

Financial Statements

LITTLE TENNESSEE VALLEY
EDUCATIONAL COOPERATIVE

Year Ended June 30, 2010

TABLE OF CONTENTS

	<u>Page Nos.</u>
INDEPENDENT ACCOUNTANTS' AUDIT REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Balance Sheet-Governmental Funds	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	9
Statement of Revenue, Expenditures and Changes in Fund Balances-Governmental Funds	10-11
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to the Financial Statements	13-21
REQUIRED SUPPLEMENTARY INFORMATION	
Funding Progress-Political Subdivision Pension Plan Supplementary Information	22
OTHER SUPPLEMENTARY INFORMATION	
Board of Directors	23-24
Insurance Coverage	25
Expenditures of State Awards	26

TABLE OF CONTENTS
(continued)

Page Nos.

INTERNAL CONTROL AND COMPLIANCE

Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards

27-28

INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Directors
Little Tennessee Valley Educational Cooperative
Loudon, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of Little Tennessee Valley Educational Cooperative, as of and for the year ended June 30, 2010, which collectively comprise Little Tennessee Valley Educational Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Little Tennessee Valley Educational Cooperative, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 5 and the required supplementary information on page 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Little Tennessee Valley Educational Cooperative's basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The other supplementary information as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 4, 2011 on our consideration of Little Tennessee Valley Educational Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

January 4, 2011



Little Tennessee Valley Educational Cooperative

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Management's Discussion and Analysis June 30, 2010

This discussion and analysis of Little Tennessee Valley Educational Cooperative's financial performance provides an overall review of the Cooperative's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Cooperative's financial performance as a whole. Readers should also review the complete financial statements, with notes, to enhance their understanding of the Cooperative's financial performance

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of the statement of net assets, statement of revenues, expenses and changes in net assets, notes to the financial statements and supplementary information.

The financial statements of the Cooperative report information of the Cooperative using accounting methods similar to those used by private companies.

The Statement of Net Assets presents information on all of the Cooperative's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Cooperative is improving or deteriorating.

The Statement of Activities presents information showing how the Cooperative's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in this statement.

Financial Analysis of the Cooperative

Net assets and changes in net assets for 2010 has been summarized and compared with net assets for 2009 on the next page (see Summarized Financial Information on the next page).

Management's Discussion and Analysis
(continued)
June 30, 2010

Summarized Financial Information

	<u>2010</u>	<u>2009</u>
NET ASSETS		
Current assets	\$ 331,737	\$ 300,592
Capital assets	<u>4,579</u>	<u>7,661</u>
Total assets	<u>\$ 336,317</u>	<u>\$ 308,253</u>
Liabilities	\$ 25,300	\$ 16,168
Net assets:		
Invested in capital assets	4,579	7,661
Restricted	184,357	155,763
Unrestricted	<u>122,080</u>	<u>128,660</u>
	<u>311,017</u>	<u>292,084</u>
Total liabilities and net assets	<u>\$ 336,317</u>	<u>\$ 308,253</u>
CHANGES IN NET ASSETS		
Revenues	\$ 1,686,049	\$ 1,661,243
Expenses	<u>1,667,117</u>	<u>1,662,648</u>
Change in net assets	18,933	(1,405)
Beginning net assets	<u>292,084</u>	<u>293,489</u>
Ending net assets	<u>\$ 311,017</u>	<u>\$ 292,084</u>

Management's Discussion and Analysis
(continued)
June 30, 2010

Capital Assets

The Cooperative's investment in capital assets as of June 30, 2010 was \$4,579 (\$7,661 in 2009) net of accumulated depreciation.

	<u>2010</u>	<u>2009</u>
Furniture and equipment	54,419	54,419
Accumulated depreciation	<u>(49,840)</u>	<u>(46,757)</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 4,579</u>	<u>\$ 7,661</u>

Contacting the Cooperative's Financial Management

The financial report is designed to provide our readers with a general view of the Cooperative's finances and to show the Cooperative's accountability for the money it receives. If you have any question or need additional information, contact Dr. Jerome Morton, Executive Director at the address on the letterhead.

