LOWER PIONEER VALLEY EDUCATIONAL CORPORATION

(A COMPONENT UNIT OF LOWER PIONEER VALLEY EDUCATIONAL COLLABORATIVE)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 and 2015

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(A Component Unit of Lower Pioneer Valley Educational Collaborative)

FINANCIAL STATEMENTS

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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, 2016 and 2015, 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, 2016 and 2015, 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 29, 2016

Financial Statements

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT:		
Cash and cash equivalents	$ 380	$ 631
Investments	1,548,619	1,572,916
Receivables, net of allowance for uncollectibles:		
Net investment in direct finance leases receivable	-	64,819
Due from Lower Pioneer Valley Educational Collaborative	780,821	152,529
Prepaid expenses	4,000	-
Total current assets	2,333,820	1,790,895
NONCURRENT:		
Capital assets, net of accumulated depreciation:		
Nondepreciable	2,744,788	2,100,088
Depreciable	15,288,802	13,526,343
Total noncurrent assets	18,033,590	15,626,431
TOTAL ASSETS	$ 20,367,410	$ 17,417,326
LIABILITIES		
CURRENT:		
Warrants payable	$ 375,422	$ 21,927
Accrued interest	37,057	8,517
Bonds and notes payable	465,000	708,201
Total current liabilities	877,479	738,645
NONCURRENT:		
Bonds and notes payable	11,268,000	10,433,270
TOTAL LIABILITIES	12,145,479	11,171,915
NET ASSETS		
Unrestricted	8,221,931	6,245,411
TOTAL LIABILITIES AND NET ASSETS	$ 20,367,410	$ 17,417,326

See notes to financial statements.

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015

UNRESTRICTED NET ASSETS	2016	2015
REVENUE		
Rental income	$ 1,135,000	$ 1,144,180
Reimbursements	1,949,247	242,696
Lease finance interest	4,084	7,925
Interest income	671	657
Gain on sale of buildings, net of net book value and closing costs	393,761	-
Other income	3,750	-
Total revenue	3,486,513	1,395,458
EXPENSES		
Depreciation	824,801	574,225
Interest	453,084	290,465
Reimbursable expenses and improvements	1,130	73
Legal and accounting	47,297	10,542
Other expenses	183,681	-
Total expenses	1,509,993	875,305
NET CHANGE IN NET ASSETS	1,976,520	520,153
NET ASSETS AT BEGINNING OF YEAR	6,245,411	5,725,258
NET ASSETS AT END OF YEAR	$ 8,221,931	$ 6,245,411

See notes to financial statements.

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,582,759	$ 520,153
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	824,801	574,225
Decrease (Increase) in accounts receivable	64,819	(3,841)
Decrease (Increase) in due from Lower Pioneer Valley Educational Collaborative	(628,292)	(152,226)
Decrease (Increase) in prepaid expenses	(4,000)	-
(Decrease) Increase in accounts payable	353,495	16,552
(Decrease) Increase in accrued interest	28,540	(1,664)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	2,222,122	953,199
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of bonds and notes	12,075,000	-
Proceeds from direct financing leases	-	64,819
Principal payments on bonds and notes	(11,483,471)	(707,397)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	591,529	(642,578)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of capital assets	(3,231,960)	(242,623)
Proceeds from sale of building	393,761	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,838,199)	(242,623)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(24,548)	67,998
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,573,547	1,505,549
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,548,999	$ 1,573,547
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 453,084	$ 290,465

See notes to financial statements.

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature 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, 2016 and 2015, 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, 2016 or 2015 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

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, 2016 and 2015 the Corporation had a Repurchase Agreement to fully collateralize the Corporation's assets 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, 2016 or 2015.

Fundraising Activities

The Corporation had no fundraising activities for the years ended June 30, 2016 or 2015.

NOTE 2 – CASH AND INVESTMENTS

The Corporation maintains its cash deposits in one checking account. At June 30, 2016 and 2015, the Corporation's carrying balance for deposits totaled $380 and $631, respectively, and the bank balance totaled $380, and $631 respectively, all of which was covered under Federal Depository Insurance.

Investments

As of June 30, 2016, the Corporation had an investment of with a fair value of $1,837,083 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. As of June 30, 2016, the carrying value of the REPO is $1,548,619. The difference between the carrying value and the fair value of the investment is un-cleared checks. The REPO is classified as level 3 of the fair value hierarchy since the investments are not readily tradeable and may be valued using non-observable information and assumptions.

