



**GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

COMMONWEALTH CORPORATION

Contents
June 30, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of
Commonwealth Corporation:

Report on the General Purpose Financial Statements

We have audited the accompanying general purpose financial statements of Commonwealth Corporation, a component unit of the Commonwealth of Massachusetts, which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the general purpose financial statements.

Management's Responsibility for the General Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these general purpose 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 general purpose 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 general purpose 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 audits to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the general purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the general purpose 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 general purpose 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 general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the net position of Commonwealth Corporation as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 2 through 10 be presented to supplement the basic general purpose financial statements. Such information, although not a part of the basic general purpose financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic general purpose financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic general purpose financial statements, and other knowledge we obtained during our audit of the basic general purpose financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Alexander, Acosta, Penning & Co., P.C.

Boston, Massachusetts
October 26, 2017

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2017 and 2016

This Management's Discussion and Analysis provides an overview of the Commonwealth Corporation's (the Corporation) financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Corporation's general purpose financial statements and related footnotes, which begin on page 11.

Description of Major Programs by Division

The Corporation designs and executes workforce and youth development programs in partnership with businesses, educators, and providers across the Commonwealth of Massachusetts (the Commonwealth). These programs address persistent workforce challenges, such as the skills gap for targeted industries and populations.

As part of a broader workforce development community that is dedicated to meeting the needs of job seekers, students of all ages and businesses in Massachusetts, we work across the Commonwealth with sensitivity to regional economic differences. The context for our work is the knowledge and innovation economy of the Commonwealth.

The Corporation's strategy is to invest in the development of regional training partnerships among businesses, education and workforce organizations in high demand and emerging industry sectors, as well as youth pathways that combine work and learning. Our mission and goals are advanced through grant-making, technical assistance, research and evaluation that informs to practice policy and the development and dissemination of tools, resources and models that enhance service delivery and performance.

We invest in programs in three primary areas:

- Preparing and connecting unemployed and underemployed individuals to in-demand jobs.
- Work experience and work readiness skills development for teens and young adults.
- Skills upgrading of incumbent workers, so that Massachusetts businesses can improve their competitiveness in the global economy.

The Corporation includes two operational divisions:

- **The Sector & Regional Strategies Division** with revenues of \$22.57 million compared to an annual budget of \$23.12 million. The following major programs are being administered through this division:
 - **The Workforce Training Fund Program (WTFP)**, which helps Massachusetts businesses address productivity and competitiveness by providing them with resources to upgrade the skills of their employees. The grant program is funded through quarterly assessments on Massachusetts unemployment insurance contributions. Assessments accumulate in a trust fund to be distributed to businesses in the form of training grants. In fiscal year 2017, the majority of funds were awarded in 3 programs: (1) General Program - 179 training grants involving 206 businesses. The total amount awarded was \$17.99 million. These businesses plan to train close to 11,000 workers with these funds. (2) Express Program - 512 grant awards to 388 small businesses (100 or fewer employees), seeking a total of \$2.398 million to train more than 3,100 employees. (3) Direct Access Program - In fiscal year 2017, the Corporation conducted a new competitive procurement process to identify additional training organizations and programs and also awarded continuation grants to 8 of the 10 original training organizations. Currently 18 organizations are offering training seats through the Direct Access Program to businesses across the Commonwealth. By the end of fiscal year 2017, the 18 organizations had collectively trained 2,080 workers from 260 businesses and received grants of \$826,686.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
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Description of Major Programs by Division (Continued)

- **The Workforce Competitiveness Trust Fund (WCTF)**, a fund created to develop programs to meet the skill needs of businesses with high-demand occupations. As a result of this investment, businesses have documented significant improvements in productivity, profitability, increased sales, employee retentions and other measures. WCTF was recapitalized in fiscal year 2016 with an appropriation of \$2 million; The Corporation awarded \$1.825 million in grants to 14 organizations to be expended over a period of not more than two years to partner with businesses to prepare and place unemployed and underemployed job seekers. Those grants will end in fiscal year 2018. WCTF received an additional appropriation of \$500,000 in fiscal year 2017. The Corporation awarded up to \$450,000 in grants to 2 organizations to be expended through fiscal year 2019 to partner with businesses to prepare and place long-term unemployed individuals.
- **The Health Care Workforce Transformation Fund** provides \$16 million in funding to The Corporation. This fund was designed for the health care industry to train workers to meet required operational changes to comply with health care cost containment and quality improvement objectives articulated in Chapter 224 of the Acts of 2012. Fifty-nine training grants were awarded between 2015 and 2016; these grants ended in fiscal year 2017. In fiscal year 2017 The Corporation awarded up to \$1.35 million in six additional grants to be expended through fiscal year 2019 to partner with businesses to prepare and place long-term unemployed individuals in health care positions.
- **The Youth Pathways Division** with revenues of \$32.51 million compared to a budget of \$32.50 million. The following major programs are being administered:
 - **YouthWorks** A youth at risk program that represents an \$11.5 million state budget appropriation to provide subsidized employment and work-readiness training for low-income teens in more than thirty cities and towns across Massachusetts. The Corporation staff works with workforce boards and their community providers to organize summer and year-round jobs for more than 5,000 youth each year.
 - **Signal Success** is a work readiness curriculum developed by the Youth Pathways team, and is aimed at improving long-term employment outcomes for young people. The curriculum is being implemented through YouthWorks, and is also being tested in selected public high schools. In addition to the YouthWorks funding, demonstration programs are funded through the Massachusetts Clean Energy Center and a corporate grant from BNY Mellon.
 - The Corporation in partnership with the Collaborative for Education Services (CES), is under contract to deliver education and workforce transition services to all youth who are in custody of the Commonwealth's **Department of Youth Services (DYS)**. The work helps ensure that youth and teens committed to DYS have access to high-quality education and employability opportunities. Youth Pathways staff helped design core standards that define educational quality in DYS residential programs, and support programs in meeting these standards through assessment and technical assistance. Staff also manages Bridging the Opportunity Gap, an initiative that provides career readiness and vocational programming for DYS youth who have returned to their community. Finally, staff work to integrate the arts into DYS residential and community programming through visual art education, arts engagement, community arts partnerships, and an annual youth art showcase. Fiscal year 2017 is the fourth year of a multi-year contract with annual revenue of about \$20 million.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
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Description of Major Programs by Division (Continued)

