



AND AFFILIATE

**COMBINED BASIC FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

COMMONWEALTH CORPORATION AND AFFILIATE

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June 30, 2023 and 2022

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Independent Auditor's Report

To the Boards of Directors of
Commonwealth Corporation and Affiliate:

Opinion

We have audited the combined basic financial statements of the business-type activities of Commonwealth Corporation, a component unit of the Commonwealth of Massachusetts, and its blended component unit of Commonwealth Corporation Foundation (a Massachusetts corporation, not for profit) (collectively, the Agency) as of and for the years then ended June 30, 2023 and 2022, and the related notes to the combined basic financial statements, which collectively comprise the Agency's combined basic financial statements as listed in the table of contents.

In our opinion, the accompanying combined basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Commonwealth Corporation and its blended component unit of Commonwealth Corporation Foundation as of June 30, 2023 and 2022, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the combined basic financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the combined basic financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined basic financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined basic financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined basic financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined basic financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 2 through 9 be presented to supplement the combined basic financial statements. Such information, although not a part of the combined 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 combined 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 combined basic financial statements, and other knowledge we obtained during our audit of the combined 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.



Westborough, Massachusetts
October 19, 2023

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2023 and 2022

This Management's Discussion and Analysis provides an overview of the Commonwealth Corporation (the Corporation) and Affiliate's (collectively, the Agency) financial activities for the fiscal year ended June 30, 2023. Please read it in conjunction with the Agency's combined basic financial statements and related footnotes, which begin on page 10.

Description of Major Programs by Division

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

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

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

The Corporation invests in programs in three primary areas:

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

Commonwealth Corporation Foundation:

- The Corporation maintains control of the Commonwealth Corporation Foundation (the Foundation). The Foundation, a Massachusetts corporation, was created to support and further the charitable and educational purposes of the Corporation. The Foundation is included in the audited combined basic financial statements presented in this report. For the first time since its inception in 2011, the Foundation was awarded a conditional grant of \$1 million from the Strada Education Network. Installments of \$100,000 and \$56,000 were collected during the years ended June 30, 2023 and 2022, respectively. The revenue recognized from this conditional grant is \$206,047 and \$181,575 for the years ended June 30, 2023 and 2022, respectively. As stipulated in the grant agreement the funds are due back to the funder if satisfactory and timely performance of grant activities are not met, accordingly \$113,147 and \$219,194 are presented as advance on conditional grant in the accompanying combined statements of net position as of June 30, 2023 and 2022, respectively. During fiscal year 2021, the Foundation was the recipient of an unrestricted grant for \$1,393,437 from the IKEA US Community Foundation.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2023 and 2022

Description of Major Programs (Continued)

The following major programs are being administered:

- **The Workforce Training Fund Program (WTFP)**, which helps Massachusetts businesses address productivity and competitiveness by providing them with resources to upgrade the skills of their employees. The grant program is funded through quarterly assessments on Massachusetts unemployment insurance contributions. Assessments accumulate in a trust fund to be distributed to businesses in the form of training grants. In fiscal year 2023, funds were awarded in two programs: (1) General Program - 147 training grants involving 192 businesses. The total amount awarded was \$19.5 million. These businesses plan to train 11,085 workers with these funds. (2) Express Program - 2,808 training grants involving 1,477 small businesses, for a total of \$19.6 million to train more than 19,255 employees.
- **The Workforce Competitiveness Trust Fund (WCTF)/Learn to Earn (LTE)** is a fund created to develop programs to meet the skill needs of businesses with high-demand occupations. The purpose of the fund is to support the development and implementation of employer and worker-responsive programs to enhance worker skills, incomes, productivity, and retention and to increase the quality and competitiveness of Massachusetts firms. WCTF programs serve men and women across the Commonwealth whose life experiences and circumstances make it difficult for them to succeed in employment without targeted support. They include individuals who are underemployed and rely on aid from public benefits to support their families, individuals who have been disconnected from the workforce for a long period, and people who have not been able to complete school. Others do not speak English as their first language, have health problems or struggle with substance addiction. LTE programs utilize the WCTF model to prepare individuals who are receiving public benefits for jobs in high-demand occupations, while helping individuals navigate cliff effects. This is part of a strategic initiative of various state agencies working together to understand cliff effects and make changes to smooth the cliff to incentivize work. American Rescue Plan Act (ARPA) funds will be supporting grant making for this program in the next few years.
- **Career Technical Initiative (CTI)** is a program designed to address the persistent demand for skilled workers in the construction/trades and manufacturing sector. The goal is to transform vocational high schools into Career Technical Institutes, running three shifts per day to expand enrollment of high school students and adults. The Corporation manages grant funding provided to the vocational schools to provide adult training programs. ARPA funds will be supporting grant making for this program.
- **YouthWorks** is a youth at risk program that represents a \$24 million state budget appropriation to provide subsidized employment and work-readiness training for low-income teens in more than thirty cities and towns across Massachusetts. The Corporation's staff works with workforce boards, career centers and their community providers to organize and structure summer and year-round employment, and work-based learning and career pathway skills training opportunities for more than 5,000 youth each year.
- **Signal Success** is a work readiness and career exploration curriculum developed by staff on the Youth Pathways team and is aimed at improving long-term employment outcomes for young people. The curriculum is being implemented in community-based programs participating in the YouthWorks program and also to a growing list of non-YouthWorks partners accessing customized curriculum as part of the fee-for-service portfolio. Contracts, excluding YouthWorks and WIOA funding, totaled \$58,709 and \$59,500 for the years ended June 30, 2023 and 2022, respectively.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2023 and 2022

