



AND AFFILIATE

**COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

COMMONWEALTH CORPORATION AND AFFILIATE

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June 30, 2019 and 2018

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Independent Auditor's Report

To the Boards of Directors of
Commonwealth Corporation and Affiliate:

Report on the Combined General Purpose Financial Statements

We have audited the accompanying combined general purpose financial statements of Commonwealth Corporation, a component unit of the Commonwealth of Massachusetts, and Commonwealth Corporation Foundation (a Massachusetts corporation, not for profit), which comprise the combined statements of net position as of June 30, 2019 and 2018, and the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the combined general purpose financial statements.

Management's Responsibility for the Combined General Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined 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 combined general purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined general purpose financial statements referred to above present fairly, in all material respects, the net position of Commonwealth Corporation and Commonwealth Corporation Foundation as of June 30, 2019 and 2018, and the changes in their 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 9 be presented to supplement the basic combined general purpose financial statements. Such information, although not a part of the basic combined 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 combined 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 combined general purpose financial statements, and other knowledge we obtained during our audit of the basic combined 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, Brown, Fenning & Co., P.C.

Boston, Massachusetts
October 24, 2019

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2019 and 2018

This Management's Discussion and Analysis provides an overview of the Commonwealth Corporation (the Corporation) and Affiliate's (collectively, the Agency) financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the Agency's combined general purpose financial statements and related footnotes, which begin on page 10.

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. The Corporation's 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.

The Corporation invests in programs in three primary areas:

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

Commonwealth Corporation Foundation:

- The Corporation maintains control of the Commonwealth Corporation Foundation (the Foundation). The Foundation, a Massachusetts corporation, was created to support and further the charitable and educational purposes of the Corporation. For the first time since its inception in 2011, the Foundation was awarded a grant of \$1 million from the Strada Education Network. The Foundation is included in the audited combined financial statements as of and for the year ended June 30, 2019. The revenue recognized from this grant is \$300,000 for the year ended June 30, 2019. The expenses for this grant have not been completely incurred as of June 30, 2019, therefore, the 2019 combined statement of revenues, expenses and changes in net position presents a net profit of \$223,667. This change is presented as restricted net position in the combined statement of net position for the year ended June 30, 2019.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2019 and 2018

Description of Major Programs by Division (Continued)

The Corporation includes two operational divisions:

- **The Sector & Regional Strategies Division** with revenues of \$18.5 million compared to an annual budget of \$22.3 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 2019, the majority of funds were awarded in two programs: (1) General Program - 152 training grants involving 189 businesses. The total amount awarded was \$17.5 million. These businesses plan to train 12,411 workers with these funds. (2) Express Program - 568 grant awards to 401 small businesses (100 or fewer employees), seeking a total of \$2.828 million to train more than 2,700 employees.
 - **The Workforce Competitiveness Trust Fund (WCTF)**, a fund created to develop programs to meet the skill needs of businesses with high-demand occupations. The purpose of the fund is to support the development and implementation of employer and worker-responsive programs to enhance worker skills, incomes, productivity, and retention and to increase the quality and competitiveness of Massachusetts firms. WCTF programs serve men and women across the Commonwealth whose life experiences and circumstances make it difficult for them to succeed in employment without targeted support. They include individuals who are underemployed and rely on aid from public benefits to support their families, individuals who have been disconnected from the workforce for a long period, and people who have not been able to complete school. Others do not speak English as their first language, have health problems or struggle with substance addiction.
- **The Youth Pathways Division** with revenues of \$31.5 million compared to a budget of \$31.9 million. The following major programs are being administered:
 - **YouthWorks** is a youth at risk program that represents a \$12 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's staff works with workforce boards, career centers and their community providers to organize and structure summer and year-round employment, and work-based learning and career pathway skills training opportunities for approximately 4,000 youth each year.
 - **Signal Success** is a work readiness curriculum developed by staff on the Youth Pathways team and is aimed at improving long-term employment outcomes for young people. The curriculum is being implemented in YouthWorks, to more than 60 community-based organizations and in selected public vocational and district high schools. In the last year, the YouthWorks/ Signal Success staff in the Youth Pathways Division has expanded the reach to offer customized versions of the product to the Department of Elementary and Secondary Education for the High Quality College and Career Pathways. It has five workforce regions to implement a customized version of Signal Success as a pilot for their federally-funded Workforce Innovation and Opportunity Act (WIOA) programming, and a customized version of the Disability Employment Initiative in several cities. Fee-for-service contracts are in place in cities outside of Massachusetts including Phoenix, AZ, Miami, FL, Detroit, MI, and Providence, RI and the Department of Education for the state of Delaware. Additional programs are funded through the Massachusetts Clean Energy Center, a corporate grant from the State Street Foundation and SkillWorks. Contracts excluding YouthWorks and WIOA funding, totaled \$234,320 for fiscal year 2019.

