COMMONWEALTH CORPORATION
Building skills for a strong economy.

General Purpose Financial Statements
June 30, 2018 and 2017

COMMONWEALTH CORPORATION

Contents
June 30, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors of
Commonwealth Corporation:

Report on the General Purpose Financial Statements

We have audited the accompanying general purpose financial statements of Commonwealth Corporation, a component unit of the Commonwealth of Massachusetts, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the general purpose financial statements.

Management's Responsibility for the General Purpose Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these general purpose financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 2 through 8 be presented to supplement the basic general purpose financial statements. Such information, although not a part of the basic general purpose financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic general purpose financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic general purpose financial statements, and other knowledge we obtained during our audit of the basic general purpose financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Alexander, Aronson, Finning & Co., P.C.

Boston, Massachusetts
October 25, 2018

This Management's Discussion and Analysis provides an overview of the Commonwealth Corporation's (the Corporation) financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the Corporation's general purpose financial statements and related footnotes, which begin on page 9.

Description of Major Programs by Division

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

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

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

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.

The Corporation includes two operational divisions:

- **The Sector & Regional Strategies Division** with revenues of $21.82 million compared to an annual budget of $21.20 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 2018, the majority of funds were awarded in 3 programs: (1) General Program - 151 training grants involving 170 businesses. The total amount awarded was $16.85 million. These businesses plan to train 10,300 workers with these funds. (2) Express Program - 545 grant awards to 406 small businesses (100 or fewer employees), seeking a total of $3.023 million to train more than 3,600 employees. (3) Direct Access Program. In fiscal year 2017, the Corporation conducted a competitive procurement process awarding grants to 18 training organizations to offer training seats through the Direct Access Program to businesses across the Commonwealth. This round of funding was designed to provide businesses with access to training through the end of fiscal year 2018. In fiscal year 2018, the 18 organizations trained 1,439 workers from 350 businesses and were reimbursed $1,355,687.

Description of Major Programs by Division (Continued)

- **The Workforce Competitiveness Trust Fund** (WCTF), a fund created to develop programs to meet the skill needs of businesses with high-demand occupations. As a result of this investment, businesses have documented significant improvements in productivity, profitability, increased sales, employee retentions and other measures. WCTF was recapitalized in fiscal year 2016 with an appropriation of $2 million; The Corporation awarded $1.82 million in grants to 14 organizations to be expended over a period of not more than two years to partner with businesses to prepare and place unemployed and underemployed job seekers. Those grants ended in fiscal year 2018. WCTF received an additional appropriation of $500,000 in fiscal year 2017. The Corporation awarded $450,000 in grants to 2 organizations to be expended through fiscal year 2019 to partner with businesses to prepare and place long-term unemployed individuals. In fiscal year 2018, the WCTF received an additional appropriation of $990,000, which was supplemented with a transfer of $1,000,000 from a new state budget appropriation called Learn to Earn. The Corporation awarded $1.6 million in grants from combined WCTF and Learn to Earn funds to 5 organizations to be expended through fiscal year 2020. These organizations will partner with businesses to prepare and place unemployed and underemployed job seekers who are participating in one or more public benefit programs.

- **The Health Care Workforce Transformation Fund** was designed for the health care industry to train workers to meet required operational changes to comply with health care cost containment and quality improvement objectives articulated in Chapter 224 of the Acts of 2012. Fifty-nine training grants were awarded between 2015 and 2016; these grants ended in fiscal year 2017. In fiscal year 2018, the Corporation awarded up to $1.35 million in six additional grants to be expended through fiscal year 2019 to partner with businesses to prepare and place long-term unemployed individuals in health care positions.

- **The Youth Pathways Division** with revenues of $30.8 million compared to a budget of $31.14 million. The following major programs are being administered:

  - **YouthWorks** is a youth at risk program that represents a $10.27 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 skills training opportunities for approximately 4,000 youth each year.

