

OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT

FISCAL 2013 ANNUAL REPORT

The Office of Performance Management & Oversight (OPMO) measures the performance of all public and quasi-public entities engaged in economic development. All agencies are required to submit an Annual Report, which includes all of the following information and demonstrates progress made against the Annual Plan submitted for the same year.

Based on review of Performance to Plan, the Office of Performance Management and Oversight will annually re-evaluate the goals and measures established by the agencies. The Office will recommend changes to goals and measures as appropriate to align with the statewide economic development policy and plan.

The annual reports of each agency will be published on the official website of the Commonwealth, and be electronically submitted to the clerks of the Senate and House of Representatives, the Chairs of the House and Senate Committees on Ways and Means and the House and Senate Chairs of the Joint Committee on Economic Development and Emerging Technologies.

Filing Instructions:

The Fiscal Year 2013 report is due no later than **Friday, November 1, 2013**. An electronic copy of the report and attachments A & B should be e-mailed to Anne.Struthers@state.ma.us.

1) AGENCY INFORMATION

Agency Name Commonwealth Corporation

Agency Head Nancy Snyder

Title President

Website www.commcorp.org

Address 2 Oliver Street, Boston MA 02109

2) MISSION STATEMENT

Please include the Mission Statement for your organization below.

Commonwealth Corporation strengthens the skills of Massachusetts youth and adults by investing in innovative partnerships with industry, education and workforce organizations. We seek to meet the

immediate and emerging needs of businesses and workers so they can thrive in our dynamic economy.

3) PERFORMANCE ON GOALS AND OBJECTIVES

Please provide details on the agency's progress and accomplishments for Fiscal Year 2013 as it relates to the Fiscal Year 2013 Plan submitted by your agency. This information should be included as **Attachment A and should include prior year perspective**. In addition to your Performance to Plan Report, Questions 5 through 10 provides guidance on the specific information required under Chapter 240 of the Acts of 2010.

4) ACCOUNTING

Please provide financial information for your agency. Below please give a summary of *Receipts and Expenditures* during the fiscal year, and include the *Assets and Liabilities* at the end of the fiscal year. Please include the most recent audited financial report for the agency as **Attachment B**.

	AMOUNT	
Receipts	\$36,400,511	
Expenditures	\$36,397,065	
Assets	\$34,694,190	
Liabilities	\$33,880,039	

5) INVESTMENTS OR GRANTS TO BUSINESSES OR INDIVIDUALS

Does your agency make **investments** and/or provide **grants** to businesses or individuals? Yes
No

If **Yes**, please provide detailed information on investments and/or grants made during FY13 in the **Performance on Goals and Objectives** section of this report. Information should include the number, nature and amounts of investments made and grants awarded by your agency along with job, investment and/or other economic development impact. Please list the name(s) of the investment and/or grant programs offered by your agency in the space provided below:

[Please enter the investment or grant details here.] Commonwealth Corporation makes grants to businesses through the Workforce Training Fund. In FY13, \$8,706,463 was awarded to 84 businesses to train 8,110 employees and create 779 jobs. Details of those awards in FY13 are included as appendix 1.

6) DEBT OR EQUITY INVESTMENT DETAILS

Is your agency involved in **debt** or **equity investments** for businesses? Yes No

If **Yes**, please provide detailed information on debt and/or equity investments made during FY13 in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the debit and/or equity investments programs offered by your agency in the space provided below:

[Please enter the debt or equity investment details here.]

7) LOAN DETAILS

Is your agency involved in **real estate loans**, **working capital loans**, or any **other type of loan or guarantee**? Yes No

If **Yes**, please provide detailed information on loan(s) and/or guarantee(s) made during FY13 in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the types of loan(s) and/or guarantee(s) offered by your agency in the space provided below:

[Please enter the loan details here.]

8) OTHER FORMS OF FINANCING OR FINANCIAL ASSISTANCE?

If your agency provides any other form of financing or financial assistance, please include FY13 details in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the types of other forms of financing offered by your agency in the space provided below:

[Please enter the details on financing or financial assistance here] **N/A**

9) PATENTS OR PRODUCTS

Does your agency track **patents** or **products** resulting from agency-funded activities? Yes No

If **Yes**, please include details in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the agency-funded activities of your agency that promote patent and product advancement in the space provided below:

[Please enter the details on patents or products here.] **N/A**

10) TECHNICAL ASSISTANCE

If your agency provides technical assistance, please provide detailed information on technical assistance provided during FY13 in the **Performance on Goals and Objectives** section of this report along with job,

investment, and/or other economic development impact. Please list the name(s) of the technical assistance programs offered by your agency in the space provided below:

[Please enter the details on technical assistances here.]**N/A**

Attachment A

Commonwealth Corporation

OPMO FY 2013 Annual Report

Operations and Accomplishment Details

Commonwealth Corporation's mission is to strengthen the skills of Massachusetts youth and adults by investing in innovative partnerships with industry, education and workforce organizations. We seek to meet the immediate and emerging needs of businesses and workers so they can thrive in our dynamic economy.

Our primary goals are to:

- Build regional industry training partnerships that serve two purposes: 1) to prepare youth and unemployed workers for jobs in-demand leading to higher rates of employment and 2) to upgrade the skills of underemployed workers to meet specific employer skill demands leading to job retention, upgrades and wage gains.
- Increase the share of youth engaged in education and employment pathways preparing them for post-secondary education and careers.

Commonwealth Corporation serves a unique role as a statewide quasi-public organization that creates and strengthens regional training, education and employment pathways for youth and adults to prepare for jobs in demand occupations, meeting the workforce needs of businesses. Commonwealth Corporation does not provide direct services to youth, adults or businesses. We advance our mission and goals through grant-making, technical assistance, research & evaluation that informs practice and policy, and the development and dissemination of tools, resources and models that enhance service delivery and performance.

The following highlights are presented in three sections: Investments in Training, Youth Employment and Pathway Development, and Research and Evaluation products.

Investments in Training

Workforce Training Fund – In Fiscal Year 2013, Commonwealth Corporation managed the General Program grants over \$50,000 on behalf of the Executive Office of Labor and Workforce Development for the entire year and assumed responsibilities for grants under \$50,000 in the General Program in April 2013. In the past year Commonwealth Corporation has continued to work with the Department of Career Services to revamp and streamline the program. We have continued to accept applications on a rolling basis with a goal of a 60-day turnaround. We worked with EOLWD and the Workforce Training Fund Advisory Committee to review and update policies that make it easier for businesses to access the fund. These policies include waivers of the 1:1 match for English for Speakers of Other Languages (ESOL) programs and increasing the size of businesses eligible to access the Express (off-the-shelf training) Program from 50 to 100 employees. We have also worked with EOLWD and DCS to promote the program to businesses across the Commonwealth. We provide technical assistance to companies who are interested in

the program as well as to those who submitted an application that needed additional work in order to be awarded a grant.

During FY 13, Commonwealth Corporation and DCS awarded \$12,388,471 from the Workforce Training Fund General Program to 148 businesses. These grants will support the training of 11,840 workers.

A full list of grantees and information about the grants awarded by Commonwealth Corporation is attached and labeled Appendix 1.

State Energy Sector Partnership - The State Energy Sector Partnership grant was awarded to the Massachusetts Workforce Investment Board by the US Department of Labor in March 2010, and contracted to Commonwealth Corporation, to prepare new and incumbent workers for jobs in clean energy. Through this grant we worked with five –sub-state partnerships and three union training programs to enroll, train and support placements and incumbent worker wage gains. The following highlights reflect cumulative performance measures from March 1, 2010 through June 30, 2013. This program ended June 30, 2013. Program outcomes were:

- Enrolled 1,792 individuals in training, 1,102 of whom were unemployed at the time of enrollment and 690 of whom were employed at the time of enrollment (incumbent workers receiving skills upgrade training). The goal was 1,379 (1,079 unemployed and 300 incumbent).
- Placed 788 individuals into new jobs (the overall placement goal was 772). 742 unemployed individuals and 42 incumbent workers were placed in new positions as a result of training. Of the 690 incumbent participants enrolled in skills upgrade training, 317 have received a wage increase, averaging \$3.29/hour. The goal was 204.

Health Care Workforce Transformation Fund – In August 2012, Massachusetts became the first state in the country to enact health care cost containment legislation, Chapter 224. The Health Care Workforce Transformation Fund was established as part of Chapter 224 for the purpose of funding a wide spectrum of employee training and other programs within the health care industry. According to the law, the fund shall be administered by the secretary of labor and workforce development in consultation with the Health Care Workforce Advisory Board. The Secretary Joanne Goldstein has contracted with Commonwealth Corporation to administer the fund on behalf of the Executive Office of Labor and Workforce Development.

In FY '13, Secretary Goldstein appointed a Health Care Workforce Trust Fund Advisory Board to make recommendations concerning the administration and allocation of the fund and establishing evaluation criteria. This Board met in May 2013. Secretary Goldstein and Commonwealth Corporation organized two listening sessions to gather broad input into the priorities for the use of the fund. The first listening session was held in January in Millbury and the second session in Boston. In addition, Secretary Goldstein invited health care CEOs to meet with her to provide their input.

Based on the comments from the listening session and the input of the advisory committee, Commonwealth Corporation issued an application for planning grants of up to \$50,000 for

organizations to conduct needs assessments and planning leading to an implementation application. This planning application was released in July 2013.

Workforce Competitiveness Trust Fund - The Workforce Competitiveness Trust Fund (WCTF) was created by the Legislature in 2006 to develop training pipelines to meet the skill needs of businesses in high demand occupations. It supports partnerships of employers, education and workforce organizations to train and upgrade the skills of new and incumbent workers. This state-funded initiative is administered by Commonwealth Corporation on behalf of the Executive Office of Labor and Workforce Development. The Massachusetts Legislature established the WCTF with two goals in mind:

- To improve the competitive stature of Massachusetts businesses by improving the skills of current and future workers, and
- To improve access to well-paying jobs and long-term career success for all residents of Massachusetts, especially those who experience structural, social, and educational barriers to employment success.

