



AND AFFILIATE

**COMBINED GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

COMMONWEALTH CORPORATION AND AFFILIATE

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June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, and the changes in their net position and their 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 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.

AAFCPA, Inc.

Boston, Massachusetts
October 22, 2020

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2020 and 2019

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, 2020. Please read it in conjunction with the Agency's combined 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. 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. The Foundation is included in the audited combined financial statements presented in this report. For the first time since its inception in 2011, the Foundation was awarded a conditional grant of \$1 million from the Strada Education Network. Installments of \$458,000 and \$300,000 were collected during the years ended June 30, 2020 and 2019, respectively. The revenue recognized from this conditional grant is \$78,705 and \$76,333 for years ended June 30, 2020 and 2019, respectively. As stipulated in the grant agreement the funds are due back to the funder if satisfactory and timely performance of grant activities are not met, accordingly \$602,962 and \$223,667 are presented as advance on conditional grant in the accompanying combined statements of net position as of June 30, 2020 and 2019, respectively.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2020 and 2019

Description of Major Programs by Division (Continued)

The Corporation includes two operational divisions:

- **The Sector & Regional Strategies Division** with revenues of \$19.6 million compared to an annual budget of \$23.2 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 2020, the majority of funds were awarded in two programs: (1) General Program - 157 training grants involving 193 businesses. The total amount awarded was \$16.8 million. These businesses plan to train 11,186 workers with these funds. (2) Express Program - 495 grant awards to 351 small businesses (100 or fewer employees), seeking a total of \$3 million to train more than 2,700 employees. Additionally, expenses were also incurred for the Small Business Direct Access Program to cover the cost of over 130 courses available at no cost to small businesses. At the end of fiscal year 2020, and in response to COVID-19, \$1M in WTFP funds were allocated to the Manufacturing Emergency Response Training grants to manufacturers pivoting to the production of personal protective equipment to train staff to manage those pivots and the resulting work.
 - **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.
 - **Learn to Earn (LTE)**, is a fund created to develop programs to prepare individuals who are receiving public benefits for jobs in high-demand occupations, while helping individuals navigate cliff effects that impact individuals when the net benefit of increased hours or an increase wage reduces their benefits to the point of a reduction in total earnings. This is part of a strategic initiative of various state agencies working together to understand cliff effects and make changes to smooth the cliff to incentivize work.
- **The Youth Pathways and Justice-Based Initiatives Division** with revenues of \$32.2 million compared to a budget of \$34 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.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2020 and 2019

Description of Major Programs by Division (Continued)

- **Signal Success** is a work readiness and career exploration 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 sixty community-based organizations, 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 Innovation Schools College and Career Pathways. In half of the sixteen workforce regions a customized version of Signal Success is being implemented for their federally-funded Workforce Innovation and Opportunity Act (WIOA) programming, and there is 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 with the Department of Education for the state of Delaware. Additional programs are funded through the Massachusetts Clean Energy Center and a corporate grant from the State Street Foundation for Boston Public Schools. Contracts excluding YouthWorks and WIOA funding, totaled \$235,000 for fiscal year 2020.
- 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 the Leadership, Education, and Advocacy Development Initiative (L.E.A.D.) formerly known as, 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 2020 was the fifth year of a multi-year contract with annual revenue of about \$19 million. DYS was due to release a Request for Proposals (RFP) last fiscal year to re-procure these services. The Corporation was awarded a one-year interim contract for fiscal year 2021. We anticipate the RFP being released this winter, but the RFP will only be for workforce development services, not combined with education services as it is currently configured. We intend to apply for these funds.
- **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 seventeen to twenty-four who have been identified by local law enforcement 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 provide program management and deliver technical assistance to the fourteen SSYI communities. Our staff works to ensure that state monies are spent according to budget, local partners are providing evidence-based services, provide professional development, and that supports each community in collecting and reporting data that document services and outcomes.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2020 and 2019

Description of Major Programs by Division (Continued)

- **Demonstration Workforce Development Re-Entry Program (Re-Entry Program)** is a sector strategy-focused initiative. The purpose of this program 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 companies. Re-Entry programs serve men and women across the Commonwealth who are returning to the community from incarceration. The program participants are individuals who have been in the community no more than six months post-incarceration and need intensive supports so they can successfully gain skills and meaningful industry-focused employment.

