

COMMONWEALTH OF MASSACHUSETTS
Executive Office of Housing and Economic Development

OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT

Commonwealth Corporation

FISCAL 2015 ANNUAL REPORT

INTRODUCTION

The Commonwealth Corporation Fiscal 2015 Annual Report complies with the requirements of the Office of Performance Management Oversight created by Chapter 240 of the Acts of 2010 – An Act Relative to Economic Development Reorganization. It includes goals set for the year and the performance measurements by which to evaluate goals, programs, and initiatives.

AGENCY OVERVIEW

Commonwealth Corporation

Mission: 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.

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.

Commonwealth Corporation administers the Workforce Training Fund, Workforce Competitiveness Trust Fund, Health Care Workforce Transformation Fund, YouthWorks , is the lead partner in a collaboration to provide education and re-entry services to youth who are clients in the Department of Youth Services and provides technical assistance and capacity building activities for a number of state workforce initiatives. For more information, please refer to www.commcorp.org .

FISCAL YEAR 2015 ANNUAL REPORT

GOALS	STRATEGY	MEASUREMENTS
<p>Build regional industry training partnerships that prepare youth and unemployed workers for jobs in-demand leading to higher rates of employment and upgrade the skills of underemployed workers to meet specific employer skill demands leading to job retention, upgrades and wage gains.</p>	<p>Support regional industry partnerships that build alignment across community colleges, career and technical schools, workforce boards, career centers and businesses within a specific sector in that region (Through the Workforce Competitiveness Trust Fund)</p> <p>Support regional consortia to train incumbent workers within an industry or occupational area (Through the Workforce Training Fund)</p>	<p>825 participants enrolled (as of 6/30/15)</p> <p>726 participants who complete training/% of enrollees (as of 6/30/15); training still in progress</p> <p>559 participants placed into jobs (as of 6/30/15); placement still in progress</p> <p>8 consortium grants awarded involving 85 businesses</p>
<p>Increase the share of youth engaged in education and employment pathways preparing them for post-secondary education and careers.</p>	<p>Design and strengthen work readiness components of subsidized work programs (YouthWorks)</p> <p>Increase and strengthen the capacity of the organizations that are preparing teens for success in work and school to connect to local employers in order to improve the preparation of teens to find and retain a job; to increase access to jobs for teens without a network; to vouch for teens' work skills through an adult with a trusted relationship with local employers</p>	<p>6,179 youth who complete work readiness training</p> <p>6,179 youth who work in subsidized employment</p>
<p>Improve the competitiveness of Massachusetts businesses by investing in the skills of their incumbent</p>	<p>Invest in the skill development of incumbent workers to meet a business goal through the Workforce Training Fund</p>	<p>170 grants awarded to train 13,608 employees in 270 companies</p>

<p>the skill development of incumbent workers to meet a business goal through the Workforce Training Fund workers.</p>		<p>1,651 jobs created for grants that ended in FY 15</p>
<p>Support health care organizations in the implementation of the Health Care Cost Containment Bill (Chapter 224)</p>	<p>Invest in the skill development of incumbent workers to meet business needs of health care organizations (through the Health Care Workforce Transformation Fund)</p> <p>Invest in pipeline programs needed by businesses to implement Ch 224 (through the Health Care Workforce Transformation Fund)</p>	<p>55 training grants awarded;</p> <p>Training started in Qtr 3 FY 15; will report on business impact at the end of the 2-yr grant period</p> <p>For pipeline programs, will report on placements into new jobs</p>

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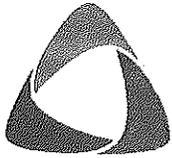
**COMMONWEALTH
CORPORATION**
Building skills for a strong economy.

**GENERAL PURPOSE FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133
JUNE 30, 2015 AND 2014**

COMMONWEALTH CORPORATION

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June 30, 2015 and 2014

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**Unmodified Opinion on General Purpose Financial Statements Accompanied
by Other Information – Governmental Entity**

Independent Auditor's Report

To the Board of Directors of
Commonwealth Corporation:

Report on the General Purpose Financial Statements

We have audited the accompanying general purpose financial statements of Commonwealth Corporation (the Corporation), a component unit of the Commonwealth of Massachusetts, which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the general purpose financial statements.