Description of Major Programs by Division (Continued)

- The Corporation is under contract to deliver workforce transition services to all youth who are in custody of the Commonwealth's **Department of Youth Services (DYS)**. The work helps ensure that youth and teens committed to DYS have access to high-quality education and employability opportunities. Youth Pathways staff helped design core standards that define educational quality in DYS' residential programs, and support programs in meeting these standards through assessment and technical assistance.
- **The Safe and Successful Youth Initiative (SSYI)** is a multi-faceted effort led by the Executive Office of Health and Human Services (EOHHS) to reduce youth violence in Massachusetts. The program seeks to engage young men and women aged seventeen to twenty-four who have been identified by local law enforcement as 'proven risk', or at the highest risk for being perpetrators and/or victims of violence. EOHHS provides funding to fourteen cities to implement a coordinated intervention strategy that includes identification of potential participants by law enforcement, constant outreach and in-reach to incarcerated individuals, trauma counseling, and case management support as well as education, employability and transitional employment services. The Corporation is under contract to provide program management and deliver technical assistance to the fourteen SSYI communities. Our staff works to ensure that state monies are spent according to budget, local partners are providing evidence-based services, provide professional development, and that supports each community in collecting and reporting data that document services and outcomes.
- **Demonstration Workforce Development Re-Entry Program (Re-Entry Program)** is a sector strategy-focused initiative. The purpose of this program is to support the development and implementation of employer and worker-responsive programs to enhance worker skills, incomes, productivity, and retention and to increase the quality and competitiveness of Massachusetts companies. Re-Entry programs serve men and women across the Commonwealth who are returning to the community from incarceration. The program participants are individuals who have been in the community no more than six months post-incarceration and need intensive supports so they can successfully gain skills and meaningful industry-focused employment.

The Combined Statements of Net Position (Page 10)

The combined statements of net position show comparative financial data from June 30, 2023 and 2022, and include all assets and liabilities of the Agency, as a whole. Additionally, these statements report total net position and the changes in net position.

- **Total Assets** in the amount of \$96.2 million increased by \$34.6 million from the previous year total of \$61.6 million:
 - Cash and cash equivalents in the amount of \$82.2 million increased by \$69.9 million from last year's \$12.3 million.
 - Cash for operations is deposited in a bank account and includes non-interest-bearing checking accounts and an interest-bearing operations/sweep account.
 - The Agency has substantial cash balances as a result of contract advances.
 - Due from (to) funds of \$905,000 represents a net receivable from cost reimbursement contracts against cash received from other contracts.
 - Grants, contracts, and other receivables in the amount of \$11.1 million decreased by \$35 million from last year's \$46.1 million.
 - Capital assets, net consist largely of office and computer equipment, increased by approximately \$48,000 due to increase in software.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2023 and 2022

The Combined Statements of Net Position (Page 10) (Continued)

- **Total Liabilities and Net Position** increased by \$33.4 million.
 - Grants and other payables decreased by approximately \$10.4 million from approximately \$16.7 million as of June 30, 2022, to approximately \$6.3 million as of June 30, 2023.
 - Deferred revenue totaled \$76.2 million; an increase of \$63.6 million compared to \$12.6 million last year and consists of cash received on contracts in advance of expenditures.
 - There was a decrease in advance on conditional grant of approximately \$106,000 from approximately \$219,000 as of June 30, 2022, to approximately \$113,000 as of June 30, 2023.
 - The Net Position balance of approximately \$1.8 million represents an approximate decrease of \$462,000 from last year's balance of approximately \$2.3 million.

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

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

- **Unrestricted Funds:** This fund group is unrestricted in nature, and the related assets have no external restrictions imposed upon their use.
 - **General Fund:** This component accounts for unrestricted financial activity that is not specific to other funds.
 - **Indirect Cost Pools:** This component includes costs that are not identifiable with a particular cost objective but are necessary to the general operation of the Agency. The Agency's four indirect cost pools are Corporate General and Administrative (G&A); Field (Subrecipient contracts) G&A; Facilities/Occupancy and Information Technology.
- **Restricted Grants and Contract Funds:** This fund group includes resources that are to be expended for specified purposes as determined by grantor agreements, contractual terms and conditions, and donor/foundation requirements. The vast majority of funds received by the Agency is restricted by nature.

Operating Revenues and Expenses

Fiscal year 2023 shows a \$13.9 million increase in revenue and a \$14.6 million increase in expenditures from fiscal year 2022. Annual revenue and expenditures totaled \$103.4 million and \$103.9 million, respectively, for the year ended June 30, 2023.

- **Operating Revenues**
 - There are two ways revenue is billed for and received (1) expenditures have been incurred and billing takes place on a cost reimbursement basis or (2) no expenditures have been incurred yet and billing takes place on an advance basis. Any grants and contracts revenue received in advance will be deferred and will not be recognized until an actual expense has occurred. Revenue each year will be recognized as part of a balanced budget (i.e. budget revenue will match budget expenses and actual fiscal year expenses incurred by the fund will match total revenue recognized by the fund).
 - Interest income totaled approximately \$534,000. Interest earned on assets is distributed on a prorated cash balance basis.