The Combined Statements of Net Position (Page 11)

The Combined Statements of Net Position show comparative financial data from June 30, 2020 and 2019, 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 \$31.5 million increased by \$1.6 million from the previous year total of \$29.9 million:
 - Cash and cash equivalents in the amount of \$22.9 million increased by \$0.8 million from last year's \$22.1 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 \$1 million represents a net receivable from cost reimbursement contracts against cash received from other contracts.
 - Grants, contracts, and other receivables in the amount of \$8.5 million increased by \$0.9 million from last year's \$7.6 million.
 - Capital assets, net consist largely of office and computer equipment, increased by approximately \$14,000 due to an upgrade to our IT infrastructure. Depreciation for the year was approximately \$20,000.
- **Total Liabilities and Net Position** increased by \$1.6 million. This increase in liabilities comes primarily from an increase in deferred revenue.
 - Deferred revenue totaled \$22.6 million; an increase of \$0.8 million compared to \$21.8 million last year and consists of cash received on contracts in advance of expenditures.
 - There was an increase in advance on conditional grant of approximately \$379,000 from approximately \$224,000 as of June 30, 2019, to approximately \$603,000 as of June 30, 2020.
 - The Net Position balance of approximately \$712,000 represents an approximate increase of \$40,000 from last year's balance of approximately \$672,000.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2020 and 2019

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

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 2020 shows a \$1.7 million increase in revenue and a \$1.7 million increase in expenditures from fiscal year 2019. Annual revenue and expenditures totaled \$51.8 million and \$50 million for the years ended June 30, 2020 and 2019, respectively. 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 despite the beginning of the pandemic in mid-March.

- **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).
 - Interest income totaled \$384,927. Interest earned on assets is distributed on a prorated cash balance basis. Interest earned and distributed in fiscal year 2020:

<u>Fund</u>	<u>Interest</u>
WTFP	\$ 368,394
General Fund	15,763
WCTF	<u>770</u>
	<u>\$ 384,927</u>

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2020 and 2019

The Combined 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 \$3.9 million increased by approximately \$379,000 as compared to last year's total of \$3.6 million. This increase is partly due to a few positions added during the year and later in the prior year. A 3% COLA was given to eligible employees.
 - Fringe benefits increased by approximately \$62,000 relative to the positions filled during the year.
 - Other program costs of approximately \$261,000 include program supplies, stipends and program start-up costs. Due to the pandemic, the Youth Pathways Division purchased \$130,000 in personal protective equipment (PPE) for the seventeen SSI and RE-Entry initiatives sites.
 - Subrecipient contracts in the amount of \$44.7 million increased by \$1.1 million as compared to last year's total of \$43.6 million.
 - Meetings, conference and travel were lower by a combined approximately \$94,000 due to the current COVID social distancing restrictions.
 - The bad debt expense of \$45,500 recorded in fiscal 2020 represents one grantee that closed its doors unexpectedly and filed for bankruptcy in April 2020.