Management's Responsibility for the General Purpose Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We conducted our audit 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 general purpose financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the general purpose financial statements referred to on page one present fairly, in all material respects, the net position of Commonwealth Corporation as of June 30, 2015, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year General Purpose Financial Statements

The general purpose financial statements of Commonwealth Corporation as of June 30, 2014, were audited by another auditor whose report dated October 23, 2014, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

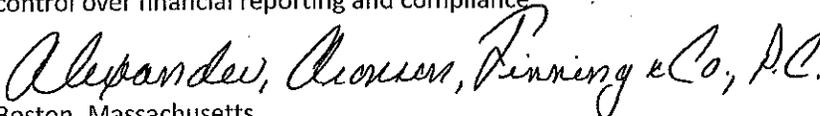
Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 2 through 10 be presented to supplement the basic general purpose financial statements. Such information, although not a part of the basic general purpose financial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

Other Information

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2015, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the general purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the general purpose financial statements or to the general purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the general purpose 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 22, 2015, on our consideration of the 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 the Corporation's internal control over financial reporting and compliance.


Boston, Massachusetts
October 22, 2015

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

Commonwealth Corporation's (the Corporation) financial analysis provides an overview of the Corporation's financial activities for the fiscal year ending June 30, 2015. Please read it in conjunction with the Corporation's general purpose financial statements and related notes, which begin on page 14.

The Corporation as a Whole

The Corporation is a quasi-public agency established by the Commonwealth of Massachusetts (the Commonwealth) and signed into law by the Governor on August 13, 1996. The Corporation is the result of a merger on July 1, 1996, of the former Industrial Services Program and the former Bay State Skills Corporation, quasi-public agencies of the Commonwealth. The Corporation is governed, and its corporate powers exercised, by a Board of Directors whose members are appointed for a fixed term by the Governor of the Commonwealth. The Corporation is a component unit of the Commonwealth and as such, its general purpose financial statements are included in the Commonwealth's general purpose financial statements.

The 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, the Corporation created a nonprofit 501(c)3 organization to secure private sector support and leverage the knowledge base 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.

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

We invest in programs in three primary areas:

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

The Corporation includes two operational divisions: The Sector & Regional Strategies Division with 2015 expenditures of \$26.46 million up from a budget of \$20.62 million and the Youth Pathways Division with 2015 expenditures of \$30.89 million up from a budget of \$29.73 million.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

The Sector & Regional Strategies Division's Major Funds

- The **Workforce Training Fund Program (WTFP)**, which helps Massachusetts businesses address productivity and competitiveness by providing them with resources to upgrade the skills of their employees. The grant program is funded through quarterly assessments on Massachusetts employers' Unemployment Insurance contributions. Assessments accumulate in a trust fund managed by the Department of Unemployment Assistance, to be distributed to businesses in the form of training grants. In 2015, the majority of funds were awarded in 4 programs: (1) General Program: 164 training grants involving 249 businesses. The total amount awarded was \$16.2 million. In total, the businesses plan to train more than 13,000 workers with these funds. (2) Express Program: 302 grant awards to 238 small businesses (100 or fewer employees), seeking a total of \$1.5 million to train more than 2,200 employees. (3) Regional Training Capacity Pilot Program: \$1.84 million in grants to 10 organizations to offer Massachusetts businesses more than 3,000 seats for their employees in a set of pre-approved programs. (4) Hiring Incentive Training Grant: approved 1,037 applications from 401 businesses, seeking a total of \$6,945,000 in incentive payments for hiring and retaining 1,446 eligible new employees. (Note: However, of the total amount requested, the Corporation made \$4.5 million in incentive payments to businesses that had hired and retained 901 eligible new workers).
- The **Workforce Competitiveness Trust Fund (WCTF)**, a fund created to develop programs to meet the skills needed for businesses with high-demand occupations. As a result of this investment, businesses have documented significant improvements in productivity, profitability, increased sales, employee retentions and other measures. WCTF was recapitalized in 2012 with \$5 million. The Corporation was awarded \$4.5 million in grants to 15 organizations to be expended over a period of not more than three years to partners with businesses, to prepare and place unemployed and underemployed workers in positions in demand occupations. One grant closed at the end of fiscal year 2015; the remainder will close by the end of fiscal year 2016.
- The **Health Care Workforce Transformation Fund** provides \$16 million in funding to the Corporation. This fund was designed for the health care industry to train workers to meet required operational changes to comply with health care cost containment and quality improvement objectives articulated in chapter 224. Fifty-two training grants were awarded in 2015; grants are not to exceed two years.
- The **Employment Program for Special Target Populations** adds up to \$3.33 million in funding for grants through 2016. This program is intended to improve the economic status of individuals served by setting them on a path to economic self-sufficiency. Seven grants were provided to organizations to train and place unemployed individuals with disabilities and seven grants were provided to organizations to train and place unemployed homeless individuals. These are performance based grants, with payments divided between enrollment and placement outcomes.

