

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION

***(A COMPONENT UNIT OF LOWER PIONEER VALLEY
EDUCATIONAL COLLABORATIVE)***

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 and 2014

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION
(A Component Unit of Lower Pioneer Valley Educational Collaborative)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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Independent Auditor's Report

To the Honorable Board of Directors
Lower Pioneer Valley Educational Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Lower Pioneer Valley Educational Corporation (Corporation) (a nonprofit corporation) which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of June 30, 2015 and 2014, and the respective changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Powers & Sullivan LLC

November 18, 2015

Financial Statements

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 and 2014

	2015	2014
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 631	\$ 586
Investments.....	1,572,916	1,504,963
Receivables, net of allowance for uncollectibles:		
Net investment in direct finance leases receivable.....	64,819	60,978
Due from Lower Pioneer Valley Educational Collaborative.....	152,529	303
	1,790,895	1,566,830
NONCURRENT:		
Net investment in direct finance leases receivable.....	-	64,819
Capital assets, net of accumulated depreciation:		
Nondepreciable.....	2,100,088	2,100,088
Depreciable.....	13,526,343	13,857,945
	15,626,431	16,022,852
TOTAL ASSETS.....	\$ 17,417,326	\$ 17,589,682
LIABILITIES		
CURRENT:		
Warrants payable.....	\$ 21,927	\$ 5,375
Accrued interest.....	8,517	10,181
Bonds and notes payable.....	708,201	707,397
	738,645	722,953
NONCURRENT:		
Bonds and notes payable.....	10,433,270	11,141,471
TOTAL LIABILITIES.....	11,171,915	11,864,424
NET ASSETS		
Unrestricted.....	6,245,411	5,725,258
TOTAL LIABILITIES AND NET ASSETS.....	\$ 17,417,326	\$ 17,589,682

See notes to financial statements.

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION
STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014

<u>UNRESTRICTED NET ASSETS</u>	2015	2014
REVENUE		
Rental income.....	\$ 1,144,180	\$ 1,171,000
Reimbursements.....	242,696	306,901
Lease finance interest.....	7,925	11,539
Interest income.....	657	508
Other income.....	-	75
	1,395,458	1,490,023
EXPENSES		
Depreciation.....	574,225	562,000
Interest.....	290,465	320,095
Reimbursable expenses and improvements.....	73	129,610
Legal and accounting.....	10,542	13,124
Other expenses.....	-	75
	875,305	1,024,904
NET CHANGE IN NET ASSETS.....	520,153	465,119
NET ASSETS AT BEGINNING OF YEAR.....	5,725,258	5,260,139
NET ASSETS AT END OF YEAR.....	\$ 6,245,411	\$ 5,725,258

See notes to financial statements.

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets.....	\$ 520,153	\$ 465,119
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation.....	574,225	562,000
Decrease (Increase) in accounts receivable.....	(3,841)	(3,614)
Decrease (Increase) in due from Lower Pioneer Valley Educational Collaborative...	(152,226)	9,423
(Decrease) Increase in accounts payable.....	16,552	846
(Decrease) Increase in accrued interest.....	(1,664)	(1,250)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	953,199	1,032,524
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from direct financing leases.....	64,819	60,977
Principal payments on bonds and notes.....	(707,397)	(702,604)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES.....	(642,578)	(641,627)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of capital assets.....	(242,623)	(177,371)
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	67,998	213,526
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	1,505,549	1,292,023
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 1,573,547	\$ 1,505,549
<u>SUPPLEMENTAL CASH FLOW INFORMATION</u>		
Cash paid for interest.....	\$ 290,465	\$ 320,095

See notes to financial statements.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESNature of Activities

Lower Pioneer Valley Educational Corporation (the Corporation) was organized in 1981 and is composed of representatives from the seven member school systems of the Lower Pioneer Valley Educational Collaborative (the “Collaborative”). The current purpose of the Corporation is to hold title to real estate and other assets to be used for educational purposes by the Collaborative and the member school districts. The Corporation is governed by a seven person Board of Directors who are independent from the Collaborative.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Corporation’s policy is to prepare its financial statements in accordance with the Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) NO. 117, *Financial Statements for Not-for-Profit Organizations (FASB ASC 958-205)*, on an accrual basis of accounting which recognizes revenue when earned rather than when received and records expenses when incurred rather than when paid. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities based on three classes of net assets as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions or limits as to their use.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations or limitations as to their use that may or will be met either by actions of the Corporation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets satisfied from program restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations in which only the earnings can be used to fund various programs.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Corporation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Revenues

For the years ending June 30, 2015 and 2014, the Corporation received 100% of its revenues from the Lower Pioneer Valley Educational Collaborative.