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

- The Corporation, in partnership with the Collaborative for Educational 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 Initiative, now rebranded as Leadership, Employment, and Advocacy Development (LEAD), 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 2019 is the fifth year of a multi-year contract with annual revenue of about \$20.2 million.

- **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 and women aged 17 to 24 who have been identified as 'proven risk', or at the highest risk for being perpetrators and/or victims of violence. EOHHS provides funding to fourteen cities to implement a coordinated intervention strategy that includes identification of potential participants by law enforcement, constant outreach and in-reach to incarcerated individuals, trauma counseling, and case management support as well as education, employability and transitional employment services. The Corporation is under contract to deliver technical assistance and provide program management to the SSYI communities. 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 Combined Statements of Net Position (Page 10)

The Combined Statements of Net Position show comparative financial data from June 30, 2019 and 2018, and include all assets and liabilities of the Agency, as a whole. Additionally, these statements report total net position and the changes in net position.

- **Total Assets** in the amount of \$29.9 million decreased by \$1.4 million from the previous year total of \$31.3 million:
 - Cash and cash equivalents in the amount of \$22.1 million increased by \$0.5 million from last year's \$21.6 million.
 - Cash for operations is deposited in a bank account and includes non-interest-bearing checking accounts and an interest-bearing operations/sweep account.
 - The Agency has substantial cash balances as a result of contract advances.
 - Due from (to) funds of \$792,801 represents a net receivable from cost reimbursement contracts against cash received from other contracts.
 - Grants, contracts, and other receivables in the amount of \$7.6 million decreased by \$1.9 million from last year's \$9.5 million.
 - Capital assets consist largely of office equipment and furnishings and depreciated in value by \$31,072 from \$80,994 to \$49,922.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2019 and 2018

The Combined Statements of Net Position (Page 10)

- **Total Liabilities and Net Position** decreased by \$1.4 million. This decrease in liabilities comes primarily from a decrease in deferred revenue.
 - Deferred revenue totaled \$21.8 million; a decrease of \$1 million compared to \$22.8 million last year and consists of cash received on contracts in advance of expenditures.
 - The Net Position balance of \$895,980 represents a \$222,605 increase from last year's balance of \$673,375. This increase reflects the addition of a \$300,000 conditional grant to the Commonwealth Corporation Foundation. The expenses for this grant are approximately \$77,000 at the end of the current fiscal year. Additional expenses are expected for the remainder of the grant, which ends on January 31, 2022.

The Combined Statements of Revenues, Expenses and Changes in Net Position (Page 11)

The combined statements of revenues, expenses and changes in net position account 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 Agency. The Agency's four indirect cost pools are Corporate General and Administrative (G&A); Field (Subrecipient contracts) G&A; Facilities/ Occupancy and Information Technology.
- **Restricted Grants 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 Agency is restricted by nature.

Operating Revenues and Expenses

Fiscal year 2019 shows a \$2.4 million reduction in revenue and a \$2.6 million reduction in expenditures from fiscal year 2018. Annual revenue and expenditures totaled \$50.3 million and \$50.0 million, respectively, for fiscal year 2019. While there are some individual variances (see below), the totals show the overall combined general purpose financial statements 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 match total revenue recognized by fund).

