LOWER PIONEER VALLEY EDUCATIONAL CORPORATION

(A COMPONENT UNIT OF LOWER PIONEER VALLEY EDUCATIONAL COLLABORATIVE)

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 and 2019

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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, 2020 and 2019, 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.

Opinion

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, 2020 and 2019, 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

December 21, 2020

Financial Statements

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT:		
Cash and cash equivalents	$ 313	$ 65
Investments	2,478,604	2,433,882
Receivables, net of allowance for uncollectibles:		
Due from Lower Pioneer Valley Educational Collaborative	450	23,334
Total current assets	2,479,367	2,457,281
NONCURRENT:		
Capital assets, net of accumulated depreciation:		
Nondepreciable	2,744,788	2,744,788
Depreciable	15,409,172	15,182,147
Total noncurrent assets	18,153,960	17,926,935
TOTAL ASSETS	$ 20,633,327	$ 20,384,216
LIABILITIES		
CURRENT:		
Warrants payable	$ 2,500	$ 23,334
Accrued interest	30,931	66,283
Bonds and notes payable	519,000	547,500
Total current liabilities	552,431	637,117
NONCURRENT:		
Bonds and notes payable	9,274,500	9,793,500
TOTAL LIABILITIES	9,826,931	10,430,617
NET ASSETS		
Without Donor Restrictions - Unrestricted	10,806,396	9,953,599
TOTAL LIABILITIES AND NET ASSETS	$ 20,633,327	$ 20,384,216

See notes to financial statements.

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

WITHOUT DONOR RESTRICTIONS - UNRESTRICTED NET ASSETS		2020		2019
REVENUE				
Rental income	$	1,020,000	$	1,020,000
Reimbursements		996,854		816,935
Interest income		3,806		4,303
Total revenue		2,020,660		1,841,238
EXPENSES				
Depreciation		769,829		681,790
Interest		386,406		404,537
Reimbursable expenses and improvements		-		28,818
Legal and accounting		11,628		16,160
Total expenses		1,167,863		1,131,305
NET CHANGE IN NET ASSETS		852,797		709,933
NET ASSETS AT BEGINNING OF YEAR		9,953,599		9,243,666
NET ASSETS AT END OF YEAR	$	10,806,396	$	9,953,599

See notes to financial statements.

LOWER PIONEER VALLEY EDUCATIONAL CORPORATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 852,797	$ 709,933
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	769,829	681,790
Decrease (Increase) in due from Lower Pioneer Valley Educational Collaborative	22,884	84,569
(Decrease) Increase in accounts payable	(20,834)	(9,569)
(Decrease) Increase in accrued interest	(35,352)	32,193
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,589,324	1,498,916
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on bonds and notes	(547,500)	(450,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of capital assets	(996,854)	(788,050)
Purchase of investments	(44,722)	(260,978)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,041,576)	(1,049,028)
NET CHANGE IN CASH AND CASH EQUIVALENTS	248	(112)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	65	177
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 313	$ 65
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 386,406	$ 404,537

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 under Financial Accounting Standard's Board ("FASB") Accounting Standards Codification ("ASC") 958 *Not-for-Profit Organizations (FASB ASC 958-205),* as updated by FASB Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, 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 ASC 958, the Organization is required to report information regarding its financial position and activities based on two classes of net assets as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions or limits as to their use.

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

None of the Corporation's net assets were subject to donor restrictions.

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.

Contributions and Revenues

The Corporation has adopted the provisions of FASB's ASC 958-605, Accounting for Contributions Received. Contributions received are recorded as unrestricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a restriction expires, restricted net assets are reclassified to unrestricted net assets. For the years ending June 30, 2020 and 2019, the Corporation received 100% of its revenues from the Lower Pioneer Valley Educational Collaborative. All revenue was unrestricted at the time of receipt.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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, 2020 or 2019 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.

Fair Value Measurements

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, 2020 and 2019 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, 2020 or 2019.

Fundraising Activities

The Corporation had no fundraising activities for the years ended June 30, 2020 and 2019.