In August 2012, the Economic Development Act was passed by the Legislature and signed into law by Governor Patrick. The Act called for the Workforce Competitiveness Trust Fund to support an “Addressing the Middle Skills Gap Grant Program” which was funded through an appropriation in the FY’13 budget of \$5 million. It is designed to address the gap between the skills held by workers and the skills needed by employers for jobs that require more than a high school diploma but less than the equivalent of a 4-year degree, commonly referred to as the “middle skills gap.”

A request for proposals was issued in October 2012. Proposals were sought from applicants who will work collaboratively through industry cluster partnerships to:

1. Implement a training strategy that will:
 - o Train and place un/underemployed Massachusetts residents into unsubsidized jobs and/or
 - o Train and place disconnected young adults into unsubsidized jobs and
 - o Train and support incumbent workers to advance to higher wage jobs and
2. Benefit participating business partners
3. Develop new systems, programs or partnerships that last beyond the life of the grant

Fifteen partnerships of businesses, educational institutions and workforce organizations were awarded grants in May 2013. Altogether, the partnerships will train 850 individuals and have engaged over 100 businesses. These partnerships include:

- **Action for Boston Community Development, Inc.: \$200,000**

Through the “Next STEPS” initiative, this partnership will prepare unemployed and underemployed participants for entry level early care and education work, including positions such as Assistant Teacher, Teacher Aide, or the equivalent.

- **South Shore Community Action Council: \$200,000**

South Shore Community Action Council, Inc. will partner with employers and education and workforce organizations in the region to provide Commercial Driver’s License (CDL) training to unemployed and underemployed participants in a range of occupations within the Transportation industry. This initiative will include CDL Permit Preparation Courses

and Class B CDL Training Courses to prepare participants for jobs within a broad cross-section of industries in need of Class B CDL licensed drivers.

- **YouthBuild Boston, Inc.: \$200,000**

With the goal of bridging the gap between job seekers and employers seeking reliable and skilled entry level workers, YouthBuild Boston will prepare disconnected young adults for jobs in the building trades.

- **South Middlesex Opportunity Council: \$208,037**

The South Middlesex Opportunity Council (SMOC) and its partners will prepare unemployed and underemployed individuals, with a special focus on veterans, for weatherization installer jobs and incumbent weatherization installers. Additionally, SMOC and its partners will develop a middle skills gap workforce development priorities work plan focused on the Energy Efficiency Management industry sector that will stack and align coursework and certificates and degree programs among the area education and skills training institutions.

- **Franklin/Hampshire Regional Employment Board: \$239,751**

The newly established “Franklin Hampshire Middle Skills Academy” is launching a manufacturing initiative to develop and implement a 13.5 week intensive training program for unemployed and underemployed adults throughout these two regions.

- **New Bedford Economic Development Council: \$250,000**

Through this regional partnership, the grant will provide construction preparation and pre-apprenticeship training to prepare unemployed and underemployed individuals for construction jobs. The goal of this project is to provide well trained individuals that meet the needs of the construction trades industry which will support the build out of the Marine and Commerce Terminal in New Bedford.

- **UMass Amherst Labor/Management Workplace Education: \$262,250**

“Community Works” is a state registered pre-apprenticeship program that strategically connects partners to open career opportunities and offers industry-recognized certifications for people historically underrepresented in the construction industry in Holyoke, Springfield, and surrounding communities.

- **Bristol Workforce Investment Board: \$291,153**

The Bristol Manufacturing Partnership (BMP) will prepare unemployed and underemployed individuals for jobs as machinists and computer numerically controlled programmer jobs at local manufacturing business. As part of this initiative, the regional partnership will develop and deliver an adult evening machinist training program at the local vocational schools and deliver a lean improvement training provided by the local community college.

- **Cape & Islands Workforce Investment Board: \$348,824**

This grant continues the work of a Regional Healthcare Partnership, formed over five years ago by the Cape and Islands Workforce Investment Board, which will now seek to provide a variety of training and student support services that address a range of healthcare employer needs for occupations including certified nursing assistants, licensed professional nurses, medical assistants, and medical coders throughout the region.

- **Boston Housing Authority: \$349,985**

“Building Pathways,” sponsored by the Building & Construction Trades Council of the Metropolitan District (MBBTC) is a registered building trade’s pre-apprenticeship program serving the greater Boston area. Through this grant, Building Pathways will deliver high quality training cycles to prepare individuals for entry into apprenticeship programs, provide case management services and support for participants, provide job development and coaching services to participants, and offer group mentoring to ensure retention in the placed participants’ chosen trade.

- **Berkshire County Regional Employment Board: \$350,000**

“Healthcare PACE,” a regional initiative designed to attract, retain, and promote quality healthcare workers pursuing a nursing career in the Berkshire County region.

- **Community Work Services: \$350,000**

Through this regional partnership, Community Work Services in collaboration with the hospitality industry, workforce development system, and community partners will launch the “Careers in Hospitality Program,” incorporating new opportunities for career advancement within the lodging and culinary fields.

- **Regional Employment Board of Hampden County: \$350,000**

“The Financial and Business Services Workforce Collaborative” is a new alliance formed to address the middle skills workforce gap in entry level positions including customer service representatives, call center operators, and bank tellers in Hampden County.

- **North Central MA Workforce Investment Board: \$400,000**

This regional partnership will prepare unemployed and underemployed individuals for jobs as machine operators, machine inspectors, and computer numerical control machinists to support the advanced manufacturing industry in North Central and Central Massachusetts.

- **North Shore Workforce Investment Board: \$500,000**

The Northeast Manufacturing Consortium” will partner with the region’s community colleges and others to provide training that will meet the business needs and assist participants in finding employment with local businesses and within the manufacturing industry.

Transitional Employment Programs - EOLWD has invested \$1.35 million in 7 Transitional Employment programs across Massachusetts as part of EOLWD’s larger strategy to support those who are unemployed. As a model, Transitional Employment offers a level of support and wrap around services to meet the needs of young people and adults who would have a challenging time obtaining employment, even in a less challenging economy. GED preparation, ESL classes, occupational certifications such as OSHA and ServSafe, financial literacy courses and legal counseling are just a few of the program elements that Transitional Employment Initiative grantees are utilizing to bolster the skills of the hardest to employ. By providing workforce training, quality education and remediation, case management and other supports, subsidized employment and help with advancing into unsubsidized employment, transitional employment clients are much better positioned for long term success.

General:

- The Transitional Employment grant initiative supports 7 programs for Massachusetts residents who are either: 1) youth ages 17 to 24 who are disconnected from school and work or 2) chronically unemployed adults age 25 and older.
- \$1.28 million total funds were expended to train 266 participants across the state from April 1, 2011 to June 30, 2013. Of those participants, 205 completed training, 177 earned at least one skill credential, 192 were placed into a subsidized job, and 142 were placed into an unsubsidized job.

Transitional Employment Themes:

- The transitional employment model supports individuals with multiple barriers to employment such as lacking education and work history, homelessness, CORIs, etc.
- Experiential training allows participants paid hands-on “practice” of work readiness, occupational and life skills at a job site.
- Wrap-around case management supports such as GED prep/classes, tutoring, childcare, transportation, ESOL/ESL classes, mental health care are consistent throughout the program to assist in long term employment retention.

Youth Employment and Pathway Development

YouthWorks - Commonwealth Corporation administers the YouthWorks program, which is funded through the state budget and subsidizes employment for low-income youth ages 14-21. In FY 13, for the summer of 2012, \$7.52 million supported 4,719 youth in summer employment experiences in 31 cities across the state. Required activities for any participating young person included soft skills training and occupational safety training, in addition to formal employment. The YouthWorks databook (link below) provides more detail by region, demographics and employment type.

<http://www.commcorp.org/resources/documents/YouthWorks%20Data%20Book%20%202012.pdf>

Juvenile Justice Re-Entry Programs - Commonwealth Corporation is under contract to the Massachusetts Department of Youth Services to provide education services to youth who are in DYS residential programs, and provide career and employability services to youth as they return to their home communities. Commonwealth Corporation’s Bridging the Opportunity Gap initiative provides comprehensive employability services including innovative and high quality career readiness, vocational and work-based training, industry certifications and subsidized employment experiences. There is a menu of five programmatic options delivered under the BOG:

- Employability programming that provides career development and subsidized employment for youth who are committed to the DYS but have returned home to the community; we have both year-round as well as summer program offerings ; and
- Arts and cultural programming, offering youth an opportunity to explore artistic endeavors
- Vocational programming which offers industry-based skill development in a subsidized employment model

- Mentoring programs for organizations who offer structured partnerships between mentors and mentees
- Community re-entry grants which offer entrepreneurship and/ or creative programming that is less structured than the other employability programs

Program participation is summarized in the table below.

Program	Number of Grantees	# DYS Youth Served
Summer youth employment	15	143
BOG year-round	14	164
Totals all programs	29	307

Research Products and Convening

Skills Gap: Supply and Demand in the Massachusetts Economy – In FY 13, Commonwealth Corporation partnered with the Federal Reserve Bank of Boston’s New England Public Policy Center to develop 8 regional Labor Market Profiles and the release of those profiles at events across the state called Skills Gap: Supply and Demand in the Massachusetts Economy. Over 1,000 leaders attended these events. The series culminated with a statewide event in April at which we released the final report entitled “Closing the Massachusetts Skills Gap: Recommendations and Action Steps. The intent of the Skills Gap series is to identify emerging or persistent workforce development challenges at the regional and statewide level and bring together leaders to develop strategies to address these challenges. The labor market profiles document ten-year trends in the demographic composition of the region’s labor force, employment trends and the pipeline of graduates from post-secondary institutions in the region.

http://www.commcorp.org/resources/documents/statewide%20final_4-22.pdf

<http://commcorp.org/resources/grid.cfm?ID=36>

CONNECT Industry Panels – In FY ’13, Commonwealth Corporation partnered with the CONNECT partnership of public higher education institutions in the southeast to launch a series of industry panel breakfasts that brought together the leadership from the colleges with CEOs from businesses from the region to focus on the current and emerging skill needs of that industry in southeastern Massachusetts. In June, the first industry panel breakfast featured representatives from the Life Sciences Industry.