The table below compares current and last year subrecipient expenditures:

<u>Fund Description</u>	<u>2020</u>	<u>2019</u>	<u>Change</u>
Workforce Competitive Trust Fund (WCTF)	\$ 2,083,090	\$ 1,164,183	\$ 918,907
Workforce Training Fund (WTFP)	13,646,922	13,025,575	621,347
Demonstration Workforce Development Program	411,224	442,997	(31,773)
Summer Jobs Program - Youth at Risk	11,058,442	9,611,561	1,446,881
Youth with Disabilities	169,529	135,000	34,529
Healthcare Workforce Transformation Fund	64,902	542,461	(477,559)
DYS Youth State Funds	16,818,927	17,162,378	(343,451)
DYS Youth Federal Funds	-	972,593	(972,593)
DSRIP	451,957	464,900	(12,943)
Miscellaneous	30,397	86,286	(55,889)
	<u>\$ 44,735,390</u>	<u>\$ 43,607,934</u>	<u>\$ 1,127,456</u>

COMMONWEALTH CORPORATION AND AFFILIATE

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 2020 corporate expenditures against the 2020 fiscal year budget:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenues:			
Grants and contracts	\$ 51,369,505	\$ 57,210,635	\$ (5,841,130)
Interest income	<u>384,927</u>	<u>-</u>	<u>384,927</u>
Total operating revenues	<u>51,754,432</u>	<u>57,210,635</u>	<u>(5,456,203)</u>
Operating Expenses:			
Salaries and wages	3,940,845	4,121,943	(181,098)
Payroll taxes and fringe benefits	1,093,704	1,318,953	(225,249)
Equipment and facilities	724,946	774,163	(49,217)
Professional services	594,017	1,136,476	(542,459)
Other program costs	261,489	173,224	88,265
Office costs and supplies	185,721	344,528	(158,807)
Travel	72,182	123,773	(51,591)
Bad debt	45,500	-	45,500
Meetings and conferences	40,971	103,167	(62,196)
Depreciation	<u>19,573</u>	<u>-</u>	<u>19,573</u>
Operating expenses before contracts	6,978,948	8,096,227	(1,117,279)
Subrecipient contracts	<u>44,735,390</u>	<u>49,114,408</u>	<u>(4,379,018)</u>
Total operating expenses	<u>51,714,338</u>	<u>57,210,635</u>	<u>(5,496,297)</u>
Changes in net position from operations	<u>\$ 40,094</u>	<u>\$ -</u>	<u>\$ 40,094</u>

The Agency's total operating revenue and expenses for fiscal year 2020 were lower than budget by \$5.5 million each. This negative variance was mostly due to training programs where grantees are spreading their spending across a longer period of time, using less monies than planned by the end of grants. Due to the pandemic, we expect to continue to see lower than normal demand for new grants throughout the year, which contributed to lower expenses. In addition, funds allocated for the Delivery System Reform Incentive Payment (DSRIP) Competency-Based training program were not fully utilized due to lower than expected enrollments in the January term, followed by an enrollment freeze for the rest of the fiscal year. This impacted both the sub-grantee line item intended to fund tuition and the professional services line item intended to support coaching services.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2020 and 2019

Analysis of Significant Actual to Budget Variances (Continued)

Operating expenses before subrecipient contracts were under budget by \$1.1 million and subrecipient expenditures were below budget by \$4.4 million.

- Salaries and wages were below budget by 4.4%, as some positions that were budgeted for a full year took longer to fill during fiscal year 2020. 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>
2020	\$ 3,940,845	\$ 6,978,948	56.47%	\$ 51,714,338	7.62%
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%

- Fiscal year 2020 executive staff salaries:
 - Chief Executive Officer \$ 34,904
 - Vice President Sector and Regional Strategies \$ 132,998
 - Vice President Youth Pathways \$ 127,824
 - Chief Financial Officer \$ 144,119
- Payroll taxes and fringe benefits in the amount of \$1.1 million were lower than the \$1.3 million budget total by approximately \$225,000. Costs in health insurance remained similar to the prior year.
- Professional services were lower than budget by approximately \$540,000. Contracts for program expenses estimated at a higher amount during the budget process but due to the pandemic, some major expenses were not incurred in the DYS and DSRIP contracts.
- Sub-recipient contracts with a budget of \$49.1 million and with sub-recipient expenditures in the amount of \$44.7 million had a negative variance mostly due to slower than expected expenses submitted by grantees due to the pandemic. Some of these funds will be rolled over to be available to grantees in fiscal year 2021.

