203	151,713	5.10%
Other	3,261,866	1,787,647	1,474,219	82.47%
Total Revenues	<u>31,024,904</u>	<u>30,109,249</u>	<u>915,655</u>	<u>3.04%</u>
<b>Expenses:</b>				
Personnel	11,596,547	11,008,853	587,694	5.34%
Professional Fees	11,255,420	12,318,695	(1,063,275)	-8.63%
Other Direct Costs	2,138,469	3,146,872	(1,008,403)	-32.04%
Indirect Costs	3,664,266	3,899,029	(234,763)	-6.02%
Total Expenses	<u>28,654,702</u>	<u>30,373,449</u>	<u>(1,718,747)</u>	<u>-5.66%</u>
Change in Net Assets	2,370,202	(264,200)	2,634,402	997.12%
Net Assets-beginning	10,201,215	10,465,415	(264,200)	-2.52%
Net Assets-ending	<u>\$ 12,571,417</u>	<u>\$ 10,201,215</u>	<u>\$ 2,370,202</u>	<u>23.23%</u>

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
MANAGEMENT'S DISCUSSION AND ANALYSIS continued  
JUNE 30, 2008

**FINANCIAL HIGHLIGHTS**

The following information is an analysis of the fiscal year ended June 30, 2008.

- Metropolitan Washington Council of Governments continued its strong financial performance by finishing the fiscal year 2008 with positive results from its financial operations and adding \$764,414 to the General Fund Reserve Balance. The balance sheet at June 30, 2008 demonstrated the organization's cash position by having the required funds on hand to make payments to vendors who provides support to COG's program operations without using its line of credit or general reserve funds.
- Current assets increased by 13.58% or \$2,097,257 mainly due to increases in receivables and investments. Receivables increased primarily as a result of more federal and state funding for continuing and new projects in COG's Transportation program. The continuing projects included an increase in the Transportation Planning Board program from \$8.6 million to \$9.6 million. The new projects amounted to over \$1.1 million for the Regional Transportation Coordination program, JARC, New Freedom, DDOT, VDOT, and WMATA Bus Survey. 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.
- COG purchased capital assets totaling \$65,545. The capital assets consist of new software enterprise licenses for the financial management system and a replacement of a computer server for the geographic information system.
- Current liabilities decreased by 16.14% due to the fact that unearned revenue in the prior year was recognized in fiscal year 2008 from projects meeting all the program requirements.
- COG's Unrestricted Net Assets Fund increased by \$764,414 from \$7,750,764 to \$8,515,178. 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. There was an increase in building income due to the legal restructuring of the building corporation and mortgage refinancing between COG, ICMA, and ICMA-RC to a Real Estate Investment Trust (REIT).
- Restricted Net Assets increased by \$1,714,567. The increase is due to COG receiving the funds for some of the projects in Fiscal Year 2008 while the expenditures will be incurred in Fiscal Year 2009.
- Operating revenues for Fiscal Year 2008 were \$31,024,904 which was \$915,655 higher than Fiscal Year 2007. Operating revenues increased primarily due to increased funding from the U.S. Department of Transportation for the Transportation program, a new project for the Freddie Mac Foreclosure program and increased building income from the new Real Estate Investment Trust.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS** continued  
JUNE 30, 2008

- Member contributions increased to \$3,125,916 from \$2,974,203 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 the per capita rate from \$ 0.62478 to \$ 0.63977.

Expenses decreased overall by \$1,718,747. Personnel costs increased during the year as a result of a new salary structure and merit increases. The decrease in professional fees is primarily attributed to the corresponding decrease in Federal pass-through revenues mainly for the UASI programs. Some older projects for the UASI projects were completed in fiscal year 2008. Other direct costs decreased as a result of the reduction in special supplies and equipment purchased for the EPA Early Warning Monitoring program from the prior year. This project was completed in Fiscal Year 2008.