Dr. Jerome Morton, Executive Director

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

STATEMENT OF NET ASSETS

June 30, 2010

ASSETS

Petty cash	\$ 100
Cash in bank	154,873
Local Government Investment Pool	73,603
Accounts receivable	99,042
Prepaid expenses	4,120
Furniture and equipment, net of accumulated depreciation	<u>4,579</u>
TOTAL ASSETS	<u>\$ 336,317</u>

LIABILITIES

Accounts payable	\$ 25,300
------------------	-----------

NET ASSETS

Unrestricted	122,080
Restricted	184,357
Invested in fixed assets	<u>4,579</u>
TOTAL NET ASSETS	<u>311,017</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 336,317</u>
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See the accompanying notes to the financial statements.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

		<u>Program Revenue</u>		Net (Expense) Revenue and Changes In Net Assets
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Total</u>
Governmental Activities:				
General government	\$ 792,014	\$ 735,955	\$ 47,700	\$ (8,359)
Assistive Technology	78,919	41,439	36,600	(880)
BEST	214,153	150,833	84,064	20,743
Internship Consortium	205,205	203,460	0	(1,745)
Early Intervention	<u>376,827</u>	<u>0</u>	<u>385,070</u>	<u>8,243</u>
	<u>\$ 1,667,117</u>	<u>\$ 1,131,686</u>	<u>\$ 553,434</u>	18,003
General Revenue:				
Investment earnings				<u>929</u>
				CHANGE IN NET ASSETS 18,933
NET ASSETS AT THE BEGINNING OF THE YEAR				<u>292,084</u>
				NET ASSETS AT THE END OF THE YEAR <u>\$ 311,017</u>

See the accompanying notes to the financial statements.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2010

	<u>General Fund</u>	<u>Assistive Technology Fund</u>	<u>BEST Fund</u>
ASSETS			
Cash on hand	\$ 100	\$ 0	\$ 0
Cash in bank	22,906	0	33,095
Local Government Investment Pool	73,603	0	0
Accounts receivable	8,125	17,792	15,727
Due from other funds	17,621	0	0
Prepaid expenses	<u>1,450</u>	<u>0</u>	<u>0</u>
TOTAL ASSETS	<u>\$ 123,804</u>	<u>\$ 17,792</u>	<u>\$ 48,822</u>
LIABILITIES			
Accounts payable	\$ 3,468	\$ 0	\$ 12,261
Due to General Fund	<u>0</u>	<u>15,776</u>	<u>0</u>
	3,468	15,776	12,261
FUND BALANCES			
Unrestricted:			
Undesignated	118,533	0	0
Designated for legal services	1,800	0	0
Restricted	<u>0</u>	<u>2,017</u>	<u>36,561</u>
TOTAL FUND BALANCES	<u>120,333</u>	<u>2,017</u>	<u>36,561</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 123,804</u>	<u>\$ 17,792</u>	<u>\$ 48,822</u>

See the accompanying notes to the financial statements.

Internship Consortium Fund	Early Intervention Fund Birth-To-Three Program			Totals
	Blount County	Loudon County	Monroe County	
\$ 0	\$ 0	\$ 0	\$ 0	\$ 100
31,937	38,772	28,163	0	154,873
0	0	0	0	73,603
364	35,476	7,699	13,859	99,042
0	0	0	0	17,621
0	1,590	540	540	4,120
<u>\$ 32,301</u>	<u>\$ 75,839</u>	<u>\$ 36,403</u>	<u>\$ 14,399</u>	<u>\$ 349,358</u>
\$ 411	\$ 7,420	\$ 449	\$ 1,296	\$ 25,300
0	0	0	1,845	17,621
411	7,420	449	3,141	42,921
0	0	0	0	118,537
0	0	0	0	1,800
31,894	68,418	35,953	11,258	186,109
31,894	68,418	35,953	11,258	306,440
<u>\$ 32,301</u>	<u>\$ 75,839</u>	<u>\$ 36,403</u>	<u>\$ 14,399</u>	<u>\$ 349,358</u>