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 current pandemic situation and its effect on high unemployment, 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.

In a multi-agency effort to mitigate COVID related costs, a recent opportunity developed into a partnership with the Executive Office of Labor and Workforce Development and the Department of Education, where the Corporation will administer \$7 million in funding for private schools. Once executed, the Corporation will administer up to 54 grants to private schools. Funds will be spent by these schools before December 31, 2020.

COMMONWEALTH CORPORATION AND AFFILIATE

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

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 grant expires December 31, 2021.

The Corporation recently elected new members of the board for the Foundation. The vision of the Foundation is to break down the barriers to building pathways for development and sustained career success by bringing together businesses and philanthropy in innovative partnerships that build racially and ethnically diverse talent pipelines. The funds generated from the Foundation will directly support the mission and those served by the Corporation. Given the Foundation's flexibility and understanding of the complexities of grant management, the Foundation is partnering to serve as a hub for the financial and administration of several grants.

During the summer of 2020, the Foundation working closely with the Executive Office of Labor and Workforce Development, received \$1.3 million from IKEA Retail U.S. (IKEA) to support pandemic recovery efforts. These funds will allow the Corporation to fund skill development and workforce training for both adults and youth to further assist the Commonwealth's economic recovery from the COVID-19 pandemic. These funds were part of IKEA's new national fund designed to return unemployment benefits that IKEA employees received when stores closed during the pandemic.

The Agency has a long-term solid revenue base of four core programs totaling \$60 million:

- For the Department of Youth Services, fiscal year 2020 was the sixth year of a multi-year contract. Funding was extended for one year in the amount of \$19 million for fiscal year 2021.
- The Workforce Training Fund Program received obligational authority in fiscal year 2020 for a total of \$21 million. The expenditures are forecasted at \$11 million during fiscal year 2021 and expect to execute the contract soon.
- Workforce Competitiveness Trust Fund received obligational authority in fiscal year 2020 for a total of \$7 million in a multi-year contract, expenditures are forecasted at \$4.5 million in fiscal year 2021.
- 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).
- The new grant with the Department of Education will award approximately \$7 million dollars to private schools across the state.

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, 2020 and 2019

	2020			2019		
	Unrestricted	Restricted Grant and Contract Fund	Total	Unrestricted	Restricted Grant and Contract Fund	Total
Assets						
Current Assets:						
Cash and cash equivalents	\$ 603,222	\$ 22,311,038	\$ 22,914,260	\$ 269,159	\$ 21,863,463	\$ 22,132,622
Grants, contracts and other receivables	2,053	8,473,599	8,475,652	4,415	7,614,772	7,619,187
Due from (to) funds	1,011,986	(1,011,986)	-	747,309	(747,309)	-
Prepaid expenses and other	31,213	-	31,213	79,121	-	79,121
Total current assets	1,648,474	29,772,651	31,421,125	1,100,004	28,730,926	29,830,930
Capital Assets, net	63,457	-	63,457	49,922	-	49,922
Total assets	<u>\$ 1,711,931</u>	<u>\$ 29,772,651</u>	<u>\$ 31,484,582</u>	<u>\$ 1,149,926</u>	<u>\$ 28,730,926</u>	<u>\$ 29,880,852</u>
Liabilities and Net Position						
Current Liabilities:						
Grants and other payables	\$ 100,397	\$ 5,892,274	\$ 5,992,671	\$ 37,357	\$ 5,816,361	\$ 5,853,718
Accrued contract expenses	-	1,249,097	1,249,097	-	1,104,866	1,104,866
Accrued payroll and other	326,164	-	326,164	216,589	51,879	268,468
Advance on conditional grant	602,962	-	602,962	223,667	-	223,667
Deferred revenue	-	22,601,281	22,601,281	-	21,757,820	21,757,820
Total current liabilities	1,029,523	29,742,652	30,772,175	477,613	28,730,926	29,208,539
Net Position:						
Unrestricted net position	618,951	-	618,951	622,391	-	622,391
Restricted net position	-	29,999	29,999	-	-	-
Invested in capital assets	63,457	-	63,457	49,922	-	49,922
Total net position	682,408	29,999	712,407	672,313	-	672,313
Total liabilities and net position	<u>\$ 1,711,931</u>	<u>\$ 29,772,651</u>	<u>\$ 31,484,582</u>	<u>\$ 1,149,926</u>	<u>\$ 28,730,926</u>	<u>\$ 29,880,852</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, 2020 and 2019