NOTE 3 – DIRECT FINANCE LEASE RECEIVABLE

The Corporation has financed the purchase of equipment on behalf of the Collaborative. Interest income from these leases is recorded when received. These leases are treated as direct financing leases. In 2016 the Corporation made its final lease payment of $64,819.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Balance 6/30/2015	Additions	Disposals	Balance 6/30/2016
Capital assets not being depreciated:				
Land	$ 2,100,088	$ 644,700	$ -	$ 2,744,788
Capital assets being depreciated:				
Buildings and improvements	19,417,854	3,338,268	(1,945,711)	20,810,411
Less accumulated depreciation for:				
Buildings and improvements	(5,891,511)	(815,727)	1,185,629	(5,521,609)
Total capital assets being depreciated, net	13,526,343	2,522,541	(760,082)	15,288,802
Total capital assets, net	$ 15,626,431	$ 3,167,241	$ (760,082)	$ 18,033,590

During fiscal year 2016, the Corporation sold 2 garages, the first at 10 Dollar Avenue in Wilbraham for $351,000, and the second at 12 Carmelina's Circle in Ludlow for $875,000. The Corporation also purchased a new garage at 2045 Boston Road in Wilbraham for $2,120,000.

NOTE 5 – LONG-TERM DEBT

During fiscal year 2016, the Corporation borrowed $12,075,000 through Massachusetts Development Finance Agency Revenue bonds (the bond). The bond was used to finance $1,087,267 toward the purchase of a new Wilbraham garage; to refund $10,457,000 of an existing Massachusetts Development bond; to refund $444,733 which was the outstanding balance of the Agawam Garage Note; and to fund $86,000 in issuance costs on the new bond. The current refunding was executed to transition from a variable rate bond to a bond which carries a fixed interest rate and to remove the 2 garages that were sold and modular classrooms from the collateral asset listing on the loan. The modular classrooms in Agawam and East Longmeadow were previously used as collateral and are no longer in use and have been turned over to the respective communities. The garages in Wilbraham and Ludlow that were previously on the collateral listing were sold as part of the transition to the new Wilbraham Garage. The new bond has a fixed interest rate of 3.79% until 2025 at which time there is a final balloon payment of $6,940,000.

As of June 30, 2015, the Corporation had an outstanding loan of $10,608,172, 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 ranged from $42,055 to $72,335. The bond was scheduled to mature in July 2029 and was collateralized by all business assets of the Corporation.

As of June 30, 2015, the Corporation also had an outstanding note outstanding totaling $448,405 bearing interest at 4.09%. Monthly principal payments range from $16,501 to $35,845. The bond was scheduled to mature in 2032 and was collateralized by all business assets of the Corporation.
Both the $10,608,172 loan and the $448,405 note were retired through scheduled debt service payments and through the issuance of a new refinancing loan during fiscal year 2016.

Project	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
Massachusetts Development Bond......................	variable	$ 10,608,172	$ -	$ 10,608,172	$ -
Amendment to Massachusetts Development Bond....	variable	34,894	-	34,894	-
Equipment Note...	6.30%	50,000	-	50,000	-
Agawam Garage Note.....................................	4.09%	448,405	-	448,405	-
Massachusetts Development Bond......................	3.79%	-	12,075,000	342,000	11,733,000
Total bonds payable...		$ 11,141,471	$ 12,075,000	$ 11,483,471	$ 11,733,000

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

Fiscal Year	Principal	Interest	Total
2017............	$ 465,000	$ 436,680	$ 901,680
2018............	477,000	418,849	895,849
2019............	491,250	400,535	891,785
2020............	506,250	382,696	888,946
2021............	519,000	362,239	881,239
2022............	533,250	342,333	875,583
2023............	550,500	321,835	872,335
2024............	568,500	301,476	869,976
2025............	584,250	278,831	863,081
2026............	7,038,000	66,770	7,104,770
Total............	$ 11,733,000	$ 3,312,244	$ 15,045,244

NOTE 6 – RELATED PARTY TRANSACTIONS

The Corporation leases various facilities to the Collaborative for use in their programs. The Corporation recorded rental income of $1,135,000 and $1,144,180 for the years ended June 30, 2016 and 2015, respectively.

At June 30, 2016 and 2015, the cost of the assets being leased to the Collaborative totaled $23,555,199 and $21,517,942, respectively while the accumulated depreciation totaled $5,521,609, and $5,891,511, respectively.

During 2016 and 2015, The Collaborative also remitted reimbursements and lease finance payments to the Corporation totaling $1,949,247 and $242,696, respectively. The increase from 2015 is largely due to a new program developed in 2016 for machine technology in which the Corporation paid costs associated with renovating the facilities for the new program and the Collaborative reimbursed the Corporation.

Future minimum lease payments to be received by the Corporation total $1,130,000 for fiscal year 2017. The current operating lease expires in 2017 and will be renegotiated as part of the 2018 budget process.

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 29, 2016, which is the date that the financial statements were available to be issued.