  - **Signal Success** is a work readiness curriculum developed by several 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 50 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 5 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 another 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. 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 $285,795 for fiscal year 2018.

Description of Major Programs by Division (Continued)

- The Corporation in partnership with the Collaborative for Education Services (CES), is under contract to deliver education and workforce transition services to all youth who are in custody of the Commonwealth's **Department of Youth Services** (DYS). The work helps ensure that youth and teens committed to DYS have access to high-quality education and employability opportunities. Youth Pathways staff helped design core standards that define educational quality in DYS residential programs, and support programs in meeting these standards through assessment and technical assistance. Staff also manages Bridging the Opportunity Gap, an initiative that provides career readiness and vocational programming for DYS youth who have returned to their community. Finally, staff work to integrate the arts into DYS residential and community programming through visual art education, arts engagement, community arts partnerships, and an annual youth art showcase. Fiscal year 2018 is the fourth 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 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 13 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 Statements of Net Position (Page 9)

The Statements of Net Position show comparative financial data from June 30, 2018 and 2017, and include all assets and liabilities of the Corporation, as a whole. Additionally, these statements report total net position.

- **Total Assets** in the amount of $37.53 million increased by $796,306 from the previous year total of $36.73 million:

  - Cash and cash equivalents in the amount of $21.63 million decreased by $8.46 million from last year's $30.09 million.

    - Cash for operations is deposited in a bank account and includes non-interest bearing checking accounts and an interest bearing operations/ sweep account.

    - Cash was lower at the end of fiscal year 2018 due to the timing of cash received from grant receivables at year end.

  - Grants, contracts, and other receivables in the amount of $15.78 million increased by $9.27 million from last year's $6.51 million.

  - Capital assets depreciated in value by $28,367 (net of additions) from $109,361 to $80,994.

The Statements of Net Position (Page 9) (Continued)

- **Total Liabilities and Net Position** increased by $796,306. This increase in liabilities comes primarily from an increase in grants payable and other contract expenses.

  - Deferred revenue totaled $29.02 million, a decrease of $1.02 million compared to $30.04 million last year.
  - The Net Position balance of $673,375 represents a $5,230 increase from last year's balance of $668,145.

The Statements of Revenues, Expenses and Changes in Net Position (Page 10)

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

- Unrestricted Funds: This fund group is unrestricted in nature, and the related assets have no external restrictions imposed upon their use.

  - General Fund: This component accounts for unrestricted financial activity that is not specific to other funds.
  - Indirect Cost Pools: This component includes costs that are not identifiable with a particular cost objective but are necessary to the general operation of the Corporation. The Corporation's four indirect cost pools are Corporate General and Administrative (G&A); Field (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 Corporation is restricted by nature, including MMDT invested funds.

Operating Revenues and Expenses

Fiscal year 2018 shows a $2.45 million reduction in revenue and a $2.53 million reduction in expenditures from fiscal year 2017. Annual revenue and expenditures both totaled $52.63 million for the 2018 fiscal year. While there are some individual variances (see below), the totals show the overall 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).
  - Interest income totaled $343,902. Interest earned on assets is distributed on a prorated cash balance basis. Interest earned and distributed in fiscal year 2018:

Fund	Interest
WTFP	$ 324,223
WCTF	13,588
General Fund	6,091
	$ 343,902

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

Operating Revenues and Expenses (Continued)

- Operating Expenses
  - Salaries and wages in the amount of $3.45 million decreased by $135,555 as compared to last year's total of $3.59 million. This decrease is partly due to a severance expense incurred in 2017 and a few open positions at the end of the 2018 fiscal year.
  - Fringe benefits at $1.10 million decreased by $20,581 relative to the decrease in salaries.
  - Professional services were $211,203 less than the prior year due to a contract with the Office of the State Auditor to conduct a study on trends in supply and demand for different types of health care workers. This study was completed in fiscal year 2017.
  - Equipment and facilities had an increase of $35,824 due to increase in yearly office lease.
  - Other program costs include program supplies, stipends and program start-up costs in the Youth Pathways Division. Expenses were higher this year by $18,464 due to the purchase of twenty new laptops to be distributed to the youth serviced by this division.
  - Subrecipient contracts in the amount of $46.49 million decreased by $2.20 million as compared to last year's total of $48.69 million.