- The annual original budget (page 15) 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. 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.
- The amended budget (page 15) represents revisions to the original budget reflecting actual grant funds received by COG and expenditures associated with the programs. On a quarterly basis, a financial report is submitted to COG Board of Directors which includes a schedule of adopted and revised budgets. The variances of actual revenues and expenditures from amended budgets are primarily attributable to the following:
  - (a) Actuals for other revenue exceeded budget by \$370,650 primarily due an to increase in building income as the result of the restructuring between COG, ICMA, ICMA-RC to a Real Estate Investment Trust.
  - (b) As of June 30, 2008, revenues and expenses were under budget by \$3.4 million and \$5.7 million respectively. The variance is due to numerous projects that have different life cycles and were not completed. Many projects have started different times during the fiscal year and will continue into fiscal year 2009.

## **NEW BUSINESS**

### **New Departments**

COG reorganized the Department of Human Services, Planning and Public Safety (HSPPS) in FY 2008 to refocus programs, better align staff, reduce costs, and position COG to maximize policy and program opportunities in the future. The reorganization was effective May 2008 and abolished HSPPS and created two smaller, more focused programs, the Department of Community Planning and Services (CPS) and the Department of Public Safety and Health (PSH). COG's program departments have periodically reorganized or evolved to take on new policy or program responsibilities or in response to changes in funding or personnel. HSPPS has changed more frequently, given its funding based and the broader nature of its programs. PSH is now responsible for public health, public safety and homeland security policies and programs. CPS is now responsible for metropolitan development, planning, housing and



community-focused human services activities, primarily in child welfare and Wednesday's Child. The reorganization will result in two more focused, accountable and manageable program departments, with a better match of skills and resources. Because both new departments, CPS and PSH are smaller than the other two program departments and have more narrow responsibilities, their respective directors have been filled at the entry level grade for directors (Grades 13 through 15).

### **Homeland Security**

During fiscal year 2008, COG continued its lead role in coordinating the development of homeland security plans for the National Capital Region. In early 2008 the Human Services, Planning and Public Safety (HSPPS) Department was reorganized and the Public Safety and Health (PSH) Department was established. During this period, significant progress was made in the work on coordinating the emergency communications, adding additional interoperable equipment for first responders, adding updates to the syndromic surveillance system for emerging pathogens. The Regional Incident Communication and Coordination System (RICCS) remains the cornerstone of key communications between critical decision makers and key stake holders. During this period, COG continued to support the recently established Emergency Operations Center Committee. This Committee in addition to using the RICCS has adopted WEBOC and Washington Area Wide Alert System (WAWAS) to provide redundancy in communications between federal, state and local responders. COG continues to focus the efforts of the various groups on the priorities established by the NCREPC, CAOs, SPG, and the NCR Homeland Security Strategic Plan, the Eight Commitments to Action, National Preparedness Guidance, National Preparedness Goal, and DHS Target Capabilities Lists.

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 \$960,117 to provide professional, technical, and 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, the Senior Policy Group and the Regional Emergency Support Functions (E-ESFs) and the Regional Program Working Groups (RPWGs) 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), mass care, resource support, health/mental health/medical services, energy, law enforcement, media relations/community outreach, volunteers and donation management.

During the review period, the NCREPC continued its role as the custodian of the National Capital Region Homeland Security Plan (Strategic Plan) that defines 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. The Strategic Plan addresses homeland security challenges and 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 Region's preparedness needs over the long term; and

4. A sustained capacity to respond and recover from any major event on any scale.

The NCREPC received quarterly updates on achievements in completing the 30 Initiatives in the Strategic Plan and provided guidance as deemed appropriate. The Strategic Plan has been in place approximately two and one half years and approximately 50% of the Initiatives have been completed. The NCREPC has initiated an update of the Strategic Plan in coordination with the SPG, CAOs, and Office of National Capital Region Coordination.

### **Water Security**

Two Water Security grants were carried out by COG's Department of Environmental Programs during FY 2008. The two grants were funded by the Department of Homeland Security Urban Area Security Initiative grants administered by the District of Columbia State Administrative Agent. The projects are as follows:

#### **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 up to 3 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 October 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 – \$400,000 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 (in part provided by a contractor) 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, M.D.