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2010

Total Fund Balance-Governmental Funds	\$ 306,440
Capital assets used in governmental activities are reported in the statement of net assets; however, they are not current financial resources and therefore are not reported in the governmental funds balance sheet.	<u>4,579</u>
Net Assets of Governmental Activities	<u>\$ 311,017</u>

See the accompanying notes to the financial statements.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2010

	<u>General Fund</u>	<u>Assistive Technology Fund</u>	<u>BEST Fund</u>
REVENUE			
Grants and contributions:			
State of Tennessee	\$ 47,700	\$ 35,000	\$ 0
United Way	0	0	0
Local governments	0	0	0
Other contributions	0	3,225	0
Contract services	730,711	39,755	234,897
Interest	929	0	0
Training	710	0	0
Other income	<u>4,534</u>	<u>59</u>	<u>0</u>
TOTAL REVENUE	784,584	78,039	234,897
EXPENDITURES			
Salaries	567,130	60,139	13,834
Contract services	456	3,182	0
Employment taxes	43,977	4,524	1,051
Retirement	29,643	3,205	187
Travel	37,291	3,693	105
Training	0	0	0
Staff development	1,619	748	0
Supplies and postage	11,591	1,768	198,934
Printing and publications	2,140	0	0
Rent	16,410	0	0
Utilities	2,757	0	0
Telephone	6,223	0	0
Insurance:			
Employee health	46,778	897	0
Workers' compensation	3,570	0	0
Liability	7,660	0	0
Professional services	4,200	0	0

Internship Consortium Fund	Early Intervention Fund Birth-To-Three Program			Totals
	Blount County	Loudon County	Monroe County	
\$ 0	\$ 143,642	\$ 35,900	\$ 118,164	\$ 380,406
0	58,157	10,461	4,100	72,717
0	6,107	3,000	3,000	12,107
0	520	1,250	770	5,765
0	0	0	0	1,005,363
0	0	0	0	929
0	0	0	0	710
203,460	0	0	0	208,052
203,460	208,425	50,611	126,034	1,686,049
157,009	146,452	32,700	55,414	1,032,677
652	150	0	0	4,440
11,521	11,316	2,417	4,207	79,013
770	6,075	1,540	2,433	43,854
26,296	4,918	4,196	2,032	78,531
1,391	0	0	0	1,391
1,889	20	0	0	4,276
1,365	8,679	533	52,632	275,503
0	0	0	0	2,140
0	12,600	0	0	29,010
0	0	0	0	2,757
0	2,934	0	(8)	9,149
0	8,081	2,596	6,934	65,287
0	1,151	256	428	5,404
489	799	693	792	10,433
0	0	0	0	4,200

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

(continued)

Year Ended June 30, 2010

	<u>General Fund</u>	<u>Assistive Technology Fund</u>	<u>BEST Fund</u>
EXPENDITURES (continued)			
Board	3,025	0	0
Bank fees	1,346	0	0
Dues and licenses	<u>4,862</u>	<u>79</u>	<u>43</u>
TOTAL EXPENDITURES	<u>790,676</u>	<u>78,235</u>	<u>214,153</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENDITURES	(6,092)	(196)	20,743
FUND BALANCES AT THE BEGINNING OF THE YEAR	<u>126,428</u>	<u>2,213</u>	<u>15,818</u>
FUND BALANCES AT THE END OF THE YEAR	<u>\$ 120,333</u>	<u>\$ 2,017</u>	<u>\$ 36,561</u>

See the accompanying notes to the financial statements.