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

Fund Description	2018	2017	Change
Workforce Competitive Trust Fund (WCTF)	$ 1,075,261	$ 1,298,106	$ (222,845)
Workforce Training Fund (WTFP)	16,991,152	15,169,326	1,821,826
Demonstration Workforce Development Program	117,764	187,490	(69,726)
Summer Jobs Program - Youth at Risk	8,955,726	10,887,270	(1,931,544)
Youth with Disabilities	135,000	-	135,000
Safe & Successful Youth Initiative (SSYI)	194,886	165,251	29,635
Healthcare Workforce Transformation Fund	752,030	2,864,242	(2,112,212)
DYS Youth State Funds	17,252,187	17,202,669	49,518
DYS Youth Federal Funds	983,193	785,360	197,833
Miscellaneous	27,975	126,863	(98,888)
	$ 46,485,174	$ 48,686,577	$ (2,201,403)

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 2018 corporate expenditures against the 2018 fiscal year budget:

	Actual	Budget	Variance
Operating Revenues:			
Grants and contracts	$ 52,275,943	$ 52,346,283	$ (70,340)
Interest income	343,902	-	343,902
Other income	11,745	-	11,745
Total operating revenues	52,631,590	52,346,283	285,307
Operating Expenses:			
Salaries and wages	3,453,167	3,517,926	(64,759)
Fringe benefits	1,095,362	1,077,852	17,510
Equipment and facilities	698,018	655,264	42,754
Professional services	476,299	583,585	(107,286)
Office costs and supplies	109,754	56,956	52,798
Other program costs	103,365	60,950	42,415
Travel	93,821	105,303	(11,482)
Meetings and conferences	72,597	42,700	29,897
Depreciation	38,803	37,100	1,703
Operating expenses before contracts	6,141,186	6,137,636	3,550
Sub-recipient contracts	46,485,174	46,208,647	276,527
Total operating expenses	52,626,360	52,346,283	280,077
Changes in net position from operations	$ 5,230	$ -	$ 5,230

Overall total budget targets were met. Operating expenses before sub-recipient contracts were slightly over budget by $3,550, while sub-recipient expenditures were above budget by $276,527. The increase in sub-recipient expenditures was mostly due to an improved process of collecting year end expenses from grantees.

- Salaries and wages were below budget by 1.8%. Salaries and wages account for the second largest corporate expense and it is closely managed against the budget. Salaries and wages from the last five years compared to operating expenses before sub-recipient contracts and total operating expenses:

	Salaries	Expenses Before Contracts	%	Total Corporate	%
2018	$ 3,453,167	$ 6,173,963	55.93%	$ 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%
2014	$ 3,000,084	$ 5,547,630	54.08%	$ 48,487,413	6.19%

Analysis of Significant Actual to Budget Variances (Continued)

- Fiscal year 2018 executive staff salaries:

Chief Executive Officer	$ 165,000
SR Vice President Sector and Regional Strategies	$ 126,294
Vice President Youth Pathways	$ 120,554
Vice President Finance/ CFO	$ 122,412

- Fringe benefits in the amount of $1.10 million exceeded the $1.08 million budget total by $17,510. The Corporation had a 1.6% increase from Harvard Pilgrim Health Care, this increase became effective at the end of March 2018.

- Professional services were lower than budget by $107,286 due to contracts for program expenses estimated at a higher amounts during the budget process.

- Subrecipient contracts with a budget of $46.21 million and with sub-recipient expenditures in the amount of $46.49 million had a net positive variance of $276,527.