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Management's Discussion and Analysis
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Operating Revenues and Expenses (Continued)

Operating Revenues (Continued)

- o Interest income totaled \$493,462. Interest earned on assets is distributed on a prorated cash balance basis. Interest earned and distributed in fiscal year 2019:

<u>Fund</u>	<u>Interest</u>
WTFP	\$ 481,729
WCTF	2,877
General Fund	<u>8,856</u>
	<u>\$ 493,462</u>

- Operating Expenses

- o Salaries and wages in the amount of \$3.6 million increased by \$108,819 as compared to last year's total of \$3.5 million. This increase is partly due to a few positions added during the year at slightly higher salaries due to the better economic conditions and the low unemployment rate in the state and a 3% COLA for eligible employees.
- o Fringe benefits at \$1.0 million decreased by \$63,786 relative to a few positions filled towards the end of the year, and a reduced health insurance premium rate at renewal during the year.
- o Professional services were \$136,285 higher than the prior year partly due to consulting expenses on a new grant for the Foundation.
- o Other program costs include program supplies, stipends and program start-up costs in the Youth Pathways Division. Expenses were slightly higher this year.
- o Subrecipient contracts in the amount of \$43.6 million decreased by \$2.9 million as compared to last year's total of \$46.5 million.

The table below compares current and last year subrecipient expenditures:

<u>Fund Description</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>
Workforce Competitive Trust Fund (WCTF)	\$ 1,164,183	\$ 1,075,261	\$ 88,922
Workforce Training Fund (WTFP)	13,025,575	16,991,152	(3,965,577)
Demonstration Workforce Development Program	442,997	117,764	325,233
Summer Jobs Program - Youth at Risk	9,611,561	8,955,726	655,835
Youth with Disabilities	135,000	135,000	-
Safe & Successful Youth Initiative (SSYI)	-	194,886	(194,886)
Healthcare Workforce Transformation Fund	542,461	752,030	(209,569)
DYS Youth State Funds	17,162,378	17,252,187	(89,809)
DYS Youth Federal Funds	972,593	983,193	(10,600)
DSRIP	464,900	-	464,900
Miscellaneous	<u>86,286</u>	<u>27,975</u>	<u>58,311</u>
	<u>\$ 43,607,934</u>	<u>\$ 46,485,174</u>	<u>\$ (2,877,240)</u>

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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 2019 corporate expenditures against the 2019 fiscal year budget:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenues:			
Grants and contracts	\$ 49,770,304	\$ 54,230,182	\$ (4,459,878)
Interest income	493,462	-	493,462
Other income	<u>1,226</u>	-	<u>1,226</u>
Total operating revenues	<u>50,264,992</u>	<u>54,230,182</u>	<u>(3,965,190)</u>
Operating Expenses:			
Salaries and wages	3,561,986	3,692,431	(130,445)
Fringe benefits	1,031,576	1,157,536	(125,960)
Equipment and facilities	704,638	732,743	(28,105)
Professional services	612,584	563,162	49,422
Office costs and supplies	169,651	136,675	32,976
Other program costs	115,656	174,495	(58,839)
Travel	105,419	96,521	8,898
Meetings and conferences	101,871	58,105	43,766
Depreciation	<u>31,072</u>	<u>31,072</u>	-
Operating expenses before contracts	<u>6,434,453</u>	<u>6,642,740</u>	<u>(208,287)</u>
Subrecipient contracts	<u>43,607,934</u>	<u>47,587,442</u>	<u>(3,979,508)</u>
Total operating expenses	<u>50,042,387</u>	<u>54,230,182</u>	<u>(4,187,795)</u>
Changes in net position from operations	<u>\$ 222,605</u>	<u>\$ -</u>	<u>\$ 222,605</u>

The Agency's total operating revenue for fiscal year 2019 were lower than budget by \$3.9 million. This negative variance was mostly due to grantee contracts that were estimated to be issued in fiscal year 2019 which did not materialize until fiscal year 2020.

Operating expenses before subrecipient contracts were under budget by \$208,287 and subrecipient expenditures were below budget by \$4.0 million.

- Salaries and wages were below budget by 3.58%, as some positions that were budgeted for a full year took longer to fill during fiscal year 2019. Salaries and wages account for the second largest corporate expense and it is closely managed against budget. Salaries and wages from the last five years compared to operating expenses before subrecipient contracts and total operating expenses:

	<u>Salaries</u>	<u>Expenses Before Contracts</u>	<u>%</u>	<u>Total Corporate</u>	<u>%</u>
2019	\$ 3,561,986	\$ 6,434,453	55.36%	\$ 50,042,387	7.12%
2018	\$ 3,453,167	\$ 6,141,186	56.23%	\$ 52,626,360	6.56%
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%

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2019 and 2018

Analysis of Significant Actual to Budget Variances (Continued)