Teen Employment Study – In April 2013, we released a report entitled “*Signaling Success: Boosting Teen Employment Prospects*” that was co-authored by Commonwealth Corporation and Drexel University Center on Labor Markets and Policy. This report focuses on the underlying causes of the decline in youth employment rates. In 1999, 53% of all Massachusetts teens were

employed and by 2012, only 26% were employed. In order to improve our understanding of this dramatic decline, we surveyed, interviewed or conducted focus groups with nearly 200 employers to identify underlying causes of 12-year decline in teen employment rates. We focused on employers from industries that have historically hired teens, including retail, supermarkets, fast food, banking, and long term care. The study focused on five areas: perceptions of teens' hard skills, perceptions of teens' work behaviors, effect on hiring of teen employment laws, factors affecting hiring decisions, employer hiring preferences. We released the report at an event at Worcester Technical High School with over 100 attendees as well as a panel of businesses from industries with a history of hiring teens.

In April 2013, Commonwealth Corporation also released a study looking at the skills, knowledge, behaviors, attitudes and work styles analyzed by the United States Department of Labor's O*NET database for entry-level positions as a complement to the Teen Employment study. This study is titled "*Building Blocks of Labor Market Success*".

http://www.commcorp.org/resources/documents/BoostingTeenEmploymentProspects_042013.pdf

<http://commcorp.org/resources/documents/ONET%20Paper%20Final.pdf>

Massachusetts HealthCare Chartbook – The Department of Higher Education contracted with Commonwealth Corporation to update the Massachusetts HealthCare Chartbook. The purpose of this updated edition of the Massachusetts Healthcare Chartbook is to inform workforce development professionals, educators, employers, and jobseekers about the status and recent history of Healthcare careers and the Healthcare and Social Assistance Sector in the Commonwealth.

http://www.commcorp.org/resources/documents/Healthcare_6-4.pdf

Partnerships: A Workforce Development Practitioners Guide - This guidebook for workforce practitioners outlines the key elements of an effective partnership. It features case studies, tools, tips, and templates that can be readily copied and used by practitioners.

<http://www.commcorp.org/resources/documents/Partnership%20Guidebook%20Final%205.31.pdf>

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

**FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2013 AND 2012

COMMONWEALTH CORPORATION
(a component Unit of the Commonwealth of Massachusetts)

Financial Statements

June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Commonwealth Corporation
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Commonwealth Corporation, which comprise the statement of net position as of June 30, 2013 and 2012, 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 financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Corporation as of June 30, 2013 and 2012, 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 4-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Commonwealth Corporation's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules of net position and revenues, expenses and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013, on our consideration of Commonwealth Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Commonwealth Corporation's internal control over financial reporting and compliance

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 24, 2013

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

For the Year Ended June 30, 2013

(Unaudited)

Commonwealth Corporation's financial analysis provides an overview of the corporation's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with Commonwealth Corporation's financial statements and related footnotes, which begin on page 18.

Basic Financial Statements

This annual report consists of a series of financial statements. In accordance with *Governmental Accounting Standard Board Statement No. 34 Basic Financial Statement - Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34), Commonwealth Corporation is considered a quasi-public entity that engages in only business type activities. In accordance with GASB No. 34, Commonwealth Corporation issues a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position and a Statement of Cash Flows. These statements provide information about the financial activities of Commonwealth Corporation, as a whole. Combining schedules showing the consolidation of restricted and unrestricted funds are included as supplemental information, presented after the notes to the financial statements.

The Corporation as a Whole

Commonwealth 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. Commonwealth Corporation is the result of a merger on July 1, 1996 of the former Industrial Services Program (ISP) and the former Bay State Skills Corporation, quasi-public agencies of the Commonwealth. Commonwealth 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. Commonwealth Corporation is a component unit of the Commonwealth and, as such, its financial statements are included in the Commonwealth's financial statements.

Commonwealth Corporation's mission statement reads:

Commonwealth Corporation strengthens the skills of Massachusetts youth and adults by investing in innovative partnerships with industry, education and workforce organizations. We seek to meet the immediate and emerging workforce needs of businesses and workers so they can thrive in our dynamic economy.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis - Continued

For the Year Ended June 30, 2013

(Unaudited)

Commonwealth Corporation designs and executes workforce programs in partnership with businesses, educators, and providers across the Commonwealth. These programs address persistent workforce challenges, such as the skills gap, for targeted industries and populations. In June 2011 Commonwealth Corporation created a nonprofit 501(c)(3) to secure private sector support and leverage the knowledgebase and best practices garnered through our direct experience.

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 - one of the most highly skilled economies in the world. Over the next ten years, we face two major challenges in meeting the skill needs of employers. Nearly one-third of the Massachusetts labor force is over the age of 55 and will be retiring, leaving a significant talent and succession gap and it is estimated that more than two-thirds of all jobs in Massachusetts (68% or 2.4 million jobs) will require some post-secondary training beyond high school by 2018. We are committed to ensuring that Massachusetts businesses have access to a pipeline of highly skilled workers and that youth and adults in Massachusetts have pathways to good jobs in the knowledge economy.

Through its work, Commonwealth Corporation is known for its expertise in:

Meeting the Needs of Workers & Businesses

With more than ten years of experience, Commonwealth Corporation is recognized as a national leader in creating sector strategies that address the skill needs of employers in targeted industries, while helping individuals in accessing good paying jobs. Commonwealth Corporation administers the Workforce Training Fund, which helps address productivity and competitiveness by providing resources to Massachusetts businesses. More 140 Massachusetts businesses received awards in fiscal year 2013 to train current and newly hired employees.

Commonwealth Corporation also administers the Workforce Competitiveness Trust Fund, 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. In addition, more than 5,000 youth and adults have found a job, received a salary increase, retained a job, or advanced in their current job. With new funding allocated by the Massachusetts Legislature, Commonwealth Corporation recently awarded \$4.5 million in grants to 15 partnerships between

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(Unaudited)

business, educational, organized labor and community based organizations. Over the next three years these partnerships, involving more than 100 businesses across the state, will serve 850 job seekers and incumbent workers.

For the past three years, Commonwealth Corporation administered the State Energy Sector Partnership grant awarded to the Massachusetts Workforce Investment Board by the U.S. Department of Labor. Commonwealth Corporation managed eight business/education/organized labor partnerships across the state in designing and delivering training and placement services for renewable energy and energy-efficiency related positions. Seven-hundred and eighty-eight unemployed individuals were trained and placed through these programs; an additional 317 incumbent workers participated in skills upgrading training and subsequently received wage increases.

Programming that Supports Youth Development

The Massachusetts **Department of Youth Services** (DYS) contracted with Commonwealth Corporation and its partner, the Collaborative for Educational Services, to manage and provide leadership for educational programming in residential facilities as well as creating workforce development opportunities for DYS clients during their community reentry.

Commonwealth Corporation administers several initiatives designed to help disconnected youth find access to the labor market:

Youth Works on behalf of the Massachusetts Executive Office of Labor and Workforce Development is a state-funded youth employment program that provides funds to pay wages to low-income youth, aged 14-21, for summer jobs in the public, nonprofit, and private sectors. Youth Works supports almost 5,000 youth jobs each year.

Building the Commonwealth's Workforce Development Capacity

Commonwealth Corporation is dedicated to advancing the entire field of workforce development. As a trusted research and evaluation partner, Commonwealth Corporation enables businesses, workforce development practitioners, and policy makers to craft education and training programs that prepare workers for jobs that are in demand and will continue to be in demand. Through its *Workforce Development in Practice* series, Commonwealth Corporation shares best practices with the field of over 100 community based providers, 33 career centers, 16 workforce boards, and 15 community colleges.

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In addition, Commonwealth Corporation is known for its ability to provide timely technical assistance to practitioners and also create partnerships that bring practitioners and policymakers together to work toward common goals. In 2012, using research on regional labor market trends to set the context, Commonwealth Corporation will convene groups across eight regions of the Commonwealth to discuss their specific labor market challenges.

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position include all assets, liabilities, revenue, and expenses of the Corporation, as a whole. This activity is recorded using the economic resources measurement focus and the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Under the accrual basis of accounting, all revenue and expenses are recognized when incurred regardless of when the cash is paid or received. Additionally, these statements report net assets and changes in them. The Corporation's net position - the difference between assets and liabilities, represents one way to measure Commonwealth Corporation's financial health or its financial position. Over time, increases or decreases in a corporation's net position are one indicator of whether a corporation's financial health is improving or declining.

The combining Schedule of Revenues, Expenses, and Changes in Net Position shown within this report (Page 32), accounts for two basic fund groups, the Unrestricted Fund and the Restricted Fund. The Unrestricted Fund has two components entitled the General Fund and the Indirect Cost Pool. The Restricted Fund also has one component entitled Grants/Contracts Fund. Brief explanations of these fund categories are as follows:

- ❖ **Unrestricted Funds**: This fund group is unrestricted in nature, and the assets of this fund have no external restrictions imposed upon the use of these assets.
 - **General Fund**: This component accounts for unrestricted financial activity that is not specific to other funds.
 - **Indirect Cost Pool**: This component includes costs that are not identifiable with a particular cost objective but are necessary to the general operation of the corporation. Commonwealth Corporation's four indirect cost pools are Corporate General and Administrative (G&A), Field (sub-contract) G&A, Facilities/ Occupancy and Information Technology.

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- ❖ Restricted Funds: This fund group includes resources that are to be expended for specified purposes as determined by grantor agreements, contractual terms & conditions, and donor/foundation requirements.
 - Grant/Contract Funds: These types of funds are restrictive in nature and make up the largest source of financial support to Commonwealth Corporation. Grant/Contract funding comes from agencies of the Commonwealth of Massachusetts, the Federal Government, and from private sources such as foundations and donors.