Current Known Facts, Decisions and Conditions

The Corporation's total operating revenues for the fiscal year 2018 were higher than budget by $285,307. This positive variance was due to the unbudgeted interest income received from its investments in the Massachusetts Municipal Depository Trust.

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

During the spring of 2018, the Governor of Massachusetts designated the Corporation to organize and lead a new Commission on Digital Innovation and Lifelong Learning. The Commission will examine 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 will be presented to the Governor in the fall of 2018, which may lead to future opportunities of impact for the Corporation.

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

- For the Department of Youth Services, fiscal year 2018 will be the fifth year of a multi-year contract. Funding is forecasted in the amount of approximately $19 million.
- The Workforce Training Fund Program received obligational authority for a total of $25 million. Actual expenditures are forecasted at $17 million.
- Workforce Competitiveness Trust Fund expenditures are forecasted at $1.5 million.
- For the Youth Works Summer Program, the Legislature appropriated almost $12 million to be used in the summer of 2019 and the fall-winter of 2019-2020. (YouthWorks if forward-funded; funds are for the fiscal year and expended in the following fiscal year.)

Contacting the Corporation's Financial Management

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

COMMONWEALTH CORPORATION

Statements of Net Position
June 30, 2018 and 2017

Assets	2018 Unrestricted	2018 Restricted Grant and Contract Fund	2018 Total	2017 Unrestricted	2017 Restricted Grant and Contract Fund	2017 Total
Current Assets:						
Cash and cash equivalents	$ 866,839	$ 20,762,298	$ 21,629,137	$ 847,214	$ 29,242,027	$ 30,089,241
Grants, contracts and other receivables	4,028	15,772,998	15,777,026	1,420	6,507,419	6,508,839
Prepaid expenses and other	39,095	-	39,095	22,505	-	22,505
Total current assets	909,962	36,535,296	37,445,258	871,139	35,749,446	36,620,585
Capital Assets, net	80,994	-	80,994	109,361	-	109,361
Total assets	$ 990,956	$ 36,535,296	$ 37,526,252	$ 980,500	$ 35,749,446	$ 36,729,946
Liabilities and Net Position						
Current Liabilities:						
Grants and other payables	$ 55,994	$ 6,098,455	$ 6,154,449	$ 15,037	$ 4,485,328	$ 4,500,365
Accrued contract expenses	-	1,417,736	1,417,736	-	1,226,987	1,226,987
Accrued payroll and other	261,587	-	261,587	297,318	-	297,318
Deferred revenue	-	29,019,105	29,019,105	-	30,037,131	30,037,131
Total current liabilities	317,581	36,535,296	36,852,877	312,355	35,749,446	36,061,801
Net Position:						
Unrestricted net position	592,381	-	592,381	558,784	-	558,784
Invested in capital assets	80,994	-	80,994	109,361	-	109,361
Total net position	673,375	-	673,375	668,145	-	668,145
Total liabilities and net position	$ 990,956	$ 36,535,296	$ 37,526,252	$ 980,500	$ 35,749,446	$ 36,729,946

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

COMMONWEALTH CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Restricted Grant and Contract Fund	Total	Unrestricted	Restricted Grant and Contract Fund	Total
Operating Revenues:						
Grants and contracts	$ -	$ 52,275,943	$ 52,275,943	$ -	$ 54,899,973	$ 54,899,973
Interest income	6,091	337,811	343,902	6,200	165,807	172,007
Other income	-	11,745	11,745	-	11,892	11,892
Total operating revenues	6,091	52,625,499	52,631,590	6,200	55,077,672	55,083,872
Operating Expenses:						
Salaries and wages	770,078	2,683,089	3,453,167	846,131	2,742,591	3,588,722
Fringe benefits	244,758	850,604	1,095,362	320,102	795,841	1,115,943
Equipment and facilities	619,988	78,030	698,018	598,144	64,050	662,194
Professional services	182,143	294,156	476,299	186,525	500,977	687,502
Office costs and supplies	58,571	51,183	109,754	39,136	62,694	101,830
Other program costs	-	103,365	103,365	-	84,901	84,901
Travel	4,118	89,703	93,821	3,327	100,423	103,750
Meetings and conferences	2,824	69,773	72,597	3,859	78,276	82,135
Depreciation	38,803	-	38,803	45,317	-	45,317
Indirect operating expense allocation	(1,920,422)	1,920,422	-	(1,961,342)	1,961,342	-
Total operating expenses before subrecipient contracts	861	6,140,325	6,141,186	81,199	6,391,095	6,472,294
Subrecipient contracts	-	46,485,174	46,485,174	-	48,686,577	48,686,577
Total operating expenses	861	52,625,499	52,626,360	81,199	55,077,672	55,158,871
Changes in net position	5,230	-	5,230	(74,999)	-	(74,999)
Net Position:						
Beginning of year	668,145	-	668,145	743,144	-	743,144
End of year	$ 673,375	$ -	$ 673,375	$ 668,145	$ -	$ 668,145