Insurance

The Corporation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Corporation carries commercial insurance.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure within one year consisted of the following at June 30:

	2020	2019
Cash and cash equivalents	$ 313	$ 65
Investments	2,478,604	2,433,882
Due from Lower Pioneer Valley Educational Collaborative	450	23,334
Total	$ 2,479,367	$ 2,457,281

NOTE 3 – CASH AND INVESTMENTS

The Corporation maintains its cash deposits in one checking account. At June 30, 2020 and 2019, the Corporation's carrying balance for deposits totaled $313 and $65, respectively, and the bank balance totaled $313, and $65 respectively, all of which was covered under Federal Depository Insurance.

Investments

As of June 30, 2020, the Corporation had an investment of with a fair value of $2,606,213 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, 2020, the carrying value of the REPO is $2,478,604. 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 4 – CAPITAL ASSETS

Capital assets consist of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land……	$ 2,744,788	$ -	$ -	$ 2,744,788
Capital assets being depreciated:				
Buildings……	22,840,863	996,854	-	23,837,717
Less accumulated depreciation for:				
Buildings……	(7,658,716)	(769,829)	-	(8,428,545)
Total capital assets being depreciated, net……	15,182,147	227,025	-	15,409,172
Total governmental activities capital assets, net……	$ 17,926,935	$ 227,025	$ -	$ 18,153,960

NOTE 5 – COMMITMENTS

Front Street Building Renovation

The Corporation is in the process of renovating the building they own at 72 Front Street in West Springfield to be utilized to house the Collaborative's Municipal Medicaid Reimbursement program. The Collaborative's Board vote to fund the project through the use of surplus funds of the Collaborative totaling $405,000. Approximately $342,000 was expended and capitalized in 2020. Total project costs through June 30, 2020 totaled $396,000.

Brush Hill Building Elevator Repair Project

The Corporation completed the renovation of the elevators at the building at 174 Brush Hill Avenue in West Springfield. In 2016 the Collaborative's board voted to approve the use of surplus funds in the amount $400,000 to fund costs associated with the project. The Collaborative began the project, however the relationship with the architect was terminated. In 2019 the Collaborative's board voted to approve additional funding of $342,000 and the project resumed with another approved architect. Approximately $655,000 was expended and capitalized in 2020. Total project costs through June 30, 2020 totaled $743,000. The $1,000 excess costs were funded through an additional use of surplus funds of the Collaborative voted by the Collaborative's Board in 2020.

NOTE 6 – 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%, with payments made monthly until September 2025 at which time there is a final balloon payment of $6,940,000. At the end of 2020, the Corporation had $9,793,500 of outstanding debt related to this issuance.

The Corporation had the following long-term financing activity during 2020:

Project	Interest Rate (%)	Outstanding at June 30, 2019	Issued	Redeemed	Outstanding at June 30, 2020
Massachusetts Development Bond...............	3.79%	$ 10,341,000	$ -	$ 547,500	$ 9,793,500

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

Year	Principal	Interest	Total
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............	$ 9,793,500	$ 1,673,484	$ 11,466,984

NOTE 7 – RELATED PARTY TRANSACTIONS

The Corporation leases various facilities to the Collaborative for use in their programs. The Corporation recorded rental income of $1,020,000 per year for the years ended June 30, 2020 and 2019.

New operating leases for various facilities were established to begin effective July 1, 2017. Under the new terms, all of the operating leases will expire on June 30, 2022 with various options for extensions. Based on the operating lease agreements, future operating lease payments to be received by the Corporation are noted on the following page:

Years ending June 30:		Amount
2021	$	1,020,000
2022		1,020,000
Total	$	2,040,000

During 2020 and 2019, The Collaborative also remitted reimbursements and lease finance payments to the Corporation totaling $996,854 and $816,935, respectively. The reimbursement payments received related to expansion and renovations of the Front Street building and the renovation of the Bush Hill Elevators.

NOTE 8 – 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, 2017 and currently expire on June 30, 2022. 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 9 – SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through December 21, 2020, which is the date that the financial statements were available to be issued.