- Fiscal year 2019 executive staff salaries:
 - Chief Executive Officer \$ 169,950
 - Vice President Sector and Regional Strategies \$ 110,000
 - Vice President Youth Pathways \$ 124,170
 - Chief Financial Officer \$ 140,000
- Fringe benefits in the amount of \$1.0 million were lower than the \$1.2 million budget total by \$125,960. The Agency changed providers during the year and had a decrease in premiums.
- Professional services were higher than budget by \$49,422. Contracts for program expenses estimated at a higher amount during the budget process but the expenses incurred in the Foundation were not estimated and the net effect is a higher expense for fiscal year 2019.
- Sub-recipient contracts with a budget of \$47.6 million and with sub-recipient expenditures in the amount of \$43.6 million had a net negative variance mostly due to slower than expected expenses submitted by grantees that are part of the Workforce Training Fund Program (WTFP). However, our goal for the WTFP in terms of number of grants awarded, exceeded our projections for the fiscal year by 4%.

Current Known Facts, Decisions, and Conditions

The Agency 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 Agency.

During the spring of 2018, the Governor of Massachusetts designated the Agency to organize and lead a new Commission on Digital Innovation and Lifelong Learning. This Commission examined how Massachusetts can dramatically expand affordable, high-quality, employer-aligned education, training, and lifelong learning opportunities for many more people in this era of accelerating technological change. A final report with recommendations was presented to the Governor in early February of 2019, which led to new opportunities of impact for the Agency. Around the same time, the Strada Education Network awarded approximately \$1 million to the Agency to support the initiatives of the Massachusetts Lifelong Learning System. The funds from this grant will allow us to bring together postsecondary institutions, training providers, and employers to design competency-based courses that will enable learners to apply previous learning as well as access new on-the-job learning experiences.

The Agency has a long-term solid revenue base of four core programs totaling \$50 million:

- For the Department of Youth Services, fiscal year 2019 was 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 in FY20 for a total of \$21 million, expenditures are forecasted at \$17 million.
- Workforce Competitiveness Trust Fund received obligational authority in FY20 for a total of \$7 million, expenditures are forecasted at \$2.5 million.
- For the Youth Works Summer Program, the Legislature appropriated \$15.5 million to be used in the summer of 2020 and the fall-winter of 2020-2021. (YouthWorks is forward-funded; funds are for the fiscal year and expended in the following fiscal year).

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Management's Discussion and Analysis
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Contacting the Agency's Financial Management

This Management's Discussion and Analysis has been designed to provide the reader with a general overview of Commonwealth Corporation and Affiliate's 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 Agency.

COMMONWEALTH CORPORATION AND AFFILIATE

Combined Statements of Net Position
June 30, 2019 and 2018

	2019			2018		
	Unrestricted	Restricted Grant and Contract Fund	Total	Unrestricted	Restricted Grant and Contract Fund	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ -	\$ 22,132,622	\$ 22,132,622	\$ -	\$ 21,629,137	\$ 21,629,137
Grants, contracts and other receivables	4,415	7,614,772	7,619,187	4,028	9,505,038	9,509,066
Due from (to) funds	792,801	(792,801)	-	866,839	(866,839)	-
Prepaid expenses and other	79,121	-	79,121	39,095	-	39,095
Total current assets	876,337	28,954,593	29,830,930	909,962	30,267,336	31,177,298
Capital Assets, net	49,922	-	49,922	80,994	-	80,994
Total assets	<u>\$ 926,259</u>	<u>\$ 28,954,593</u>	<u>\$ 29,880,852</u>	<u>\$ 990,956</u>	<u>\$ 30,267,336</u>	<u>\$ 31,258,292</u>
Liabilities and Net Position						
Current Liabilities:						
Grants and other payables	\$ 37,357	\$ 5,816,361	\$ 5,853,718	\$ 55,994	\$ 6,098,455	\$ 6,154,449
Accrued contract expenses	-	1,104,866	1,104,866	-	1,417,736	1,417,736
Accrued payroll and other	216,589	51,879	268,468	261,587	-	261,587
Deferred revenue	-	21,757,820	21,757,820	-	22,751,145	22,751,145
Total current liabilities	253,946	28,730,926	28,984,872	317,581	30,267,336	30,584,917
Net Position:						
Unrestricted net position	622,391	-	622,391	592,381	-	592,381
Restricted net position	-	223,667	223,667	-	-	-
Invested in capital assets	49,922	-	49,922	80,994	-	80,994
Total net position	672,313	223,667	895,980	673,375	-	673,375
Total liabilities and net position	<u>\$ 926,259</u>	<u>\$ 28,954,593</u>	<u>\$ 29,880,852</u>	<u>\$ 990,956</u>	<u>\$ 30,267,336</u>	<u>\$ 31,258,292</u>