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2023 and 2022

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

Operating Revenues and Expenses (Continued)

- Operating Expenses
 - Salaries and wages in the amount of \$6.8 million increased by approximately \$1.3 million as compared to last year's total of \$5.5 million. This increase is partly due to new positions added during the year and promotions.
 - Payroll taxes and fringe benefits increased by approximately \$333,000 relative to the positions filled during the year.
 - Other program costs of approximately \$176,000 include program supplies, stipends and program start-up costs.
 - Subrecipient contracts in the amount of \$89.8 million increased by \$13.2 million as compared to last year's total of \$76.6 million.
 - Meetings, conference and travel were higher by a combined approximately \$67,000 due to COVID social distancing restrictions continuing to being relaxed.

The table below compares current and last year subrecipient expenditures:

Fund Description	2023	2022	Change
Workforce Training Fund Program	\$ 26,018,190	\$ 19,061,290	\$ 6,956,900
Summer Jobs Program - Youth at Risk	22,121,286	14,648,142	7,473,144
HireNow - ARPA	21,731,000	23,269,000	(1,538,000)
Other ARPA Funded Programs	6,977,615	3,842,665	3,134,950
Workforce Competitiveness Trust Fund	4,450,914	5,836,673	(1,385,759)
Career Technical Initiative	3,251,111	112,362	3,138,749
Delivery System Reform Incentive Payment	1,589,228	491,051	1,098,177
Department of Youth Services Youth State Funds	1,136,132	1,150,270	(14,138)
Demonstration Workforce Development Program	1,068,693	3,248,702	(2,180,009)
Miscellaneous	966,394	1,696,381	(729,987)
Youth with Disabilities	514,807	138,743	376,064
Rapid Reemployment Program	-	1,175,601	(1,175,601)
High School Senior Education Internship Program	-	1,103,706	(1,103,706)
Healthcare Workforce Transformation Fund	-	833,303	(833,303)
	<u>\$ 89,825,370</u>	<u>\$ 76,607,889</u>	<u>\$ 13,217,481</u>

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2023 and 2022

Analysis of Significant Actual to Budget Variances

Managing the corporate budget and accounting for actual to budget variances allows for timely measurement of fiscal performance against annual corporate expense and revenue forecasts; quarterly reviews allow for corrective action if required. The table below lists fiscal year 2023 corporate expenditures against the 2023 fiscal year budget:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenues:			
Grants and contracts	\$ 102,742,644	\$ 106,166,381	\$ (3,423,737)
Interest income and other	672,717	-	672,717
Total operating revenues	<u>103,415,361</u>	<u>106,166,381</u>	<u>(2,751,020)</u>
Operating Expenses:			
Salaries and wages	6,753,698	8,002,541	(1,248,843)
Professional services	3,878,292	4,536,012	(657,720)
Payroll taxes and fringe benefits	1,763,900	2,205,126	(441,226)
Equipment and facilities	939,462	1,278,836	(339,374)
Office costs and supplies	323,628	526,027	(202,399)
Other program costs	175,605	184,806	(9,201)
Meetings and conferences	81,918	27,162	54,756
Bad debt	60,214	-	60,214
Travel	45,577	70,299	(24,722)
Depreciation	<u>29,392</u>	<u>-</u>	<u>29,392</u>
Operating expenses before contracts	14,051,686	16,830,809	(2,779,123)
Sub-recipient contracts	<u>89,825,370</u>	<u>89,335,572</u>	<u>489,798</u>
Total operating expenses	<u>103,877,056</u>	<u>106,166,381</u>	<u>(2,289,325)</u>
Changes in net position	<u>\$ (461,695)</u>	<u>\$ -</u>	<u>\$ (461,695)</u>

The Agency's total operating revenue and expenses for fiscal year 2023 were lower than budget by approximately \$2.8 million and \$2.3 million, respectively.

Operating expenses before subrecipient contracts were under budget by approximately \$2.8 million and subrecipient expenditures were above budget by approximately \$490,000.

- Salaries and wages were below budget by 16%, as there were issues with hiring during fiscal year 2023. Salaries and wages account for the second largest corporate expense and it is closely managed against budget. Salaries and wages from the last five years compared to operating expenses before subrecipient contracts and total operating expenses:

	<u>Salaries</u>	<u>Expenses Before Contracts</u>	<u>%</u>	<u>Total Corporate</u>	<u>%</u>
2023	\$ 6,753,698	\$ 14,051,686	48.06%	\$ 103,877,056	6.50%
2022	\$ 5,503,511	\$ 12,706,626	43.31%	\$ 89,314,515	6.16%
2021	\$ 4,059,661	\$ 7,142,562	56.84%	\$ 59,988,068	6.77%
2020	\$ 3,940,845	\$ 6,978,948	56.47%	\$ 51,714,338	7.62%
2019	\$ 3,561,986	\$ 6,434,453	55.36%	\$ 50,042,387	7.12%

COMMONWEALTH CORPORATION AND AFFILIATE

Management's Discussion and Analysis
June 30, 2023 and 2022

Analysis of Significant Actual to Budget Variances (Continued)

- Fiscal year 2023 executive staff salaries:
 - Chief Executive Officer/President \$ 194,142
 - Senior Vice President Programming \$ 136,119
 - Vice President of Research \$ 129,919
 - Vice President of Sector \$ 19,571
- Payroll taxes and fringe benefits in the amount of approximately \$1.8 million were lower than the approximate \$2.2 million budget total by approximately \$441,000. Costs in health insurance remained similar to the prior year.
- Professional services were lower than budget by approximately \$658,000.
- Sub-recipient contracts with a budget of \$89.3 million and with sub-recipient expenditures in the amount of \$89.8 million were above budget by approximately \$490,000.