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

COMMONWEALTH CORPORATION

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

	2018	2017
Cash Flows from Operating Activities:		
Receipts from grantors	$ 41,989,730	$ 63,833,090
Collections of interest and other income	355,647	183,899
Payments to employees	(3,452,072)	(3,579,029)
Payments of employee benefits	(1,131,084)	(1,061,665)
Payments to subrecipients	(44,681,298)	(50,312,887)
Payments to vendors and suppliers	(1,530,591)	(1,846,586)
Net cash provided by (used in) operating activities	(8,449,668)	7,216,822
Cash Flows from Investing Activities:		
Acquisition of capital assets	(10,436)	(9,045)
Net Change in Cash and Cash Equivalents	(8,460,104)	7,207,777
Cash and Cash Equivalents:		
Beginning of year	30,089,241	22,881,464
End of year	$ 21,629,137	$ 30,089,241
Reconciliation of Changes in Net Position to Net Cash Provided by (Used in) Operating Activities:		
Changes in net position	$ 5,230	$ (74,999)
Adjustments to reconcile changes in net position to net cash provided by (used in) operating activities:		
Depreciation	38,803	45,317
Changes in operating assets and liabilities:		
Grants, contracts and other receivables	(9,268,187)	(201,841)
Prepaid expenses and other	(16,590)	927
Grants and other payables	1,654,084	(1,481,916)
Accrued contract expenses	190,749	(159,261)
Accrued payroll and other	(35,731)	(46,363)
Deferred revenue	(1,018,026)	9,134,958
Net cash provided by (used in) operating activities	$ (8,449,668)	$ 7,216,822

1. OPERATIONS AND NONPROFIT STATUS

Operations

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

The Commonwealth Corporation Foundation (the Foundation) was created during the year ended June 30, 2011, to support and further the charitable and educational purposes of the Corporation. Revenues for the Foundation were $50,000 and $100,000 for the years ended June 30, 2018 and 2017, respectively. Expenses for the Foundation for the years ended June 30, 2018 and 2017, were $50,000 and $150,000, respectively. Though the Foundation is considered a component unit of the Corporation, the Corporation has deemed the financial statements of the Foundation to be not material to these general purpose financial statements, and accordingly, has not included them in these general purpose financial statements.

Nonprofit Status

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - GASB Standards

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking, money market, and savings accounts, 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 14), as well as advance payments to subrecipients. Advance payments to subrecipients (see page 14) are made under specific grant awards that allow the subrecipients to receive advance payments to fund program operations. The Corporation reclassifies these advance payments to operating expenses as the subrecipient provides evidence of grant expenditures applicable to the advance.

Capital Assets

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

Net Position

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

Subrecipient Contracts

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

Indirect Operating Expenses

The Corporation's indirect costs are cost categories that are not directly charged to programs. These costs are accumulated in cost pools and allocated to programs based on actual time worked and historical cost trends. These indirect cost pools are included in unrestricted operating expenses and include occupancy, information technology, and fringe benefits as well as administrative costs. Indirect operating expenses totaled $1,920,422 and $1,961,342 for the years ended June 30, 2018 and 2017, respectively.