Major Program Areas Within the Youth Pathways Division

- **YouthWorks** represents a \$10 million state budget appropriation in fiscal year 2015 to provide subsidized employment and work-readiness training for low-income teens in more than thirty cities and towns across Massachusetts. The Corporation staff work with workforce boards and their community providers to organize summer and year-round jobs for more than 5,000 youth each year.
- **Signal Success** is a work readiness curriculum developed by the Corporation's Youth Pathways team, aimed at improving long-term employment outcomes for young people. The curriculum is being implemented through the YouthWorks employment program, and is being tested in several public high schools that are focusing on soft-skill development and assessment for career readiness. Youth Pathways' staff provide training and coaching to teachers from partner schools. The curriculum and demonstration programs are funded through grants from The Boston Foundation, Cummings Foundation, Beveridge Family Foundation, and BNY Mellon.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

Major Program Areas Within the Youth Pathways Division (Continued)

- The Corporation partners with the Commonwealth's **Department of Youth Services (DYS)** and the Collaborative for Education Services (CES) to ensure that youth and teens committed to the DYS have access to high-quality education and employability opportunities. Youth Pathways staff helped design core standards that define educational quality in DYS residential programs, and support programs in meeting these standards through assessment and technical assistance. Staff also manage Bridging the Opportunity Gap, an initiative that provides career readiness and vocational programming for DYS youth who have returned to their community. Finally, staff work to integrate the arts into DYS residential and community programming through visual art education, arts engagement, community arts partnerships and an annual youth art showcase.
- The **Safe and Successful Youth Initiative (SSYI)** is a multi-faceted strategy for reducing youth violence in Massachusetts. The Corporation is under contract to the Commonwealth's Executive Office of Health and Human Services to deliver technical assistance to the SSYI communities. Using a public health and public safety approach, the effort helps address gaps in services for young men aged 14 to 24 who have been identified as being 'proven risk' or at the highest risk for being perpetrators of violence. SSYI provides funding to cities to implement a coordinated intervention strategy in partnership with community-based organizations, education, training and workforce development programs that also include street outreach, trauma counseling and case management support.

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 position and the changes in net position. The Corporation's net position; the difference between assets and liabilities, represents one way to measure the 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 statements of Revenues, Expenses, and Changes in Net Position shown within this report (See Page 12), 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 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 their use.
 - **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. The Corporation's four indirect cost pools are Corporate General and Administrative (G&A), Field (sub-contract) G&A, Facilities/ Occupancy and Information Technology.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

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

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

The Statements of Net Position

- ❖ The Statements of Net Position shows comparative financial data from fiscal years 2015 and 2014:
 - Total assets in the amount of \$29.79 million decreased by \$7.33 million from the previous year total of \$37.12 million. An increase in cash and equivalents in the amount of \$4.27 million is offset by a decrease of \$11.61 million in grants, contracts and other receivables.
 - WCTF cash decreased from \$2.23 million to \$860 thousand.
 - WTFP cash increased by \$7.03 million from \$12.45 million to \$19.48 million. This fund received a \$7.02 million recapitalization in February 2015.
 - Total liabilities and net position also decreased by the same \$7.33 million. This decrease in liabilities comes primarily from a decrease in deferred revenue of \$7.78 million.
 - The Net Position balance of \$738,470 represents a \$3,545 increase from 2014.

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

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

➤ Operating Revenues

Fiscal year 2015 shows a continuation of the corporate growth of fiscal year 2014. Annual revenue totaled \$57.35 million up from \$48.48 million compared to last year, an 18% increase. Sub-recipient expenditures exceeded or met budget targets, while administrative expenses came in below target.

The fiscal year 2015 budget forecast totaled \$50.35 million, an increase over the previous year's \$41.36 million budget.

Note on revenue: Any revenue received in advance will be deferred and will not be recognized until an actual expense has occurred. Revenue each year will be recognized as part of a balanced budget, i.e. budget revenue will match budget expenses and actual fiscal year expenses incurred by fund will add up to revenue recognized by fund.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

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

➤ **Operating Expenses**

1. **Sub-recipient contracts** in the amount of \$51.15 million increased by \$8.21 million (19%) as compared to the fiscal year 2014 total of \$42.94 million.

The table below accounts for the variance:

<u>Fund Description</u>	<u>Fund</u>	<u>2015</u>	<u>2014</u>	<u>\$ Variance</u>
Workforce Competitive Trust Fund (WCTF)	123x	\$ 1,646,108	\$ 2,207,708	\$ (561,600)
Workforce Training Fund (WTFP)	13xx	17,020,043	10,230,901	6,789,142
Employment Program for Spec. Target Populations	2070	1,510,938	407,932	1,103,006
Learn at Work - DESE	227x	566,176	733,419	(167,243)
Summer Jobs Program - Youth at Risk	235x	9,705,009	10,663,431	(958,422)
Healthcare Workforce Transformation Fund	3210	2,811,479	1,522,766	1,288,713
DYS Youth State Funds	36xx	17,055,845	16,076,677	979,168
Office of Juvenile Justice (OJJDP)	6006	-	82,543	(82,543)
DYS Youth Federal Funds	66xx	801,582	937,101	(135,519)
Other Funding – Miscellaneous	xxxx	36,183	77,305	(41,122)
		<u>\$ 51,153,363</u>	<u>\$ 42,939,783</u>	<u>\$ 8,213,580</u>