### **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 the fiscal year 2008 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](mailto:rrawlins@mwkog.org) or go to COG's website at <http://www.mwkog.org>.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	<b>2008</b>
<b>Assets</b>	
Cash and Cash equivalents	\$ 1,741,567
Investments	7,509,706
Receivables	8,138,107
Prepaid Expenses and Other Assets	146,295
Capital Assets, net	
Computer	24,602
Software	41,671
Leasehold Improvements	3,435
Total Assets	17,605,383
 <b>Liabilities</b>	
Accounts Payable	3,362,910
Accrued Expenses	954,226
Accrued Vacation	716,830
Total Liabilities	5,033,966
 <b>Net Assets</b>	
Invested in Capital Assets	69,708
Restricted-Project Fund	3,986,531
Unrestricted	8,515,178
Total Net Assets	\$ 12,571,417

*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, 2008**

	<b>Program Revenues</b>		<b>Net (Expense) over Revenue and Changes in Net Assets</b>
	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Program Functions</b>	<b>Expenses</b>		
Transportation	\$ 18,524,865	\$ 17,423,555	(1,022,686)
Human Services, Planning, and Public Safety	4,031,555	3,092,946	(792,710)
Environmental	5,477,013	5,058,356	(112,400)
Member Services	621,269	545,068	49,103
<b>Total Governmental Activities</b>	<b>\$ 28,654,702</b>	<b>\$ 26,119,925</b>	<b>(1,878,693)</b>
Member Contributions			3,125,916
Other Investment Income			447,318
Unrestricted Investment Earnings			675,661
<b>Total General Revenues</b>			<b>4,248,895</b>
Change in Net Assets			2,370,202
Net Assets-beginning			10,201,215
Net Assets-ending			<b>\$ 12,571,417</b>

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

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**

	<b>General Fund</b>	<b>Project Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$1,005,472	\$ 736,095	\$ 1,741,567
Investments	7,509,706	-	7,509,706
Receivables	-	8,138,107	8,138,107
Prepaid Expenses and Other Assets	-	146,295	146,295
Total Assets	<u>\$8,515,178</u>	<u>\$ 9,020,497</u>	<u>\$ 17,535,675</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts Payable	\$ -	\$ 3,362,910	\$ 3,362,910
Accrued Expenses	-	954,226	954,226
Accrued Vacation	-	224,260	224,260
Total Liabilities	<u>-</u>	<u>4,541,396</u>	<u>4,541,396</u>
<b>Fund Balances:</b>			
Reserved for Project Fund	-	4,479,101	4,479,101
Unreserved	8,515,178	-	8,515,178
Total Fund Balances	<u>8,515,178</u>	<u>4,479,101</u>	<u>12,994,279</u>
Total Liabilities and Fund Balances	<u>\$8,515,178</u>	<u>\$ 9,020,497</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.	69,708
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds.	<u>(492,570)</u>
Net assets of governmental activities	<u>\$ 12,571,417</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, 2008**

	<b>General Fund</b>	<b>Project Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Member Contributions	\$ 3,125,916	\$ -	\$ 3,125,916
Federal Revenue	-	16,675,926	16,675,926
State Revenue	-	5,919,983	5,919,983
Local Revenue	-	2,041,213	2,041,213
Foundation Contributions	-	812,924	812,924
Other Income	675,661	1,325,963	2,001,624
Investment Income	447,318	-	447,318
Total Revenues	<u>4,248,895</u>	<u>26,776,009</u>	<u>31,024,904</u>
<b>EXPENDITURES</b>			
Transportation	-	18,489,660	18,489,660
Human Services, Planning, and Public Safety	-	4,105,082	4,105,082
Environmental	-	5,506,926	5,506,926
Member Services	7,323	610,053	617,376
Total Expenditures	<u>7,323</u>	<u>28,711,721</u>	<u>28,719,044</u>
Excess (deficiency) of revenues Over (under) expenditures	<u>4,241,572</u>	<u>(1,935,712)</u>	<u>2,305,860</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Member Contributions Transfers in (out)	(3,109,395)	3,109,395	-
Other Transfers	(367,763)	367,763	-
Total Other Financing sources (uses)	<u>(3,477,158)</u>	<u>3,477,158</u>	<u>-</u>
Change in Fund Balances	764,414	1,541,446	2,305,860
Fund Balances, beginning	7,750,764	2,937,655	10,688,419
Fund Balances, ending	<u>\$ 8,515,178</u>	<u>\$ 4,479,101</u>	<u>\$ 12,994,279</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 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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