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

COMMONWEALTH CORPORATION AND AFFILIATE

Combined Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2019 and 2018

	2019			2018		
	Unrestricted	Restricted Grant and Contract Fund	Total	Unrestricted	Restricted Grant and Contract Fund	Total
Operating Revenues:						
Grants and contracts	\$ -	\$ 49,770,304	\$ 49,770,304	\$ -	\$ 52,275,943	\$ 52,275,943
Interest income	8,856	484,606	493,462	6,091	337,811	343,902
Other income	-	1,226	1,226	-	11,745	11,745
Total operating revenues	8,856	50,256,136	50,264,992	6,091	52,625,499	52,631,590
Operating Expenses:						
Salaries and wages	827,412	2,734,574	3,561,986	770,078	2,683,089	3,453,167
Fringe benefits	238,176	793,400	1,031,576	244,758	850,604	1,095,362
Equipment and facilities	629,690	74,948	704,638	619,988	78,030	698,018
Professional services	168,435	444,149	612,584	182,143	294,156	476,299
Office costs and supplies	63,229	106,422	169,651	58,571	51,183	109,754
Other program costs	-	115,656	115,656	-	103,365	103,365
Travel	4,717	100,702	105,419	4,118	89,703	93,821
Meetings and conferences	6,507	95,364	101,871	2,824	69,773	72,597
Depreciation	31,072	-	31,072	38,803	-	38,803
Indirect operating expense allocation	(1,959,320)	1,959,320	-	(1,920,422)	1,920,422	-
Total operating expenses before subrecipient contracts	9,918	6,424,535	6,434,453	861	6,140,325	6,141,186
Subrecipient contracts	-	43,607,934	43,607,934	-	46,485,174	46,485,174
Total operating expenses	9,918	50,032,469	50,042,387	861	52,625,499	52,626,360
Changes in net position	(1,062)	223,667	222,605	5,230	-	5,230
Net Position:						
Beginning of year	673,375	-	673,375	668,145	-	668,145
End of year	\$ 672,313	\$ 223,667	\$ 895,980	\$ 673,375	\$ -	\$ 673,375

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

COMMONWEALTH CORPORATION AND AFFILIATE

Combined Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Receipts from contracting agencies and grantors	\$ 50,666,858	\$ 41,989,730
Collections of interest and other income	494,688	355,647
Payments to employees	(3,556,560)	(3,452,072)
Payments of employee benefits	(1,043,029)	(1,131,084)
Payments to subrecipients	(44,202,898)	(44,681,298)
Payments to vendors and suppliers	(1,855,574)	(1,530,591)
	<u>503,485</u>	<u>(8,449,668)</u>
Net cash provided by (used in) operating activities	503,485	(8,449,668)
Cash Flows from Investing Activities:		
Acquisition of capital assets	-	(10,436)
	<u>-</u>	<u>(10,436)</u>
Net Change in Cash and Cash Equivalents	503,485	(8,460,104)
Cash and Cash Equivalents:		
Beginning of year	21,629,137	30,089,241
	<u>21,629,137</u>	<u>30,089,241</u>
End of year	\$ 22,132,622	\$ 21,629,137
	<u>\$ 22,132,622</u>	<u>\$ 21,629,137</u>
Reconciliation of Changes in Net Position to Net Cash Provided by (Used in) Operating Activities:		
Changes in net position	\$ 222,605	\$ 5,230
Adjustments to reconcile changes in net position to net cash provided by (used in) operating activities:		
Depreciation	31,072	38,803
Changes in operating assets and liabilities:		
Grants, contracts and other receivables	1,889,879	(3,001,647)
Prepaid expenses and other	(40,026)	(16,590)
Grants and other payables	(300,731)	1,654,084
Accrued contract expenses	(312,870)	190,749
Accrued payroll and other	6,881	(35,731)
Deferred revenue	(993,325)	(7,284,566)
	<u>(993,325)</u>	<u>(7,284,566)</u>
Net cash provided by (used in) operating activities	\$ 503,485	\$ (8,449,668)
	<u>\$ 503,485</u>	<u>\$ (8,449,668)</u>

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2019 and 2018

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 Corporation maintains control of the Commonwealth Corporation Foundation (the Foundation) (see Note 10). The Foundation, a Massachusetts corporation, was created during the year ended June 30, 2011, to support and further the charitable and educational purposes of the Corporation.