- **The Safe and Successful Youth Initiative (SSYI)** is a multi-faceted effort led by the Executive Office of Health and Human Services (EOHHS) to reduce youth violence in Massachusetts. The program seeks to engage young men aged 14 to 24 who have been identified as 'proven risk' or at the highest risk for being perpetrators of violence. EOHHS provides funding to cities to implement a coordinated intervention strategy that includes street outreach, trauma counseling, and case management support. The Corporation is under contract to deliver technical assistance to the SSYI communities, and our staff works to ensure that local partners are providing appropriate services, and that each community is collecting and reporting data that document services and outcomes.

The Statements of Net Position (Page 11)

The Statements of Net Position show comparative financial data from June 30, 2017 and 2016 and include all assets and liabilities of the Corporation, as a whole. Additionally, these statements report total net position and the changes in net position.

- **Total Assets** in the amount of \$36.73 million increased by \$7.37 million from the previous year total of \$29.36 million:
 - Cash and cash equivalents in the amount of \$30.09 million increased by \$7.21 million from last year's \$22.88 million.
 - Cash for operations is deposited in a bank and includes non-interest bearing checking accounts; debit card accounts and an interest bearing operations/ sweep account. Operating cash increased by \$358,526 from \$416,970 to \$775,496 between fiscal year 2016 and 2017.
 - The Corporation also holds cash through investment accounts in the Massachusetts Municipal Depository Trust (MMDT). June 30, 2017 investments increased by \$7.39 million from \$21.88 million to \$29.27 million. The Workforce Training Fund Program (WTFP) account was recapitalized by \$11 million in February; \$4.90 million in May and by another \$7.1 million in June of 2017. On June 30, 2017 and 2016, the cash portfolio MMDT yield was 1.18% and 0.57%, respectively.
 - Grants, contracts, and other receivables in the amount of \$6.51 million increased by \$201,841 from last year's \$6.31 million.
 - Capital assets depreciated in value by \$36,272 (net of the addition) from \$145,633 to \$109,361; the only capital addition was a Dell PowerEdge R330 back-up server in the amount of \$9,045. A dual Intronis back-up solution was activated in November 2016 which includes a daily back up to the internal DELL server and a weekly offsite back-up via cloud storage.
- **Total Liabilities and Net Position** also increased by \$7.37 million. This increase in liabilities comes primarily from an increase in deferred revenue. All unearned revenue is deferred until the moment the products or services have been delivered; at that time the revenue will be recognized on the statement of revenues, expenses and changes in net position.
 - Deferred revenue totaled \$30.04 million an increase of \$9.14 million compared to \$20.90 million last year. This increase is brought on by the recapitalization of the WTFP.
 - The Net Position balance of \$668,145 represents a \$74,999 decrease from last year's balance of \$743,144. The Chief Executive Officer's (CEO) contract ended on June 30, 2017 and was not extended. An accrued amount of \$72,693 charged to the General Fund accounts for the CEO's contractually obligated severance was paid out through the first quarter of fiscal year 2018.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
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The Statements of Revenues, Expenses and Changes in Net Position (Page 12)

The statements of revenues, expenses and changes in net position accounts for two basic fund groups:

- **Unrestricted Funds:** This fund group is unrestricted in nature, and the related assets have no external restrictions imposed upon their use.
 - **General Fund:** This component accounts for unrestricted financial activity that is not specific to other funds.
 - **Indirect Cost Pools:** This component includes costs that are not identifiable with a particular cost objective but are necessary to the general operation of the corporation. The Corporation's four indirect cost pools are Corporate General and Administrative (G&A); Field (Sub-recipient contracts) G&A; Facilities/ Occupancy and Information Technology (LAN).
- **Restricted Grant and Contract Funds:** This fund group includes resources that are to be expended for specified purposes as determined by grantor agreements, contractual terms and conditions, and donor/foundation requirements. The vast majority of funds received by The Corporation is restricted by nature, including MMDT invested funds.

Operating Revenues and Expenses

Fiscal year 2017 shows a slight reduction in revenue and expenditures from fiscal year 2016. Annual revenue and expenditures totaled \$55.08 and \$55.16 million, respectively, down from last year's \$55.21 and \$55.20 million. While there are some individual variances (see below) the totals show the overall financials to be consistent with last year's performance.