The Statements of Net Position:

- ❖ The Statement of Net Position shows the reader comparative financial data from the current and previous fiscal years. By reviewing the Statement of Net Position you will see:
 - Total Assets in the amount of \$34.69 million increased by \$9.44 million from the previous year total of \$25.25 million. The increase in Cash and equivalents came from the Commonwealth of Massachusetts' FY13 infusion of additional Workforce Training Fund Program dollars in the amount of \$11.70 million and a recapitalization of Workforce Competitive Trust Fund resulting in an increase of \$5 million. The resulting end of year increase in Cash and equivalents did add up to \$11.16 million:
 - The Workforce Competitive Trust Fund (MMDT3) account balance increased by approximately \$4 million.
 - The Workforce Training Fund (MMDT4) account balance increased by approximately \$7 million.
 - The remaining increase can be contributed to the MMDT operating account.
 - Total Liabilities in the amount of \$34.69 million similarly increased by \$9.44 million from the prior year total of \$25.25 million. This increase in liabilities comes primarily from an increase in unearned (deferred) revenue of \$9.44 million:

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An increase of \$2.20 million in Accounts payable included the following:

- Accounts payable and field accruals remained consistent with the prior year - Trade has no material variance.

An increase of \$9.44 million in Unearned revenue:

- The Workforce Training Fund increased by \$5.22 million.
 - The Workforce Competitive Trust Fund increased by \$4.61 million.
 - Department of Elementary and Secondary Education (DESE) funds decreased by \$1.10 million.
 - Miscellaneous other funding sources accounted for an increase of \$710,200.
- The Net Position balance of \$814,159 increased by \$3,446. The reason for the increase is accounted for on page 12 under "Net Operating Income".

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Management's Discussion and Analysis - Continued

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The Statements of Revenues, Expenses and Changes in Net Position along with an Analysis of Significant Actual to Budget Variances are discussed below.

Statements of Revenues, Expenses and Changes in Net Position:

Operating Revenues totaling \$36.40 million in fiscal year 2013, increased by \$2.03 million as compared to the 2012 fiscal year total of \$34.37 million. All grant revenue is deferred until expenses are recorded. Revenue exceeding or falling short of budget does not necessarily represent actual income and cash flow increases or decreases, but indicates actual expenses exceeding or falling short of budget.

Other income represents miscellaneous revenue other than grant revenue or interest income. In 2013 other income included \$2,883 in service fee income and \$4,117 in revenue related to the Department of Youth Services Art Showcase.

Interest income represents total fiscal year interest earned.

➤ Operating Expenses:

1. Subrecipient contract expenditures, in the amount of \$31.51 million increased by \$2.04 million (6.9%) as compared to the FY12 total of \$29.47 million.

The table below accounts for the variance:

<u>Fund Description</u>	<u>Fund #</u>	<u>FY13</u>	<u>FY12</u>	<u>\$ Var.</u>
Workforce Competitive Trust Fund (WCTF)	123x	\$ 80,389	\$ 448,896	\$ (368,507)
Workforce Training Fund (WTF) General Fund	1333	5,673,001	3,468,517	2,204,484
Learn at Work - DESE	227x	1,075,195	31,804	1,043,391
Workforce Training Fund (WTF) Express	1335	115,741	-	115,741
Workforce Training Fund (WTF) H I T G	1339	11,858	-	11,858
Summer Jobs Programs Youth at Risk	235x	7,091,791	6,779,746	312,045
Career Ladder Grant Long Term Care (ECCLI)	311x	6,459	103,315	(96,856)
DYS Youth State Funds	36xx	15,200,582	12,269,074	2,931,508
DYS Youth Federal Funds	66xx	617,121	728,565	(111,444)
American Recovery Act – EOPPS-BYRNE	600x	-	1,882,287	(1,882,287)
Office of Juvenile Justice (OJJDP)	6006	152,483	61,413	91,070
State Energy Sector Partnership (SESP)	6850	909,940	2,279,580	(1,369,640)
Transitional Employment (WIA)	70xx	567,618	1,415,220	(847,602)
Other Funding Streams - Miscellaneous	xxxx	7,555	2,243	5,312
		<u>\$ 31,509,733</u>	<u>\$ 29,470,660</u>	<u>\$ 2,039,073</u>

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Management's Discussion and Analysis - Continued

For the Year Ended June 30, 2013

(Unaudited)

2. Salaries and wages combined with Fringe benefits in the amount of \$3.37 million increased by \$61,357(1.86%) as compared to the previous year total of \$3.31 million:
 - The Sector Strategies Division increased salaries and fringe by \$31,844
 - The Youth Pathways Division increased salaries and fringe by \$53,087.
 - Administration reduced salaries and fringe by \$23,574.
3. Professional services amounted to \$650,089, a decrease of \$44,639 (6.43%) compared to the last year amount of \$694,728.
4. Equipment and facilities expenditures in the amount of \$500,865 decreased by \$235,001 (31.94%) as compared to the previous year amount of \$735,866. The main reason for this decrease was the FY13 lower building leasing cost for the downtown Boston facility. The elimination of the one-time FY12 relocation period cost, lower utility cost and more efficient usage of available square footage also contributed to this favorable variance.
5. Office costs and supplies increased by \$69,680 (101.44%) from \$68,689 to \$138,369. 'Publications, Print and Copy' increased by approximately \$56,000 because of the eight FY13 regional skills gap summits and associated publications.
6. Travel increased by \$4,597 (7.06%) from \$65,057 to \$69,654.
7. Meetings and conferences increased by \$46,415 (214.89%) from \$21,599 to \$68,014. Approx. \$18,000 in Skills gap meeting expenses across Massachusetts contributed to this variance; Eastern Bank donated \$10,000 to the cost of these meetings. The Department of Youth Services paid another \$23,000 for DYS sponsored meetings.
8. Other program costs increased by \$24,485 (64.98%) from \$37,680 to \$62,165. DYS paid for FY13 program supplies in the amount of \$36,801; FY12 DYS program supplies did add up to \$13,650.
9. Straight line depreciation decreased by \$5,560 (15.44%) from \$36,006 to \$30,446.

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For the Year Ended June 30, 2013

(Unaudited)

➤ Net Operating Income:

The main source of corporate net income is the interest on funds without any contractual restrictions. Funds with interest restrictions are Federal funds and any other funds that require any investment earned on the assets of the fund to be credited to the fund. The unrestricted interest yielded through the Massachusetts Municipal Depository Trust (MMDT) increased by \$1,593 from \$2,517 to \$4,110. On June 30th 2012 the thirty day MMDT yield was 0.27%, on June 30th 2013 this yield factor was 0.19%. The ratio of unrestricted funding versus restricted funding declined again in FY2013.

Investment options for Commonwealth Corporation are not favorable, as has been the case for the last few years. A basic guideline in our investment approach is stability. Because of this, MMDT has been selected as our investment vehicle of choice. MMDT was established in 1977 as an alternative investment vehicle for local governments. It allows the State Treasurer to offer participation to agencies, authorities, cities, towns and other public entities within the Commonwealth.

The fiscal year 2013 operating income adds up to \$3,446 (\$4,110 in unrestricted interest income less expenditures of \$664) compared to a fiscal year 2012 facilities/occupancy related net operating loss of (\$65,174).

- Net Position End of Year. The net position increased (by the amount of net operating income) from \$810,713 to \$814,159. The table below shows the changes of the end of year net position over the last eight years:

FY 2013	\$814,159
FY 2012	\$810,713
FY 2011	\$875,887
FY 2010	\$869,871
FY 2009	\$859,698
FY 2008	\$842,043
FY 2007	\$770,049
FY 2006	\$725,768

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Analysis of Significant Actual to Budget Variances

<u>Corporate Summary</u>	(1)	(2)	(1-2)
<u>Description</u>	<u>June 30th</u>	<u>June 30th</u>	
	<u>Expenses</u>	<u>Budget</u>	<u>\$ Var.</u>
<u>Expenses</u>			
Salaries & Fringe Benefits	\$ 3,367,730	\$ 3,505,642	\$ (137,912)
Travel & Other Employee Cost	137,668	126,170	11,498
Professional Services	650,089	549,538	100,551
Equipment & Facilities	531,311	536,115	(4,804)
Other Direct Costs	200,534	108,335	92,199
Sub-Grantee/ -Contract Cost	<u>31,509,733</u>	<u>33,410,206</u>	<u>(1,900,473)</u>
 Total Expenses	 <u>\$ 36,397,065</u>	 <u>\$ 38,236,006</u>	 <u>\$ (1,838,941)</u>
 Total Sub-Contract Expenses	 \$ 31,509,733	 \$ 33,410,206	 (1,900,473)
Total Other/ CommCorp Expenses	<u>4,887,332</u>	<u>4,825,800</u>	<u>61,532</u>
	\$ 36,397,065	\$ 35,695,273	\$ (1,838,941)
 Corporate G&A	 \$ 944,181	 \$ 1,002,986	 (58,805)
Corp G&A Rate	9.977%	10.96%	
Field G&A Rate	1.749%	1.75%	
Fringe Benefit Rate	29.09%	30.00%	

➤ Expenses

Corporate budgeted revenue and expenditures for fiscal year 2013 totaled \$38.24 million, while actual expenditures amounted to \$36.40 million, actual expenditures were \$1.84 million (4.81%) below budget.

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Management's Discussion and Analysis - Continued

For the Year Ended June 30, 2013

(Unaudited)

- The majority of this variance can be contributed to sub-grantee expenditures budgeted at \$33.41 million; actual sub-grantee expenditures amounted to \$31.51 million, which resulted in a variance of \$1.90 million (5.69%).