	2020			2019		
	Unrestricted	Restricted Grant and Contract Fund	Total	Unrestricted	Restricted Grant and Contract Fund	Total
Operating Revenues:						
Grants and contracts	\$ 78,534	\$ 51,290,971	\$ 51,369,505	\$ 181,764	\$ 49,365,044	\$ 49,546,808
Interest income	15,763	369,164	384,927	8,856	484,606	493,462
Other income	-	-	-	-	1,226	1,226
Total operating revenues	94,297	51,660,135	51,754,432	190,620	49,850,876	50,041,496
Operating Expenses:						
Salaries and wages	832,757	3,108,088	3,940,845	827,412	2,734,574	3,561,986
Payroll taxes and fringe benefits	220,484	873,220	1,093,704	238,176	793,400	1,031,576
Equipment and facilities	658,224	66,722	724,946	629,690	74,948	704,638
Professional services	188,039	405,978	594,017	168,435	444,149	612,584
Other program costs	-	261,489	261,489	-	115,656	115,656
Office costs and supplies	101,270	84,451	185,721	63,489	106,333	169,822
Travel	2,445	69,737	72,182	4,717	100,702	105,419
Bad debt	-	45,500	45,500	-	-	-
Meetings and conferences	3,318	37,653	40,971	6,507	95,364	101,871
Depreciation	19,573	-	19,573	31,072	-	31,072
Indirect operating expense allocation	(2,020,442)	2,020,442	-	(1,959,320)	1,959,320	-
Total operating expenses before subrecipient contracts	5,668	6,973,280	6,978,948	10,178	6,424,446	6,434,624
Subrecipient contracts	78,534	44,656,856	44,735,390	181,504	43,426,430	43,607,934
Total operating expenses	84,202	51,630,136	51,714,338	191,682	49,850,876	50,042,558
Changes in net position	10,095	29,999	40,094	(1,062)	-	(1,062)
Net Position:						
Beginning of year	672,313	-	672,313	673,375	-	673,375
End of year	\$ 682,408	\$ 29,999	\$ 712,407	\$ 672,313	\$ -	\$ 672,313

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Receipts from contracting agencies and grantors	\$ 51,690,296	\$ 50,666,858
Collections of interest and other income	384,927	494,688
Payments to employees	(3,859,715)	(3,556,560)
Payments of payroll taxes and employee benefits	(1,103,453)	(1,043,029)
Payments to subrecipients	(44,515,246)	(44,202,898)
Payments to vendors and suppliers	(1,782,063)	(1,855,574)
	<u>814,746</u>	<u>503,485</u>
Net cash provided by operating activities		
	814,746	503,485
Cash Flows from Investing Activities:		
Acquisition of capital assets	(33,108)	-
	<u>(33,108)</u>	<u>-</u>
Net Change in Cash and Cash Equivalents		
	781,638	503,485
Cash and Cash Equivalents:		
Beginning of year	<u>22,132,622</u>	<u>21,629,137</u>
End of year	<u>\$ 22,914,260</u>	<u>\$ 22,132,622</u>
Reconciliation of Changes in Net Position to Net Cash		
Provided by Operating Activities:		
Changes in net position	\$ 40,094	\$ (1,062)
Adjustments to reconcile changes in net position to net cash provided by operating activities:		
Depreciation	19,573	31,072
Bad debt	45,500	-
Changes in operating assets and liabilities:		
Grants, contracts and other receivables	(901,965)	1,889,879
Prepaid expenses and other	47,908	(40,026)
Grants and other payables	138,953	(300,731)
Accrued contract expenses	144,231	(312,870)
Accrued payroll and other	57,696	6,881
Advance on conditional grant	379,295	223,667
Deferred revenue	843,461	(993,325)
	<u>843,461</u>	<u>(993,325)</u>
	<u>\$ 814,746</u>	<u>\$ 503,485</u>
Net cash provided by operating activities		

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

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.