- **Operating Revenues**
 - There are two ways revenue is billed for and received (1) expenditures have been incurred and billing takes place on a cost reimbursement basis or (2) no expenditures have been incurred yet and billing takes place on an advance basis. Any grants and contracts revenue received in advance will be deferred and will not be recognized until an actual expense has occurred. Revenue each year will be recognized as part of a balanced budget (i.e. budget revenue will match budget expenses and actual fiscal year expenses incurred by fund will total revenue recognized by fund).
 - Interest income totaled \$172,007. Interest earned on assets is distributed on a prorated cash balance basis. Interest earned and distributed in fiscal year 2017:

| <u>Fund</u> | <u>Interest</u> |
|--------------|-------------------|
| WTFP | \$ 159,026 |
| WCTF | 6,781 |
| General Fund | <u>6,200</u> |
| | <u>\$ 172,007</u> |

- Other income in the amount of \$11,892 accounts for revenue received through art sales during the annual DYS Statewide Youth Showcase.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2017 and 2016

The Statements of Revenues, Expenses and Changes in Net Position (Page 12) (Continued)

Operating Revenues and Expenses (Continued)

- Operating Expenses
 - Salaries and wages in the amount of \$3.59 million increased by \$25,888 (0.73%) as compared to last year's total of \$3.56 million. Staffing levels have been consistent during the year ended June 30, 2017. The number of full time employees (FTE's) totaled 46.55 compared to 47.80 on June 30, 2016. A one percent cost of living adjustment (COLA) implemented retroactively to July 1, 2016, accounts for the majority of the increase in salaries and wages.
 - Fringe benefits at \$1.12 million increased by \$111,905 (11.15%) compared to last year's amount of \$1 million. Group Medical Insurance accounts for \$31,071 of this increase. An 18% increase from Harvard Pilgrim Health Care has been implemented effective the last week of March 2017; miscellaneous other fringe benefit changes account for another \$8,288 in cost increases. The remaining \$72,693 relates to the CEO severance pay expense.
 - Professional services amounted to \$687,502, a minimal decrease of \$2,282 (0.33%) as compared to last year's \$689,784.
 - Equipment and facilities expenditures in the amount of \$662,194 decreased by \$15,190 (2.24%) as compared to the previous year amount of \$677,384.
 - Travel decreased by \$8,753 (7.78%) from \$112,503 to \$103,750.
 - Office costs and supplies decreased by \$13,303 (11.55%) from \$115,133 to \$101,830.
 - Other program costs accounts for program supplies, stipends and program start-up cost in the Youth Pathways Division. Expenses in the amount of \$84,901 exceed last year's amount of \$68,901 by \$16,000 (23%). The increase relates to DYS expenditures incurred because of the annual DYS Statewide Youth Showcase; the expansion of the silk screening business from one to two facilities and the expansion of the culinary program. Total expenses were offset by \$42,131 in expense recapture, revenue received mostly through the silk screening social enterprises.
 - Meetings and conferences increased by \$34,681 (73%) from \$47,454 to \$82,135. The increase relates to DYS expenditures incurred because of the annual DYS Statewide Youth Showcase.
 - Depreciation increased by \$1,207 (2.74%) from \$44,110 to \$45,317.
 - Sub-recipient contracts in the amount of \$48.69 million decreased by \$193,599 (0.39%) as compared to last year's total of \$48.88 million.

COMMONWEALTH CORPORATIONManagement's Discussion and Analysis
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The Statements of Revenues, Expenses and Changes in Net Position (Page 12) (Continued)Operating Revenues and Expenses (Continued)

The table below compares current and last year sub-recipient expenditures:

| <u>Fund Description</u> | <u>2017</u> | <u>2016</u> | <u>Change</u> |
|---|----------------------|----------------------|---------------------|
| Workforce Competitive Trust Fund (WCTF) | \$ 1,298,106 | \$ 279,933 | \$ 1,018,173 |
| Workforce Training Fund (WTFP) | 15,169,326 | 14,145,762 | 1,023,564 |
| Employment Program for Spec. Target Populations | - | 659,536 | (659,536) |
| Hampden County Earmark | - | 214,000 | (214,000) |
| Demonstration Workforce Development Program | 187,490 | - | 187,490 |
| Summer Jobs Program - Youth at Risk | 10,887,270 | 9,289,993 | 1,597,277 |
| Youth with Disabilities | - | 147,420 | (147,420) |
| Pre-Apprenticeship Program DOT -State | - | 206,622 | (206,622) |
| Safe & Successful Youth Initiative (SSYI) | 165,251 | - | 165,251 |
| Healthcare Workforce Transformation Fund | 2,864,242 | 5,682,551 | (2,818,309) |
| DYS Youth State Funds | 17,202,669 | 17,148,337 | 54,332 |
| Pre-Apprenticeship Program DOT - Federal | - | 216,670 | (216,670) |
| DYS Youth Federal Funds | 785,360 | 825,205 | (39,845) |
| Miscellaneous | 126,863 | 64,147 | 62,716 |
| | <u>\$ 48,686,577</u> | <u>\$ 48,880,176</u> | <u>\$ (193,599)</u> |

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
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Analysis of Significant Actual to Budget Variances

Managing the corporate budget and accounting for actual to budget variances allows for timely measurement of fiscal performance against annual corporate expense and revenue forecasts; quarterly reviews allow for corrective action if required. The table below lists fiscal year 2017 corporate expenditures against the fiscal year budget:

| | <u>Actual</u> | <u>Budget</u> | <u>\$ Var.</u> |
|---|----------------------|----------------------|---------------------|
| <u>Operating Revenues:</u> | | | |
| Grants and contracts | \$ 54,899,973 | \$ 55,624,552 | \$ (724,579) |
| Interest income | 172,007 | - | 172,007 |
| Other income | <u>11,892</u> | <u>-</u> | <u>11,892</u> |
| Total operating revenues | <u>\$ 55,083,872</u> | <u>\$ 55,624,552</u> | <u>\$ (540,680)</u> |
| <u>Operating Expenses:</u> | | | |
| Salaries and wages | \$ 3,588,722 | \$ 3,555,198 | \$ 33,524 |
| Fringe benefits | 1,115,943 | 1,012,856 | 103,087 |
| Professional Services | 687,502 | 936,854 | (249,352) |
| Equipment & Facilities | 662,194 | 666,340 | (4,146) |
| Travel | 103,750 | 131,512 | (27,762) |
| Office costs and supplies | 101,830 | 102,225 | (395) |
| Other program costs | 84,901 | 71,066 | 13,835 |
| Meetings and conferences | 82,135 | 53,300 | 28,835 |
| Depreciation | <u>45,317</u> | <u>45,000</u> | <u>317</u> |
| Operating expense before contracts | 6,472,294 | 6,574,351 | (102,057) |
| Sub-recipient contracts | <u>48,686,577</u> | <u>49,050,201</u> | <u>(363,624)</u> |
| Total operating expenses | <u>\$ 55,158,871</u> | <u>\$ 55,624,552</u> | <u>\$ (465,681)</u> |
| Changes in net position from operations | <u>\$ (74,999)</u> | <u>\$ -</u> | <u>\$ (74,999)</u> |