Current Known Facts, Decisions, and Conditions

The Agency's position within the realms of workforce development, youth empowerment, and economic progress remains steadfast and impactful. The Agency has consistently demonstrated an effective approach to service delivery and performance, yielding impactful results. As we navigate the challenges posed by the ongoing pandemic and its ramifications on unemployment rates, the horizon holds significant prospects for both our initiatives and programs. The persistent skills gap encountered by businesses in Massachusetts serves as another arena for the Agency's influence and intervention.

Guided by a clear trajectory, the Agency's primary objective for the forthcoming two years (based on the Strategic Plan 2022-2025) centers on broadening the reach of adult education and employment training. This strategic thrust seeks to empower an increased number of unemployed and underemployed job seekers across the Commonwealth, equipping them for success within high-demand occupational pathways. Simultaneously, this endeavor aligns with the crucial need for a skilled and dependable workforce, indispensable for businesses to thrive. Notably, this expansion incorporates the innovative piloting of programs tailored to address the needs of specific demographics such as individuals with languages other than English as their primary tongue, and diverse communities, including BIPOC (Black, Indigenous, and other People of Color) individuals. Additionally, our focus extends to key sectors like Healthcare and Advanced Manufacturing, etc., reinforcing the agency's adaptability and relevance.

The urgency to address the upskilling requirements of unemployed individuals, especially those at entry-level positions, has never been more pronounced in the wake of the pandemic. To this end, Governor Maura Healey has signed the fiscal year 2024 state budget which includes approximately \$60 million for education and workforce development programs in proven, existing models. The focus will be on occupations currently grappling with in-demand needs and those projected to have significant hiring gaps, spanning sectors such as healthcare, advanced manufacturing, green energy, and regional development. The Agency stands poised to collaborate closely with the Workforce Skills Cabinet and the Executive Office of Labor and Workforce Development (EOLWD) to ensure the amplification of this impact, with special attention to historically underserved communities.

An evident increase in state funding for WCTF (Workforce Competitiveness Trust Fund) and CTI (Career Technical Initiative) programs has been a noteworthy development. Anticipating further increases, particularly with the allocation of American Rescue Plan Act (ARPA) funds, the Agency has continued commitment to, while substantial, necessitates a reevaluation of partnerships and collaboration strategies. An agile approach is indispensable to swiftly scale up and ensure the efficient distribution of these funds to optimize workforce impact. This juncture serves as an opportune time to leverage and strengthen our existing partnerships, fostering an environment of collective efficacy.

COMMONWEALTH CORPORATION AND AFFILIATE

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

The Agency has embarked on a strategic path with the introduction of a three-year plan. Launched early in the third quarter of fiscal year 2022, this blueprint charts a course for the Agency as a preeminent leader in workforce development. It also strategically positions the agency to accommodate the anticipated surge in funding from ARPA and state resources. This comprehensive plan will focus on the following core areas:

- **Integration of Diversity, Equity, and Inclusion:** A central pillar of our plan involves embedding principles of diversity, equity, and inclusion into every facet of our programs, services, and organizational structures. This imperative is deeply rooted in collaboration with the community, affirming our shared vision of fostering upward economic mobility for all. The realization of this vision necessitates the collective efforts of our dedicated staff, supportive partners, committed board members, and the communities we serve.
- **Infrastructure Enhancement and Accessibility and Equity Advancement:** A resolute drive towards enhanced infrastructure, cyber security, heightened productivity, and unwavering access and equity mandates a strategic reduction of inefficiencies and the elimination of barriers. Realizing this aim necessitates organizational focus and a dedicated capital investment over the next two years. This enhancement underscores our commitment to surmounting challenges and ensuring equitable access to our programs and services.

The Agency's resolute commitment to advancing workforce development, fostering inclusivity, and enhancing efficiency propels us forward. Through strategic initiatives, innovative partnerships, and an unyielding commitment to our constituents, we strive to shape a brighter future for Massachusetts' workforce and economy.