Fair Value Measurements

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Subsequent Events

Subsequent events have been evaluated through October 25, 2018, which is the date the general purpose financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the general purpose financial statements.

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS

The Corporation holds investments in the Massachusetts Municipal Depository Trust's (MMDT) cash portfolio (see Note 2) in the amount of $20,670,687 and $29,273,790 at June 30, 2018 and 2017, respectively. MMDT is an investment program, founded in 1977 under the supervision of the State Treasurer of the Commonwealth, in which municipalities may pool excess cash for investment. MMDT was established to provide professionally managed investment funds to meet the investment needs of the Commonwealth and its political subdivisions.

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

Securities With an Effective Maturity of:	Percentage of Total Net Position	
	2018	2017
1 - 30 Days	71.7%	59.1%
31 - 90 Days	20.4%	25.0%
91 - 180 Days	7.9%	14.0%
181 - Days or more	0.0%	1.9%
Total	100.0%	100.0%

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.

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS (Continued)

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

	Cash Portfolio Quality Diversification	
	First Tier	Second Tier
2018	100.0%	-
2017	100.0%	-

4. GRANTS, CONTRACTS AND OTHER RECEIVABLES

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

	2018	2017
State agencies	$ 13,260,858	$ 4,559,677
Net advance payments	2,480,897	1,849,681
Other	35,271	99,481
	$ 15,777,026	$ 6,508,839

5. CAPITAL ASSETS

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

	Balance at July 1, 2017	Additions	Disposals	Balance at June 30, 2018
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	633,168	10,436	(319,807)	323,797
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	523,807	38,803	319,807	242,803
Capital assets, net	$ 109,361	$ (28,367)	$ -	$ 80,994

5. CAPITAL ASSETS (Continued)

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

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

6. COMMITMENTS

Facility and Equipment Leases

The Corporation leases office space under two operating leases expiring through June 2022. Aggregate monthly rents range from $32,322 to $34,678 under these two lease agreements over the course of their terms. As security for a lease, the Corporation was required to obtain an irrevocable letter of credit in the amount of $106,000. As of June 30, 2018 and 2017, there were no draws against the letter of credit. Rent expense under the facility leases was approximately $416,000 and $410,000 for the years ended June 30, 2018 and 2017, respectively, which is included in equipment and facilities in the accompanying statements of revenues, expenses and changes in net position.

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

Future minimum lease payments under these agreements are as follows:

	Facility	Equipment
2019	$ 402,040	$ 36,452
2020	403,293	14,735
2021	396,561	-
2022	383,177	-
Total	$ 1,585,071	$ 51,187

7. RETIREMENT PLANS

Under the terms of the Corporation's Section 401 (a) retirement plan, adopted in December 1997, contributions are made on behalf of employees based on their employment dates. These employees do not participate in the Federal social security system. A minimum contribution of 7.5% of salary plus an optional amount, subject to the Board of Directors approval, of up to 5.7% is made for employees hired after December 31, 1996. Employees hired prior to December 31, 1996, are not eligible for this plan. During fiscal years 2018 and 2017, the Corporation made contributions of 13.2%. This plan does not permit employee contributions.

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

Contributions to the plan in fiscal years 2018 and 2017 totaled approximately $453,000 and $468,000, respectively.

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

8. CONCENTRATIONS AND CONTINGENCIES

The Corporation maintains certain cash and cash equivalents balances in a bank in Massachusetts and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times, cash balances exceeded the insured amounts. In addition, cash and cash equivalents invested in MMDT (see Note 3) are not FDIC insured. As of June 30, 2018 and 2017, the Corporation’s exposure for uninsured funds was approximately $21,400,000 and $29,800,000, respectively. The Corporation has not experienced any losses in such accounts and management believes the credit risk related to the Corporation’s cash and cash equivalents is not significant.

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