Overall budget targets were met. Operating expenses less sub-recipient contracts were below budget by \$102,057 (1.55%) while sub-recipient expenditures were below budget by \$363,624 (0.74%). Corporate G&A at \$1.36 million came in below the budget amount of \$1.37 million by \$14,299 (1.04%).

- Salaries and wages exceeded budget and totaled \$3.59 million compared to a budget of \$3.56 million, an unfavorable variance of \$33,524 (0.94%). Salaries and wages accounts for the second largest corporate expense and is closely managed against budget. Sector Strategies salary expenses matched budget; Youth Pathways exceeded budget by \$36,304 (2.65%); increases were, after budget implementation, granted to at least five employees to bring salaries in line with added job responsibilities.

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Management's Discussion and Analysis
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Analysis of Significant Actual to Budget Variances (Continued)

Salaries and wages from the last five years compared to operating expenses before sub-recipient contracts and total operating expenses:

| | <u>Salaries</u> | <u>Expenses Before Contracts</u> | <u>%</u> | <u>Total Corporate</u> | <u>%</u> |
|------|-----------------|--|----------|----------------------------|----------|
| 2017 | \$ 3,588,722 | \$ 6,472,294 | 55.45% | \$ 55,158,871 | 6.51% |
| 2016 | \$ 3,562,834 | \$ 6,322,141 | 56.35% | \$ 55,202,317 | 6.45% |
| 2015 | \$ 3,440,849 | \$ 6,198,568 | 55.51% | \$ 57,351,931 | 6.00% |
| 2014 | \$ 3,000,084 | \$ 5,547,630 | 54.08% | \$ 48,487,413 | 6.19% |
| 2013 | \$ 2,610,175 | \$ 4,887,332 | 53.41% | \$ 36,397,065 | 7.17% |

Fiscal year 2017 salaries executive staff salaries:

| | |
|--|------------|
| Chief Executive Officer | \$ 173,400 |
| SR Vice President Sector and Regional Strategies | \$ 125,044 |
| Vice President Youth Pathways | \$ 119,360 |
| Vice President Finance/ CFO | \$ 121,200 |

- Fringe benefits in the amount of \$1.12 million exceeded the \$1.01 million budget total by \$103,087 (10.18%). Fringe benefits are set at a standard rate the beginning of each fiscal year. In fiscal year 2017 the rate was set at 28.36% over salaries; the actual end of year rate amounted to 29.19%. An end of year fringe benefit adjustment was made in the amount of \$38,165. The corporation has avoided the last few years any major increases in the Group Medical Insurance; an 18% increase from Harvard Pilgrim Health Care became effective the last week of March 2017. This increase impacted this fiscal year and will have a larger impact on the fiscal year 2018 applied contractual fringe rate over salaries, which will increase from 29% to 31%.
- Professional services in the amount of \$687,502 came in below a budget of \$936,854 by \$249,352 (26.62%). Professional service expenses within individual program budgets:
 - The Sector Strategies Division exceeded budget with a variance of \$18,763.
 - The Youth Pathways Division lists a below budget variance of \$270,391. Of this amount \$232,692 can be contributed to the Safe and Successful Youth Initiative (SSYI) budget of \$258,772. The actual contract line item for the development of the SSYI database was reclassified as a sub-recipient expense; SSYI expenses charged to professional services total only to \$26,080. The remainder of the variance is DYS related.
- Equipment & facilities at \$662,194 are on target with a \$4,146 (0.62%) below budget variance.
- Travel totaled \$103,750 in expenditures and is on target compared to the \$131,512 budget, favorable at \$27,762 (21.11%).
- Office cost and supplies budgeted at \$102,225 lists expenses at \$101,830, a variance of \$395 (0.39%).
- Other program cost accounts for Youth Pathways program supplies, stipends, support services and program start-up cost. Actual cost of \$84,901 against a budget of \$71,066 with a variance of \$13,835 (19.47%).
- Meetings and conferences totaled \$82,135 in expenses. This includes the cost of organizing meetings within the Commonwealth and the cost of Boston Financial District parking at \$7,900. Exceeding budget by \$28,835 (54%) because of the annual DYS Statewide Youth Showcase which involved leasing of WGBH exhibition space.
- Depreciation totaled \$45,317 for the year.
- Sub-recipient contracts with a budget of \$49.05 million and with sub-recipient expenditures in the amount of \$48.69 million had a less than one percent below budget variance of \$363,624 (0.74%).

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
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Current Known Facts, Decisions, and Conditions

The fiscal year 2018 budget in the amount of approximately \$50 million represents a reduction from the 2017 revenue total of \$55 million. The Corporation received approximately ninety-six percent of its 2017 funding through the Commonwealth of Massachusetts. This dependency and lack of funding diversification has been a long-term issue which the new leadership of the Corporation has identified as a priority issue to address. The current budget deficit at the Commonwealth will impact all branches and quasi-public agencies of the state and new funding initiatives will be dependent on limited funding availability.