Net change in fund balances-total governmental funds	\$ 2,305,860
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.	(108,778)
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>173,120</u>
Changes in net assets of governmental activities	<u>\$ 2,370,202</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, 2008**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Member Contributions	\$ 3,103,121	\$ 3,186,343	\$ 3,125,916	\$ ( 60,427)
Federal	13,861,540	19,207,598	16,675,926	(2,531,672)
State	4,206,490	6,429,314	5,919,983	(509,331)
Special Contributions	4,005,835	3,548,530	2,854,137	(694,393)
Other Revenue	650,000	2,078,292	2,448,942	370,650
Total Revenues	<u>25,826,986</u>	<u>34,450,077</u>	<u>31,024,904</u>	<u>(3,425,173)</u>
<b>EXPENDITURES</b>				
Transportation	16,439,000	19,953,744	18,489,660	1,464,084
Human Services, Planning, and Public Safety	3,613,213	4,032,749	4,105,082	(72,333)
Environmental	4,723,773	9,652,536	5,506,926	4,145,610
Direct Services	1,051,000	811,048	617,376	193,672
Total Expenditures	<u>25,826,986</u>	<u>34,450,077</u>	<u>28,719,044</u>	<u>5,731,033</u>
Surplus of Revenues over Expenditures Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,305,860</u>	<u>\$ 2,305,860</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, 2008**

**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 2008 were:

M&A personnel costs	23.92%
Leave	19.03%
Fringe Benefits	18.75%
Indirect non-personnel costs	31.54%

**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 reimbursement 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, 2008, COG had a deferred revenue balance of \$73,661 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. Effective October 3, 2008 through December 31, 2009, the Emergency Economic Stabilization Act raised the limit to \$250,000. As of June 30, 2008, COG’s uninsured bank balances totaled \$1,400,328. The bank balances are not collateralized, however, the bank balances are swept into U.S. Government Agency Money Market accounts nightly.

**NOTE 4 INVESTMENTS**

COG’s investments are stated at fair value as determined by quoted market prices. As of June 30, 2008, the investment balance consists of the following:

Certificate of Deposits	\$ 6,683,107
Government Securities	297,668
Money Market	<u>528,931</u>
	<u>\$ 7,509,706</u>

COG’s investments are subject to certain risks. Those risks are 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, 2008, COG’s bonds with the Federal Home Loan Mortgage Corporation and Federal Home Loan Bank had an AAA rating by Moody and S&P.

- *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%

**NOTE 5 TRANSFERS**

Consistent with the approved Fiscal Year 2008 COG Budget to fund the operations of certain projects and to meet the organization’s matching requirements, COG transferred \$3.1M of member contributions from the General Fund to the Project Fund and transferred \$17.1K from the Project fund to General fund for closed out projects. The Board approved transfers were:

Institute for Regional Excellence	\$ 85,000
50th Anniversary	25,000
Greater Washington 2050	150,000
Capital Improvement for HVAC	125,000
	<u>\$ 385,000</u>

**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 receivables 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, 2008:

Federal	\$ 6,279,006
State and Local	1,779,032
Other Receivables	80,069
	<u>\$ 8,138,107</u>

**NOTE 7 CAPITAL ASSETS**

Capital assets consisted of the following as of June 30, 2008:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Balance at June 30, 2008</u>
Furniture and Equipment	\$ 1,407,929	\$ -	\$ 1,407,929
Leasehold Improvements	263,874	-	263,874
Computer Hardware	1,251,404	9,191	1,260,595
Computer Software	708,115	56,354	764,469
Local Area Network	319,415	-	319,415
Total Capital Assets	<u>3,950,737</u>	<u>65,545</u>	<u>4,016,282</u>
Accumulated Depreciation	<u>(3,772,250)</u>	<u>(174,324)</u>	<u>(3,946,574)</u>
Net Capital Assets	<u>\$ 178,487</u>	<u>\$ (108,779)</u>	<u>\$ 69,708</u>

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 \$174,324.