The following table shows actual and budgeted sub-contract expenses by funding source:

<u>Fund Description</u>	<u>6/30/13 YTD Actual</u>	<u>Annual Budget</u>	<u>\$ Variance</u>
Workforce Competitive Trust Fund (WCTF)	\$ 80,389	\$ 372,000	\$ (291,611)
Workforce Training Fund (WTF) – <i>General Fund</i>	5,673,001	6,250,000	(576,999)
Workforce Training Fund (WTF) – <i>Express</i>	115,741	-	115,741
Workforce Training Fund (WTF) – <i>HITG</i>	11,858	-	11,858
Learn at Work (DESE)	1,075,195	800,000	275,195
Summer Jobs Program Youth at Risk	7,091,791	7,631,540	(539,749)
Career Ladder Grant Long Term Care (ECCLI)	6,459	386,850	(380,391)
DYS Youth State Funds	15,200,582	15,081,333	119,249
DYS Youth Federal Funds	617,121	980,000	(362,879)
Office of Juvenile Justice (OJJDP)	152,483	195,000	(42,517)
State Energy Sector Partnership (SESP)	909,940	940,319	(30,379)
Learn at Work (WIA)	22,875	-	22,875
Transitional Employment Pilot Project	544,743	628,164	(83,421)
Other Sub-Contracts Miscellaneous	7,555	145,000	(137,445)
	<u>\$ 31,509,733</u>	<u>\$ 33,410,206</u>	<u>\$ (1,900,473)</u>

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Management's Discussion and Analysis - Continued

For the Year Ended June 30, 2013

(Unaudited)

- Salaries & Fringe Benefits totaled \$3.37 million in actual expenditures as compared to a \$3.51 million budget, a difference of \$137,912 (3.97%).

The actual corporate cost of fringe benefits came in below budget. The standard applied fringe benefit rate over salaries for FY2013 was 30%, the actual aggregate calculated rate did add up to 29.09%.

- Travel and Other Employee Cost totaled \$137,668 in actual expenditures as compared to a \$126,170 budget, a difference of \$11,498 (9.11%).
- Professional Services in the amount of \$650,089 exceeded the \$549,538 budget by \$100,551 (18.30%).

The Sector Strategies division lists a variance of \$57,276. Outside of budget expenditures related to database development, research and evaluation and development account for this amount.

YouthPathways lists a variance of \$ 37,816. The total variance comes from DYS approved services. DYS budgets are adjusted frequently by DYS; program requirements change through the fiscal year and DYS budgets are adjusted accordingly. Increases in allowed DYS budget expenditures are treated by Commonwealth Corporation as variances from budget.

- Other Direct Costs in the amount of \$200,534 exceeds budget by \$92,199. This consolidated line item includes among others meetings, publications, office supplies, program supplies and support services.

YouthPathways exceeded budgeted meetings by \$29,735; Publication, Print and Copy by \$13,094, Program Supplies by \$48,351 and Support Services by \$14,083. These variances come from services approved by DYS.

- Corporate General & Administrative expenses budgeted at \$1,002,986 did add up to \$944,181, a favorable variance of \$58,805 (5.86%).

The applied FY13 budgeted Corporate G&A rate was 10.96%, with a field G&A rate of 1.75%. The actual FY13 Corporate G&A rate calculated at 9.977%, with a field rate of 1.749%.

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For the Year Ended June 30, 2013

(Unaudited)

Disclosure of Executive Salaries

As required by the Executive Office for Administration and Finance, through a filing for “Accountability and Transparency for State Authorities”, Commonwealth Corporation lists fiscal year 2013 salaries for the executive staff:

• Chief Executive Officer	\$149,350
• SR Vice President Sector and Regional Strategies	\$113,300
• Vice President Youth Pathways	\$111,395
• Vice President Finance and Administration	\$105,328

Current Known Facts, Decisions, and Conditions

Commonwealth Corporation is assuming responsibility for all of the programs under the Workforce Training Fund Program. The new program responsibilities include General Program grants under \$50,000, Technical Assistance grants, Express Program grants and the Hiring Incentive Training grants.

Commonwealth Corporation launched the Health Care Workforce Transformation Fund and will make planning grants in FY14. This Fund was created through Chapter 224 of the Acts of 2012, “An Act Improving the Quality of Health Care and Reducing Costs through Increased Transparency”. Commonwealth Corporation is administering \$16 million over a four-year period.

The Massachusetts Legislature funded at \$10 million the YouthWorks Summer Program and a year-round program beginning in the fall of 2013, the highest level of support this program has ever received. The Legislature appropriated another \$9 million for the summer of 2014.

Commonwealth Corporation is administering a new, one-time program that will provide Employability Services for Individuals with Disabilities and for Individuals who are Homeless, with funding designated by the Executive Office of Labor and Workforce Development. These programs will start up in FY14.

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Management's Discussion and Analysis - Continued

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The Massachusetts Legislature recapitalized the Workforce Competitiveness Trust Fund in FY13 with \$5 million. Commonwealth Corporation is administering this new funding and awarded grants to regional sector partnerships across the state that began program services in the beginning of FY14.

Commonwealth Corporation was awarded a four-year contract by the Department of Youth Services as the lead in a partnership to provide education and employability services for youth in the DYS system. In FY14, the DYS contract is for approximately \$18 million.

The Executive Office of Health and Human Services has issued a 'Safe and Successful Youth Initiative' grant to Commonwealth Corporation for employment-related capacity building, targeting potentially high risk young men at eleven Massachusetts communities.

Contacting Commonwealth Corporation's Financial Management

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

COMMONWEALTH CORPORATION
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Statements of Net Position

June 30, 2013 and 2012

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Statements of Net Position

June 30,

Assets

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and equivalents	\$ 29,196,826	\$ 18,027,510
Grants and other receivables	5,242,786	6,957,800
Prepaid expenses	<u>33,874</u>	<u>28,908</u>
Total Current Assets	<u>34,473,486</u>	<u>25,014,218</u>
Non-Current Assets:		
Capital assets - net	145,712	161,720
Other assets	<u>75,000</u>	<u>75,000</u>
Total Non-Current Assets	<u>220,712</u>	<u>236,720</u>
Total Assets	<u>\$ 34,694,198</u>	<u>\$ 25,250,938</u>

The accompanying notes are an integral part of the financial statements.

COMMONWEALTH CORPORATION
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Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Grant revenues	\$ 36,351,474	\$ 34,292,796
Other income	7,000	43,269
Interest income	<u>42,037</u>	<u>35,419</u>
Total Operating Revenues	<u>36,400,511</u>	<u>34,371,484</u>
Operating Expenses:		
Subrecipient contracts	31,509,733	29,470,660
Salaries and wages	2,610,175	2,569,380
Fringe benefits	757,555	736,993
Professional services	650,089	694,728
Equipment and facilities	500,865	735,866
Office costs and supplies	138,369	68,689
Travel	69,654	65,057
Meetings and conferences	68,014	21,599
Other program costs	62,165	37,680
Depreciation	<u>30,446</u>	<u>36,006</u>
Total Operating Expenses	<u>36,397,065</u>	<u>34,436,658</u>
Net Operating Income (Loss)	<u>3,446</u>	<u>(65,174)</u>
Change In Net Position	3,446	(65,174)
Net Position, Beginning of Year	<u>810,713</u>	<u>875,887</u>
Net Position, End of Year	<u>\$ 814,159</u>	<u>\$ 810,713</u>

The accompanying notes are an integral part of the financial statements.

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Statements of Cash Flow

For the Years Ended June 30,

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Receipts from grantors	\$ 47,821,668	\$ 39,226,063
Collections of interest income	42,037	35,419
Payments to employees	(2,606,183)	(2,564,424)
Payments of employee benefits	(759,312)	(752,452)
Payments to subrecipients	(31,818,088)	(30,399,742)
Payments to vendors and suppliers	<u>(1,496,368)</u>	<u>(1,620,229)</u>
Net Cash Provided by Operating Activities	<u>11,183,754</u>	<u>3,924,635</u>
Cash Flows from Capital and Related Financing Activities:		
Payments for capital assets	<u>(14,438)</u>	<u>(124,346)</u>
Net Increase in Cash and Equivalents	11,169,316	3,800,289
Cash and Equivalents, Beginning of Year	<u>18,027,510</u>	<u>14,227,221</u>
Cash and Equivalents, End of Year	<u>\$ 29,196,826</u>	<u>\$ 18,027,510</u>
Reconciliation of Change in Net Position to Net Cash		
Provided by Operating Activities:		
Change in net position	\$ <u>3,446</u>	\$ <u>(65,174)</u>
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	30,446	36,006
Changes in assets and liabilities:		
Grants and other receivables	1,715,014	(5,001,732)
Prepaid expenses	(4,966)	612
Accounts payable	(4,967)	1,461,484
Accrued payroll and compensated absences	2,235	(10,503)
Unearned revenue	<u>9,442,546</u>	<u>7,503,942</u>
Net adjustments	<u>11,180,308</u>	<u>3,989,809</u>
Net Cash Provided by Operating Activities	<u>\$ 11,183,754</u>	<u>\$ 3,924,635</u>

The accompanying notes are an integral part of the financial statements.

COMMONWEALTH CORPORATION
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Notes to the Financial Statements

June 30, 2013 and 2012

Note 1 - **Nature of Organization**

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. Commonwealth 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. Commonwealth Corporation is focused on building upward mobility pathways in the work force for youth and adults in concert with state and local partners. The Corporation receives grants that require a matching of funds. The Corporation contracts with subrecipients who are required to fulfill the obligation. Because these costs associated with the match are not borne by the Corporation, they are not reflected in the accompanying financial statements.

The Commonwealth Corporation Foundation (the "Foundation") was created under section 501(c)(3) of the Internal Revenue Code during the year ended June 30, 2011 to support and further the charitable and educational purposes of Commonwealth Corporation. Revenues and expenses of the Foundation for the years ended June 30, 2013 and 2012 were approximately \$150,000 and \$900 and \$33,200 and \$150,000, respectively. The Corporation has deemed the activities of the Foundation, as of and for, the years ended June 30, 2013 and 2012 to be immaterial to these financial statements and accordingly has not included the results of the Foundation's operations in these financial statements.

Note 2 - **Summary of Significant Accounting Policies**

Basis of Presentation and Accounting

The Corporation's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Corporation has determined that it functions as a business-type activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis and basic financial statements.

COMMONWEALTH CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 2 - **Summary of Significant Accounting Policies - Continued**

Cash and Equivalents

Cash and equivalents include all cash on hand and short-term investments with original maturities of three months or less.