The Corporation has positioned itself as a strong and effective player in the workforce development, youth development, and economic development fields and has a solid history of cost effective service delivery and performance. The tight labor market and the current Massachusetts low unemployment rate present opportunities for our work and our programs. The continuing pressure of the skills gap for businesses in Massachusetts presents another opportunity for the Corporation.

The Corporation has a long term solid revenue base of four core programs totaling \$48 million:

- For the Department of Youth Services, fiscal year 2018 will be the fifth year of a multi-year contract. Funding is forecasted in the amount of approximately \$19 million.
- The Workforce Training Fund Program received obligational authority for a total of \$25 million. Actual expenditures are forecasted at \$17 million.
- Workforce Competitiveness Trust Fund expenditures are forecasted at \$2 million.
- For the Youth Works Summer Program, the Legislature appropriated almost \$10 million for the summer of 2017.

Managing the corporate finances in the current year will be challenging. Expenditures need to be brought in line with available revenue. Cash flow management, which has always been an issue that requires a lot of attention, will be a priority.

Contacting the Corporation's Financial Management

This Management's Discussion and Analysis has been designed to provide the reader with a general overview of Commonwealth's Corporation finances and to show accountability for the funds it receives. If you have questions about this report or need additional information, please contact the Finance Department of the Corporation.

COMMONWEALTH CORPORATION

Statements of Net Position
June 30, 2017 and 2016

| Assets | 2017 | | | 2016 | | |
|---|---------------------|---|----------------------|---------------------|---|----------------------|
| | Unrestricted | Restricted Grant and Contract Fund | Total | Unrestricted | Restricted Grant and Contract Fund | Total |
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ 847,214 | \$ 29,242,027 | \$ 30,089,241 | \$ 835,844 | \$ 22,045,620 | \$ 22,881,464 |
| Grants, contracts and other receivables | 1,420 | 6,507,419 | 6,508,839 | 1,560 | 6,305,438 | 6,306,998 |
| Prepaid expenses and other | 22,505 | - | 22,505 | 23,432 | - | 23,432 |
| Total current assets | 871,139 | 35,749,446 | 36,620,585 | 860,836 | 28,351,058 | 29,211,894 |
| Capital Assets, net | 109,361 | - | 109,361 | 145,633 | - | 145,633 |
| Total assets | <u>\$ 980,500</u> | <u>\$ 35,749,446</u> | <u>\$ 36,729,946</u> | <u>\$ 1,006,469</u> | <u>\$ 28,351,058</u> | <u>\$ 29,357,527</u> |
| Liabilities and Net Position | | | | | | |
| Current Liabilities: | | | | | | |
| Grants and other payables | \$ 15,037 | \$ 4,485,328 | \$ 4,500,365 | \$ 29,904 | \$ 5,952,377 | \$ 5,982,281 |
| Accrued contract expenses | - | 1,226,987 | 1,226,987 | - | 1,386,248 | 1,386,248 |
| Accrued payroll and other | 297,318 | - | 297,318 | 233,421 | 110,260 | 343,681 |
| Deferred revenue | - | 30,037,131 | 30,037,131 | - | 20,902,173 | 20,902,173 |
| Total current liabilities | 312,355 | 35,749,446 | 36,061,801 | 263,325 | 28,351,058 | 28,614,383 |
| Net Position: | | | | | | |
| Unrestricted net position | 558,784 | - | 558,784 | 597,511 | - | 597,511 |
| Invested in capital assets | 109,361 | - | 109,361 | 145,633 | - | 145,633 |
| Total net position | 668,145 | - | 668,145 | 743,144 | - | 743,144 |
| Total liabilities and net position | <u>\$ 980,500</u> | <u>\$ 35,749,446</u> | <u>\$ 36,729,946</u> | <u>\$ 1,006,469</u> | <u>\$ 28,351,058</u> | <u>\$ 29,357,527</u> |

The accompanying notes are an integral part of these general purpose statements.

COMMONWEALTH CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

| | 2017 | | | 2016 | | |
|--|--------------|------------------------------------|---------------|--------------|------------------------------------|---------------|
| | Unrestricted | Restricted Grant and Contract Fund | Total | Unrestricted | Restricted Grant and Contract Fund | Total |
| Operating Revenues: | | | | | | |
| Grants and contracts | \$ - | \$ 54,899,973 | \$ 54,899,973 | \$ - | \$ 55,120,896 | \$ 55,120,896 |
| Interest income | 6,200 | 165,807 | 172,007 | 5,283 | 72,225 | 77,508 |
| Other income | - | 11,892 | 11,892 | - | 8,587 | 8,587 |
| Total operating revenues | 6,200 | 55,077,672 | 55,083,872 | 5,283 | 55,201,708 | 55,206,991 |
| Operating Expenses: | | | | | | |
| Salaries and wages | 846,131 | 2,742,591 | 3,588,722 | 759,545 | 2,803,289 | 3,562,834 |
| Fringe benefits | 320,102 | 795,841 | 1,115,943 | 215,172 | 788,866 | 1,004,038 |
| Professional services | 186,525 | 500,977 | 687,502 | 160,216 | 529,568 | 689,784 |
| Equipment and facilities | 598,144 | 64,050 | 662,194 | 595,102 | 82,282 | 677,384 |
| Travel | 3,327 | 100,423 | 103,750 | 2,565 | 109,938 | 112,503 |
| Office costs and supplies | 39,136 | 62,694 | 101,830 | 54,244 | 60,889 | 115,133 |
| Other program costs | - | 84,901 | 84,901 | - | 68,901 | 68,901 |
| Meetings and conferences | 3,859 | 78,276 | 82,135 | 5,113 | 42,341 | 47,454 |
| Depreciation | 45,317 | - | 45,317 | 44,110 | - | 44,110 |
| Indirect operating expense allocation | (1,961,342) | 1,961,342 | - | (1,835,458) | 1,835,458 | - |
| Total operating expenses before subrecipient contracts | 81,199 | 6,391,095 | 6,472,294 | 609 | 6,321,532 | 6,322,141 |
| Subrecipient contracts | - | 48,686,577 | 48,686,577 | - | 48,880,176 | 48,880,176 |
| Total operating expenses | 81,199 | 55,077,672 | 55,158,871 | 609 | 55,201,708 | 55,202,317 |
| Changes in net position | (74,999) | - | (74,999) | 4,674 | - | 4,674 |
| Net Position: | | | | | | |
| Beginning of year | 743,144 | - | 743,144 | 738,470 | - | 738,470 |
| End of year | \$ 668,145 | \$ - | \$ 668,145 | \$ 743,144 | \$ - | \$ 743,144 |