**NOTE 8 LONG TERM LIABILITIES**

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

	<u>Balance June 30, 2007</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>	<u>Current Portion</u>
Accrued Vacation	\$ 665,691	\$ (173,121)	\$ 492,570	\$ 224,260

**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 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 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.

**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 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 \$531,718 and \$489,126, respectively.

**Annual Pension Cost**

*Three Year Trend Information*

	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	487,879	100%	\$ -
June 30, 2007	493,465	100%	\$ -
June 30, 2008	531,718	100%	\$ -

**Funding Status and Funding Progress**

The actuarial valuation date was July 1, 2007. The actuarial valuations were determined using the entry age normal cost method.

Net assets available for plan benefits	\$ 37,431,700
Actuarial Accrued Liability (AAL)	<u>38,142,000</u>
Unfunded AAL	(710,300)
Covered Estimated Payroll	\$ 10,000,000
Unfunded AAL as percentage of Payroll	-7%

The schedule of funding progress, presented as required supplemental information, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for benefits.

	<u>Factor</u>	<u>Method</u>
<b>Demographic</b>		
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	75% of the members will retire when first eligible
<b>Economic</b>		
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.



## 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 \$675,661 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.

COG's distribution from the building income increased from \$282,330 in 2007 to \$675,661 in 2008. The increase was due to the legal restructuring of the building corporation and mortgage refinancing between ICMA, ICMA-RC, and COG to a Real Estate Investment Trust (REIT). As a result of the REIT restructuring, the IRS code requires 100 percent distribution of earnings to the shareholders, which is a change from the cash availability formula under the previous corporate agreement.

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, 2007.

Total Assets	<u>\$ 23,817,871</u>
Total Liabilities	\$ 33,287,423
Total Stockholder's deficit	<u>(9,469,552)</u>
Total Liabilities and Stockholder's deficit	<u>\$ 23,817,871</u>
Total Revenues	\$ 8,245,593
Total Expenses	<u>6,203,385</u>
Net Income	<u>\$ 2,042,208</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 \$7,983,563. The payments each fiscal year are as follows:

Fiscal Year 2009	\$ 1,064,475
Fiscal Year 2010	1,064,475
Fiscal Year 2011	1,064,475
Fiscal Year 2012	1,064,475
Fiscal Year 2013	1,064,475
Thereafter	<u>2,661,188</u>
Total	<u>\$ 7,983,563</u>

Rent expense for the fiscal year ended June 30, 2008 was \$2,092,452, which included real estate taxes, operating expenditures and CPI adjustments. COG subleases a portion of its office space. Rental income from the tenant totaled \$79,210. All of the rental income except for \$6,968 is reflected net of COG's rent expense. The future rental income from the tenant is \$80,940.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
**SUMMARY SCHEDULE OF DEPARTMENTAL REVENUES, EXPENDITURES, AND CHANGES**  
**IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Transportation Programs</u>	<u>Human Services Planning/Public Safety Programs</u>	<u>Environmental Programs</u>	<u>Member Services</u>	<u>COG</u>	<u>Total</u>
<b>Revenues</b>						
Federal Revenue	\$ 13,586,011	\$ 2,267,595	\$ 822,320	\$ -	\$ -	\$16,675,926
State Revenue	3,490,335	-	2,429,648	-	-	5,919,983
Local Revenue	347,209	203,001	1,282,903	208,100	-	2,041,213
Membership Contributions	1,189,874	1,203,213	678,908	37,400	16,521	3,125,916
Foundation Grants	-	559,000	253,924	-	-	812,924
Interest Income	-	-	-	-	447,318	447,318
Other Income	78,624	209,249	575,818	462,272	675,661	2,001,624
<b>Total Revenue</b>	<u>18,692,053</u>	<u>4,442,058</u>	<u>6,043,521</u>	<u>707,772</u>	<u>1,139,500</u>	<u>31,024,904</u>
<b>Expenses</b>						
Salaries	6,060,113	1,327,098	2,301,409	85,676	-	9,774,296
Benefits	1,132,901	245,346	427,938	16,066	-	1,822,251
Consultants	5,937,401	1,601,768	1,160,974	266,319	-	8,966,462
Pass-through Funds	921,723	-	-	-	-	921,723
Promotion	958,354	-	243,068	13,389	-	1,214,811
Temporary Services	138,946	264	2,011	11,203	-	152,424
Conferences and Meetings	82,565	188,142	72,495	129,038	1,711	473,951
Data Processing	176,843	49,516	32,764	-	-	259,123
Printing	280,894	16,878	28,973	50,442	-	377,187
Other Costs	560,271	106,511	345,912	9,902	5,612	1,028,208
Indirect Costs	2,274,854	496,032	861,469	31,911	-	3,664,266
<b>Total Expenses</b>	<u>18,524,865</u>	<u>4,031,555</u>	<u>5,477,013</u>	<u>613,946</u>	<u>7,323</u>	<u>28,654,702</u>
<b>Changes in Net Assets</b>	<u>\$ 167,188</u>	<u>\$ 410,503</u>	<u>\$ 566,508</u>	<u>\$ 93,826</u>	<u>\$1,132,177</u>	<u>\$ 2,370,202</u>