Internship Consortium Fund	Early Intervention Fund Birth-To-Three Program			Totals
	Blount County	Loudon County	Monroe County	
692	0	0	0	3,716
0	0	0	0	1,346
<u>3,131</u>	<u>874</u>	<u>810</u>	<u>1,110</u>	<u>10,909</u>
<u>205,205</u>	<u>204,050</u>	<u>45,741</u>	<u>125,974</u>	<u>1,664,035</u>
(1,745)	4,375	4,869	60	22,015
<u>33,639</u>	<u>64,043</u>	<u>31,084</u>	<u>11,198</u>	<u>284,424</u>
<u>\$ 31,894</u>	<u>\$ 68,418</u>	<u>\$ 35,953</u>	<u>\$ 11,258</u>	<u>\$ 306,440</u>

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2010

Excess of Revenue Over Expenditures-Governmental Funds	\$ 22,015
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation:</p>	
Depreciation expense	<u>(3,082)</u>
Change in Net Assets of Governmental Activities	<u>\$ 18,933</u>

See the accompanying notes to the financial statements.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE A - DESCRIPTION OF ORGANIZATION

Little Tennessee Valley Educational Cooperative (the Cooperative) is a regional educational service agency which was organized in 1971, under the "Educational Cooperative Act," enacted by the General Assembly of the State of Tennessee, Chapter 511, Public Acts of 1970. The Cooperative was organized as an extension for several local school systems in order to combine their resources to provide services for special education programs such as the Birth-to-Three program for handicapped children, a child development program for language and behaviorally delayed older students, and an occupational and physical therapy program, as well as psychological services.

The Board of Directors consists of twelve (12) individuals who are appointed for two-year terms by each participating Board of Education and the respective County Commissions. There is no limit to the number of terms a person may serve as a member of the Board of Directors; however, they may serve only during their tenure as members of the local Boards of Education or County Commissions.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-Wide and Fund Financial Statements

The government-wide financial statements, which consist of the statement of net assets and the statement of activities report information on all non-fiduciary activities of the Cooperative. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 1) charges to customers or members who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other income not included among program revenue is reported instead as general revenue.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2010

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Cooperative considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

The Cooperative reports the following major governmental funds:

The *general fund* is the Cooperative's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *assistive technology fund*, *buyers program evaluations student services technology trainings fund (BEST)*, *internship consortium fund* and the *early intervention fund* are special revenue funds used to account for specific revenue sources that are legally restricted to expenditures for specified purposes.

Government Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net asset groups:

Invested in capital assets

This category includes capital assets, net of accumulated depreciation. Invested in capital assets at June 30, 2010 has been calculated as follows:

Capital assets	\$ 54,419
Accumulated depreciation	<u>(49,840)</u>
	<u>\$ 4,579</u>

Restricted

This category includes net assets whose use is subject to externally imposed stipulations that can be fulfilled by actions of the Cooperative pursuant to those stipulations or that expire by the passage of time. When both restricted and unrestricted resources are available for use, it is the Cooperative's policy to use restricted resources first, then the unrestricted resources as they are needed.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2010

Unrestricted

This category includes net assets that are not subject to externally imposed stipulations and that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns on the government-wide financial statements. Capital assets are defined by the Cooperative as assets with an initial cost of \$500 or more. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 10 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation expense for the year ended June 30, 2010 was \$3,082.

Compensated Absences

Cooperative employees are granted sick leave at a rate of one (1) day per month and may accumulate an unlimited number of days as provided for in the Tennessee Department of Education's Rules and Regulations. Employees are not paid for any unused sick leave upon retirement or other termination.

Vacation leave is granted at a rate of one and two-thirds ($1\frac{2}{3}$) days per month for full-time professional employees and one (1) day per month for full-time, non-professional employees. There is no carry-over of accumulated vacation leave from year to year, except in the case of a temporary extension of time to take vacation approved by the Executive Director.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2010

NOTE C - CASH AND INVESTMENTS

Cash and investments are stated at cost which approximates market value. Carrying amounts at June 30, 2010, are as follows:

Cash on hand	\$ 100
Cash in bank	154,873
Local Government Investment Pool	<u>73,603</u>
Total	<u>\$ 228,576</u>

State of Tennessee law authorizes the Cooperative to invest in obligations of the United States or its agencies, non-convertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the state treasurer's local government investment pool. The pool contains investments in certificates of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool.