The accompanying notes are an integral part of these general purpose statements.

COMMONWEALTH CORPORATION

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from grantors | \$ 63,833,090 | \$ 57,273,651 |
| Collections of interest and other income | 183,899 | 86,095 |
| Payments to employees | (3,579,029) | (3,663,373) |
| Payments of employee benefits | (1,061,665) | (1,006,323) |
| Payments to subrecipients | (50,312,887) | (49,108,828) |
| Payments to vendors and suppliers | <u>(1,846,586)</u> | <u>(2,028,593)</u> |
| Net cash provided by operating activities | 7,216,822 | 1,552,629 |
| Cash Flows from Investing Activities: | | |
| Acquisition of capital assets | <u>(9,045)</u> | <u>-</u> |
| Net Change in Cash and Cash Equivalents | 7,207,777 | 1,552,629 |
| Cash and Cash Equivalents: | | |
| Beginning of year | <u>22,881,464</u> | <u>21,328,835</u> |
| End of year | <u>\$ 30,089,241</u> | <u>\$ 22,881,464</u> |
| Reconciliation of Changes in Net Position to Net Cash Provided by Operating Activities: | | |
| Changes in net position | \$ (74,999) | \$ 4,674 |
| Adjustments to reconcile changes in net position to net cash provided by operating activities: | | |
| Depreciation | 45,317 | 44,110 |
| Changes in operating assets and liabilities: | | |
| Grants, contracts and other receivables | (201,841) | 1,643,469 |
| Prepaid expenses and other | 927 | (389) |
| Grants and other payables | (1,481,916) | (172,226) |
| Accrued contract expenses | (159,261) | (431,811) |
| Accrued payroll and other | (46,363) | (44,484) |
| Deferred revenue | <u>9,134,958</u> | <u>509,286</u> |
| Net cash provided by operating activities | <u>\$ 7,216,822</u> | <u>\$ 1,552,629</u> |

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

1. OPERATIONS AND NONPROFIT STATUS

Operations

Commonwealth Corporation (the Corporation) is a quasi-public agency established by the Commonwealth of Massachusetts (the Commonwealth) and signed into law by the Governor on August 13, 1996. The Corporation is governed, and its corporate powers exercised, by a Board of Directors whose members are appointed for a fixed term by the Governor of the Commonwealth. The Corporation strengthens the skills of Massachusetts youth and adults by investing in innovative partnerships with industry, education and workforce organizations. The Corporation seeks to meet the immediate and emerging needs of businesses and workers so they can thrive in our dynamic economy.

The Commonwealth Corporation Foundation (the Foundation) was created during the year ended June 30, 2011, to support and further the charitable and educational purposes of the Corporation. Revenues of the Foundation were approximately \$100,000 for the year ended June 30, 2017. There were no revenues of the Foundation for the year ended June 30, 2016. Expenses for the Foundation for the years ended June 30, 2017 and 2016, were \$150,000 and \$160,000, respectively. Though the Foundation is considered a component unit of the Corporation, the Corporation has deemed the financial statements of the Foundation to be not material to these general purpose financial statements, and accordingly, has not included them in these general purpose financial statements.

Nonprofit Status

The Corporation is a quasi-public organization and an instrumentality of the Commonwealth and it is exempt from Federal and state income taxes under Internal Revenue Code (IRC) Section 115.

The Foundation is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC. The Foundation is also exempt from state income taxes. Donors may deduct contributions made to the Foundation within the IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - GASB Standards

The accompanying general purpose financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Because the Corporation is a quasi-public corporation, its accounting policies and general purpose financial statement presentation are governed by standards issued by the Governmental Accounting Standards Board (GASB). The Corporation follows GASB standards for Comprehensive Annual Financial Reporting. These standards outline financial reporting requirements for state and local governments. The Corporation is considered a special purpose government organization that conducts only business-type activities within the meaning of GASB standards and, therefore, only has enterprise funds within its proprietary fund. The Corporation has no governmental funds. As such, the Corporation is not required to present government-wide financial statements, but rather only the accompanying fund financial statements. In applying the GASB provisions, organizations like the Corporation can use standards applicable to proprietary fund accounting, and need not follow the provisions of governmental fund accounting.

The Corporation follows the GASB standard, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The Corporation has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB codifications. References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC) and the GASB Codification.

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking, money market, and savings accounts, other highly liquid investment instruments issued with maturities of 90 days or less, including amounts held in the Massachusetts Municipal Depository Trust (MMDT) cash portfolio (see below and Note 3).

The MMDT cash portfolio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement 31 (GASB 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The MMDT cash portfolio adheres to GASB Statement 79 (GASB 79), *Certain External Investment Pools and Pool Participants*, which amends GASB 31 and establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. Under the amortized cost valuation method, an investment is valued initially at its cost and thereafter adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost of the investment and the amount payable at its maturity.