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF FUNDING PROGRESS FOR DEFINED PENSION BENEFIT PLAN**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Excess of Assets over AAL</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Excess of Assets over AAL as a Percentage of Covered Payroll</b>
7/1/2005	\$33,947,480	\$31,730,314	\$2,217,166	107.0%	\$8,941,665	24.8%
7/1/2006	\$36,391,709	\$34,607,523	\$1,784,186	105.2%	\$9,343,722	19.1%
7/1/2007	\$37,884,801	\$37,541,708	\$ 343,093	100.9%	\$9,577,700	3.6%



**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 governmental activities and each major fund of the Metropolitan Washington Council of Governments (COG) as of and for the year ended June 30, 2008, which collectively comprise COG's basic financial statements and have issued our report thereon dated October 31, 2008. 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 on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the entity's to COG'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 to COG's financial statements that is more than inconsequential will not be prevented or detected by the entity's to COG's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (2008-1 and 2008-2) 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 internal control.

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 that 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*.

COG's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit COG's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of COG 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.

Bert Smith & Co.

Washington D.C.  
October 31, 2008

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**OMB CIRCULAR A-133 SINGLE AUDIT**

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**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, 2008. COG's major federal programs are identified in the summary of auditor 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, *Audits 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, 2008.

**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, 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 D.C.  
October 31, 2008

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Federal Agency/Program Name	Federal Award #	Pass-Through Identifying Number	CFDA #	Expenditures
<b>U.S. Department of Transportation</b>				
Airport Improvement Program	FAEA-01-767	-	20.106	\$ 218,211
Airport Improvement Program	3-11-8840-002-2003	-	20.106	45,794
Total Airport Improvement Program				<u>264,005</u>
<i>Passed through Virginia, Maryland, and D.C. Department of Transportation</i>				
Regional Transportation Coordination Program	-	N.A.	20.505	104,703
Regional Value Pricing Study	-	N.A.	20.505	103,493
US 340 Interchange Construction	-	N.A.	20.505	59
Highway Performance Monitoring System	-	N.A.	20.505	47,151
Transportation Multimodal Planning	-	N.A.	20.505	100,000
WMATA Bus Survey	-	N.A.	20.505	739,987
Transportation Planning Work Program	-	N.A.	20.505	9,565,919
Commuter Operations Center	-	N.A.	20.505	198,649
Telecommuting	-	N.A.	20.505	24,556
Infoexpress Kiosks	-	N.A.	20.505	2,149
Employer Outreach	-	N.A.	20.505	595,770
Guaranteed Ride Home	-	N.A.	20.505	265,666
Marketing	-	N.A.	20.505	1,139,223
Monitoring & Evaluation	-	N.A.	20.505	213,898
Care Free Day Project	-	N.A.	20.505	50,000
<i>Total Virginia, Maryland, and D.C. Department of Transportation</i>				<u>13,151,223</u>
Job Access Reverse Commute Program	DC-37-X020-01	-	20.516	86,433
New Freedom Program	DC-57-X020-01	-	20.521	104,430
<b>Total U.S. Department of Transportation</b>				<u>13,606,091</u>
<b>U.S. Environmental Protection Agency</b>				
EPA Drinking Water	X-983489-01-3	-	66.606	2,395
EPA Anacostia Restoration Partnership	-	-	66.000	93,296