The Cooperative's policy dictates that collateral meet certain requirements, such as, be deposited in an institution which participates in the state collateral pool or be deposited in an escrow account in another institution for the benefit of the County and must be a minimum of 105% of the value of the deposits placed in the institution less the amount protected by federal deposit insurance. The state collateral pool is administered by the State of Tennessee. Members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional agreement, public fund accounts covered by the pool are considered to be insured in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

As of June 30, 2010, all of the Cooperative's cash and investments were fully insured through the Federal Deposit Insurance Corporation or the Tennessee Bank Collateral Pool.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2010

NOTE D - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010 was as follows:

	<u>Furniture and Equipment</u>	<u>Accumulated Depreciation</u>
Balance at July 1, 2009	\$ 54,419	\$ 46,758
Additions	<u>0</u>	<u>3,082</u>
Balance at June 30, 2010	<u>\$ 54,419</u>	<u>\$ 49,840</u>

NOTE E - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 consisted of amounts due to the Cooperative from contractual agreements and grantors as follows:

Grants	\$ 74,698
Contracted services	<u>24,344</u>
	<u>\$ 99,042</u>

NOTE F - PENSION PLAN

Plan Description

Employees of the Cooperative are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2010

Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service.

Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Cooperative participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

The Cooperative requires employees to contribute 5.0% of earnable compensation.

The Cooperative is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was 2.53% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Cooperative is established and may be amended by the TCRS Board of Trustees.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2010

Annual Pension Cost

For the year ending June 30, 2010, the Cooperative's annual pension cost of \$1,543 to TCRS was equal to the Cooperative's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Cooperative's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 8 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Plan Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/10	\$ 1,543	100%	\$ 0
6/30/09	1,567	100	0
6/30/08	0	100	0

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 88.65% funded. The actuarial accrued liability (AAL) for benefits was \$0.12 million, and the actuarial value of assets was \$0.10 million, resulting in an unfunded actuarial accrued liability (UAAL) of (\$0.01) million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.06 million, and the ratio of the UAAL to the covered payroll was (22.68)%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2010

The annual required contributions (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

The Cooperative also contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the TCRS. TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries.

Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA).

State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.treasury.state.tn.us>.

Funding Policy

Most teachers are required by state statute to contribute 5.0% of annual salary to the plan. The employer contribution rate for the Cooperative is established at an actuarially determined rate. The rate for the fiscal year ending June 30, 2010 was 6.42% of annual covered payroll. The employer contribution requirement for the Cooperative is established and may be amended by the TCRS Board of Trustees. The Cooperative's contributions to TCRS for the years ended June 30, 2010, 2009, and 2008 were \$42,311, \$49,102, and \$41,659, respectively, equal to the required contributions for these years.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2010

NOTE G - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Cooperative participates in the Tennessee Municipal League Insurance Risk Pool and pays an annual premium to the pool for its workers' compensation, property and general liability insurance coverage. Settled claims resulting from those risks have not exceeded insurance coverage in any of the past three fiscal years. The pooling agreement allows the pool to make additional assessments or refund surplus revenues to the Cooperative. It is not possible to estimate the amount of such additional assessments or refunds

NOTE H - LEASE OBLIGATIONS

The Cooperative leases various properties for its operations as follows:

Administrative Office - Loudon, Tennessee; payable in the amount of \$1,450 per month, with options to renew in one-year terms at a rate to be negotiated at time of renewal.

Birth-To-Three Office - Maryville, Tennessee; payable in the amount of \$1,050 per month, with options to renew in one-year terms at a rate to be negotiated at time of renewal.

NOTE I - INTERFUND RECEIVABLES AND PAYABLES

Amounts due from and due to other funds at June 30, 2010 are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
Governmental Activities:		
Assistive Technology Fund	\$ 15,776	\$ 0
Monroe County Early Intervention Fund	1,845	0
General Fund	<u>0</u>	<u>17,621</u>
	<u>\$ 17,621</u>	<u>\$ 17,621</u>

Interfund balances resulted from operating advances made from the General Fund prior to the collection of receivables by the other funds.