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 combined 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 combined 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.

Consistent with the provisions of GASB standards for the Reporting Entity and Component Unit Presentation of Disclosure, as clarified by GASB Statement 61, *"The Financial Reporting Entity: Omnibus"*, the Foundation is blended in these combined general purpose financial statements as a component unit of the Corporation. The Foundation is presented in accordance with the provisions of the Financial Accounting Standards Codification, as established by the Financial Accounting Standards Board (FASB). See Note 10 for the Foundation's condensed financial statements.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - GASB Standards (Continued)

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 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.

Principles of Combination

The Corporation is related to the Foundation through common Boards of Directors membership. The combined general purpose financial statements include the activity and net assets of the Corporation and the Foundation (collectively, the Agency). All intercompany balances and transactions have been eliminated in the accompanying combined general purpose financial statements.

Cash and Cash Equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents consist of checking, money market, and savings accounts, and 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 15), as well as advance payments to subrecipients. Advance payments to subrecipients (see page 15) are made under specific grant awards that allow the subrecipients to receive advance payments to fund program operations. The Agency 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).

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

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

Restricted net position - 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 Agency is restricted by nature.

Invested in capital assets - Account for net equity related to capital assets (see page 14) purchased by the Agency and used in operations.

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 has been provided by subrecipients.

Indirect Operating Expenses

The Agency'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 \$1,959,320 and \$1,920,422 for the years ended June 30, 2019 and 2018, respectively.

Fair Value Measurements

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

The Agency 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 Agency. 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.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

Estimates

The preparation of the combined 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 combined 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 24, 2019, which is the date the combined general purpose financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combined general purpose financial statements.

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS

The Agency holds investments in the Massachusetts Municipal Depository Trust's (MMDT) cash portfolio (see Note 2) in the amount of \$19,905,645 and \$20,760,687 at June 30, 2019 and 2018, 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.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2019 and 2018

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS (Continued)

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

Securities With an Effective Maturity of:	Percentage of Total Net Position	
	2019	2018
1 - 30 Days	74.1%	71.7%
31 - 90 Days	18.3	20.4
91 - 180 Days	4.6	7.9
181 - Days or more	3.0	0.0
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.

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
2019	100.0%	- %
2018	100.0%	- %

4. GRANTS, CONTRACTS AND OTHER RECEIVABLES

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

	2019	2018
State agencies	\$ 4,582,155	\$ 6,992,898
Net advance payments	2,941,689	2,480,897
Other	<u>95,343</u>	<u>35,271</u>
	<u>\$ 7,619,187</u>	<u>\$ 9,509,066</u>

COMMONWEALTH CORPORATION AND AFFILIATENotes to Combined General Purpose Financial Statements
June 30, 2019 and 2018**5. CAPITAL ASSETS**

The following schedule presents the changes in capital assets for the year ended June 30, 2019:

	<u>Balance at July 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2019</u>
Capital assets, depreciable:				
Equipment	\$ 184,800	\$ -	\$ -	\$ 184,800
Leasehold improvements	82,142	-	-	82,142
Furniture and fixtures	56,855	-	-	56,855
Total	<u>323,797</u>	<u>-</u>	<u>-</u>	<u>323,797</u>
Less - accumulated depreciation:				
Equipment	153,349	14,960	-	168,309
Leasehold improvements	53,920	10,426	-	64,346
Furniture and fixtures	35,534	5,686	-	41,220
Total accumulated depreciation	<u>242,803</u>	<u>31,072</u>	<u>-</u>	<u>273,875</u>
Capital assets, net	<u>\$ 80,994</u>	<u>\$ (31,072)</u>	<u>\$ -</u>	<u>\$ 49,922</u>