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.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard

Contributions Received and Contributions Made

On July 1, 2019, the Foundation adopted FASB's ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Foundation adopted Topic 958 using a modified prospective method effective July 1, 2019. Under the modified prospective method, this ASU only applies to agreements not completed or entered into (revenue or expense that has not yet been recognized) as of July 1, 2019. The adoption of ASU 2018-08 resulted in the following changes to the Foundation for the year ended June 30, 2019:

	2019		
	As Previously	Effect of	2019
	Reported	Adoption	As Adjusted
Advance on conditional grant	\$ -	\$ 223,667	\$ 223,667
Restricted net position	\$ 223,667	\$ (223,667)	\$ -

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.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants, Contracts and Other Receivables

Grants, contracts and other receivables (see Note 4) include revenue amounts due from state and Federal agencies (see below), as well as advance payments to subrecipients. Advance payments to subrecipients (see page 17) 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).

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 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.

In accordance with ASC Subtopic 958-605, *Revenue Recognition*, the Foundation must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barriers or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Foundation should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. See Note 9 for disclosure of the Foundation's conditional grant at June 30, 2020.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$2,020,442 and \$1,959,320 for the years ended June 30, 2020 and 2019, 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.

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.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through October 22, 2020, which is the date the combined general purpose financial statements were available to be issued. See Note 11 for an event that met the criteria for disclosure.

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 \$18,460,135 and \$19,905,645 at June 30, 2020 and 2019, 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 Agency 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>2020</u>	<u>2019</u>
1 - 30 Days	55.0%	74.1%
31 - 90 Days	23.2	18.3
91 - 180 Days	17.5	4.6
181 - Days or more	4.3	3.0
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:

	<u>Cash Portfolio Quality Diversification</u>	
	<u>First Tier</u>	<u>Second Tier</u>
2020	100.0%	- %
2019	100.0%	- %

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

4. GRANTS, CONTRACTS AND OTHER RECEIVABLES

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

	<u>2020</u>	<u>2019</u>
State agencies	\$ 4,810,457	\$ 4,582,155
Net advance payments	3,549,653	2,941,689
Other	<u>115,542</u>	<u>95,343</u>
	<u>\$ 8,475,652</u>	<u>\$ 7,619,187</u>

5. CAPITAL ASSETS

The following schedule presents the changes in capital assets for the year ended June 30, 2020:

	<u>Balance at July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2020</u>
Capital assets, depreciable:				
Equipment	\$ 184,800	\$ 33,108	\$ -	\$ 217,908
Leasehold improvements	82,142	-	-	82,142
Furniture and fixtures	<u>56,855</u>	<u>-</u>	<u>-</u>	<u>56,855</u>
Total	<u>323,797</u>	<u>33,108</u>	<u>-</u>	<u>356,905</u>
Less - accumulated depreciation:				
Equipment	168,309	6,780	-	175,089
Leasehold improvements	64,346	7,108	-	71,454
Furniture and fixtures	<u>41,220</u>	<u>5,685</u>	<u>-</u>	<u>46,905</u>
Total accumulated depreciation	<u>273,875</u>	<u>19,573</u>	<u>-</u>	<u>293,448</u>
Capital assets, net	<u>\$ 49,922</u>	<u>\$ 13,356</u>	<u>\$ -</u>	<u>\$ 63,457</u>

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	<u>56,855</u>	<u>-</u>	<u>-</u>	<u>56,855</u>
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	<u>35,534</u>	<u>5,686</u>	<u>-</u>	<u>41,220</u>
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>

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

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, 2020 and 2019, there were no draws against the letter of credit. Rent expense under the facility leases was approximately \$460,000 and \$435,000 for the years ended June 30, 2020 and 2019, respectively, which is included in equipment and facilities in the accompanying combined statements of revenues, expenses and changes in net position.