REQUIRED SUPPLEMENTARY INFORMATION

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

FUNDING PROGRESS – POLITICAL SUBDIVISION
PENSION PLAN SUPPLEMENTARY INFORMATION

June 30, 2010

Actuarial valuation date	7/1/09	7/1/07
Actuarial value of plan assets	\$ 104,000	\$ 127,000
Actuarial accrued liability (AAL)	118,000	112,000
Unfunded AAL (UAAL)	13,000	(15,000)
Funded ratio	88.65%	113.39%
Covered payroll	59,000	67,000
UAAL as a percentage of covered payroll	22.68%	(22.39)%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the schedule of funding progress using the entry age actuarial cost method. The requirement to present the schedule of funding progress using the Entry Age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

See the accompanying independent accountants' audit report.

OTHER SUPPLEMENTARY INFORMATION

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

BOARD OF DIRECTORS

June 30, 2010

Mr. Wayne Miller	Director of Schools Lenoir City Schools	Chairman Board of Directors
Mr. Janie Dacus		Member Board of Directors
Mr. Harold Duff	County Commissioner Loudon County	Member Board of Directors
Mr. Ron Eydtt	School Board Member Monroe County Schools	Member Board of Directors
Mr. Harold Hawkins	County Commissioner Monroe County	Member Board of Directors
Dr. Keith Hickey	Superintendent Sweetwater City Schools	Member Board of Directors
Mr. Wayne Honeycutt	Superintendent Loudon County Schools	Member Board of Directors
Mr. Michael Lowry	Superintendent Monroe County Schools	Member Board of Directors
Mr. Harold Powers	School Board Member Athens City Schools	Member Board of Directors
Ms. Rosemary Quillen	Lenoir City Board Member	Member Board of Directors

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

BOARD OF DIRECTORS

(continued)

June 30, 2010

Dr. Craig Rigell	Director of Schools Athens City Schools	Member Board of Directors
Mr. Gary Ubben	School Board Member Loudon County Schools	Member Board of Directors
Dr. Vicki Violette	Director of Schools Clinton City Schools	Member Board of Directors
Mr. Tom Shamblin	Director of Schools Alcoa City Schools	Member Board of Directors

See the accompanying independent accountants' audit report.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

INSURANCE COVERAGE

June 30, 2010

<u>Description</u>	<u>Amount of Coverage</u>
Property insurance – fire and extended coverage on building and contents	\$ 125,000
Liability insurance:	
Comprehensive general	1,000,000
Automobile	1,000,000
Errors and omissions (\$1,000 deductible)	700,000
Employee Dishonesty	100,000
Worker's Compensation	
Employer liability - statutory	700,000

See the accompanying independent accountants' audit report.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

EXPENDITURES OF STATE AWARDS

Year Ended June 30, 2010

<u>Grant Number</u>	<u>CFDA Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>
GR-09-24290	84.027	Assistive Technology	Tennessee Department of Education
DGA-C00024		Birth-To-Three Early Intervention Program	Tennessee Department of Education
DGA-C00024	84.393A	Federal ARRA	Tennessee Department of Education
S397A090043	84.397	ARRA State Fiscal Stabilization	Tennessee Department of Education

See the accompanying independent accountants' audit report

<u>Receivable July 1, 2009</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2010</u>
\$ 11,095	\$ 11,095	\$ 0	\$ 0
0	17,336	35,000	17,663
55,243	55,243	0	0
0	188,671	240,000	51,329
0	52,000	57,706	5,706
<u>0</u>	<u>47,700</u>	<u>47,700</u>	<u>0</u>
<u>\$ 66,338</u>	<u>\$ 372,045</u>	<u>\$ 380,406</u>	<u>\$ 74,698</u>

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Little Tennessee Valley Educational Cooperative
Loudon, Tennessee

We have audited the financial statements of the governmental activities and each major fund of Little Tennessee Valley Educational Cooperative as of and for the year ended June 30, 2010, which collectively comprise Little Tennessee Valley Educational Cooperative's basic financial statements and have issued our report thereon dated January 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Little Tennessee Valley Educational Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Little Tennessee Valley Educational Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Little Tennessee Valley Educational Cooperative's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Little Tennessee Valley Educational Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Little Tennessee Valley Educational Cooperative's Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Mitchell Emert + Hill

January 4, 2011