Grants and Other Receivables

Grants and other receivables include receivables from state and Federal agencies, as well as advance payments to subrecipients. Advance payments to subrecipients are made under a specific grant that allows the subrecipient to receive an advance payment to fund its program operations. The Corporation charges these advance payments to program expenses as the subrecipient provides evidence of grant expenditure.

Grants and other receivables are presented net of allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience and receivables are charged off when deemed uncollectible. At June 30, 2013 and 2012, management considers all grants and other receivables to be fully collectible.

Capital Assets

The Corporation capitalizes assets with a cost of \$5,000 or greater on the statement of net position. Capital assets are valued at historical cost less accumulated depreciation. Equipment and furniture and fixtures are depreciated on a straight-line basis over their estimated useful lives which range from three to five years. Leasehold improvements are depreciated on a straight-line basis over the remaining lease term. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Compensated Absences

Compensated time off benefit costs for Commonwealth Corporation employees, including vacation, holiday, sick and personal time, aggregated approximately \$433,000 and \$442,000 for the years ended June 30, 2013 and 2012, respectively. These costs are included within the salaries and wages classification on the statement of revenues, expenses and changes in net position.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 2 - **Summary of Significant Accounting Policies - Continued**

Net Position

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

Restricted – expendable: Net position whose use is subject to externally imposed conditions that can be fulfilled by the specific actions of the Corporation or by the passage of time.

Restricted – nonexpendable: Net position subject to externally imposed conditions requiring the Corporation to maintain them in perpetuity.

Unrestricted: All other categories of net position: Unrestricted net position may be designated by the Corporation's Board of Directors.

The Corporation has adopted a policy of generally utilizing restricted - expendable funds, when available, prior to unrestricted funds.

Revenue Recognition

All revenue, except for appropriations from the Commonwealth, is considered to be used for operations and has been classified as operating revenue on the statement of revenues, expenses and changes in net position. Revenue from grants with related constraints imposed by grantors is classified as restricted revenue.

Grant revenue (including state and Federal grants received through the Commonwealth) is earned in compliance with the grant agreement as expenses are incurred. Support and revenue, in the form of unrestricted grants, is recorded when the funds are received. Appropriations from the Commonwealth are recorded when the funds are received. Interest, fees earned, and other income are recognized on an accrual basis when earned. Expenses are recorded when incurred. Unearned revenue consists of grant funds received for which program expenses have not yet been incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 2 - **Summary of Significant Accounting Policies - Continued**

Administrative Expenses

The Corporation's policy is to allocate administrative expenses to all grants subject to specific limitations per the grant agreement. For multiple year grants, expenses incurred in excess of allowable amounts in a given year are reported as a deficit in the grant program. When all requirements of the grant have been fulfilled the excess or deficit in the grant is transferred to unrestricted net position. For the years ended June 30, 2013 and 2012, grant deficits of \$60 and \$22,655, respectively, on completed grant programs were transferred to unrestricted net position.

Indirect Costs

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, defines indirect costs as those costs (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Consistent with OMB Circular A-87, the Corporation's indirect costs are cost categories that are not directly charged to programs but, because of complexity of direct charging, are accumulated in cost pools and allocated to programs according to fair and equitable methodologies. These cost pools include some cost categories that are considered program costs such as occupancy, information technology, and fringe benefits. Administrative costs in indirect costs include accounting, human resources, and payroll.

All of these cost pools are totaled and considered indirect costs.

Income Taxes

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

Fair Value of Financial Instruments

Commonwealth Corporation's financial instruments, none of which are held for trading purposes, include cash and equivalents and grants receivable. Management estimates that the fair value of all financial instruments at June 30, 2013 and 2012 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying financial statements.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 2 - **Summary of Significant Accounting Policies - Continued**

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

New Governmental Accounting Pronouncements

GASB 66, *Technical Corrections - 2012 - an amendment of GASB Statements 10 and 62*, effective for periods beginning after December 15, 2012, resolves conflicts between recently issued and earlier GASB statements as well as modifying guidance related to accounting for certain operating leases. Management is in the process of reviewing this statement and its potential effect upon their financial reporting, but does not expect any material impact.

GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* is required for periods beginning after June 15, 2014. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Management is in the process of reviewing this statement and its potential effect upon their financial reporting, but does not expect any material impact.

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods ending after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this statement and its potential effect upon their financial reporting. It does not expect any material impact.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 2 - **Summary of Significant Accounting Policies - Continued**

New Governmental Accounting Pronouncements

GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, is required for periods beginning after June 15, 2013. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Management does not believe the statement will have a material effect on the financial statements.

Note 3 - **Grants and Other Receivables**

Accounts receivable at June 30, consist of the following:

	<u>2013</u>	<u>2012</u>
State agencies	\$ 3,435,469	\$ 4,463,173
Federal agencies	1,567,974	1,974,476
Advance payments	218,031	511,297
Other	<u>21,312</u>	<u>8,854</u>
	<u>\$ 5,242,786</u>	<u>\$ 6,957,800</u>

Note 4 - **Cash and Equivalents**

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, Commonwealth Corporation would not be able to recover its balance in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). Deposits in banks in excess of the insured amount are uninsured and uncollateralized. Commonwealth Corporation maintains its cash accounts at a financial institution and the Massachusetts Municipal Depository Trust (MMDT). At June 30, 2013 and 2012, the carrying amount of Commonwealth Corporation's total deposits held, net of deposits and disbursements in transit, were approximately \$29,197,000 and \$18,028,000, respectively. MMDT is an instrumentality of the Office of the Treasurer of the Commonwealth and is not a bank, savings institution or financial institution, and therefore not subject to FDIC insurance.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 4 - Cash and Equivalents - Continued

MMDT is an investment vehicle for political sub-divisions of the Commonwealth and was designed as a legal means to invest temporarily available cash in safe, liquid and high-yield investment vehicles by offering participation in a diversified portfolio of high quality money market instruments. The total amount invested with MMDT was approximately \$28,236,000 and \$16,302,000 as of June 30, 2013 and 2012, respectively. Total amounts exposed to custodial risk at June 30, 2013 and 2012 were approximately \$28,596,000 and \$18,253,000, respectively.

Note 5 - Capital Assets

The following schedule presents the changes in capital assets for the year ended June 30, 2013:

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2013</u>
Capital assets, depreciable:				
Equipment	\$ 279,404	\$ 14,438	\$ -	\$ 293,842
Leasehold improvements	151,342	-	-	151,342
Furniture and fixtures	<u>56,855</u>	<u>-</u>	<u>-</u>	<u>56,855</u>
Total	<u>487,601</u>	<u>14,438</u>	<u>-</u>	<u>502,039</u>
Less accumulated depreciation:				
Equipment	221,936	18,904	-	240,840
Leasehold improvements	102,524	5,856	-	108,380
Furniture and fixtures	<u>1,421</u>	<u>5,686</u>	<u>-</u>	<u>7,107</u>
Total accumulated depreciation	<u>325,881</u>	<u>30,446</u>	<u>-</u>	<u>356,327</u>
Capital Assets, Net	\$ <u>161,720</u>	\$ <u>(16,008)</u>	\$ <u>-</u>	\$ <u>145,712</u>

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 5 - Capital Assets - Continued

The following schedule presents the changes in capital assets for the year ended June 30, 2012:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2012</u>
Capital assets, depreciable:				
Equipment	\$ 271,935	\$ 7,469	\$ -	\$ 279,404
Leasehold improvements	91,320	60,022	-	151,342
Furniture and fixtures	<u>-</u>	<u>56,855</u>	<u>-</u>	<u>56,855</u>
Total	<u>363,255</u>	<u>124,346</u>	<u>-</u>	<u>487,601</u>
Less accumulated depreciation:				
Equipment	205,280	16,656	-	221,936
Leasehold improvements	84,596	17,928	-	102,524
Furniture and fixtures	<u>-</u>	<u>1,421</u>	<u>-</u>	<u>1,421</u>
Total accumulated depreciation	<u>289,876</u>	<u>36,005</u>	<u>-</u>	<u>325,881</u>
Capital Assets, Net	<u>\$ 73,379</u>	<u>\$ 88,341</u>	<u>\$ -</u>	<u>\$ 161,720</u>

Note 6 - Lease Commitments

The Corporation leases its main operating facility in Boston under a ten year lease expiring in June 2022. As security for the lease, the Corporation was required to obtain an irrevocable letter of credit currently in the amount of \$106,000. As of the date of this report, there have been no draws against the letter of credit.

The Corporation also maintains a facility in Hadley under a six year lease, expiring in November 2014.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 6 - **Lease Commitments - Continued**

Future minimum lease commitments are as follows:

<u>Years Ended June 30,</u>	<u>Amount</u>
2014	\$ 347,316
2015	341,924
2016	329,258
2017	341,231
2018	341,231
Thereafter	<u>1,436,760</u>
Total	\$ <u>3,137,720</u>

Rent expense for the years ended June 30, 2013 and 2012 was approximately \$276,000 and \$446,000, respectively.

Note 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 date. A minimum contribution of 5.5% 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. These employees do not participate in the Federal social security system. This plan does not permit employee contributions.

Employees hired by one of the Corporation's predecessor entities prior to December 1996 participate in the Federal social security system. In addition to the required employer match of social security, a retirement plan contribution of between 1.3% and 7% of salary is made by the Corporation.

Contributions to the plan in fiscal years 2013 and 2012 totaled approximately \$276,000 and \$272,000, respectively.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Notes to the Financial Statements - Continued

June 30, 2013 and 2012

Note 7 - **Retirement Plans - Continued**

The Corporation also established a Section 457 employee deferred compensation plan, effective December 1, 1997. This is a volunteer 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.

Note 8 - **Risks, Concentrations and Contingencies**

Uncertainty

The Corporation is highly dependent upon contracts and grants received from various Federal and state agencies. It is always possible that legislative actions, in order to offset the effect of declines in Federal and state revenues and tax collections and other potential significant changes in the political environment, may have detrimental effects on contracts with, and grants to, organizations that act as service providers on behalf of the Federal government and the Commonwealth such as the Corporation.

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Combining Schedule of Net Position

June 30, 2013

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Combining Schedule of Net Position

June 30, 2013

	Assets		
	Unrestricted Funds	Restricted Funds	
	General Fund	Grant/ Contract Funds	Total
Current Assets:			
Cash and equivalents	\$ 853,946	\$ 28,342,880	\$ 29,196,826
Grants and other receivables	4,961	5,237,825	5,242,786
Prepaid expenses	28,807	5,067	33,874
Total Current Assets	887,714	33,585,772	34,473,486
Non-Current Assets:			
Capital assets - net	145,712	-	145,712
Other Assets	75,000	-	75,000
Total Non-Current Assets	220,712	-	220,712
Total Assets	\$ 1,108,426	\$ 33,585,772	\$ 34,694,198

Liabilities and Net Position

	Unrestricted Funds	Restricted Funds	
	General Fund	Grant/ Contract Funds	Total
Liabilities:			
Grants and other payables	\$ 21,885	\$ 2,650,510	\$ 2,672,395
Accrued payroll and compensated absences	272,382	-	272,382
Unearned revenue	-	30,935,262	30,935,262
Total Liabilities	294,267	33,585,772	33,880,039
Net Position:			
Unrestricted net position	814,159	-	814,159
Total Liabilities and Net Position	\$ 1,108,426	\$ 33,585,772	\$ 34,694,198

COMMONWEALTH CORPORATION
(a component unit of the Commonwealth of Massachusetts)

Combining Schedule of Revenues, Expenses and Changes in Net Position

June 30, 2013

	<u>Unrestricted Funds</u>		<u>Restricted Funds</u>	<u>Total</u>
	<u>General Fund</u>	<u>Indirect Cost Pool</u>	<u>Grant/Contract Funds</u>	
Operating Revenues:				
Grant revenues	\$ -	\$ -	\$ 36,351,474	\$ 36,351,474
Other income	-	-	7,000	7,000
Interest income	4,110	-	37,927	42,037
Total Operating Revenues	<u>4,110</u>	<u>-</u>	<u>36,396,401</u>	<u>36,400,511</u>
Operating Expenses:				
Subrecipient contracts	-	-	31,509,733	31,509,733
Salaries and wages	-	597,381	2,012,794	2,610,175
Fringe benefits	604	173,011	583,940	757,555
Equipment and facilities	-	478,216	22,649	500,865
Professional services	-	170,959	479,130	650,089
Office costs and supplies	-	33,686	104,683	138,369
Travel	-	2,364	67,290	69,654
Other program costs	-	-	62,165	62,165
Depreciation	-	30,446	-	30,446
Meetings and conferences	-	6,071	61,943	68,014
Indirect operating expense allocation	60	(1,492,134)	1,492,074	-
Total Operating Expenses	<u>664</u>	<u>-</u>	<u>36,396,401</u>	<u>36,397,065</u>
Net Operating Loss	<u>3,446</u>	<u>-</u>	<u>-</u>	<u>3,446</u>
Change in Net Position	3,446	-	-	3,446
Net Position, Beginning of Year	<u>810,713</u>	<u>-</u>	<u>-</u>	<u>810,713</u>
Net Position, End of Year	<u>\$ 814,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 814,159</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors of
Commonwealth Corporation
Boston, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Commonwealth Corporation, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Commonwealth Corporation's basic financial statements, and have issued our report thereon dated October 24, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Commonwealth Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Commonwealth Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Commonwealth Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

25 Braintree Hill Office Park • Suite 102 • Braintree, MA 02184 • P:617.471.1120 • F:617.472.7560

27 Church Street • Winchester, MA 01890 • P:781.729.4949 • F:781.729.5247

www.ocd.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Commonwealth Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

J' Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

October 24, 2013

ATTACHMENT A, APPENDIX 1: FY13 Workforce Training Fund General Program Grants

#	Grantee Name	Award	City	# to be Trained	# of Projected New Jobs (FTE)	Contract Start
1	Accurounds, Inc.	\$ 71,008	Avon	57	6	9/1/2012
2	Accutech Packaging Inc.	\$ 102,220	Foxboro	42	5	1/1/2013
3	Admiral Metals Servicenter Company, Inc.	\$ 55,000	Woburn	26	2	5/29/2013
4	Advanced Microsensors Corporation	\$ 41,625	SHREWSBURY	38	10	6/3/2013
5	AG Salesworks, Inc.	\$ 76,425	NORWOOD	57	12	5/15/2013
6	Armin Innovative Products, Inc. (dba RNR Plastics, Advanced Looseleaf Technologies)	\$ 67,104	DIGHTON	75	12	4/1/2013
7	Artaic Innovative Mosaic	\$ 82,000	Boston	9	4	2/15/2013
8	Athol Savings Bank	\$ 51,535	Athol	86	3	9/1/2012
9	Baril Corporation	\$ 97,200	Haverhill	30	7	3/13/2013
10	Bird Incorporated dba Certainteed Corp.	\$ 115,150	Norwood	90	5	9/17/2012
11	Bixby International Corporation	\$ 86,400	Newburyport	54	6	10/1/2012
12	Boston Centerless, Inc.	\$ 65,400	Woburn	52	8	8/20/2012
13	Boston Technologies, Inc.	\$ 63,980	BOSTON	62	10	1/15/2013
14	Boyd Coatings Research	\$ 128,850	Hudson	90	3	12/4/2012
15	Braden Manufacturing, LLC (Consolidated Fabricators)	\$ 64,415	Auburn	75	12	8/1/2012
16	Bridgewater Savings Bank	\$ 74,640	Raynham	100	3	1/1/2013
17	C.E. Floyd Company, Inc.	\$ 67,200	BEDFORD	29	2	6/17/2013
18	Cambrooke Foods, Inc.	\$ 64,400	Ayer	45	8	2/11/2013
19	Cerebral Palsy of Massachusetts	\$ 80,240	QUINCY	130	6	1/15/2013
20	Clariant Corporation	\$ 36,750	NEEDHAM	26	4	5/13/2013
21	CMJ Management Company, Inc.	\$ 208,992	Boston	275	12	5/23/2013
22	CMT Materials, Inc.	\$ 106,540	Attleboro	35	2	3/1/2013
23	Commerce Insurance Company	\$ 248,700	Webster	565	75	9/15/2012
24	Commodore Builders	\$ 74,640	NEWTON	76	4	9/10/2012
25	Common Crow Natural Health, Inc.	\$ 65,265	GLOUCESTER	36	14	6/1/2013
26	Curtis Industries	\$ 98,350	Worcester	82	9	2/4/2013

ATTACHMENT A, APPENDIX 1: FY13 Workforce Training Fund General Program Grants

#	Grantee Name	Award	City	# to be Trained	# of Projected New Jobs (FTE)	Contract Start
27	Dakin Road Investment, Inc. (dba P&L Machine Company)	\$ 36,000	LITTLETON	18	1	5/13/2013
28	EasCare Ambulance Service, LLC	\$ 61,680	Boston	45	45	1/1/2013
29	E Ink Corporation	\$ 209,685	Cambridge	289	10	1/9/2013
30	Electric Insurance Company	\$ 94,920	Beverly	180	15	9/1/2012
31	Electro Wire, Inc.	\$ 104,415	Leominster	68	10	5/1/2013
32	Enservio, Inc.	\$ 79,707	Needham	209	40	1/7/2013
33	F.W. Webb Company	\$ 95,200	BEDFORD	143	4	3/26/2013
34	Fabrico	\$ 182,400	Oxford	177	20	12/1/2012
35	Five Star Surgical, Inc.	\$ 72,900	New Bedford	35	2	7/1/2012
36	Fourstar Connections Inc.	\$ 71,930	Hudson	21	5	1/2/2013
37	Greater New Bedford Workforce Investment Board	\$ 246,356	New Bedford	72	23	2/15/2013
38	Greater New Bedford Workforce Investment Board	\$ 249,172	New Bedford	74	8	2/15/2013
39	Greenfield Savings Bank MHC	\$ 125,175	GREENFIELD	73	5	10/1/2012
40	Greylock Federal Credit Union	\$ 154,270	Pittsfield	254	1	10/22/2012
41	Harmonic Drive LLC	\$ 102,400	PEABODY	37	0	5/15/2013
42	Imperial Distributors	\$ 183,000	AUBURN	125	12	2/25/2013
43	Integrated Communications & Technologies, Inc.	\$ 76,100	Malden	26	7	1/7/2013
44	Iredale Mineral Cosmetics	\$ 228,400	Great Barrington	79	5	9/15/2012
45	J. Calnan & Associates, Inc.	\$ 74,640	QUINCY	75	6	2/4/2013
46	Janis Research Company, Inc.	\$ 131,470	Wilmington	77	1	11/1/2012
47	Kielb Welding Enterprises, Inc. (dba Advance Welding)	\$ 26,400	WEST SPRINGFIELD	8	1	6/3/2013
48	Massachusetts Credit Union League	\$ 219,213	MARLBROUGH	210	8	4/8/2013
49	Massachusetts Medical Device Industry Council	\$ 118,802	Boston	189	23	12/1/2012

ATTACHMENT A, APPENDIX 1: FY13 Workforce Training Fund General Program Grants

#	Grantee Name	Award	City	# to be Trained	# of Projected New Jobs (FTE)	Contract Start
50	Maugel Architects, Inc.	\$ 73,700	Harvard	18	3	3/15/2013
51	MCS Acquisition LLC	\$ 53,500	West Bridgewater	57	10	8/16/2012
52	Mechanics Cooperative Bank	\$ 69,017	Fall River	56	5	4/1/2013
53	Merida Meridian, Inc.	\$ 62,000	Boston	21	3	4/1/2013
54	National Lumber	\$ 79,250	Mansfield	79	6	1/1/2013
55	Network Engines, Inc.	\$ 103,200	Canton	121	12	7/17/2012
56	New England Natural Bakers, Inc.	\$ 81,395	Greenfield	36	2	6/15/2013
57	NYE Lubricants, Inc.	\$ 145,200	Fairhaven	128	8	1/1/2013
58	NYPRO, Inc.	\$ 150,060	Clinton	134	18	11/1/2012
59	Ocean Edge Resort Limited Partnership	\$ 139,016	Brewster	313	25	2/5/2013
60	OD Tool and Cutter, Inc.	\$ 62,717	Mansfield	20	2	1/1/2013
61	Opped, Inc. (dba Stop & Compare Supermarkets)	\$ 89,548	Lynn	64	13	10/1/2012
62	Optim, LLC	\$ 153,500	Sturbridge	47	20	12/5/2012
63	Pentucket Bank	\$ 96,260	HAVERHILL	95	5	5/15/2013
64	Phia Group, LLC	\$ 152,813	Braintree	79	10	1/1/2013
65	PrimeraDx, Inc.	\$ 55,800	MANSFIELD	37	10	2/25/2013
66	Rand-Whitney Packaging LLC	\$ 73,350	Worcester	42	10	7/10/2012
67	Ranor, Inc.	\$ 73,692	Westminster	140	10	2/21/2013
68	Rogers & Gray Insurance Agency, Inc	\$ 60,750	SOUTH DENNIS	110	6	3/1/2013
69	Rolls Royce Naval Marine	\$ 107,052	Walpole	142	16	10/1/2012
70	Saint-Gobain Ceramics & Plastics	\$ 203,500	Worcester	156	15	4/1/2013
71	Solectria Renewables LLC	\$ 138,300	Lawrence	100	12	10/1/2012
72	South Shore Savings Bank	\$ 67,559	SOUTH WEYMOUTH	117	3	3/1/2013
73	Statspin (dba: Iris Sample Processing)	\$ 57,600	Westwood	38	6	12/1/2012
74	Symmons Industries, Inc.	\$ 199,000	BRAINTREE	200	5	3/18/2013
75	Tegra Medical	\$ 248,400	FRANKLIN	240	15	4/22/2013
76	THG Corporation (dba: The Hope Group, Hope Air Systems, Sorensen Systems)	\$ 97,440	Northborough	75	3	5/1/2013

ATTACHMENT A, APPENDIX 1: FY13 Workforce Training Fund General Program Grants

#	Grantee Name	Award	City	# to be Trained	# of Projected New Jobs (FTE)	Contract Start
77	Traditional Breads, Inc.	\$ 74,880	LYNN	59	3	4/20/2013
78	Trelleborg Sealing Solutions	\$ 57,100	Northborough	101	5	9/15/2012
79	Umicore Technical Materials North America, Inc.	\$ 77,000	Glen Falls	50	3	2/4/2013
80	Uno Foods, Inc.	\$ 67,200	BROCKTON	248	0	6/24/2013
81	US Pack Inc.	\$ 68,800	Leominster	53	2	10/1/2012
82	Ward Process, Inc. (dba American Acoustical Products)	\$ 88,000	HOLLISTON	54	6	6/1/2013
83	Warner Babcock Institute for Green Chemistry	\$ 62,975	Wilmington	33	5	11/13/2012
84	WGI, Inc. (dba Westfield Gage Co.)	\$ 78,625	WESTFIELD	121	6	2/22/2013
TOTAL		\$8,706,463.00		8,110	779	

Commonwealth Corporation

Business Plan for FY2012-FY2014

In 2010, Commonwealth Corporation conducted a strategic planning process to examine its priorities and refine its strategies to meet changing demands in the labor market and shifts in the policy and funding environment. We interviewed key stakeholders, updated labor market and demographic data, analyzed its programs and prepared a three-year revenue projection. Clear themes emerged through this process:

- The labor market continues to concentrate jobs in occupations that require some post-secondary education; we need to continue to strengthen and align education and training with documented demand to prepare Massachusetts workers – emerging, transitional and incumbent - for this highly skilled economy.
- The national and state policy landscape is focusing on closing the achievement gap for youth and strengthening pathways for unemployed and underemployed adults – this is an opportunity for Commonwealth Corporation to contribute its expertise and knowledge as a partner in multiple pathway development and innovative post-secondary models.
- The workforce development field looks to Commonwealth Corporation as a source of labor market information and best practice products that can be applied to enhance resource allocation, program design and service delivery.
- Commonwealth Corporation's identity is not clear and our presence less visible than it should be to advance our mission and priorities. We need to clarify our identity and raise our visibility.
- Commonwealth Corporation is looked to as a grant-maker with a stake in the success of grantees. We need to move grant opportunities to the field more quickly, streamline the cycle of administrative activities and support information sharing and learning across grantees.

The business plan is focused on advancing the mission of Commonwealth Corporation and the primary goals in the mission-critical section:

- Build regional industry training partnerships that serve two purposes: 1) to prepare youth and unemployed workers for jobs in-demand leading to higher rates of employment and 2) to upgrade the skills of underemployed workers to meet specific employer skill demands leading to job retention, upgrades and wage gains.
- Increase the share of youth engaged in education and employment pathways preparing them for post-secondary education and careers.

The business plan outlines activities that will be carried out by Commonwealth Corporation in our unique role as a statewide quasi-public organization that creates and strengthens regional training, education and employment pathways for youth and adults to prepare for jobs in demand occupations, meeting the workforce needs of businesses. Commonwealth Corporation does not provide

direct services to youth, adults or businesses. We advance our mission and goals through grant-making, technical assistance, research & evaluation that informs practice and policy, and the development and dissemination of tools, resources and models that enhance service delivery and performance.

The strategic priorities for FY 12-14 break into four major categories: 1) mission-critical priorities, 2) revenue strategies, 3) identity, branding and publications, and 4) internal operations.

The business plan presents the goals, customers, products and services, actions and benchmarks, staffing and other resource requirements and critical partners necessary to carry out the priority strategies for Commonwealth Corporation.

Section One: Mission-Critical Priorities

<p>Primary Goals</p>	<ul style="list-style-type: none"> • Build regional industry training partnerships that serve two purposes: 1) to prepare youth and unemployed workers for jobs in-demand leading to higher rates of employment and 2) to upgrade the skills of underemployed workers to meet specific employer skill demands leading to job retention, upgrades and wage gains. • Increase the share of youth engaged in both education and employment pathways preparing them for post-secondary education and careers. 	
<p>Primary Customers of Products and Services</p>	<p>Customers</p> <ul style="list-style-type: none"> • Policy and program staff who design and deliver education, training, employment and career advancement services and programs. • HR, organizational development and other professionals who are engaged in workforce development program design and delivery <p>Beneficiaries</p> <ul style="list-style-type: none"> • Disconnected youth (youth not engaged in education or employment activities) or youth at risk of becoming disconnected • Unemployed and underemployed adults • Businesses with “middle skill” occupational demand (middle skills require associate’s degree or less to meet skill demands) 	
<p>Products and Services</p>	<p>Products:</p> <ul style="list-style-type: none"> • Tools for Program Design and Delivery. Examples are: <ul style="list-style-type: none"> ○ Manuals ○ Curricula ○ Training Guides ○ Job Descriptions ○ Assessment/Screening Protocols ○ Middle Skill Pathway Descriptions ○ Community Asset Maps • Research and Evaluation Publications 	<p>Services:</p> <ul style="list-style-type: none"> • Grantmaking in Targeted Career Pathways and Industry Sectors • Technical Assistance. Examples are: <ul style="list-style-type: none"> ○ Program Design ○ Business Impact ○ Partnership Development ○ Employer Engagement ○ Positive Youth Development ○ Incorporating Labor Market Information ○ Sustainability Planning ○ Leadership Development • Fund Development for Statewide and Regional Initiatives <ul style="list-style-type: none"> ○ Grant Writing ○ Convening • Learning Community Development <ul style="list-style-type: none"> ○ Facilitation of Peer Networks

for disconnected youth, provide opportunities for ex-offenders) Responsible: Mission Critical Team, Executive Team												
3. Determine which industries fit criteria (conduct research and analyze data from current and past initiatives) Responsible: Mission Critical Team, Executive Team		❖										
4. Choose industry sectors to work in Responsible: Mission Critical Team, Executive Team		❖										
5. Establish research agenda/plan that is aligned with sectors we have selected to: <ul style="list-style-type: none"> Strengthen knowledge base with targeted industries to support clear understanding of competency and skill requirements Learn about effective models and practices in other states Responsible: Mission Critical Team		❖	❖									
6. Execute research plan Responsible: Mission Critical Team			❖	❖	❖	❖	❖	❖	❖	❖	❖	❖
7. Build and/or strengthen relationships with targeted industries Responsible: Mission Critical Team			❖	❖	❖	❖	❖	❖	❖	❖	❖	❖
8. Analyze current CommCorp funding streams to identify opportunities to integrate with mission critical priorities Responsible: Mission Critical Team, Executive Team		❖										
9. Develop and/or revise sector and youth grantmaking program designs Responsible: Mission Critical Team			❖	❖			❖	❖			❖	❖

Responsible: Susan/Rebekah/Navjeet												
2. Team develops codified process for individual and group TA to ensure consistency and quality that aligns with CC branding		❖	❖									
Responsible: TA Team												
3. Research best practices for delivery of TA			❖									
Responsible: TA Team												
4. Develop a TA Design and Delivery Guide and TA Templates for all staff				❖								
Responsible: TA Team												
5. Manage master calendar for TA events			❖	❖	❖	❖	❖	❖	❖	❖	❖	❖
Responsible: TA Team												
6. Develop process to set up shared TA across divisions				❖								
Responsible: TA Team												
7. Develop an annual TA Implementation Plan that is aligned with chosen industry sectors and pathway work			❖				❖				❖	
Responsible: TA Team												
8. Execute TA Plan				❖	❖	❖		❖	❖	❖		❖
Responsible: TA Team												
9. Research best practices for effective learning communities, and share findings with staff				❖								
Responsible: TA Team												
10. Decide whether to launch another industry-focused learning community, like the existing health care group					❖							