Grants, Contracts and Other Receivables

Grants, contracts and other receivables (see Note 4) include revenue amounts due from state and Federal agencies (see page 16), as well as advance payments to subrecipients. Advance payments to subrecipients (see page 16) are made under specific grant awards that allow the subrecipients to receive advance payments to fund program operations. The Corporation reclassifies these advance payments to operating expenses as the subrecipient provides evidence of grant expenditures applicable to the advance.

Capital Assets

Capital assets (see Note 5) consist of office equipment, furniture and fixtures, and leasehold improvements, which are depreciated on the straight-line method over the lesser of their estimated useful lives of three to five years or the life of the lease (see Note 6).

Net Position

Resources are classified for accounting purposes into the following net position categories:

Unrestricted net position - Unrestricted net position represents the portion of unrestricted expendable funds that are used to support the Corporation's operations and accounts for funds for which the Corporation has met imposed restrictions in accordance with funding agreements or management contracts.

- **The general fund** represents funds that are for unrestricted activity that is not specific to other funds.
- **Restricted grant and contract fund** – Restricted grant and contract funds represent resources that are to be expended for specified purposes as determined by grantor agreements, contractual terms and conditions, and donor requirements. The vast majority of funds received by the Corporation is restricted by nature, including MMDT invested funds.

Invested in capital assets - This classification is used to account for net equity related to capital assets (see above) purchased by the Corporation and used in operations.

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Grants and contracts revenue (including state and Federal grants received through the Commonwealth) is earned in accordance with funding agreements as expenses are incurred. Substantially all grants and contracts have constraints imposed by grantors and are accordingly classified as restricted revenue (Restricted Grant and Contract Fund). Interest and other income are recognized on an accrual basis when earned. Deferred revenue consists of grant funds received for which program expenses have not yet been incurred.

Subrecipient Contracts

Subrecipient contracts are recorded when expenses are incurred and supporting documentation have been provided by subrecipients.

Indirect Operating Expenses

The Corporation's indirect costs are cost categories that are not directly charged to programs. These costs are accumulated in cost pools and allocated to programs based on actual time worked and historical cost trends. These indirect cost pools are included in unrestricted operating expenses and include occupancy, information technology, and fringe benefits as well as administrative costs. Indirect operating expenses totaled \$1,961,342 and \$1,835,458 for the years ended June 30, 2017 and 2016, respectively.

Fair Value Measurements

The Corporation follows the accounting and disclosure standards pertaining to GASB 72, *Fair Value Measurements and Application*, for qualifying assets and liabilities. Fair value is defined as the price that the Corporation would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Corporation uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Corporation. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of the general purpose financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the general purpose financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through October 26, 2017, which is the date the general purpose financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the general purpose financial statements.

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS

The Corporation holds investments in the Massachusetts Municipal Depository Trust's (MMDT) cash portfolio (see Note 2) in the amount of \$29,273,790 and \$21,881,271 at June 30, 2017 and 2016, respectively. MMDT is an investment program, founded in 1977 under the supervision of the State Treasurer of the Commonwealth, in which municipalities may pool excess cash for investment. MMDT was established to provide professionally managed investment funds to meet the investment needs of the Commonwealth and its political subdivisions.

The table below represents the maturities of instruments held by MMDT in its cash portfolio. The MMDT cash portfolio is managed independently and the Corporation cannot influence how investments are allocated among the categories, which are disclosed as follows as of June 30:

| <u>Securities With an Effective Maturity of:</u> | <u>Percentage of Total Net Position</u> | |
|--|---|---------------|
| | <u>2017</u> | <u>2016</u> |
| 1 - 30 Days | 59.1% | 54.7% |
| 31 - 90 Days | 25.0% | 28.9% |
| 91 - 180 Days | 14.0% | 10.8% |
| 181 - Days or more | <u>1.9%</u> | <u>5.6%</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> |

The MMDT cash portfolio may only invest in securities rated in the highest rating category (if rated) or evaluated by the portfolio's investment adviser to be of equivalent credit quality (if unrated) and bank deposits meeting the portfolio credit quality requirements of GASB 79 (see Note 2). Investments that were permissible at the time acquired may continue to be held to the extent consistent with GASB 79.

Securities rated in the highest short-term rating category (and unrated securities of comparable quality) are identified as First Tier securities. Securities rated in the second highest short-term rating category (and unrated securities of comparable quality) are identified as Second Tier securities. The MMDT cash portfolio follows applicable regulations in determining whether a security is rated and whether a security rated by multiple nationally recognized statistical rating organizations in different rating categories should be identified as a First or Second Tier security.

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS (Continued)

Credit ratings for the securities in the cash portfolio are shown in the table below based on total market value as of June 30:

| | Cash Portfolio Quality Diversification | |
|------|---|--------------------|
| | First Tier | Second Tier |
| 2017 | 100.0% | - |
| 2016 | 97.0% | 3.0% |

4. GRANTS, CONTRACTS AND OTHER RECEIVABLES

Grants, contracts and other receivables consist of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|----------------------|---------------------|---------------------|
| State agencies | \$ 4,559,677 | \$ 4,641,166 |
| Net advance payments | 1,849,681 | 1,468,543 |
| Other | <u>99,481</u> | <u>197,289</u> |
| | <u>\$ 6,508,839</u> | <u>\$ 6,306,998</u> |