Estimates

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

Accounts Receivable

The Corporation has receivable balances due from the Lower Pioneer Valley Educational Collaborative. The Corporation considers invoices older than 30 days to be delinquent. Interest is not charged on past due accounts.

Management reviews the receivable balance for collectability and records an allowance for doubtful accounts based on historical information and current economic trends. No allowance for doubtful accounts was recorded at June 30, 2015 or 2014 as management believes all accounts are fully collectible.

Property and Equipment

Property and equipment with a useful life greater than one year is stated at cost. The Corporation's policy is to capitalize property and equipment costing \$5,000 or more. Depreciation is calculated on a straight line basis based on the following estimated useful lives:

Building and Improvements	20-40 years
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Tax Status

The Corporation is a tax-exempt organization under the Internal Revenue Code Section 501(c) (3) and, therefore, has no provision for federal or state income taxes.

Uncertain Tax Positions

The Corporation accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Corporation has identified its tax status as a tax exempt entity as a tax position; however, the Corporation has determined that such tax position does not result in an uncertainty requiring recognition. The Corporation is not currently under examination by any taxing jurisdiction. Its federal and state income tax returns are generally open for examination for the past 3 years.

Fair Value Measurement

The Corporation reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the organization to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements.

At June 30, 2015 and 2014 the Corporation had a Repurchase Agreement to fully collateralize the Corporation's asset above the Federal Depository Insurance limits. See Note 2 for more information.

Advertising

Advertising costs are expensed as incurred. There were no advertising expenses incurred for the years ended June 30, 2015 or 2014.

Fundraising Activities

The Corporation had no fundraising activities for the years ended June 30, 2015 or 2014.

NOTE 2 – CASH AND INVESTMENTS

The Corporation maintains its cash deposits in one checking account. At June 30, 2015 and 2014, the Corporation's carrying balance for deposits totaled \$631 and \$586, respectively, and the bank balance totaled \$630, and \$586 respectively, all of which was covered under Federal Depository Insurance.

Investments

As of June 30, 2015, the Collaborative had an investment of with a fair market value of \$1,572,916 in an overnight Repurchase Agreement (REPO). Under the terms of the REPO, the bank collects funds in excess of an agreed upon amount and invests the monies in a REPO. Investments are fully collateralized by U.S. Government securities.

NOTE 3 – DIRECT FINANCE LEASE RECEIVABLE

The Corporation has financed the purchase of equipment on behalf of the Collaborative. Lease terms require the Collaborative to make annual payments of \$68,903 through year 2016. Interest income from these leases is recorded when received. These leases are treated as direct financing leases.

Anticipated lease receipts under the terms of direct financing leases are as follows:

Years Ending June 30	Governmental Activities
2016.....	\$ 68,903
Less: amounts representing Interest.....	(4,084)
June 30, 2015, total direct financing leases receivable.....	\$ <u>64,819</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Balance 6/30/2014	Additions	Disposals	Balance 6/30/2015
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 2,100,088	\$ -	\$ -	\$ 2,100,088
<u>Capital assets being depreciated:</u>				
Buildings and improvements.....	19,175,231	242,623	-	19,417,854
<u>Less accumulated depreciation for:</u>				
Buildings and improvements.....	(5,317,286)	(574,225)	-	(5,891,511)
Total capital assets being depreciated, net.....	13,857,945	(331,602)	-	13,526,343
Total capital assets, net.....	\$ <u>15,958,033</u>	\$ <u>(331,602)</u>	\$ -	\$ <u>15,626,431</u>

NOTE 5 – LONG-TERM DEBT

The Corporation has a \$17,500,000 bond, through the Massachusetts Development Finance Agency, with a variable interest rate based on the adjusted LIBOR rate, ranging from 2.5% to 5.0%. Monthly principal and interest payments range from \$42,055 to \$72,335. The bond matures in July 2029 and is collateralized by all business assets of the Corporation. The outstanding loan balance totaled \$10,608,172 and \$11,212,828 at June 30, 2015 and 2014, respectively.

Effective June 2006, the bond agreement through the Massachusetts Development Finance Agency was amended adding \$348,418 to the amount borrowed. Monthly principal payments of \$2,903 are required through May 2016. The bond amendment is collateralized by all business assets of the Corporation. The outstanding loan balance for the amendment totaled \$34,894 and \$69,730 at June 30, 2015 and 2014, respectively.