Contacting the Agency's Financial Management

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

COMMONWEALTH CORPORATION AND AFFILIATE

Combined Statements of Net Position
June 30, 2023 and 2022

Assets	2023			2022		
	Unrestricted	Restricted Grant and Contract Fund	Total	Unrestricted	Restricted Grant and Contract Fund	Total
Current Assets:						
Cash and cash equivalents	\$ 1,418,669	\$ 80,776,143	\$ 82,194,812	\$ 1,621,726	\$ 10,710,400	\$ 12,332,126
Grants, contracts and other receivables	18,260	11,088,756	11,107,016	1,439	46,140,344	46,141,783
Due from (to) funds	905,123	(905,123)	-	1,070,101	(1,070,101)	-
Prepaid expenses and other	93,863	-	93,863	136,461	-	136,461
Total current assets	2,435,915	90,959,776	93,395,691	2,829,727	55,780,643	58,610,370
Right-to-Use Assets, net	2,613,616	-	2,613,616	2,777,741	-	2,777,741
Capital Assets, net	239,389	-	239,389	191,561	-	191,561
Total assets	<u>\$ 5,288,920</u>	<u>\$ 90,959,776</u>	<u>\$ 96,248,696</u>	<u>\$ 5,799,029</u>	<u>\$ 55,780,643</u>	<u>\$ 61,579,672</u>
Liabilities and Net Position						
Current Liabilities:						
Current portion of lease liability	\$ 231,045	\$ -	\$ 231,045	\$ 189,583	\$ -	\$ 189,583
Grants and other payables	98,250	6,190,605	6,288,855	272,689	16,439,982	16,712,671
Accrued contract expenses	-	8,398,023	8,398,023	-	26,479,724	26,479,724
Accrued payroll and other	692,152	64,397	756,549	508,158	3,310	511,468
Advance on conditional grant	113,147	-	113,147	219,194	-	219,194
Deferred revenue	-	76,238,451	76,238,451	-	12,577,124	12,577,124
Total current liabilities	1,134,594	90,891,476	92,026,070	1,189,624	55,500,140	56,689,764
Lease Liability, net of current portion	2,382,571	-	2,382,571	2,588,158	-	2,588,158
Total liabilities	<u>3,517,165</u>	<u>90,891,476</u>	<u>94,408,641</u>	<u>3,777,782</u>	<u>55,500,140</u>	<u>59,277,922</u>
Net Position:						
Unrestricted net position	1,532,366	-	1,532,366	1,829,686	-	1,829,686
Restricted net position	-	68,300	68,300	-	280,503	280,503
Invested in capital assets	239,389	-	239,389	191,561	-	191,561
Total net position	<u>1,771,755</u>	<u>68,300</u>	<u>1,840,055</u>	<u>2,021,247</u>	<u>280,503</u>	<u>2,301,750</u>
Total liabilities and net position	<u>\$ 5,288,920</u>	<u>\$ 90,959,776</u>	<u>\$ 96,248,696</u>	<u>\$ 5,799,029</u>	<u>\$ 55,780,643</u>	<u>\$ 61,579,672</u>

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

COMMONWEALTH CORPORATION AND AFFILIATE

Combined Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2023 and 2022

	2023			2022		
	Unrestricted	Restricted Grant and Contract Fund	Total	Unrestricted	Restricted Grant and Contract Fund	Total
Operating Revenues:						
Grants and contracts	\$ 206,047	\$ 102,536,597	\$ 102,742,644	\$ 181,575	\$ 89,249,889	\$ 89,431,464
Interest income	104,753	429,514	534,267	9,353	36,970	46,323
Other income	-	138,450	138,450	-	-	-
Net assets released from restriction	212,203	(212,203)	-	24,496	(24,496)	-
Total operating revenues	523,003	102,892,358	103,415,361	215,424	89,262,363	89,477,787
Operating Expenses:						
Salaries and wages	1,702,738	5,050,960	6,753,698	1,262,826	4,240,685	5,503,511
Professional services	814,310	3,063,982	3,878,292	283,169	4,051,887	4,335,056
Payroll taxes and fringe benefits	333,249	1,430,651	1,763,900	273,653	1,157,385	1,431,038
Equipment and facilities	772,258	167,204	939,462	795,093	160,194	955,287
Office costs and supplies	228,226	95,402	323,628	206,477	15,104	221,581
Other program costs	-	175,605	175,605	4,002	160,625	164,627
Meetings and conferences	15,886	66,032	81,918	2,522	30,333	32,855
Bad debt	60,214	-	60,214	-	16,175	16,175
Travel	7,756	37,821	45,577	6,770	20,726	27,496
Depreciation	29,392	-	29,392	19,000	-	19,000
Indirect operating expense allocation	(3,715,581)	3,715,581	-	(2,781,927)	2,781,927	-
Total operating expenses before subrecipient contracts	248,448	13,803,238	14,051,686	71,585	12,635,041	12,706,626
Subrecipient contracts	524,047	89,301,323	89,825,370	206,071	76,401,818	76,607,889
Total operating expenses	772,495	103,104,561	103,877,056	277,656	89,036,859	89,314,515
Changes in net position	(249,492)	(212,203)	(461,695)	(62,232)	225,504	163,272
Net Position:						
Beginning of year	2,021,247	280,503	2,301,750	2,083,479	54,999	2,138,478
End of year	\$ 1,771,755	\$ 68,300	\$ 1,840,055	\$ 2,021,247	\$ 280,503	\$ 2,301,750

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

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COMMONWEALTH CORPORATION AND AFFILIATE