The following schedule presents the changes in capital assets for the year ended June 30, 2018:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2018</u>
Capital assets, depreciable:				
Equipment	\$ 393,111	\$ 10,436	\$ (218,747)	\$ 184,800
Leasehold improvements	183,202	-	(101,060)	82,142
Furniture and fixtures	56,855	-	-	56,855
Total	<u>633,168</u>	<u>10,436</u>	<u>(319,807)</u>	<u>323,797</u>
Less - accumulated depreciation:				
Equipment	349,406	22,690	218,747	153,349
Leasehold improvements	144,554	10,426	101,060	53,920
Furniture and fixtures	29,847	5,687	-	35,534
Total accumulated depreciation	<u>523,807</u>	<u>38,803</u>	<u>319,807</u>	<u>242,803</u>
Capital assets, net	<u>\$ 109,361</u>	<u>\$ (28,367)</u>	<u>\$ -</u>	<u>\$ 80,994</u>

6. COMMITMENTS**Facility and Equipment Leases**

The Agency leases office space under two operating leases expiring through June 2022. Aggregate monthly rents range from \$32,322 to \$34,678 under these two lease agreements over the course of their terms. As security for a lease, the Agency was required to obtain an irrevocable letter of credit in the amount of \$106,000. As of June 30, 2019 and 2018, there were no draws against the letter of credit. Rent expense under the facility leases was approximately \$435,000 and \$416,000 for the years ended June 30, 2019 and 2018, respectively, which is included in equipment and facilities in the accompanying combined statements of revenues, expenses and changes in net position.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2019 and 2018

6. COMMITMENTS (Continued)

Facility and Equipment Leases (Continued)

The Agency also leases equipment under various agreements expiring through November 2019, with monthly payments of \$2,947.

Future minimum lease payments under these agreements are as follows:

	<u>Facility</u>	<u>Equipment</u>
2020	\$ 403,293	\$ 14,735
2021	396,561	-
2022	<u>383,177</u>	<u>-</u>
Total	<u>\$ 1,183,031</u>	<u>\$ 14,735</u>

7. RETIREMENT PLANS

Under the terms of the Agency'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 2019 and 2018, the Agency made contributions of 13.2%. This plan does not permit employee contributions.

Additionally, employees hired by one of the Agency'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 Agency.

Contributions to the plan in fiscal years 2019 and 2018 totaled approximately \$461,000 and \$453,000, respectively.

The Agency 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 Agency does not make contributions to the plan.

8. CONCENTRATIONS AND CONTINGENCIES

The Agency 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, 2019 and 2018, the Agency's exposure for uninsured funds was approximately \$21,630,000 and \$21,400,000, respectively. The Agency has not experienced any losses in such accounts and management believes the credit risk related to the Agency's cash and cash equivalents is not significant.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2019 and 2018

8. CONCENTRATIONS AND CONTINGENCIES (Continued)

The Agency 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 combined general purpose financial statements.

9. CONDITIONAL GRANT

During fiscal year 2019, the Foundation was awarded a \$1,014,000 conditional grant, payable in thirteen installments of various amounts through December 2021, and dependent on the satisfactory and timely performance of the grant activities as specified by the funder. The first two installments, totaling \$300,000, were earned and collected during fiscal year 2019.

10. COMMONWEALTH CORPORATION FOUNDATION AND RELATED PARTY TRANSACTIONS

Commonwealth Corporation Foundation

As of and for the year ended June 30, 2019, the Foundation had the following activity:

Assets:

Cash and cash equivalents	<u>\$ 269,159</u>
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Liabilities:

Due to the Corporation	<u>\$ 45,492</u>
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Net Position:

Restricted net position	<u>\$ 223,667</u>
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Operating Revenues	\$ 405,260
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Operating Expenses	<u>181,593</u>
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Changes in net position	<u>\$ 223,667</u>
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Related Party Transactions

During fiscal year 2019, the Foundation made grants of \$181,504 to the Corporation. The amount has been eliminated from both grants and contracts and subrecipient contracts in the accompanying combined statements of revenues, expenses and changes in net position.

The Corporation pays certain operating expenses on behalf of the Foundation. As of June 30, 2019, the Foundation owes the Corporation \$45,492, which has been eliminated in the accompanying combined statement of revenues, expenses and changes in net position.

11. RECLASSIFICATIONS

Certain amounts in the fiscal year 2018 combined general purpose financial statements have been reclassified to conform with fiscal year 2019 presentation.