5. CAPITAL ASSETS

The following schedule presents the changes in capital assets for the year ended June 30, 2017:

| | <u>Balance at July 1, 2016</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2017</u> |
|----------------------------------|--|--------------------|------------------|---|
| Capital assets, depreciable: | | | | |
| Equipment | \$ 384,066 | \$ 9,045 | \$ - | \$ 393,111 |
| Leasehold improvements | 183,202 | - | - | 183,202 |
| Furniture and fixtures | <u>56,855</u> | <u>-</u> | <u>-</u> | <u>56,855</u> |
| Total | <u>624,123</u> | <u>9,045</u> | <u>-</u> | <u>633,168</u> |
| Less - accumulated depreciation: | | | | |
| Equipment | 320,200 | 29,206 | - | 349,406 |
| Leasehold improvements | 134,128 | 10,426 | - | 144,554 |
| Furniture and fixtures | <u>24,162</u> | <u>5,685</u> | <u>-</u> | <u>29,847</u> |
| Total accumulated depreciation | <u>478,490</u> | <u>45,317</u> | <u>-</u> | <u>523,807</u> |
| Capital assets, net | <u>\$ 145,633</u> | <u>\$ (36,272)</u> | <u>\$ -</u> | <u>\$ 109,361</u> |

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

5. CAPITAL ASSETS (Continued)

The following schedule presents the changes in capital assets for the year ended June 30, 2016:

| | <u>Balance at July 1, 2015</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2016</u> |
|----------------------------------|--|--------------------|------------------|---|
| Capital assets, depreciable: | | | | |
| Equipment | \$ 384,066 | \$ - | \$ - | \$ 384,066 |
| Leasehold improvements | 183,202 | - | - | 183,202 |
| Furniture and fixtures | <u>56,855</u> | <u>-</u> | <u>-</u> | <u>56,855</u> |
| Total | <u>624,123</u> | <u>-</u> | <u>-</u> | <u>624,123</u> |
| Less - accumulated depreciation: | | | | |
| Equipment | 292,201 | 27,999 | - | 320,200 |
| Leasehold improvements | 123,702 | 10,426 | - | 134,128 |
| Furniture and fixtures | <u>18,477</u> | <u>5,685</u> | <u>-</u> | <u>24,162</u> |
| Total accumulated depreciation | <u>434,380</u> | <u>44,110</u> | <u>-</u> | <u>478,490</u> |
| Capital assets, net | <u>\$ 189,743</u> | <u>\$ (44,110)</u> | <u>\$ -</u> | <u>\$ 145,633</u> |

6. COMMITMENTS

Facility and Equipment Leases

The Corporation leases office space under two operating leases expiring through June 2022. Aggregate monthly rents range from \$32,270 to \$34,678 under these two lease agreements over the course of their terms. As security for a lease, the Corporation was required to obtain an irrevocable letter of credit in the amount of \$106,000. As of June 30, 2017 and 2016, there were no draws against the letter of credit. Rent expense under the facility leases was approximately \$410,000 and \$397,000 for the years ended June 30, 2017 and 2016, respectively, which is included in equipment and facilities in the accompanying statements of revenues, expenses and changes in net position.

The Corporation also leases equipment under various agreements expiring through November 2019, with monthly payments ranging from \$181 to \$2,947.

Future minimum lease payments under these agreements are as follows:

| | <u>Facility</u> | <u>Equipment</u> |
|-------|---------------------|------------------|
| 2018 | \$ 388,827 | \$ 37,540 |
| 2019 | 402,040 | 36,452 |
| 2020 | 403,293 | 14,735 |
| 2021 | 396,561 | - |
| 2022 | <u>383,177</u> | <u>-</u> |
| Total | <u>\$ 1,973,898</u> | <u>\$ 88,727</u> |

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2017 and 2016

7. RETIREMENT PLANS

Under the terms of the Corporation's Section 401 (a) retirement plan, adopted in December 1997, contributions are made on behalf of employees based on their employment dates. These employees do not participate in the Federal social security system. A minimum contribution of 7.5% of salary plus an optional amount, subject to the Board of Directors approval, of up to 5.7% is made for employees hired after December 31, 1996. Employees hired prior to December 31, 1996 are not eligible for this plan. During fiscal years 2017 and 2016, the Corporation made contributions of 13.2%. This plan does not permit employee contributions.

Additionally, employees hired by one of the Corporation's predecessor entities prior to December 1996, participate in a separate plan, the Federal social security system. In addition to the required employer match of social security of 6.2%, a retirement plan contribution of 1.3% of salary is made by the Corporation.

Contributions to the plan in fiscal years 2017 and 2016 totaled approximately \$468,000 and \$455,000, respectively.

The Corporation also established a Section 457 employee deferred compensation plan, effective December 1, 1997. This is a voluntary plan in which employees who elect to participate can have funds withheld from their pay on a pre-tax basis. All employees are eligible to participate upon their employment commencement date. There is no minimum contribution, and employees are subject to the maximum deferral limits as set by the Internal Revenue Service. The Corporation does not make contributions to the plan.

8. CONCENTRATIONS AND CONTINGENCIES

The Corporation maintains certain cash and cash equivalents balances in a bank in Massachusetts and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times, cash balances exceeded the insured amounts. In addition, cash and cash equivalents invested in MMDT (see Note 3) are not FDIC insured. As of June 30, 2017 and 2016, the Corporation's exposure for uninsured funds was approximately \$29,800,000 and \$22,600,000, respectively. The Corporation has not experienced any losses in such accounts and management believes the credit risk related to the Corporation's cash and cash equivalents is not significant.

The Corporation expends resources in connection with Federal and state grants and contracts received through the Commonwealth that are subject to review and audit by the respective governments or their representatives. Such audits could result in requests for reimbursement to the government agency if expenditures are disallowed. Management is not aware of any specific disallowances and believes the results of any such audit would not produce material changes to these general purpose financial statements.