Combined Statements of Cash Flows For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Receipts from contracting agencies and grantors	\$ 201,272,477	\$ 47,161,286
Collections of interest and other income	672,717	46,323
Payments to employees	(6,761,703)	(5,340,556)
Payments of payroll taxes and employee benefits	(1,664,675)	(1,415,600)
Payments to subrecipients	(118,156,448)	(45,353,545)
Payments to vendors and suppliers	(5,422,462)	(5,622,796)
	<u>69,939,906</u>	<u>(10,524,888)</u>
Net cash provided by (used in) operating activities	69,939,906	(10,524,888)
Cash Flows from Investing Activities:		
Acquisition of capital assets	(77,220)	(170,048)
	<u>(77,220)</u>	<u>(170,048)</u>
Net Change in Cash and Cash Equivalents	69,862,686	(10,694,936)
Cash and Cash Equivalents:		
Beginning of year	12,332,126	23,027,062
	<u>12,332,126</u>	<u>23,027,062</u>
End of year	\$ 82,194,812	\$ 12,332,126
	<u>\$ 82,194,812</u>	<u>\$ 12,332,126</u>
Reconciliation of Changes in Net Position to Net Cash		
Provided by (Used in) Operating Activities:		
Changes in net position	\$ (461,695)	\$ 163,272
Adjustments to reconcile changes in net position to net cash provided by (used in) operating activities:		
Depreciation	29,392	19,000
Bad debt	60,214	16,175
Changes in operating assets and liabilities:		
Grants, contracts and other receivables	34,974,553	(33,971,934)
Prepaid expenses and other	42,598	(112,760)
Grants and other payables	(10,423,816)	5,984,879
Accrued contract expenses	(18,081,701)	25,496,514
Accrued payroll and other	245,081	178,210
Advance on conditional grant	(106,047)	(125,575)
Deferred revenue	63,661,327	(8,172,669)
	<u>63,661,327</u>	<u>(8,172,669)</u>
Net cash provided by (used in) operating activities	\$ 69,939,906	\$ (10,524,888)
	<u>\$ 69,939,906</u>	<u>\$ (10,524,888)</u>

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

1. OPERATIONS AND NONPROFIT STATUS

Operations

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

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

Nonprofit Status

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - GASB Standards

The accompanying combined basic financial statements were prepared on the accrual basis of accounting. Because the Corporation is a quasi-public organization, its accounting policies and financial statement presentation are governed by standards issued by the Governmental Accounting Standards Board (GASB). The Corporation follows GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 34 outlines 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 proprietary business-type financial statements. In applying the GASB provisions, organizations like the Corporation can use standards applicable to proprietary fund accounting and need not follow the provisions of governmental fund accounting.

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

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

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Combination

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

Cash and Cash Equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents consist of checking, money market, and savings accounts, and other highly liquid investment instruments issued with maturities of ninety days or less, including amounts held in the Massachusetts Municipal Depository Trust (MMDT) cash portfolio (see below and Note 3).

The MMDT cash portfolio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement 31 (GASB 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The MMDT cash portfolio adheres to GASB Statement 79 (GASB 79), *Certain External Investment Pools and Pool Participants*, which amends GASB 31 and establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. Under the amortized cost valuation method, an investment is valued initially at its cost and thereafter adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost of the investment and the amount payable at its maturity.

Grants, Contracts and Other Receivables

Grants, contracts and other receivables (see Note 4) include revenue amounts due from state and Federal agencies (see page 15), as well as advance payments to subrecipients. Advance payments to subrecipients (see page 15) are made under specific grant awards that allow the subrecipients to receive advance payments to fund program operations. The Agency reclassifies these advance payments to operating expenses as the subrecipient provides evidence of grant expenditures applicable to the advance.

Capital Assets

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

Net Position

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

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

Restricted net position - Represent resources that are to be expended for specified purposes as determined by grantor agreements, contractual terms and conditions, and donor requirements. The vast majority of funds received by the Agency is restricted by nature.

Invested in capital assets - Account for net equity related to capital assets purchased by the Agency and used in operations.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

The Foundation must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barriers or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. The Foundation should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met. See Note 9 for disclosure of the Foundation's conditional grant at June 30, 2023 and 2022.

Subrecipient Contracts

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

Indirect Operating Expenses

The Agency's indirect costs are cost categories that are not directly charged to programs. These costs are accumulated in cost pools and allocated to programs based on actual time worked and historical cost trends. These indirect cost pools are included in unrestricted operating expenses and include occupancy, information technology, and fringe benefits as well as administrative costs. Indirect operating expenses totaled \$3,715,581 and \$2,781,927 for the years ended June 30, 2023 and 2022, respectively.

Leases

The Agency accounts for any lease (see Note 6) with a term greater than one year in accordance with GASB Statement No. 87, Leases. The lease term is defined as the noncancellable period of any lease, plus any options to extend under such leases, when management is reasonably certain those options will be exercised. Accordingly, the net present value of the estimated future minimum payments is reflected as right-to-use assets and lease liability for the Agency. The right-to-use asset - facility lease will be recognized on a straight-line basis over the lesser of the life of the assets or the remaining lease periods, or ten years. The right-to-use asset - equipment lease will be recognized on a straight-line basis over the lesser of the life of the assets or the remaining lease periods, or five years.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Right-to-Use Assets

Changes in right-to-use assets are as follows for the years ended June 30:

	<u>Balance June 30, 2022</u>	<u>2023 Additions</u>	<u>Balance June 30, 2023</u>
Right-to-use assets	\$ 2,777,741	\$ 47,321	\$ 2,825,062
Less - accumulated amortization	<u>-</u>	<u>(211,446)</u>	<u>(211,446)</u>
Right-to-use assets, net	<u>\$ 2,777,741</u>	<u>\$ (164,125)</u>	<u>\$ 2,613,616</u>
	<u>Balance June 30, 2021</u>	<u>2022 Additions</u>	<u>Balance June 30, 2022</u>
Right-to-use assets	\$ -	\$ 2,777,741	\$ 2,777,741
Less - accumulated amortization	<u>-</u>	<u>-</u>	<u>-</u>
Right-to-use assets, net	<u>\$ -</u>	<u>\$ 2,777,741</u>	<u>\$ 2,777,741</u>

Fair Value Measurements

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

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

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

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

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

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

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

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Subsequent Events

Subsequent events have been evaluated through October 19, 2023, which is the date the combined basic financial statements were available to be issued. There were no events that met the criteria for disclosure.

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS

The Agency holds investments in the Massachusetts Municipal Depository Trust's (MMDT) cash portfolio (see Note 2) in the amount of \$14,286,761 and \$7,014,453 at June 30, 2023 and 2022, respectively. MMDT is an investment program, founded in 1977 under the supervision of the State Treasurer of the Commonwealth, in which municipalities may pool excess cash for investment. MMDT was established to provide professionally managed investment funds to meet the investment needs of the Commonwealth and its political subdivisions.

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

<u>Securities With an Effective Maturity of:</u>	<u>Percentage of Total Net Position</u>	
	<u>2023</u>	<u>2022</u>
1 - 30 Days	77.3%	72.7%
31 - 90 Days	10.3	21.2
91 - 180 Days	8.4	3.6
181 - Days or more	<u>4.0</u>	<u>2.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The MMDT cash portfolio may only invest in securities rated in the highest rating category (if rated) or evaluated by the portfolio's investment adviser to be of equivalent credit quality (if unrated) and bank deposits meeting the portfolio credit quality requirements of GASB 79 (see Note 2). Investments that were permissible at the time acquired may continue to be held to the extent consistent with GASB 79.

Securities rated in the highest short-term rating category (and unrated securities of comparable quality) are identified as First Tier securities. Securities rated in the second highest short-term rating category (and unrated securities of comparable quality) are identified as Second Tier securities. The MMDT cash portfolio follows applicable regulations in determining whether a security is rated and whether a security rated by multiple nationally recognized statistical rating organizations in different rating categories should be identified as a First or Second Tier security.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

3. MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST INVESTMENTS (Continued)

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

	Cash Portfolio Quality Diversification	
	First Tier	Second Tier
2023	100.0%	- %
2022	100.0%	- %

4. GRANTS, CONTRACTS AND OTHER RECEIVABLES

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

	2023	2022
State agencies	\$ 8,000,105	\$ 42,556,485
Net advance payments	3,049,132	3,448,467
Other	<u>57,779</u>	<u>136,831</u>
	<u>\$ 11,107,016</u>	<u>\$ 46,141,783</u>

5. CAPITAL ASSETS

The following schedule presents the changes in capital assets for the year ended June 30, 2023:

	Balance at July 1, 2022	2023 Additions	2023 Disposals	Balance at June 30, 2023
Capital assets, depreciable:				
Equipment	\$ 217,908	\$ 66,284	\$ 138,366	\$ 145,826
Leasehold improvements	158,798	2,000	82,142	78,656
Furniture and fixtures	<u>150,247</u>	<u>8,936</u>	<u>56,855</u>	<u>102,328</u>
Total	<u>526,953</u>	<u>77,220</u>	<u>277,363</u>	<u>326,810</u>
Less - accumulated depreciation:				
Equipment	196,395	11,297	138,366	69,326
Leasehold improvements	82,142	7,866	82,142	7,866
Furniture and fixtures	<u>56,855</u>	<u>10,229</u>	<u>56,855</u>	<u>10,229</u>
Total accumulated depreciation	<u>335,392</u>	<u>29,392</u>	<u>277,363</u>	<u>87,421</u>
Capital assets, net	<u>\$ 191,561</u>	<u>\$ 47,828</u>	<u>\$ -</u>	<u>\$ 239,389</u>

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

5. CAPITAL ASSETS

The following schedule presents the changes in capital assets for the year ended June 30, 2022:

	Balance at July 1, 2021	2022 Additions	2022 Disposals	Balance at June 30, 2022
Capital assets, depreciable:				
Equipment	\$ 217,908	\$ -	\$ -	\$ 217,908
Leasehold improvements	82,142	76,656	-	158,798
Furniture and fixtures	56,855	93,392	-	150,247
Total	356,905	170,048	-	526,953
Less - accumulated depreciation:				
Equipment	186,344	10,051	-	196,395
Leasehold improvements	77,457	4,685	-	82,142
Furniture and fixtures	52,591	4,264	-	56,855
Total accumulated depreciation	316,392	19,000	-	335,392
Capital assets, net	\$ 40,513	\$ 151,048	\$ -	\$ 191,561

6. LEASES

Facility Leases

The Agency leased office space under an operating lease which expired in June 2022. As security for the lease, the Agency was required to obtain an irrevocable letter of credit in the amount of \$106,000. As of June 30, 2022, there were no draws against the letter of credit. Rent expense under the facility leases was approximately \$456,000 for the year ended June 30, 2022, which is included in equipment and facilities in the accompanying 2022 combined statement of revenues, expenses and changes in net position.

In December 2021, the Agency entered into a new ten-year facility lease effective July 1, 2022, which runs through June 30, 2032. Monthly lease payments range from \$25,087 to \$30,731. The Agency recognized a lease liability of \$2,777,741 and a right-to-use asset facility lease of \$2,777,741 when the lease was signed and began amortizing the lease upon commencement in fiscal year 2023. During fiscal year 2023, the Agency recognized amortization of \$207,121 which is included in equipment and facilities in the accompanying 2023 combined statement of revenues, expenses and changes in net position. Amortization of the right-to-use asset for the facility is expected to be approximately \$278,000 through fiscal year 2032. The Agency made rental payments of \$301,040 during the year ended June 30, 2023.