The Agency also leased equipment under various agreements which expire through January 2023.

Future minimum lease payments under these agreements are as follows:

	<u>Facility</u>	<u>Equipment</u>
2021	\$ 396,561	\$ 40,164
2022	383,177	40,164
2023	<u>-</u>	<u>20,082</u>
Total	<u>\$ 779,738</u>	<u>\$ 100,410</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 2020 and 2019, 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 2020 and 2019 totaled approximately \$493,000 and \$461,000, respectively and are included in payroll taxes and fringe benefits in the accompanying combined statements of revenues, expenses and changes in net position.

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.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

8. CONCENTRATIONS AND CONTINGENCIES

Cash

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, 2020 and 2019, the Agency's exposure for uninsured funds was approximately \$22,664,000 and \$21,883,000 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.

Revenue and Accounts Receivable

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.

Coronavirus

During fiscal year 2020, COVID-19 was recognized as a global pandemic. Federal, state and local governments in the U.S have imposed restrictions on travel and business operations. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration and the impact it will have on the Agency's operations and financial position. As a result, the adverse impact COVID-19 will have on the Agency's businesses, operating results, cash flows and financial condition is uncertain. It is management's opinion that the adverse impact, if any, would not be material.

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 is dependent on the satisfactory and timely performance of the grant activities as specified by the funder. Installments totaling \$458,000 and \$300,000 were collected during the years ended June 30, 2020 and 2019, respectively. The Foundation earned \$78,705 and \$76,333, respectively, during the years ended June 30, 2020 and 2019, which is included in grants in contracts in the accompanying combined statements of revenues, expenses, and changes in net position. As stipulated in the grant agreement the funds are due back to the funder if satisfactory and timely performance of grant activities are not met, accordingly \$602,962 and \$223,667 are presented as advance on conditional grant in the accompanying combined statements of net position as of June 30, 2020 and 2019, respectively.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined General Purpose Financial Statements
June 30, 2020 and 2019

10. COMMONWEALTH CORPORATION FOUNDATION AND RELATED PARTY TRANSACTIONS

Commonwealth Corporation Foundation

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

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and cash equivalents	<u>\$ 633,221</u>	<u>\$ 269,159</u>
Liabilities:		
Due to the Corporation	\$ 5,714	\$ 45,492
Advance on conditional grant	<u>602,962</u>	<u>223,667</u>
Total liabilities	<u>\$ 608,676</u>	<u>\$ 269,159</u>
Net Position:		
Restricted net position	\$ 29,999	\$ -
Unrestricted net position	<u>(5,454)</u>	<u>-</u>
Total net position	<u>\$ 24,545</u>	<u>\$ -</u>
Operating Revenues	\$ 108,533	\$ 181,593
Operating Expenses	<u>84,159</u>	<u>181,593</u>
Changes in Net Position	<u>\$ 24,374</u>	<u>\$ -</u>

Related Party Transactions

During fiscal years 2020 and 2019, the Foundation made grants of \$78,705 and \$181,504, respectively, 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, 2020 and 2019, the Foundation owes the Corporation \$5,714 and \$45,492, respectively, which has been eliminated in the accompanying combined statements of net position.

11. SUBSEQUENT EVENT

In August 2020, the Foundation received a grant without donor restrictions from a private company in the amount of approximately \$1.4 million.

12. RECLASSIFICATIONS

Certain amounts in the fiscal year 2019 combined general purpose financial statements have been reclassified to conform with fiscal year 2020 presentation.