The Corporation has a \$500,000 note payable bearing interest at 6.3%. Monthly principal payments of \$50,000 plus interest are required through October 2015. The note is collateralized by all business assets of the Corporation. The outstanding loan balance totaled \$50,000 and \$100,000 at June 30, 2015 and 2014, respectively.

The Corporation has a \$500,000 note payable bearing interest at 4.09%. Monthly principal payments range from \$16,501 to \$35,845. The bond matures in 2032 and is collateralized by all business assets of the Corporation. The outstanding loan balance totaled \$448,405 and \$466,310 at June 30, 2015 and 2014, respectively.

Project	Interest Rate (%)	Outstanding at June 30, 2014	Issued	Redeemed	Outstanding at June 30, 2015
Massachusetts Development Bond.....	variable	\$ 11,212,828	\$ -	\$ 604,656	\$ 10,608,172
Amendment to Massachusetts Development Bond....	variable	69,730	-	34,836	34,894
Equipment Note.....	6.30%	100,000	-	50,000	50,000
Agawam Garage Note.....	4.09%	466,310	-	17,905	448,405
Total bonds payable.....		\$ 11,848,868	\$ -	\$ 707,397	\$ 11,141,471

Annual principal maturities are as follows for the years ending June 30:

Fiscal Year	Principal	Interest (a)	Total
2016.....	\$ 708,201	\$ 286,347	\$ 994,548
2017.....	672,980	267,303	940,283
2018.....	678,234	250,155	928,389
2019.....	679,078	232,861	911,939
2020.....	734,956	215,533	950,489
2021.....	740,872	178,843	919,715
2022.....	741,825	159,940	901,765
2023.....	803,923	139,469	943,392
2024.....	810,512	118,819	929,331
2025.....	811,590	98,124	909,714
2026.....	889,129	75,475	964,604
2027.....	897,246	52,605	949,851
2028.....	898,464	29,686	928,150
2029.....	899,732	6,718	906,450
2030.....	104,473	3,610	108,083
2031.....	34,411	2,233	36,644
2032.....	35,845	799	36,644
Total.....	\$ 11,141,471	\$ 2,118,520	\$ 13,259,991

(a) Estimated interest subject to change for the variable rate bonds.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Corporation leases various facilities to the Collaborative for use in their programs. The Corporation recorded rental income of \$1,144,180 and \$1,171,000 for the years ended June 30, 2015 and 2014, respectively.

At June 30, 2015 and 2014, the cost of the assets being leased to the Collaborative totaled \$21,517,942 and \$21,275,319, respectively while the accumulated depreciation totaled \$5,891,511, and \$5,317,286, respectively.

During 2015 and 2014, The Collaborative also remitted reimbursements and lease finance payments to the Corporation totaling \$242,696 and \$306,976, respectively. The decrease from 2014 is largely due to a new program developed in 2014 for early childhood care education in which the Corporation paid costs associated with preparing the facilities for the new program and the Collaborative reimbursed the Corporation.

Future minimum lease payments to be received by the Corporation are as follows for the years ended June 30:

Fiscal Years Ending June 30	Amount
2016.....	\$ 1,130,000
2017.....	<u>1,130,000</u>
Total.....	<u>\$ 2,260,000</u>

NOTE 7 – CONCENTRATION OF CREDIT RISK

The Corporation derives its revenue from the Lower Pioneer Valley Educational Collaborative through a series of operating leases in which the Corporation leases facilities to the Lower Pioneer Valley Educational Collaborative. The leases were extended as of July 1, 2012 and currently expire on June 30, 2017. The Corporation believes that it has no significant concentration of credit risk beyond its basis of origin as Lessor to the Lower Pioneer Valley Educational Collaborative.

NOTE 8 – SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through November 18, 2015 the date that the financial statements were available to be issued and noted the following transactions:

- On July 6, 2016, the Lower Pioneer Valley Educational Corporation entered into a lease agreement for \$811,493 for school buses, with a term of 48 months with an interest rate of 1.53%. Lease payments are scheduled to begin on September 4, 2015 and expected to end on September 4, 2018.
- On October 1, 2015, the Lower Pioneer Valley Educational Corporation purchased an additional garage located in Wilbraham, Massachusetts for \$2,120,000
- On September 1, 2015, the Lower Pioneer Valley Educational Corporation issued Massachusetts Development Finance Agency Revenue Bonds totaling \$12,075,000 with maturities through 2025. The proceeds were used to finance the acquisition of the new garage in Wilbraham and to refinance existing debt through a current refunding.