Equipment Lease

The Agency entered into a five-year equipment lease effective January 1, 2023, which runs through December 31, 2027. Monthly lease payments are \$870. Upon commencement of the lease, the Agency recognized a lease liability of \$47,321 and a right-to-use asset of \$47,321. During fiscal year 2023, the Agency recognized amortization of \$4,325 which is included in equipment and facilities in the accompanying combined statements of revenues, expenses and changes in net position. Amortization of the right-to-use asset for the equipment is expected to be approximately \$9,500 through fiscal year 2027 and approximately \$4,700 in fiscal year 2028. The Agency made rental payments of \$5,220 during the year ended June 30, 2023.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

6. LEASES (Continued)

Future Minimum Payments

Future minimum payments under these lease obligations are as follows for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 231,045	\$ 87,961	\$ 319,006
2025	\$ 246,950	\$ 79,582	\$ 326,532
2026	\$ 263,422	\$ 70,636	\$ 334,058
2027	\$ 280,482	\$ 61,102	\$ 341,584
2028	\$ 292,888	\$ 51,002	\$ 343,890
2029 - 2032	\$ 1,298,829	\$ 93,763	\$ 1,392,592

7. RETIREMENT PLANS

Under the terms of the Agency's Section 401(a) retirement plan, adopted in December 1997, contributions are made on behalf of employees based on their employment dates. These employees do not participate in the Federal Social Security System. A minimum contribution of 7.5% of salary plus an optional amount, subject to the Board of Directors' approval, of up to 5.7% is made for employees hired after December 31, 1996. Employees hired prior to December 31, 1996, are not eligible for this plan. During fiscal years 2023 and 2022, the Agency made contributions of 13.2%. This plan does not permit employee contributions.

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

Contributions to the plan in fiscal years 2023 and 2022 totaled approximately \$780,000 and \$641,000, respectively, and are included in payroll taxes and fringe benefits in the accompanying combined statements of revenues, expenses and changes in net position.

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

8. CONCENTRATIONS AND CONTINGENCIES

Cash

The Agency maintains certain cash and cash equivalents balances in a bank in Massachusetts and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times, cash balances exceeded the insured amounts. In addition, cash and cash equivalents invested in MMDT (see Note 3) are not FDIC insured. As of June 30, 2023 and 2022, the Agency's exposure for uninsured funds was approximately \$81,945,000 and \$12,082,000, respectively. The Agency has not experienced any losses in such accounts and management believes the credit risk related to the Agency's cash and cash equivalents is not significant.

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

8. CONCENTRATIONS AND CONTINGENCIES (Continued)

Revenue and Accounts Receivable

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

9. CONDITIONAL GRANT

During fiscal year 2019, the Foundation was awarded a \$1,014,000 conditional grant, payable in thirteen installments of various amounts through December 2021 and is dependent on the satisfactory and timely performance of the grant activities as specified by the funder. Installments totaling \$100,000 and \$56,000 were collected during the years ended June 30, 2023 and 2022, respectively. The Foundation earned \$206,047 and \$181,575 during the years ended June 30, 2023 and 2022, respectively, which are included in grants and contracts in the accompanying combined statements of revenues, expenses and changes in net position. As stipulated in the grant agreement, the funds are due back to the funder if satisfactory and timely performance of grant activities are not met, accordingly, \$113,147 and \$219,194 are presented as advance on conditional grant in the accompanying combined statements of net position as of June 30, 2023 and 2022, respectively.

10. COMMONWEALTH CORPORATION FOUNDATION

As of and for the years ended June 30, 2023 and 2022, the Foundation had the following activity:

	<u>2023</u>	<u>2022</u>
Assets:		
Cash and cash equivalents	<u>\$ 1,486,969</u>	<u>\$ 1,902,229</u>
Liabilities:		
Due to the Corporation	\$ 34,076	\$ 19,664
Advance on conditional grant	<u>113,147</u>	<u>219,194</u>
Total liabilities	<u>\$ 147,223</u>	<u>\$ 238,858</u>
Net Position:		
Unrestricted net position	\$ 1,271,446	\$ 1,382,868
Restricted net position	<u>68,300</u>	<u>280,503</u>
Total net position	<u>\$ 1,339,746</u>	<u>\$ 1,663,371</u>
	<u>2023</u>	<u>2022</u>
Operating Revenues	\$ 206,047	\$ 431,575
Operating Expenses	<u>529,672</u>	<u>206,580</u>
Changes in net position	<u>\$ (323,625)</u>	<u>\$ 224,995</u>

COMMONWEALTH CORPORATION AND AFFILIATE

Notes to Combined Basic Financial Statements
June 30, 2023 and 2022

11. RELATED PARTY TRANSACTIONS

During fiscal years 2023 and 2022, the Foundation made grants of \$524,047 and \$206,071, respectively, to the Corporation. The amount has been eliminated from both grants and contracts and subrecipient contracts in the accompanying combined statements of revenues, expenses and changes in net position.

The Corporation pays certain operating expenses on behalf of the Foundation. As of June 30, 2023 and 2022, the Foundation owes the Corporation \$34,076 and \$19,664, respectively, which has been eliminated in the accompanying combined statements of net position.

During fiscal year 2022, a Board member was appointed interim Chief Financial Advisor (CFA). The Board member was compensated \$308,400 and \$30,000 for his services for the years ended June 30, 2023 and 2022, respectively.