*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, 2008**

Federal Agency/Program Name	Federal Award #	Pass-Through Identifying Number	CFDA #	Expenditures
<i>Passed Through Virginia Department of Environment Quality Air Pollution Section 105</i>	-	N.A.	66.001	28,301
<i>Passed Through Virginia Department of Transportation Clean Air Partners</i>	-	N.A.	66.000	131,388
<i>Passed Through P.G. County Gov't Dept of Environmental Resources LID National Conference and Monitoring Program</i>	-	C-0270-03	66.000	158,587
<i>Passed Through D.C. Department of Environment Macroinvertebrate Monitoring</i>	-	N.A.	66.000	2,293
<b>Total Environmental Protection Agency</b>				<u>416,260</u>
<b>U.S. Department of Energy</b>				
<i>Passed Through District of Columbia Energy Office SEP Clean Cities</i>	-	COG-02R340591	81.041	112,293
<i>Passed Through Virginia Department of Mines, Mineral and Energy Promoting AQW/ Clean Energy</i>	-	N.A.	81.119	23,994
<b>Total U.S. Department of Energy</b>				<u>136,287</u>
<b>U.S. Department of Education</b>				
<i>Pass through from Howard University Transition to Teaching</i>	-	N.A.	84.350	16,279
<b>Total U.S. Department of Housing and Urban Development</b>				<u>16,279</u>
<b>U.S. Department of Health and Human Services</b>				
<i>Pass Through District Columbia Appropriations Respite Care</i>	-	N.A.	93.000	86,717
<b>Total U.S. Department of Health and Human Services</b>				<u>86,717</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, 2008**

<u>Federal Agency/Program Name</u>	<u>Federal Award #</u>	<u>Pass-Through Identifying Number</u>	<u>CFDA #</u>	<u>Expenditures</u>
<b>U.S. Department of Homeland Security</b>				
<i>Passed through D.C. Office of Deputy Mayor for Public Safety &amp; Justice</i>				
FY 06 USAI Water Security Monitoring Network	-	03AUAS06	97.008	2,718
FY 06 USAI Water Security Monitoring Network	-	03BUAS6	97.008	12,812
FY 0 8 UASI – Water Security Monitoring Network	-	03CUAS6-A	97.008	156,074
FY 08 UASI – Water Security Project - Maintenance	-	7UASI117-03	97.008	195,450
FY 08 UASI (Secretariat Support)	-	7UASI117-04	97.008	2,451
FY 06 UASI – NCR Evacuation and Sheltering Plan	-	COGAUSA6	97.008	300,000
FY 06 UASI (Urban Area Secretariat Initiative)	-	CIPAUAS6	97.008	8,799
FY 06 UASI (Urban Area Secretariat Initiative)	-	DCDUAS6	97.008	124,867
FY 06 UASI (Urban Area Secretariat Initiative)	-	ETAUAS6	97.008	305,165
FY 06 UASI (Urban Area Secretariat Initiative)	-	COGBUS6	97.008	196,949
FY 08 UASI – UASI-NCR Region Interoperability Program	-	10AUAS6-A	97.008	30,067
Total Urban Areas Security Initiative				<u>1,335,352</u>
FY 05 UASI (Urban Area Secretariat Initiative)	-	X1UAS5	97.067	467,795
FY 05 UASI (Urban Area Secretariat Initiative)	-	2AUAS5-B	97.067	4,500
FY 06 UASI (Urban Area Secretariat Initiative)	-	2FATPS	97.067	125,865
FY 08 UASI (Urban Area Secretariat Initiative)	-	7UASI117-04	97.067	543,907
FY 08 UASI (Medical Surge Scenario Base Planning)	-	7UASI117-06	97.067	46,513
FY 08 UASI (Senior Leader Seminar)	-	7UASI117-07	97.067	23,421
Total Homeland Security Grant Program				<u>1,212,001</u>
<b>Total U.S. Department of Homeland Security</b>				<u><u>2,547,353</u></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, 2008**