2. **Salaries and wages combined with Fringe benefits** in the aggregate amount of \$4.40 million increased by \$555,500 (14%) as compared to the previous year total of \$3.84 million. A three percent cost of living adjustment, retroactive to July 1, 2014, accounts for approximately a quarter of this amount; the remainder can be attributed to promotions and new staff positions. Salaries and Fringe benefits totaled 7.67% of total annual expenditures compared to 7.92% in 2014.

Fringe benefits in 2015 calculated at 27.75% of salaries compared to 28.01% in 2014; lower medical group insurance and a lower unemployment insurance contribution rate contributed to this cost reduction:

- The Sector Strategies Division increased salaries and fringe by \$265,721. A newly hired Research Director charges to this division; additional staff has been hired to support the Workforce Training Fund Program.
- The Youth Pathways Division increased salaries and fringe by \$198,511. A Director of Development and additional staff members to support the Signal Success Program were added to the payroll.
- Corporate General and Administrative increased salaries and fringe by \$91,043. Finance added one staff member for financial database and general support.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

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

➤ Operating Expenses

3. **Professional services** amounted to \$794,696, an increase of \$118,321 (17.5%) compared to last year's amount of \$676,375.
 - Legal Services in 2015 in the amount of \$5,211 show a reduced cost of \$17,107 compared to the previous year amount of \$22,318. The Corporation incurs legal cost because of the regulatory requirements related to the Corporation's pension plans.
 - IT consulting labor increased by \$22,510 from a total of \$23,355 in the previous year to \$45,865 in fiscal year 2015. The new AccuFund financial database, implemented on July 1, 2014, required third party professional support through the first half of the fiscal year.
 - Professional Services specific to individual programs increased by \$113,561. The Sector Division charged \$92,484 in professional services to the Workforce Training Fund program; \$50,649 of this amount was expended to support the 'English for New Bostonians' program. An additional \$50,816 was expended to support 'The Employment Programs for Special Target Populations Initiative'. The 'Women's Bureau - Paid Leave Analysis Grant' incurred \$35,187 in expenses. The Youth Pathways Division spent \$173,339 on DYS contractually approved professional services.
4. **Equipment and facilities** expenditures in the amount of \$641,813 decreased by \$42,591 as compared to the previous year amount of \$684,404. IT consulting in the amount of \$45,865 was reclassified from equipment and facilities in fiscal year 2014 to Professional Services in fiscal year 2015. Local Area Network and Occupancy expenditures are stable and there are no major fluctuations between the two fiscal years.
5. **Office costs and supplies** decreased by \$15,208 from \$111,354 to \$96,146.
6. **Travel** decreased by \$4,116 from \$106,946 to \$102,830. DYS program related state wide travel accounts for \$66,344 of the fiscal year total.
7. **Other program costs** increased by \$29,018 from \$39,505 to \$68,523. This line item includes Program Supplies and Support Services. This increase can be contributed to stipends given to DYS and Summer Youth students.
8. **Meetings and conferences** increased by \$5,135 from \$52,199 to \$57,334.
9. **Depreciation** increased by \$4,879 from \$36,587 to \$41,466. Capital assets were added in 2015, i.e. a new electrical interface APC unit was installed; a new phone system in the Hadley office and the build out of the 473ft 'studio' adjoining the outside hallway.

➤ Change in Net Position

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 from \$2,927 to \$4,185. On June 30, 2014, the thirty day MMDT yield was 0.18%, and on June 30, 2015, this yield factor was 0.23%.

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

The Statements of Revenues, Expenses and Changes in Net Position (See Page 14) (Continued)

➤ **Net Position, End of Year**

The net position increased from \$734,925 to \$738,470. The table below shows the changes of end of year net position over the last five fiscal years:

2015	\$ 738,470
2014	\$ 734,925
2013	\$ 814,159
2012	\$ 810,713
2011	\$ 875,887

Analysis of Significant Actual to Budget Variances

Managing the corporate budget on a quarterly basis and accounting for the budget variances is essential to the management of direct and indirect expenditures and fund revenues. The table below lists fiscal year 2015 corporate expenditures against budget:

<u>Expenses</u>	<u>Actual Expenses</u>	<u>Annual Budget</u>	<u>\$ Variance</u>	<u>% Variance</u>
Salaries and Fringe Benefits	\$ 4,395,760	\$ 4,488,924	\$ (93,164)	-2.08%
Travel & Other Employee Cost	121,464	144,606	(23,142)	-16.00%
Professional Services	748,879	670,000	78,879	11.77%
Equipment and Facilities	687,729	701,319	(13,590)	-1.94%
Other Direct Costs	244,736	243,297	1,439	0.61%
Sub-Grantee/Contract Cost	<u>51,153,363</u>	<u>44,102,661</u>	<u>7,050,702</u>	15.99%
Total Expenses	<u>\$ 57,351,931</u>	<u>\$ 50,350,808</u>	<u>\$ 7,001,123</u>	13.90%
Total Sub-Contract Expenses	\$ 51,153,363	44,102,661	7,050,702	15.99%
Total Other Expenses	<u>6,198,568</u>	<u>6,248,147</u>	<u>(49,579)</u>	-0.79%
	<u>\$ 57,351,931</u>	<u>\$ 50,350,808</u>	<u>\$ 7,001,123</u>	
Corporate G&A	\$ 1,236,169	\$ 1,257,633	\$ (21,464)	-1.71%
Corp G&A Rate	9.450%	9.740%		-0.29%
Field G&A Rate	1.500%	1.750%		-0.25%
Fringe Benefit Rate	28.015%	29.280%		-1.27%

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

Analysis of Significant Actual to Budget Variances (Continued)

The Corporation budgeted revenue and expenditures for fiscal year 2015 totaling \$50.35 million, while actual expenditures amounted to \$57.35 million, a variance of \$7 million (13.9%).

- This variance can be attributed to **Sub-grantee/Contract expenditures** budgeted at \$44.10 million while actual sub-grantee expenditures amounted to \$51.15 million, which resulted in a favorable variance of \$7.05 million (16.00%). Fully obligated funds, with a life of two or three years, are budgeted each year on forecasted expenditures. When there is a higher rate of spending than forecasted, it indicates a successful implementation of the programs funded.
- **Salaries & Fringe Benefits** totaled \$4.40 million in expenditures as compared to a \$4.49 million budget, a difference of \$93,164 (2.08%). Sector Strategies came in below budget by \$112,757 and Youth Pathways exceeded budget by \$34,380.
- **Travel** totaled \$121,464 in expenditures as compared to a \$144,606 budget, a difference of \$23,142 (16%).
- **Professional Services** in the amount of \$748,879 exceeded the \$670,000 budget by \$78,879 (11.77%).

The Sector Strategies Division lists a variance of \$73,100.
The Youth Pathways Division lists a variance of \$18,539.

- **Equipment & Facilities and Other Direct Costs** variances are negligible and accounted for.
- **Corporate General & Administrative (G&A)** expenses budgeted at \$1,257,633 totaled \$1,236,169, a variance of \$21,464 (1.71%). The applied fiscal year 2015 corporate G&A budget rate was set at 9.74%, with a Field G&A rate of 1.75%. The actual fiscal year 2015 Corporate G&A rate calculated at 9.45%, with a field rate of 1.50%.

Disclosure of Executive Salaries

As required by the Executive Office for Administration and Finance, Commonwealth Corporation lists fiscal year 2015 salaries for the executive staff:

• Chief Executive Officer	\$ 158,445
• SR Vice President Sector and Regional Strategies	\$ 120,200
• Vice President Youth Pathways	\$ 114,736
• Vice President Finance and Administration	\$ 111,743

Current Known Facts, Decisions, and Conditions

Fiscal year 2016 looks like another stable year for Commonwealth Corporation. Funding for the year adds up to fifty million in major programs:

- The **Workforce Training Fund Program (WTFP)** received obligational authority for another \$13.79 million. There is carry-in obligational authority of \$9.95 million which adds up to a total of \$23.74 million. Expenditures are forecasted at \$12 million, this will be lower than 2015 because of the cessation of the Hiring Incentive training Grant (HITG).

COMMONWEALTH CORPORATION

Management's Discussion and Analysis
June 30, 2015 and 2014

Current Known Facts, Decisions, and Conditions (Continued)

- The **Health Care Workforce Transformation Fund** will move into its third year. 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. Expenditures are forecasted at \$6 million.
- The **Workforce Competitiveness Trust Fund** has been recapitalized by the legislature with a \$2 million appropriation.
- For the **YouthWorks Summer Program**, the Legislature appropriated another \$11.5 million for the summer of 2016.
- The **Department of Youth Services**. Fiscal year 2016 will be the third year of a three year contract; the contract includes an option for an additional two years. Level funding is forecasted in the amount of approximately \$19 million.

The supporting corporate infrastructure is in place. The financial database AccuFund implemented in 2015 will be further developed together with the programmatic customer relations management (CRM) database Salesforce. The building lease for the Boston location runs through 2022 and the Hadley office lease expires in 2020. The voice over internet protocol local area network hardware and software is current and up to date.

Contacting Commonwealth Corporation's Financial Management

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

COMMONWEALTH CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

	2015		2014	
	Unrestricted	Restricted Grant and Contract Fund	Unrestricted	Restricted Grant and Contract Fund
Operating Revenues:				
Grants and contracts	\$ -	\$ 57,301,087	\$ -	\$ 48,423,923
Interest income	4,185	43,492	2,927	41,772
Other income	-	6,712	-	14,557
Total operating revenues	4,185	57,351,291	2,927	48,480,252
Operating Expenses:				
Salaries and wages	750,556	2,690,293	682,180	2,317,904
Fringe benefits	206,829	748,082	183,793	656,383
Professional services	215,605	579,091	220,930	455,445
Equipment and facilities	546,844	94,969	568,692	115,712
Travel	2,191	100,639	1,405	105,541
Office costs and supplies	56,333	39,813	45,976	65,378
Other program costs	-	68,523	-	39,505
Meetings and conferences	4,051	53,283	3,025	49,174
Depreciation	41,466	-	36,587	-
Indirect operating expense allocation	(1,823,235)	1,823,235	(1,735,427)	1,735,427
Total operating expenses before subrecipient contracts	640	6,197,928	7,161	5,540,469
Subrecipient contracts	-	51,153,363	-	42,939,783
Total operating expenses	640	57,351,291	7,161	48,480,252
Changes in net position from operations	3,545	-	(4,234)	(4,234)
Non-Operating Expenses:				
Loss on impairment of asset	-	-	(75,000)	(75,000)
Changes in net position	3,545	-	(79,234)	(79,234)
Net Position:				
Beginning of year	734,925	-	814,159	-
End of year	\$ 738,470	\$ -	\$ 734,925	\$ -

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

COMMONWEALTH CORPORATION

Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Receipts from grantors	\$ 61,130,764	\$ 31,358,747
Collections of interest and other income	54,389	44,699
Payments to employees	(3,420,050)	(2,971,844)
Payments of employee benefits	(938,374)	(843,969)
Payments to subrecipients	(51,005,763)	(38,049,625)
Payments to vendors and suppliers	<u>(1,502,056)</u>	<u>(1,602,825)</u>
Net cash provided by (used in) operating activities	4,318,910	(12,064,817)
Cash Flows from Investing Activities:		
Payments for capital assets	<u>(47,087)</u>	<u>(74,997)</u>
Net Change in Cash and Cash Equivalents	4,271,823	(12,139,814)
Cash and Cash Equivalents:		
Beginning of year	<u>17,057,012</u>	<u>29,196,826</u>
End of year	<u>\$ 21,328,835</u>	<u>\$ 17,057,012</u>
Reconciliation of Changes in Net Position to Net Cash Provided By (Used In) Operating Activities:		
Changes in net position	\$ 3,545	\$ (79,234)
Adjustments to reconcile changes in net position to net cash provided by (used in) operating activities:		
Depreciation	41,466	36,587
Loss on impairment of asset	-	75,000
Changes in operating assets and liabilities:		
Grants, contracts and other receivables	11,614,385	(14,502,015)
Prepaid expenses and other	(5,895)	16,728
Grants and other payables	387,565	3,476,583
Accrued contract expenses	103,592	1,349,064
Accrued payroll and other	(41,040)	24,447
Deferred revenue	<u>(7,784,708)</u>	<u>(2,461,977)</u>
Net cash provided by (used in) operating activities	<u>\$ 4,318,910</u>	<u>\$ (12,064,817)</u>

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

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2015 and 2014

1. OPERATIONS AND NONPROFIT STATUS

Operations

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

The Commonwealth Corporation Foundation (the Foundation) was created during the year ended June 30, 2011, to support and further the charitable and educational purposes of the Corporation. Revenues and expenses of the Foundation for the years ended June 30, 2015 and 2014, were approximately \$216,000 and \$339,000 and \$151,000 and \$114,000, respectively. Though the Foundation is considered a component unit of the Corporation, the Corporation has deemed the financial statements of the Foundation to be immaterial to these general purpose financial statements, and accordingly, has not included them in these general purpose financial statements.

Nonprofit Status

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - GASB Standards

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

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

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Fair Value Measurements

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

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

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

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

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

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

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking, money market and savings accounts.

Included in cash and cash equivalents, the Corporation holds investments in the Massachusetts Municipal Depository Trust (MMDT) in the amount of \$20,426,457 and \$14,844,162 at June 30, 2015 and 2014, respectively. MMDT is an investment program, founded in 1977 under the supervision of the State Treasurer of the Commonwealth, in which municipalities may pool excess cash for investment. MMDT was established to provide professionally managed investment funds to meet the investment needs of the Commonwealth and its political subdivisions. The Corporation invests in MMDT's Cash Portfolio and Short-Term Bond Fund and these investments are considered to be cash and cash equivalents.

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

The table below represents funds held by MMDT. The MMDT - cash portfolio is managed independently and the Corporation cannot influence how investments are allocated among the categories disclosed as follows as of June 30:

<u>Securities With an Effective Maturity of:</u>	<u>Percentage of Total Net Position</u>	
	<u>2015</u>	<u>2014</u>
1 - 30 Days	54.1%	53.5%
31 - 90 Days	31.0	27.7
91 - 180 Days	11.5	11.7
181 - Days or more	3.4	7.1
Total	<u>100.0%</u>	<u>100.0%</u>

Classification of Net Position

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

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

Invested in capital assets - This classification is used to account for all capital assets purchased by the Corporation and used in operations. Depreciation is provided in amounts sufficient to allocate costs to operations over the estimated useful lives of the underlying assets, using the straight-line method.

Revenue Recognition

Grant and contract revenue (including state and Federal grants received through the Commonwealth) is earned in compliance with grant agreements as expenses are incurred. Revenues from grants and contributions are recorded when received or unconditionally committed. Substantially all grants have constraints imposed by grantors and are accordingly classified as restricted revenue. Interest and other income are recognized on an accrual basis when earned. Deferred revenue consists of grant funds received for which program expenses have not yet been incurred.

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

The Corporation receives grants that require a matching of funds and contracts with subrecipients who are required to fulfill this obligation. Because these costs associated with the match are not borne by the Corporation, they are not reflected in the accompanying general purpose financial statements.

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2015 and 2014

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants, Contracts and Accounts Receivable

Grants, contracts 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 reclassifies these advance payments to program expenses as the subrecipient provides evidence of grant expenditure.

Capital Assets

Capital assets consist of office equipment, furniture and fixtures, and leasehold improvements, which are depreciated on the straight-line method over the lesser of their estimated useful lives of three to five years or the life of the lease (see Note 4).

Indirect Operating Expenses

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 based on actual time worked and historical cost trends. These indirect cost pools include occupancy, information technology, and fringe benefits as well as administrative costs. Indirect operating expenses totaled \$1,823,235 and \$1,735,427 for the years ended June 30, 2015 and 2014, respectively.

Subsequent Events

Subsequent events have been evaluated through October 22, 2015, which is the date the general purpose financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the general purpose financial statements.

3. GRANTS, CONTRACTS AND OTHER RECEIVABLES

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

	<u>2015</u>	<u>2014</u>
State agencies	\$ 7,142,312	\$ 18,416,648
Net advance payments	958,207	621,271
Other	145,638	142,386
Federal agencies	<u>-</u>	<u>680,237</u>
	<u>\$ 8,246,157</u>	<u>\$ 19,860,542</u>

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2015 and 2014

4. CAPITAL ASSETS

The following schedule presents the changes in capital assets for the year ended June 30, 2015:

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2015</u>
Capital assets, depreciable:				
Equipment	\$ 359,099	\$ 24,967	\$ -	\$ 384,066
Leasehold improvements	161,082	22,120	-	183,202
Furniture and fixtures	<u>56,855</u>	<u>-</u>	<u>-</u>	<u>56,855</u>
Total	<u>577,036</u>	<u>47,087</u>	<u>-</u>	<u>624,123</u>
Less - accumulated depreciation:				
Equipment	265,740	26,461	-	292,201
Leasehold improvements	114,382	9,320	-	123,702
Furniture and fixtures	<u>12,792</u>	<u>5,685</u>	<u>-</u>	<u>18,477</u>
Total accumulated depreciation	<u>392,914</u>	<u>41,466</u>	<u>-</u>	<u>434,380</u>
Capital assets, net	<u>\$ 184,122</u>	<u>\$ 5,621</u>	<u>\$ -</u>	<u>\$ 189,743</u>

The following schedule presents the changes in capital assets for the year ended June 30, 2014:

	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2014</u>
Capital assets, depreciable:				
Equipment	\$ 284,102	\$ 74,997	\$ -	\$ 359,099
Leasehold improvements	161,082	-	-	161,082
Furniture and fixtures	<u>56,855</u>	<u>-</u>	<u>-</u>	<u>56,855</u>
Total	<u>502,039</u>	<u>74,997</u>	<u>-</u>	<u>577,036</u>
Less - accumulated depreciation:				
Equipment	240,840	24,900	-	265,740
Leasehold improvements	108,380	6,002	-	114,382
Furniture and fixtures	<u>7,107</u>	<u>5,685</u>	<u>-</u>	<u>12,792</u>
Total accumulated depreciation	<u>356,327</u>	<u>36,587</u>	<u>-</u>	<u>392,914</u>
Capital assets, net	<u>\$ 145,712</u>	<u>\$ 38,410</u>	<u>\$ -</u>	<u>\$ 184,122</u>

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2015 and 2014

5. COMMITMENTS

Facility and Equipment Leases

The Corporation leases space under various operating leases expiring through June 2022. The terms of these lease agreements are from seven to ten years. Aggregate monthly rent ranges from \$31,048 to \$33,631. As security for a lease, the Corporation was required to obtain an irrevocable letter of credit currently in the amount of \$106,000. As of June 30, 2015 and 2014, there were no draws against the letter of credit. Rent expense under the facility leases was approximately \$387,000 and \$359,000 for the years ended June 30, 2015 and 2014, respectively, which is included in equipment and facilities in the accompanying statements of revenues, expenses and changes in net position. The Corporation also leases equipment under an agreement expiring in November 2019, with monthly payments of \$2,947.

Future minimum lease payments under these agreements are as follows:

	<u>Facility</u>	<u>Equipment</u>
2016	\$ 374,412	\$ 35,364
2017	387,600	35,364
2018	388,827	35,364
2019	402,040	35,364
2020	403,293	14,735
Thereafter	<u>779,738</u>	<u>-</u>
Total	<u>\$ 2,735,910</u>	<u>\$ 156,191</u>

6. 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 7.5% of salary plus an optional amount, subject to the Board of Directors approval, of up to 5.7% is made for employees hired after December 31, 1996. These employees do not participate in the Federal social security system. This plan does not permit employee contributions.

Employees hired by of one 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 of 6.2%, a retirement plan contribution of 1.3% of salary is made by the Corporation.

Contributions to the plan in fiscal years 2015 and 2014 totaled approximately \$416,000 and \$316,000, respectively.

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.

COMMONWEALTH CORPORATION

Notes to General Purpose Financial Statements
June 30, 2015 and 2014

7. CONCENTRATION OF CREDIT RISK

The Corporation maintains its cash and cash equivalents balances in a bank in Massachusetts and MMDT (see pages 15 and 16) and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times, cash balances exceeded the insured amounts. As of June 30, 2015 and 2014, the Corporation's exposure for uninsured funds was approximately \$20,700,000 and \$16,800,000, respectively. The Corporation has not experienced any losses in such accounts and management believes the credit risk related to the Corporation's cash and cash equivalents is not significant.

8. RECLASSIFICATION

Certain amounts in the fiscal year 2014 general purpose financial statements have been reclassified to conform with the fiscal year 2015 presentation.

COMMONWEALTH CORPORATION

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Education:</u>				
Passed-Through Commonwealth of Massachusetts, Department of Youth Services:				
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	14 140163016	\$ 784,915	\$ 771,642
<u>U.S. Department of Labor:</u>				
Passed-Through Commonwealth of Massachusetts, Division of Career Services:				
WIA Cluster:				
WIA/WIOA Adult Program	17.258	07COMMCORPWIA	235,661	-
WIA/WIOA Dislocated Worker Formula Grants	17.278	07COMMCORPWIA	466,482	-
Total WIA Cluster			702,143	-
WIA/WIOA Pilots, Demonstrations, and Research Projects	17.261	15COMMCORPLAG	51,095	-
Direct Program:				
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	N/A	140,133	-
<u>U.S. Department of Justice:</u>				
Direct Program:				
Second Chance Act Reentry Initiative	16.812	N/A	47,084	5,287
Total Expenditures of Federal Awards			\$ 1,725,370	\$ 776,929

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of General Purpose Financial Statements Performed in Accordance
With Government Auditing Standards**

Independent Auditor's Report

To the Board of Directors of
Commonwealth Corporation:

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 general purpose financial statements of Commonwealth Corporation (the Corporation), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the general purpose financial statements, and have issued our report thereon dated October 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the general purpose financial statements, we considered the 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 opinion on the general purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Corporation's general purpose 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's general purpose 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander, Acorn, Pinning & Co., P.C.

Boston, Massachusetts
October 22, 2015



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**Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

To the Board of Directors of
Commonwealth Corporation:

Report on Compliance for Each Major Federal Program

We have audited Commonwealth Corporation's (the Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major Federal programs for the year ended June 30, 2015. The Corporation's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Alexander, Brown, Pinning & Co., P.C.

Boston, Massachusetts
October 22, 2015

Commonwealth Corporation

Schedule of Findings and Questioned Costs
June 30, 2015

1. SUMMARY OF AUDITOR'S RESULTS

General Purpose Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to general purpose financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No

Identification of major programs:

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Title I State Agency Program for Neglected and Delinquent Children and Youth Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	84.013 17.282

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.

Auditee qualified as low-risk auditee? Yes No

2. GENERAL PURPOSE FINANCIAL STATEMENT FINDINGS

None

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None