


MEMORANDUM

April 29, 2019

TO: Planning, Housing, and Economic Development Committee

FROM: Gene Smith, Legislative Analyst 

SUBJECT: FY20 Operating Budget: Montgomery County Economic Development Corporation
Non-Departmental Account (NDA)

PURPOSE: Review and make recommendation to the Council

Those expected for this worksession:

David Petr, CEO and President, Montgomery County Economic Development Corporation (MCEDC)
Bill Tompkins, COO, MCEDC
Stacey Hardy, Vice President of Operations, MCEDC
Sarah Miller, Vice President of Strategy, MCEDC

Budget Summary

The Executive recommends \$5,007,750 for the MCEDC NDA. This is the same appropriation amount approved in the FY19 budget.

Council Staff Recommendation

Approve the Executive recommendation of \$5,007,750 for the MCEDC NDA.

I. Budget Overview

See the Executive's recommendation on ©1. This NDA was created in FY17 to fund the County's designated lead economic development organization (EDO). This organization implements the County's economic development strategic plan, which includes marketing, business attraction and retention,

entrepreneurship, and promoting the County's economic base. **The Executive recommends no changes to the appropriation for this NDA in FY20.**

II. Organization Review

MCEDC's mission is *to accelerate business growth and retention in Montgomery County*. It advances the County's economic development goals by connecting businesses locating to or expanding in the County with the critical resources, such as local real estate intelligence, funding, business incentives, and talent. Often, a lead EDO partners or facilitates dialogue with other organizations and the government to connect businesses to these resources. In addition to these efforts, lead EDOs market a jurisdiction to the business community, highlighting the critical assets, quality of life, and current opportunities in the jurisdiction.

A. Budget

See MCEDC's FY18 audited financial statement on ©2-13, and its unaudited breakdown of revenues and expenditures on ©14-15. MCEDC reported approximately \$4.9 million in revenue and approximately \$5.1 million in expenditures for FY18. See MCEDC's FY19 unaudited financial statement as of February 2019 on ©16-17. For FY19 to date, MCEDC reported approximately \$5.0 million in revenue and approximately \$2.7 million in expenditures. MCEDC's FY19 budgeted expenditures are \$6.4 million, and its current spend rate, absent any significant one-time expenditures, is in line with that expectation. In addition to its current reserve, MCEDC is projected to end FY19 with additional funds for its reserve.

See the draft FY20 MCEDC budget on ©18-19. The organization estimates that FY20 revenues will be approximately \$5.4 million and expenditures will be about \$5.8 million. MCEDC plans to use its reserve to fund budgeted expenditures that exceed its revenues. The final budget will be approved by the MCEDC board June 2019.

MCEDC's FY19 staff complement is 22 positions that total 21.5 FTEs (see ©20). Four positions are currently vacant, and MCEDC does not plan to create new positions in FY20. Personnel costs account for 59.3% of the organization's expenditures in FY19; a similar ratio is anticipated in FY20.

County contributions remain the largest revenue source for MCEDC. The County's disbursement is 93.4% of the organization's revenues, if it raises \$350,000 in private fundraising as budgeted.

B. Expenditure Issues

The Council does not approve a line-item budget for MCEDC, but the County does execute a contract with the organization. The Executive negotiates the contract, which details disbursement conditions and performance expectations, including reporting, for the County's funding provided to the organization. The Council may also choose to identify specific programs/expenditures and reporting requirements through the Council's budget resolution. Executive staff will be available to discuss any questions that the committee may have about contracting with MCEDC for FY20.

MCEDC’s FY20 work plan will be approved by the MCEDC board in June. See the draft FY20 work plan on ©21-22. Overall, the FY20 draft work plan includes marginal adjustments from the FY19 work plan. Below are items related to MCEDC’s budget and work plan for the committee’s consideration.

Staff mixture. The current staffing complement for MCEDC appears to be marketing- and internal operations-heavy based on position title (see ©20). MCEDC’s Strategic Goal #1 is to grow and diversify the County’s economy, and it measures the number of recruitment and expansion projects in the pipeline as a metric. **Business recruitment and expansion is staff-intensive work because it requires “feet-on-the-street” to meet with businesses, local real estate professionals, and other economic development partners to identify opportunities and connect the business to those opportunities.** While staff may perform functions beyond their title, the current staff mixture appears inadequate to put “feet-on-the-street.” **The PHED Committee should discuss with MCEDC how its current staff complement is positioned for success to meet with businesses and/or how MCEDC will reposition its complement in FY20 to provide greater coverage in the County.**

Personnel costs. MCEDC’s personnel costs are greater than comparable local EDOs. Below is a table comparing certain elements for MCEDC and two local EDOs that publish this type of data. MCEDC’s average cost per FTE in FY19 is \$136,668. Based on the County’s salary and benefit data, MCEDC’s cost per FTE averages between Grade 31 and 32 positions.

EDO	FY19 Personnel Costs	FY19 FTEs	Average cost per FTE
Arlington	\$6,593,207	52.90	\$124,635
Fairfax	\$3,902,523	36.00	\$108,403
MCEDC	\$2,938,355	21.50	\$136,668

Source: FY19 online budgets for respective jurisdiction; Office of Management and Budget.

MCEDC’s draft FY20 budget estimates that personnel costs will increase by 16% from FY19 to FY20 without the addition of any more FTEs. This increase is due to 1) increasing the fringe rate from 22% to 25% in FY20; 2) annualizing costs from new staff; and 3) budgeting a 5% increase to all staff salaries in FY20 which is divided into a 3% market-rate increase and 2% performance increase.

This discussion item is connected to the one above about staff mixture. Greater average personnel expenditures reduce the amount of funding available for programs or additional staff to meet with businesses. **The PHED Committee should discuss with MCEDC how it has or can align its personnel expenditures to maximize its opportunities to connect with businesses.**

Special projects. These are discreet projects where MCEDC either initiates or joins local partners to address a specific gap or need in the County. Examples of these projects include: 1) the expansion of wet lab space in the County; 2) working with small-scale manufacturers; and 3) working with the food industry (e.g., co-packing facility). These projects tend to have greater economic benefit to the community and the County because they provide benefits beyond one business. Council staff believes that MCEDC is well-positioned to identify and lead these

projects, and the organization should continue to focus on these efforts. **The PHED Committee should discuss how MCEDC will identify and support more projects like this in FY20.**

Events. MCEDC evaluates whether it attends certain economic development events (e.g., SXSW) based on number of factors, including attendees, programing, and costs. See a table of events that MCEDC staff attended in FY19, including expenditures reimbursed by the organization, on ©23. Overall, MCEDC spent 31 days at events and identified seven projects to include in the pipeline. The total expenditures are still pending, but the organization has reimbursed or encumbered \$58,734 to date for these events.

Pipeline projects. MCEDC measures how many recruitment and retention projects are in the pipeline. **This metric is one that the organization has complete control, unlike the growth or decline of job numbers in the County.** The daily work of an EDO is to identify these opportunities and assist businesses in the pipeline with their project. MCEDC measures this metric, enabling analysis of the organization’s efforts. See MCEDC’s metrics for FY19, including the pipeline metrics.

MCEDC states that there are 24 projects in the pipeline as of March 2019. Fifteen of these projects are retention/expansion projects, and six are recruitment projects. Three other projects are related to lab space or general assistance. MCEDC notes that 16 of the 21 retention/recruitment projects have applied or plan to apply for financial assistance through the County’s Economic Development Fund (EDF). **The PHED Committee should discuss with MCEDC how it can expand its pipeline, particularly beyond businesses that are seeking financial assistance from the EDF.**

Sponsorships. See the MCEDC’s FY19 sponsorships to date on ©24. In addition, this attachment includes the six businesses that also received a sponsorship in FY18. MCEDC states that it does not make multi-year commitments for sponsorships, and it evaluates sponsorship opportunities on an annual basis. MCEDC has established its own budget and has its own criteria to determine whether it funds a sponsorship request.¹

Council staff recommends approval of the Executive’s recommendation for this NDA.

<u>This packet contains:</u>	<u>Circle #</u>
Executive FY20 recommendation	1
MCEDC audited financial statement, FY18	2
MCEDC unaudited FY18 revenues and expenditures	14
MCEDC unaudited FY19 financial statement as of Feb. 2019	16
MCEDC draft FY20 budget	18
MCEDC personnel complement	20
MCEDC draft FY20 work plan	21
MCEDC events	23
MCEDC sponsorships	24

F:\Smith\Budget\FY20\PHED\MCEDC\PHED_MCEDC.docx

¹ MCEDC’s Sponsorship policy - <https://static1.squarespace.com/static/5873c778e6f2e14a3529e892/t/5a958708e4966bece27d6e5a/1519748872444/Sponsorship+Policy.pdf>.

☀ Montgomery County Economic Development Corporation

This is the private non-profit corporation established by Council Bill 25-15 that serves as Montgomery County's lead economic development organization. The Economic Development Corporation is responsible for implementing the County's economic development strategic plan and related programs that include marketing, business retention and attraction, entrepreneurship, and promoting the development of the County's economic base.

FY20 Recommended Changes	Expenditures	FTEs
FY19 Approved	5,007,750	0.00
FY20 Recommended	5,007,750	0.00

Montgomery County Economic Development Corporation

Index

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Independent Auditor's Report

To the Board of Directors
Montgomery County Economic Development Corporation

We have audited the accompanying financial statements of the Montgomery County Economic Development Corporation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montgomery County Economic Development Corporation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Bethesda, Maryland
October 26, 2018

Montgomery County Economic Development Corporation

**Statements of Financial Position
June 30, 2018 and 2017**

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,686,662	\$ 1,032,445
Accounts receivable - trade, net	10,510	17,009
Accounts receivable - tenant allowance, net	-	652,470
Accounts receivable - other, net	50,000	75,000
Prepaid expenses	1,800	199,355
Property and equipment, net	817,675	912,923
Intangible asset, net	<u>23,868</u>	<u>29,962</u>
Total assets	<u>\$ 2,590,515</u>	<u>\$ 2,919,164</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Accounts payable	\$ 110,760	\$ 268,909
Accrued expenses	255,975	180,135
Deferred rent	<u>741,049</u>	<u>780,310</u>
Total liabilities	<u>1,107,784</u>	<u>1,229,354</u>
Commitments and contingencies	-	-
Unrestricted net assets	<u>1,482,731</u>	<u>1,689,810</u>
Total liabilities and net assets	<u>\$ 2,590,515</u>	<u>\$ 2,919,164</u>

See Notes to Financial Statements.

Montgomery County Economic Development Corporation

**Statements of Activities
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Revenue and support		
Contributions	\$ 4,908,187	\$ 4,460,343
Contributed services	16,749	26,262
Interest income	903	1,123
	<u>4,925,839</u>	<u>4,487,728</u>
Total revenue and support		
Operating expenses		
Program activities	4,388,560	-
Supporting activities	744,358	3,059,946
	<u>5,132,918</u>	<u>3,059,946</u>
Total expenses		
Changes in net assets	(207,079)	1,427,782
Unrestricted net assets, beginning	<u>1,689,810</u>	<u>262,028</u>
Unrestricted net assets, end	<u>\$ 1,482,731</u>	<u>\$ 1,689,810</u>

See Notes to Financial Statements.

Montgomery County Economic Development Corporation

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Changes in net assets	\$ (207,079)	\$ 1,427,782
Adjustments to reconcile the change in net assets to net cash provided by operating activities		
Depreciation and amortization	101,342	40,055
Decrease (increase) in		
Contributions receivable	-	275,775
Accounts receivable - trade	6,499	(17,009)
Accounts receivable - tenant allowance	652,470	(652,470)
Accounts receivable - other	25,000	(75,000)
Prepaid expenses	197,555	(199,355)
(Decrease) increase in		
Accounts payable	(158,149)	239,918
Accrued expenses	75,840	174,169
Deferred rent	(39,261)	780,310
	<u>654,217</u>	<u>1,994,175</u>
Cash flows from investing activities		
Purchases of property and equipment	-	(952,470)
Intangible asset	-	(30,470)
	<u>-</u>	<u>(982,940)</u>
Net cash used in investing activities	-	(982,940)
Net increase in cash and cash equivalents	654,217	1,011,235
Cash and cash equivalents, beginning	1,032,445	21,210
Cash and cash equivalents, end	<u>\$ 1,686,662</u>	<u>\$ 1,032,445</u>

See Notes to Financial Statements.

(6)

Montgomery County Economic Development Corporation

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 1 - Organization and purpose

The Montgomery County Economic Development Corporation ("MCEDC", the "Organization") was formed on October 5, 2015 as a non-stock corporation under the laws of the State of Maryland. MCEDC's formation was authorized on June 30, 2015 by way of the approval of Bill 2515 of the County Council of Montgomery County, Maryland (the "County"). MCEDC's sole purpose is serving as the County's economic and development corporation and implementing the County's economic development strategic plan and related programs. MCEDC is primarily supported by and operates under a contract with the County that establishes a framework for MCEDC to operate in order to carry out its purpose. The contract is renewable on an annual basis.

Note 2 - Summary of significant accounting policies and other matters

Basis of accounting

These financial statements have been prepared on the accrual basis of accounting and are intended to present net assets, revenue, expenses, gains and losses, based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that will be met by actions of MCEDC and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by MCEDC.

As of June 30, 2018 and 2017, there were no restrictions on MCEDC's net assets.

Revenue is reported as increases in unrestricted net assets unless uses of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and at a bank. Cash balances held at the bank are insured by the Federal Deposit Insurance Corporation. Cash balances held at the bank may from time to time, exceed federally insured amounts. Management does not feel there is a risk of loss due to balances that exceed insured amounts.

Accounts receivable

Accounts receivable - trade, consists of amounts due from third parties as a result of various contractual agreements. Management determines any needed allowances for doubtful accounts of trade receivables by reviewing and identifying any troubled collectible amounts as necessary. The Organization has not experienced any collection difficulties with its trade receivables and, therefore, has not provided for an allowance for doubtful accounts. Recoveries of any written-off amounts would be recorded when received.

Accounts receivable - tenant allowance, represents the value of property and equipment, in the form of leasehold improvements, paid for by the Organization that they have rights to be reimbursed for by the lessor of its rented space in accordance with the terms of its lease agreement. In accordance with the terms of the lease agreement, up to 85% of the tenant allowance is due to be paid to the Organization not more frequently than once per month with the final amount due to the

Montgomery County Economic Development Corporation

**Notes to Financial Statements
June 30, 2018 and 2017**

Organization based on the completion of certain conditions, as defined in the lease agreement. As of the years ended June 30, 2018 and 2017, tenant allowance receivable of \$0 and \$652,470 was due to the Organization, respectively. During the years ended June 30, 2018 and 2017, \$652,470 and \$0, respectively, of tenant allowance receivable was paid to the Organization.

Other receivable consists of a housing allowance paid to the President and Chief Executive Officer (the "President") of the Organization in accordance with the terms of an employment contract between the President and the Organization on September 6, 2016. The housing allowance is only to be repaid in the event that certain termination clauses, as defined in the employment contract, are triggered, with the full amount of the housing allowance being forgiven after three years. The original amount of the housing allowance was \$100,000 and, as of June 30, 2018, \$50,000 remains subject to repayment in accordance with the terms of the employment contract.

Property and equipment

Property and equipment is carried at cost, net of accumulated depreciation and is depreciated for financial reporting purposes using the straight-line method over the estimated useful lives of the assets. The respective original useful lives are as follows:

<u>Assets</u>	<u>Estimated useful life (years)</u>
Leasehold improvements	10
Furniture and equipment	8

Deferred rent

The Organization records rent expense on a straight-line basis on its office lease that contains fixed annual rental increases. The difference between rent expense and payments made under the lease is reflected as deferred rent.

Contributions

Contributions are recognized as revenue in the period received. Contributions with donor-imposed restrictions are reported as support and added to temporarily restricted or permanently restricted net assets.

Contributions, that are restricted by the donor but the restriction expires in the year in which the contributions are recognized, are recorded as increases in unrestricted net assets. As of June 30, 2018 and 2017, MCEDC did not have any such contributions.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributed services

MCEDC recognizes contributed services at fair value if the services require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying statements of activities as contributed services are offset by like amounts included in expenses.

Various members of MCEDC's Board of Directors have made significant contributions of their time to establish MCEDC. No amounts have been recognized in the accompanying financial statements because the criteria for recognition of such efforts were not satisfied.



Montgomery County Economic Development Corporation

**Notes to Financial Statements
June 30, 2018 and 2017**

During the years ended June 30, 2018 and 2017, MCEDC received contributed professional services, with a fair value on the dates of donation, of \$16,749 and \$26,262, respectively.

Marketing and advertising

Marketing and advertising costs are expensed as incurred.

Income taxes

Pursuant to a letter of determination received from the Internal Revenue Service (the "IRS") on March 30, 2017, MCEDC is exempt from federal income tax in accordance with section 501(c)(3) of the Internal Revenue Code (the "IRC"), except for income taxed on "unrelated business income," if any. The exemption is retroactive to MCEDC's formation date of October 5, 2015. For the years ended June 30, 2018 and 2017, MCEDC did not have any "unrelated business income" subject to income taxes; accordingly, no provision or benefit for income taxes has been recorded in the accompanying financial statements and the Organization has not identified any uncertain tax positions that qualify for recognition or disclosure in notes to the financial statements.

MCEDC is required to file and does file tax returns with the IRS. While no tax returns of the Organization are currently being examined by the IRS, the 2016 and 2017 tax returns remain open for examination.

Intangible asset

During the year ended June 30, 2017, MCEDC incurred costs related to the development of its website, "thinkmoco.com." Website costs include the cost to develop, enhance, manage and monitor MCEDC's website and online operations. MCEDC accounts for such costs in accordance with the accounting guidance pertaining to internal-use software and website development costs. Accordingly, qualifying website costs are capitalized and are amortized over their anticipated useful lives (currently five years) using the straight-line method. Other costs, such as maintenance and training, are expensed as incurred. For the years ended June 30, 2018 and 2017, amortization expense of \$6,094 and \$508, respectively, was recognized in the accompanying financial statements. Accumulated amortization as of June 30, 2018 and 2017 was \$6,602 and \$508, respectively.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recent accounting pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958)* ("ASU 2016-14"), which improves the presentation of financial statements of not-for-profit entities. The change is intended to provide more useful information to donors, grantors and other users. The ASU impacts all not-for-profit entities within the scope of Topic 958. The ASU addresses the following key qualitative and quantitative matters: 1) net asset classes; 2) investment return; 3) expenses; 4) liquidity and 5) availability of resources and presentation of operating cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the effect ASU 2016-14 will have on its financial statements.

Montgomery County Economic Development Corporation

**Notes to Financial Statements
June 30, 2018 and 2017**

Subsequent events

Material subsequent events have been considered for disclosure and recognition in these financial statements through October 26, 2018, the date the financial statements were available to be issued.

Reclassifications

Reclassifications have been reflected in the current year presentation for prior year balances. Such reclassifications are for comparative purposes only and do not restate the prior year financial statements.

Note 3 - Functional allocation of expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Supporting services consist of general and administrative expenses and fundraising expenses.

Note 4 - Property and equipment

Property and equipment consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 856,639	\$ 856,639
Furniture and equipment	95,830	95,831
	<u>952,469</u>	<u>952,470</u>
Less: accumulated depreciation	134,794	39,547
	<u>\$ 817,675</u>	<u>\$ 912,923</u>

For the years ended June 30, 2018 and 2017, depreciation expense was \$95,248 and \$39,547, respectively.

Note 5 - Retirement plan

During the year ended June 30, 2017, MCEDC began sponsoring a contributory defined contribution plan (the "Retirement Plan") covering eligible salaried employees. The Plan allows for safe harbor matching contributions by MCEDC to eligible participants. For the years ended June 30, 2018 and 2017, the Retirement Plan expense was \$42,372 and \$13,982, respectively.

Note 6 - Commitments

MCEDC entered into a 10-year lease for an office space in Rockville, Maryland. Rental payments on the lease commenced beginning April 20, 2017. Rent expense for the years ended June 30, 2018 and 2017 was \$268,301 and \$180,405, respectively. Additionally, effective May 1, 2017, MCEDC entered into a memorandum of understanding (the "MOU") with two third-party organizations (the "sub-tenants") to use a portion of MCEDC's leased office space. The MOU calls for the sub-tenants to pay a stated amount of license fees to MCEDC in advance each month, as well as a share of the operating costs on a yearly basis that MCEDC is subject to per its lease agreement. In addition, the MOU calls for the sub-tenants to pay a pro-rata share of administrative expenses each month in arrears. For the years ended June 30, 2018 and 2017, MCEDC

Montgomery County Economic Development Corporation

**Notes to Financial Statements
June 30, 2018 and 2017**

recognized \$121,473 and \$17,009, respectively, of reimbursements related to the MOU, which is recorded net of rent expense on the accompanying statements of activities. Rent expense, net of sub-tenant reimbursements, was \$146,828 and \$163,396 for the years ended June 30, 2018 and 2017, respectively.

MCEDC is also obligated under certain leases for office equipment through 2018.

Future minimum lease payments due under all lease arrangements as of June 30, 2018 are summarized as follows:

2019	\$	318,624
2020		327,315
2021		336,244
2022		345,419
2023		352,243
Thereafter		<u>1,441,609</u>
	\$	<u>3,121,454</u>

Note 7 - Concentration of credit risk

MCEDC maintains its cash balances in several accounts at EagleBank. The balances are generally insured by the Federal Deposit Insurance Corporation ("FDIC") up to specified limits. At times, the balances may exceed these insurance limits; however, MCEDC has not experienced any losses with respect to its balances in excess of FDIC insurance. Management believes that no significant concentration of credit risk exists as of June 30, 2018.

October 26, 2018

To the Board of Directors and the Finance and Audit Committee
Montgomery County Economic Development Corporation
1801 Rockville Pike #320
Rockville, MD 20852

We have audited the financial statements of the Montgomery County Economic Development Corporation ("MCEDC," the "Organization") for the year ended June 30, 2018, and have issued our report thereon dated October 26, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 18, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Montgomery County Economic Development Corporation are described in Note 2 to the financial statements. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- 1) Management's estimate of the functional allocation of expenses which is based on an allocation of costs among the programs and supporting services benefited;
- 2) Management's estimate of the useful lives of property and equipment which is based on the economic life of the related assets, which range from eight to ten years and;
- 3) Management's estimate of the useful life of the intangible asset which is based on the anticipated use of the asset which is currently five years

We evaluated the key factors and assumptions used to develop these estimates in determining they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Directors, the Finance and Audit Committee, and management of the Montgomery County Economic Development Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



CohnReznick, LLP

Montgomery County Economic Development (MCEDC)
Statement of Revenue and Expense From Operations
For the Period July 1, 2017 through June 30, 2018

	A	B	C	D
	6/30/2018	FY18	FY18	%
	Actual	Revised Budget	Budget Variance	of Budget
Revenue				
Montgomery County Contribution	\$ 4,907,750	\$ 5,007,750	\$ (100,000)	98%
MBDC Transfer	436	-	436	
Interest Income	903	1,320	(417)	68%
Total Revenue	\$ 4,909,089	\$ 5,009,070	\$ (99,981)	98%
Expenses				
Salaries & Wages				
Salaries & Wages	\$ 1,902,743	\$ 2,125,500	\$ (222,757)	90%
Benefits & Payroll Taxes	395,036	677,606	(282,570)	58%
Operating Expenses				
Marketing/PR/Website				
Marketing Subcontractors	133,088	125,869	7,219	106%
Video	229,849	258,727	(28,878)	89%
Media Buys	383,727	401,485	(17,758)	96%
Website/Social Media	103,809	117,978	(14,169)	88%
PR	113,744	65,847	47,897	173%
Collateral	40,401	40,549	(148)	100%
Events/Sponsorships				
Tradeshows/Conferences/Events	142,497	150,000	(7,503)	95%
Sponsorships	123,917	150,000	(26,083)	83%
Events/Sponsorships- Other	78,500	-	-	0%
Professional Services				
Legal	13,389	10,000	3,389	134%
Human Resources	15,761	14,400	1,361	109%
Accounting/Audit	101,868	109,655	(7,787)	93%
Misc Subcontractors	176,191	231,860	(55,669)	76%
Insurance				
Business Liability	12,974	14,000	(1,026)	93%
Worker's Comp	9,406	14,000	(4,594)	67%
Membership/Subs Services				
Membership Dues	12,946	13,529	(583)	96%
Research & BD Subscriptions	129,922	106,748	23,174	122%
Other Subscription Services	1,631	1,680	(49)	97%
Professional Development	11,992	16,350	(4,358)	73%
Business Fees				
Service Fees/Interest Charges	940	1,000	(60)	94%
Business Licenses & Filing Fees	647	1,300	(653)	50%
Operating Expenses				
Office Rent	268,301	307,562	(39,261)	87%
Office Parking	15,708	19,120	(3,412)	82%
Telephone/Security/Internet	21,400	14,985	6,415	143%
Office Supplies/Misc. Office	32,561	55,400	(22,839)	59%
Postage & Delivery	251	750	(499)	33%
IT Services	38,759	42,887	(4,128)	90%
Equipment Lease	6,664	7,188	(524)	93%
Reimbursement of Other Expenses	(121,473)	(127,000)	5,527	96%
Operating Expenses - Other	-	-	-	-
Miscellaneous Expenses				
Office Space - Build Out	6,043	5,000	1,043	121%

Office Space - FF&E	21,689	25,000	(3,311)	87%
Travel				
Airplane/Trains	7,376	12,000	(4,624)	61%
Lodging	10,652	4,000	6,652	266%
Local Travel (Parking/Tolls)	4,132	4,000	132	103%
Mileage Reimbursements	6,926	8,500	(1,574)	81%
Miscellaneous Travel	247	500	(253)	49%
Meals & Entertainment				
M&E - Meetings	7,186	10,000	(2,814)	72%
M&E - BD	12,224	5,600	6,624	218%
M&E - Marketing	4,297	9,000	(4,703)	48%
Depreciation	101,341	-	101,341	
Undesignated Reserve	-	200,000	(200,000)	0%
Business Development				
Partnerships				
Impact Grants	25,000	150,000	(125,000)	17%
MIT Mentorship Program in Life Science Initiative	50,000	50,000	-	100%
Marketing and Programming in NCCoE and Cyber Initiative	-	100,000	(100,000)	0%
Rockville Economic Development - Women's Business Center	40,000	40,000	-	100%
Bethesda Green Contract	25,000	25,000	-	100%
Rise Therapeutics LLC	25,000			
EMSI Licenses (Economic Modeling)	12,000	12,000	-	100%
In-House Services	9,448	-	9,448	
Amazon	372,825	150,000	222,825	249%
Total Expenses	\$ 5,138,535	\$ 5,779,575	\$ (744,540)	89%
Change in Unrestricted Net Assets	\$ (229,446)	\$ (770,505)	\$ 644,559	30%

No Assurance Provided

Montgomery County Economic Development (MCEDC)
Statement of Revenue and Expense From Operations
For the Period July 1, 2018 through February 28, 2019

	A	B	C	D
	2/28/2019	FY19	FY19	% of
	Actual	Budget	Budget	Variance
			Variance	Budget
Revenue				
Montgomery County Contribution	\$ 4,932,634	\$ 5,007,750	(75,116)	99%
MBDC Transfer	-	-	-	
Private Fundraising	50,000	200,000	(150,000)	25%
Interest Income	1,317	2,500	(1,183)	53%
Total Revenue	\$ 4,983,951	\$ 5,210,250	\$ (226,299)	96%
Expenses				
Personnel Costs				
Salaries & Wages	1,303,736	\$ 2,275,880	(972,144)	57%
Benefits & Payroll Taxes	247,711	509,634	(261,923)	49%
Professional Services				
Legal	6,750	12,000	(5,250)	56%
Human Resources	7,270	6,000	1,270	121%
Accounting/Audit	58,659	82,700	(24,041)	71%
Misc Subcontractors	26,345	25,000	1,345	105%
Insurance				
Business Liability	8,328	14,000	(5,672)	59%
Worker's Comp	934	14,000	(13,066)	7%
Events/Sponsorships				
Tradeshows/Conferences/Events	35,002	125,000	(89,998)	28%
Sponsorships	60,350	65,000	(4,650)	93%
Events/Sponsorships- Other	7,927	-	7,927	
Membership/Subs Services				
Membership Dues	8,281	18,000	(9,719)	46%
Research & BD Subscriptions	52,129	120,000	(67,871)	43%
Other Subscription Services	2,895	1,680	1,215	172%
Professional Development				
Professional Development	18,495	20,000	(1,505)	92%
Business Fees				
Service Fees/Interest Charges	15	1,000	(985)	2%
Business Licenses & Filing Fees	368	1,300	(932)	28%
Operating Expenses				
Office Rent	192,347	316,021	(123,674)	61%
Office Parking	14,746	20,160	(5,414)	73%
Guest Parking - Validation	218	1,200	(982)	18%
Telephone/Security/Internet	9,325	14,985	(5,660)	62%
Office Supplies/Misc. Office	9,464	36,000	(26,536)	26%
Postage & Delivery	283	750	(467)	38%
Printing (internal)	9,444	9,660	(216)	98%
IT Services	33,202	27,000	6,202	123%
Equipment Lease	4,920	7,063	(2,143)	70%
Reimbursement of Other Expenses	(84,114)	(139,286)	55,172	60%
Operating Expenses - Other				
Miscellaneous Expenses				
Office Space - Build Out	-	-	-	
Office Space - FF&E	-	15,000	(15,000)	0%
Depreciation	67,561	102,000	(34,439)	66%

Business Travel					
Airplane/Trains	11,541	15,000	(3,459)	77%	
Lodging	14,218	10,000	4,218	142%	
Local Travel (Parking/Tolls)	1,861	15,000	(13,139)	12%	
Mileage Reimbursements	3,114	-	3,114		
Miscellaneous Travel	118	-	118		
Meals & Entertainment					
M&E - Meetings	2,281	15,000	(1,771)	15%	
M&E - BD	9,521	-	-		
M&E - Marketing	1,259	-	-		
M&E - Other	168	-	-		
Project Costs					
Objectives for Goal 1 - Grow & Diversify		1,625,000	(1,280,157)	21%	
Marketing/PR/Website	180	-	-		
Marketing Subcontractors	35,674	-	-		
Video	73,408	-	-		
Media Buys	106,723	-	-		
Website/Social Media	80,421	-	-		
PR	35,549	-	-		
Collateral	9,261	-	-		
Marketing/PR/Website - Other	3,627	-	-		
Objectives for Goal 2 - Work & Live in Moco		50,000	(50,000)	0%	
Objectives for Goal 3 - Entrepreneurship & Innovation	17,690	250,000	(232,310)	7%	
Objectives for Goal 4 - Private Fundraising	12,500	100,000	(87,500)	13%	
FY18 Strategic Initiatives					
FY18 Strategic Initiatives	124,000	415,165	(291,165)	30%	
Contingency					
Contingency		200,000	(200,000)	0%	
Amazon	16,325	-	16,325		
Total Expenses	\$ 2,662,030	\$ 6,396,912	\$ (3,734,882)	42%	
Change in Unrestricted Net Assets	\$ 2,321,921	\$ (1,186,662)	\$ 3,508,583	-196%	

No Assurance Provided

Montgomery County Economic Development Corporation FY20 Proposed Detailed Budget

INCOME		
Revenue		
	Montgomery County Contribution	5,007,750.00
	Private Fundraising	350,000.00
	Interest Income	3,000.00
	Total Revenue	5,360,750.00
EXPENSES		
Personnel Costs		
	Salaries & Wages	2,558,104.00
	Benefits & Payroll Taxes	671,072.00
	Professional Services	
	Legal	36,000.00
	Human Resources	10,000.00
	Accounting	
	Payroll/General Ledger	40,000.00
	Audit/Tax Preparation	33,000.00
	Misc Subcontractors	
	Business Operations	10,000.00
	Insurance	
	Business Liability	14,000.00
	Workers' Comp	14,000.00
	Partnerships/Events/Sponsorships	
	Partnerships	75,000.00
	Trade Shows/Conferences/Events	100,000.00
	Sponsorships	55,000.00
	Membership/Subscription Services	
	Membership Dues	20,000.00
	Research & BD Subscriptions	123,500.00
	Professional Development	30,000.00
	Business Fees	
	Service Fees/Interest Charges	1,000.00
	Business Licenses and Filing Fees	1,300.00
	Operating Expenses	
	Rent	324,710.00
	Parking	
	Personnel Parking	20,160.00
	Client Parking-Validation	2,400.00
	Internet/Telephone/Security	
	Telephone	9,000.00
	Security	1,527.40
	Internet/TV	4,458.00
	Office Supplies/Office Expenses	
	Office Supplies/ Misc Office Expenses	20,000.00
	Postage and Delivery	1,500.00
	Printing (internal)	9,660.00
	IT (Maintenance, Help Desk, Equipment, Software)	40,000.00
	Partner Expense Reimbursement	-133,000.00

	Depreciation	102,000.00
	Equipment Lease	7,062.60
	Miscellaneous Expenses	
	Office Space - FF&E	15,000.00
	Business Travel	
	Airplane/Trains	30,000.00
	Lodging	40,000.00
	Local Travel (Mileage, Parking, Tolls)	5,000.00
	Meals & Entertainment	
	M&E-Meetings	15,000.00
	Project Costs	
	Goal 1: Grow and Diversity	1,144,000.00
	Goal 2: Engage Business Community to be Top 5	10,000.00
	Goal 3: Entrepreneurship and Innovation	170,000.00
	Goal 4: Private Fundraising	130,000.00
	Unanticipated RFP Response Fund	0.00
	Contingency	
TOTAL EXPENSES		5,760,454.00
INCOME LESS EXPENSES		-399,704.00
FY19 PROJECTED CASH BALANCE		1,000,000.00
OPERATING RESERVE		600,000.00
PROJECTED CASH BALANCE FOR FY20 PROGRAMS		400,000.00

MCEDC FY19 PERSONNEL COMPLEMENT

Title	FTE	STATUS
Chief Executive Officer	1.00	Filled
Chief Operating Officer	1.00	Filled
VP, Strategy	1.00	Filled
VP, Operations	1.00	Filled
VP, Marketing	1.00	Filled
Director, Business Development/Retention	1.00	Filled
Director, Business Development/Attraction	1.00	Filled
Director, Business Development/Small & Minority Business	1.00	Filled
Research, Planning & Policy Analyst	1.00	Filled
Special Projects Manager	1.00	Filled
Special Projects Manager	1.00	Filled
Research, Planning & Policy Analyst	1.00	Vacant
Associate Creative Director	1.00	Filled
Senior Art Director	1.00	Filled
Senior Copywriter	0.50	Filled
Senior Business Development Manager	1.00	Filled
Senior Business Development Manager	1.00	Filled
Business Development Specialist	1.00	Vacant
Business Development Specialist	1.00	Vacant
Business Operations Specialist	1.00	Vacant
Receptionist & Office Coordinator	1.00	Filled
Executive Assistant & Project Coordinator	1.00	Filled
TOTAL FTEs	21.50	

Strategic Goal 1: Grow & Diversify Montgomery County's Economy

Objectives	Performance Metrics/Indicators	Strategies
1.1 Recruit target industry businesses to Montgomery County	Increase recruitment pipeline projects by 25% female/minority owned recruitment projects by 25% of new establishments Total employment	1.1.1 Use a data-driven value proposition to target businesses in specific regions 1.1.2 Develop relationships with regional/national brokers & site selectors
1.2 Create an environment that supports inclusive economic growth through business expansion	Increase female/minority owned expansion projects by 25% Increase wetlab space by 75,000 SF Facilitate 3 agreements between federal labs and existing businesses Increase expansion projects in the pipeline by 25% closed/won expansion projects by 10%	1.2.1 Continue implementation of Bio Lab Pilot Project 1.2.2 Implement co-packer feasibility study recommendations 1.2.3 Create countywide small-scale manufacturing framework 1.2.4 Create B2B Pilot with anchors institutions, large corporations and small businesses 1.2.5 Implement data-driven outreach strategy for all business development visits 1.2.6 Implement data-driven value proposition to facilitate expansion projects in targeted industries 1.2.7 Increase access to capital for existing businesses
1.3 Promote Montgomery County and its businesses outside of the region	Convert marketing efforts into 200 new business leads Convert marketing leads into 15 recruitment projects	1.3.1 Deploy three national/international marketing campaigns 1.3.2 Connect local businesses to outside investors 1.3.3 Partner with WorkSource to enhance business development efforts 1.3.4 Support Visit Montgomery's countywide creation of conference/entertainment/sports strategy

Strategic Goal 2: Cultivate an Ecosystem of Entrepreneurship & Innovation

Objectives	Performance Metrics/Indicators	Strategies
2.1 Increase start-ups' access to capital, mentors and customers	Increase start-up investments by 10% Increase female/minority owned start-up projects by 25%	2.1.1 Appoint an entrepreneurship fellow to create product development strategy/start-up pilot 2.1.2 Expand investment network and matching funds, particularly for female and minority founders 2.1.3 Work with the County to modernize county-owned incubator program 2.1.4 Explore a hospitality accelerator concept with Visit Montgomery

2.2 Increase the number of entrepreneurs commercializing federal IP/technologies	Facilitate two agreements between federal labs and entrepreneurs	2.2.1 Implement MCEDC's federal tech transfer strategy 2.2.2 Develop new partnerships with tech transfer mentors and funders
--	--	---

Strategic Goal 3: Make Montgomery County a Top 5 County to Live & Work in the US

Objectives	Performance Metrics/Indicators	Strategies
3.0 Attract new talent and train existing talent to meet industry demands	Net migration into Montgomery County Reduction of unfilled tech jobs by 10%	3.0.1 Launch a national talent campaign for technology workers 3.0.2 Realign incentives to support talent demands of companies
3.1 Promote diverse, mixed-income neighborhoods supported by local businesses	Amount of investment in Ozs Per capita income Median Home Price to Household Income Ratio	3.1.1 Implement a county-side Opportunity Zone strategy 3.1.2 Champion innovation districts and targeted land developments 3.1.3 Facilitate the growth of middle-income jobs
3.2 Engage business owners in policy-making and planning	Engage 20 CEOs in the policy process	3.2.1 Increase CEO participation in relevant local, state and federal legislative processes 3.2.2 Engage the business community in master plan and zoning processes that affect employment hubs or emerging markets

Strategic Goal 4: Grow and sustain MCEDC's income to support

Objectives	Performance Metrics/Indicators	Strategies
4.1 Generate alternative revenue sources for MCEDC	Increase non-county government support by x%	4.1.1 Implement a long-term resource development plan 4.1.2 Generate funding from earned income activities 4.1.3 Establish and maintain a reserve fund equivalent to three months of basic operating expenses

MCEDC FY19 Events

Event	Start Date	End Date	Reg. Fee	Hotel	Meals**	Travel	Meetings	Total	Projects
IEDC	9/30/18	10/2/18	\$1,590	\$1,302		\$1,697	2	\$4,589	0
Area Dev. Consultants Forum	12/3/18	12/5/18	\$3,390	\$1,530	\$203	\$560	3	\$5,683	0
HIMSS*	2/10/19	2/15/19	\$2,398	\$2,452	\$307	\$654	6	\$5,811	2
West Coast Mission (LA)	2/17/19	2/23/19	n/a	\$1,412	\$386	\$443	17	\$2,241	2
RSA	3/4/19	3/8/19	\$3,790	\$2,869	TBD	\$1594	9	\$8,253	2
SXSW*	3/7/19	3/17/19	\$4,600	\$6,221	TBD	\$1,587	4	\$12,408	1
World Orphan Drug Conference	4/10/19	4/12/19	\$2,800	\$150	\$125	\$1,029	2	\$4,104	0
BIO	6/2/19	6/2/19	\$330	\$1,345	\$50	\$500	3	\$2,225	0
Total			\$18,898	\$17,281	TBD	\$8,064	46	\$45,314	7

* Additional event-related costs included below.

** Final expenses pending.

MCEDC Additional Event Expenditures

Event	Date	Total Cost	Number of Attendees
HIMSS Happy Hour	2/13/19	\$3,420	6
SXSW (WeDC House)	3/9-3/11	\$10,000	6,600
Total		\$13,420	6,606

FY19 SPONSORSHIPS

as of 4/4/19

Date	Name	Memo	Amount
08/01/2018	Women in Business Education Foundation,	Power Conference	\$3,000
08/01/2018	Hispanic Business Conference Foundation	Latino Pitch Level Bronze Sponsorship	\$2,850
08/07/2018	Association of University Research Parks	2018 International Conference Sponsorship	\$5,000
09/17/2018	Opus 8, Inc	Diamond Partner Level Sponsorship	\$10,000
09/21/2018	Rockville Economic Development Inc	Women's Business Plan Competition	\$5,000
09/28/2018	MEDA, Inc	MEDC Sponsorship	\$5,000
10/01/2018	Total Technology	Support of FLC/MCEDC Industry Event	\$7,500
10/13/2018	Lum, Inc.	Sponsorship of Les Brown Event	\$1,500
10/20/2018	RMI of Maryland	Bronze Sponsorship for November 29 Champions Gala	\$1,500
10/31/2018	Crossroads Community Food Network	Takoma Park Silver Spring Community Kitchen Sponsorship	\$5,000
12/20/2018	BioHealth Innovation	Sponsorship of BioHealth Capitol Region Forum	\$10,000
01/31/2019	Montgomery County Business Hall of Fame	Montgomery County Business Hall of Fame	\$2,500
02/27/2019	Cybersecurity Association of Maryland	Sponsorship of May MD Cyber Meetup	\$1,500
03/01/2019	Washington, DC Economic Partnership	Non Board Sponsorship	\$10,000
03/12/2019	Maryland Tech Council	East Cost Venture Conference Sponsorship	\$9,500
03/18/2019	Montgomery Moving Foward	Montgomery Moving Forward Project Support	\$5,000
03/29/2019	Montgomery County Branch NAACP	2019 NAACP Freedom Fund Dinner	\$1,975
04/01/2019	Bethesda Magazine	Gold Sponsor of the 2019 Best of Bethesda Party	\$5,000

\$91,825

FY18 Sponsorships repeated in FY19

Organization	Purpose	Amount
Opus8	Big Idea CONNECTpreneur	\$15,000
BioHealth Innovation	BioHealth Capitol Region Forum	\$10,000
Maryland Tech Council	East Coast VentureCon	\$9,500
Maryland Business Hall of Fame	Maryland Business Hall of Fame	\$2,500
Bethesda Green	Pitch Event	\$3,000
Crossroads Community Food Network	Takoma Park/Silver Spring Kitchen Sponsorship	\$5,000
		\$45,000