<u>Federal Agency/Program Name</u>	<u>Federal Award #</u>	<u>Pass-Through Identifying Number</u>	<u>CFDA #</u>	<u>Expenditures</u>
<b>National Science Foundation</b>				
<i>Passed Through P.G. Community College</i>	-	N.A	47.000	3,033
Cyber Watch				3,033
<b>Total National Science Foundation</b>				
<b>U.S Department of Commerce</b>				
<i>Passed Through National Fish &amp; Wildlife Foundation</i>	-	N.A	11.463	30,708
Herring Restoration/Outreach				30,708
<b>Total U.S Department of Commerce</b>				
<b>U.S Department of Agriculture</b>				
<i>Passed Through D.C. Department of Transportation</i>	-	N.A	10.000	6,430
Urban/Community Forestry				6,430
<b>Total U.S Department of Agriculture</b>				
<b>Total Expenditures of Federal Awards</b>				<b>\$ 16,849,158</b>

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, 2008**

**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	\$ 16,849,158
Revenue Adjustments	(10,374)
GASB 33 Adjustments	<u>(162,858)</u>
Federal Revenue per Financial Statements	<u>\$ 16,675,926</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	\$ 827,898

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**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:

<b>CFDA #</b>	<b>Program</b>
20.505	Transportation Program
97.008	Urban Areas Security Initiative
20.106	Airport Improvement Program

- |   |           |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$505,475 |
| 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, 2008**

**Section II - Financial Statement Findings**

**2008-1            Updating and Closing Budgets**

COG makes significant changes to its annual work plan budget during the fiscal year, since the budget is prepared one year in advance. Although COG has some budget procedures in place, more formal written budget procedures are needed in the process to improve the organization's monitoring of its fiscal operations. In our review of COG's budget process, we identified instances of (a) active projects with no budgets; (b) inactive projects with budgets and (c) outdated project budgets.

**Recommendation:**

We recommend COG establish written budget procedures that summarize the organization's process for updating and closing budgets in its accounting system. We also recommend COG document in its budget documents the source of the revenue transfers.

**Views of Responsible Officials and Planned  
Corrective Action:**

With the new hired personnel added to the accounting and finance department, we have started a standardized process of closing out inactive, outdated, and completed projects. The department will establish written procedures to close projects and prevent posting of transactions to such projects. Also, procedures will require program managers to submit changes to budgets when they have received revisions pertaining to their programs.

There are some active projects that have budget data not loaded into Costpoint. These projects are classified with the overhead and administrative departments and are not funded through specific grants for special purposes as in COG's major Transportation, Environmental, Public Safety and Health, and Community Planning and Services programs.

For example, one project is COG's general fund which accounts for all transactions that are not allocable to a particular project. The project accounts for the receipt of general local contributions from COG's membership, distribution of the funds to COG's projects, interest income, rent rebate, and unallowable expenses. Another project is for COG's copy center that has activity like an internal service fund. The chief aim for this project is for cost-reimbursement basis. The copy center project recovers printing expenses by allocating costs through user charges to program projects. Finally, there are projects which are funded through a combination of membership dues and user assessment fees for special programs participated by certain government jurisdictions. Such programs includes: Cooperative Purchasing, Health Coalition, and Institute for Regional Excellence.

All COG's projects including the non-traditional programs are monitored monthly to ensure spending does not exceed the amount of funding sources.



**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Section II - Financial Statement Findings (continued)**

**2008-2            Supporting Documentation and Approvals**

COG records recurring and nonrecurring adjusting entries in its accounting system throughout the fiscal year. We identified in our testing of COG's adjusting entries that some adjusting entries had no evidence of supervisory approval and no supporting documentation attached. Management was able to subsequently provide supporting documentation for those adjusting entries with missing documentation. However, adjusting entries should be self explanatory and stand-alone documents.

**Recommendation:**

We recommend COG establish written procedures for processing and recording adjusting entries in its accounting system. At minimum, the procedures should require management signature approval on all adjusting entries and the attachment of supporting documents to the adjusting entries.

**Views of Responsible Officials and Planned**

**Corrective Action:**

Effective October 1, 2008, a written policy and procedure for adjusting journal entries was established and submitted to the accounting and finance staff. The procedures will standardized the process for preparing and approving adjusting journal entries with supporting documentation.

**METROPOLITAN WASHINGTON COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported.