

*Financial Statements*

LITTLE TENNESSEE VALLEY  
EDUCATIONAL COOPERATIVE

Year Ended June 30, 2012

## 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	13-22
REQUIRED SUPPLEMENTARY INFORMATION	
Funding Progress-Political Subdivision Pension Plan Supplementary Information	23
OTHER SUPPLEMENTARY INFORMATION	
Board of Directors	24-25
Insurance Coverage	26
Expenditures of Federal and State Awards	27

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*

28-29

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, 2012, 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 organization'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 in the first paragraph 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of funding progress—political subdivision pension plan supplementary information on page 22 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was performed for the purpose of forming an opinion on the financial statements which collectively comprise Little Tennessee Valley Educational Cooperative's financial statements as a whole. The accompanying information listed in the table of contents as other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The schedules of the board of directors and insurance coverage has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2012 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, 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.

The image shows a handwritten signature in cursive script that reads "Mitchell Emert & Hill". The signature is written in black ink and is positioned in the lower right quadrant of the page.

December 20, 2012



## ***Little Tennessee Valley Educational Cooperative***

1094 Mulberry Street  
Loudon, TN 37774

Phone: (865) 458-8900  
Fax: (865) 458-8828  
email: [littletnvalley@bellsouth.net](mailto:littletnvalley@bellsouth.net)  
web: [www.ltvec.org](http://www.ltvec.org)

### Management's Discussion and Analysis June 30, 2012

---

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, 2012. 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 2012 has been summarized and compared with net assets for 2011 on the next page (see Summarized Financial Information on the next page).

Management's Discussion and Analysis  
(continued)  
June 30, 2012

---

**Summarized Financial Information**

	<u>2012</u>	<u>2011</u>
NET ASSETS		
Current assets	\$ 235,531	\$ 253,552
Capital assets	<u>15,619</u>	<u>19,827</u>
Total assets	<u>\$ 251,150</u>	<u>\$ 273,379</u>
Liabilities	\$ 22,540	\$ 46,559
Net assets:		
Invested in capital assets	15,619	19,827
Restricted	92,584	120,275
Unrestricted	<u>120,405</u>	<u>86,719</u>
	<u>228,609</u>	<u>226,819</u>
Total liabilities and net assets	<u>\$ 251,150</u>	<u>\$ 273,379</u>
CHANGES IN NET ASSETS		
Revenues	\$ 1,150,906	\$ 1,258,496
Expenses	<u>1,149,116</u>	<u>1,342,691</u>
Change in net assets	1,790	(84,195)
Beginning net assets	<u>226,819</u>	<u>311,017</u>
Ending net assets	<u>\$ 228,609</u>	<u>\$ 226,819</u>

Management's Discussion and Analysis  
(continued)  
June 30, 2012

---

**Capital Assets**

The Cooperative's investment in capital assets as of June 30, 2012 was \$15,619 (\$19,827 in 2011) net of accumulated depreciation.

	<u>2012</u>	<u>2011</u>
Furniture and equipment	74,381	73,621
Accumulated depreciation	<u>(58,761)</u>	<u>(53,793)</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b><u>\$ 15,619</u></b>	<b><u>\$ 19,827</u></b>

**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, 2012

**ASSETS**

Cash on hand	\$ 100
Cash in bank	117,141
Local Government Investment Pool	73,861
Accounts receivable	41,389
Prepaid expenses	3,040
Furniture and equipment, net of accumulated depreciation	<u>15,619</u>

**TOTAL ASSETS** \$ 251,150

**LIABILITIES**

Accounts payable	\$ 22,540
------------------	-----------

**NET ASSETS**

Unrestricted	120,405
Restricted - Early Intervention	92,584
Invested in fixed assets	<u>15,619</u>

**TOTAL NET ASSETS** 228,609

**TOTAL LIABILITIES AND NET ASSETS** \$ 251,150

See the accompanying notes to the financial statements.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2012

	<u>Expenses</u>	<u>Program Revenue Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes In Net Assets</u>
<b>Governmental Activities:</b>				
General government	\$ 636,400	\$ 604,492	\$ 47,700	\$ 15,792
Assistive Technology	82,201	50,156	38,325	6,280
BEST	42,902	28,391	0	(14,511)
Internship Consortium	120,184	121,876	119	1,811
Early Intervention	<u>267,430</u>	<u>9,174</u>	<u>250,479</u>	<u>(7,777)</u>
	<u>\$ 1,149,116</u>	<u>\$ 814,089</u>	<u>\$ 336,624</u>	1,596
<b>General Revenue:</b>				
Investment earnings				<u>194</u>
				<b>CHANGE IN NET ASSETS</b> 1,790
				<b>NET ASSETS AT THE BEGINNING OF THE YEAR</b> <u>226,821</u>
				<b>NET ASSETS AT THE END OF THE YEAR</b> <u>\$ 228,609</u>

See the accompanying notes to the financial statements.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

June 30, 2012

	<u>General Fund</u>	<u>Assistive Technology Fund</u>	<u>BEST Fund</u>
<b>ASSETS</b>			
Cash on hand	\$ 100	\$ 0	\$ 0
Cash in bank	41,526	411	0
Local Government Investment Pool	73,861	0	0
Accounts receivable	6,948	8,813	955
Due from other funds	2,564	0	0
Prepaid expenses	<u>1,450</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 126,448</u></b>	<b><u>\$ 9,224</u></b>	<b><u>\$ 955</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 22,540	\$ 0	\$ 0
Due to other funds	<u>0</u>	<u>0</u>	<u>2,564</u>
	22,540	0	2,564
<b>FUND BALANCES</b>			
Nonspendable	1,450	0	0
Restricted	0	0	0
Unrestricted:			
Assigned	1,800	9,224	(1,609)
Unassigned	<u>100,654</u>	<u>0</u>	<u>0</u>
<b>TOTAL FUND BALANCES</b>	<b><u>103,903</u></b>	<b><u>9,224</u></b>	<b><u>(1,609)</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 126,448</u></b>	<b><u>\$ 9,224</u></b>	<b><u>\$ 955</u></b>

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
4,042	48,224	22,939	0	117,141
0	0	0	0	73,861
3,252	13,553	959	6,909	41,389
0	0	0	0	2,564
0	1,590	0	0	3,040
<u>\$ 7,294</u>	<u>\$ 63,367</u>	<u>\$ 23,899</u>	<u>\$ 6,909</u>	<u>\$ 238,095</u>
\$ 0	\$ 0	\$ 0	\$ 0	\$ 22,540
0	0	0	0	2,564
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,104</u>
0	1,590	0	0	3,040
0	61,777	23,898	6,909	92,587
7,294	0	0	0	16,709
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>100,654</u>
<u>7,294</u>	<u>63,367</u>	<u>23,898</u>	<u>6,909</u>	<u>212,991</u>
<u>\$ 7,294</u>	<u>\$ 63,367</u>	<u>\$ 23,899</u>	<u>\$ 6,909</u>	<u>\$ 238,095</u>

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

June 30, 2012

<b>Total Fund Balance-Governmental Funds</b>	\$ 212,991
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>15,619</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 228,610</u></b>

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, 2012

	<u>General Fund</u>	<u>Assistive Technology Fund</u>	<u>BEST Fund</u>
<b>REVENUE</b>			
Grants and contributions:			
State of Tennessee	\$ 47,700	\$ 35,000	\$ 0
United Way	0	0	0
Local governments	0	0	0
Other contributions	0	7,317	0
Contract services	597,807	44,735	28,391
Interest	194	0	0
Training	2,400	0	0
Other income	4,286	1,429	0
	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUE</b>	652,386	88,481	28,391
<b>EXPENDITURES</b>			
Salaries	428,943	60,024	13,809
Contract services	15,724	3,545	0
Employment taxes	33,136	4,515	1,088
Retirement	31,666	4,590	0
Travel	28,230	5,327	0
Training	0	0	0
Staff development	644	0	0
Supplies and postage	7,912	2,557	26,150
Printing and publications	1,982	0	0
Rent	16,203	0	0
Utilities	2,683	0	0
Telephone	3,307	0	0
Insurance:			
Employee health	34,581	1,148	0
Workers' compensation	211	0	0
Liability	8,783	0	0
Professional services	4,725	0	0

Internship Consortium Fund	Early Intervention Fund Birth-To-Three Program			Totals
	Blount County	Loudon County	Monroe County	
\$ 0	\$ 133,461	\$ 14,544	\$ 20,063	\$ 250,768
0	57,656	10,988	625	69,269
0	0	3,000	3,000	6,000
119	6,601	517	25	14,580
121,876	0	0	0	792,809
0	0	0	0	194
0	0	0	0	2,400
0	9,174	0	0	14,888
121,995	206,891	29,049	23,714	1,150,907
96,672	147,314	22,371	18,008	787,140
1,686	0	0	0	20,955
7,118	11,126	1,855	1,378	60,217
1,086	6,713	1,130	1,366	46,550
6,188	8,009	1,547	878	50,179
625	0	0	0	625
0	366	0	0	1,010
293	11,642	1,239	1,241	51,034
0	125	0	0	2,107
0	12,600	0	0	28,803
0	0	0	0	2,683
0	2,346	196	196	6,045
0	8,524	572	475	45,300
0	981	139	119	1,450
111	700	0	0	9,594
0	0	0	0	4,725

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

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

(continued)

Year Ended June 30, 2012

	General Fund	Assistive Technology Fund	BEST Fund
<b>EXPENDITURES (continued)</b>			
Board	5,492	107	0
Bank fees	1,573	0	0
Capital outlay	0	0	0
Dues and licenses	9,400	90	1,777
<b>TOTAL EXPENDITURES</b>	<b>635,195</b>	<b>81,903</b>	<b>42,824</b>
<b>EXCESS(DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	17,191	6,578	(14,433)
<b>FUND BALANCES AT THE BEGINNING OF THE YEAR</b>	<b>86,712</b>	<b>2,646</b>	<b>12,824</b>
<b>FUND BALANCES AT THE END OF THE YEAR</b>	<b>\$ 103,903</b>	<b>\$ 9,224</b>	<b>\$ (1,609)</b>

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	
326	0	0	0	5,925
0	0	0	0	1,573
0	760	0	0	760
<u>6,078</u>	<u>835</u>	<u>0</u>	<u>53</u>	<u>18,232</u>
<u>120,184</u>	<u>212,041</u>	<u>29,049</u>	<u>23,714</u>	<u>1,144,908</u>
1,811	(5,150)	0	0	6,000
<u>5,482</u>	<u>68,517</u>	<u>23,898</u>	<u>6,909</u>	<u>206,994</u>
<u>\$ 7,293</u>	<u>\$ 63,367</u>	<u>\$ 23,898</u>	<u>\$ 6,909</u>	<u>\$ 212,991</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, 2012

<b>Excess of Revenue Over Expenditures-Governmental Funds</b>	\$ 6,000
<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>	
Acquisition of capital assets	760
Depreciation expense	<u>(4,969)</u>
<b>Change in Net Assets of Governmental Activities</b>	<u>\$ 1,791</u>

See the accompanying notes to the financial statements.

# LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

## **NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2012

### **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 fourteen (14) 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 nonfiduciary 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, 2012

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 (BEST) fund*, *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.

Governmental 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, 2012 has been calculated as follows:

Capital assets	\$ 74,381
Accumulated depreciation	<u>(58,761)</u>
	<u>\$ 15,619</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, 2012

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.

Fund Balances

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable Fund Balance

Fund balances reported as nonspendable in the accompanying financial statements represent amounts for prepaid expenses or inventory.

Restricted Fund Balance

Fund balances reported as restricted in the accompanying financial statements represent amounts restricted to specific purposes by externally imposed restrictions or imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balances reported as committed in the accompanying financial statements represent amounts that can be used only for the specific purposes determined by a formal action of the Cooperative’s highest level of decision-making authority. The Board of Directors commits resources for specific purposes by passing resolutions.

Assigned Fund Balance

Fund balances reported as assigned in the accompanying financial statements represent amounts that are constrained by the Cooperative’s intent to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by the Board of Directors through the budgetary process.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2012

Unassigned Fund Balance

In accordance with generally accepted accounting principles, the general fund is the only fund at the Cooperative that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the general fund.

The Cooperative would typically use restricted resources first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

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, 2012 was \$4,968.

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, nonprofessional 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, 2012

**NOTE C - CASH AND INVESTMENTS**

Cash and investments are stated at cost, which approximates market value. Carrying amounts at June 30, 2012, were as follows:

Cash on hand	\$ 100
Cash in bank	117,141
Local Government Investment Pool	<u>73,861</u>
Total	<u>\$ 191,102</u>

State of Tennessee law authorizes the Cooperative to invest in obligations of the United States or its agencies, nonconvertible 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 of Tennessee Local Government Investment Pool.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

As of June 30, 2012, all of the Cooperative's cash and investments were fully insured through the Federal Deposit Insurance Corporation.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2012

**NOTE D - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>Furniture and Equipment</u>	<u>Accumulated Depreciation</u>
Balance at July 1, 2011	\$ 73,621	\$ 53,793
Additions	<u>760</u>	<u>4,968</u>
Balance at June 30, 2012	<u>\$ 74,381</u>	<u>\$ 58,761</u>

**NOTE E - ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2012 consisted of amounts due to the Cooperative from contractual agreements and grantors as follows:

Grants	\$ 22,603
Contracted services	<u>18,786</u>
	<u>\$ 41,389</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, 2012

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.tn.gov/treasury/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, 2012 was 5.25% 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, 2012

Annual Pension Cost

For the year ended June 30, 2012, the Cooperative's annual pension cost of \$3,172 to TCRS was equal to the Cooperative's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 3.0% annual rate of inflation, (c) projected salary increases of 4.75% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% 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 ten-year period. The Cooperative's unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Plan Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$ 3,172	100%	\$ 0
6/30/11	1,543	100	0
6/30/10	3,158	100	0

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 90.5% funded. The actuarial accrued liability (AAL) for benefits was \$0.13 million, and the actuarial value of assets was \$0.12 million, resulting in a 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 21.15%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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, 2012

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 [www.tn.gov/treasury/tcrs/Schools](http://www.tn.gov/treasury/tcrs/Schools).

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 year ending June 30, 2012 was 9.05% 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, 2012, 2011, and 2010 were \$43,378, \$51,419 and \$42,311, respectively, equal to the required contributions for these years.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2012

**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.

REQUIRED SUPPLEMENTARY INFORMATION

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**FUNDING PROGRESS – POLITICAL SUBDIVISION**  
**PENSION PLAN SUPPLEMENTARY INFORMATION**

June 30, 2012

	7/1/11	7/1/09	7/1/07
Actuarial valuation date			
Actuarial value of plan assets	\$ 121,000	\$ 104,000	\$ 127,000
Actuarial accrued liability (AAL)	134,000	118,000	112,000
Unfunded AAL (UAAL)	13,000	13,000	0
Funded ratio	90.50%	88.65%	113.39%
Covered payroll	60,000	59,000	67,000
UAAL as a percentage of covered payroll	21.15%	22.68%	0

See the accompanying independent accountants' audit report.

OTHER SUPPLEMENTARY INFORMATION

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**BOARD OF DIRECTORS**

June 30, 2012

Mr. Wayne Miller	Director of Schools Lenoir City Schools	Chairman Board of Directors
Mr. Michael Lowry	Superintendent Monroe County Schools	Vice Chair 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. Bennie Moser	County Commissioner Monroe County	Member Board of Directors
Dr. Melanie Miller	Superintendent Sweetwater City Schools	Member Board of Directors
Mr. Jason Vance	Superintendent Loudon County Schools	Member Board of Directors
Mr. Janie Dacus	School Board Member Sweetwater City Schools	Member Board of Directors
Mr. Holden Lail	County Commissioner Blount County	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, 2012

Mr. Robert Greene	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
Dr. Brian Bell	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, 2012

<u>Description</u>	<u>Amount of Coverage</u>
Property insurance – fire and extended coverage on building and contents	\$ 165,989
Liability insurance:	
Comprehensive general	700,000
Automobile	700,000
Errors and omissions (\$1,000 deductible)	700,000
Employee dishonesty	150,000
Workers' compensation	
Employer liability - statutory	700,000

See the accompanying independent accountants' audit report.

LITTLE TENNESSEE VALLEY EDUCATIONAL COOPERATIVE

**EXPENDITURES OF FEDERAL AND STATE AWARDS**

Year Ended June 30, 2012

<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	N/A	Birth-To-Three Early Intervention Program	Tennessee Department of Education
DGA-C00024	84.393	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, 2011</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2012</u>
\$ 8,288	\$ 8,288	\$ 0	\$ 0
0	26,362	35,000	8,638
57,736	184,771	141,000	13,965
1,008	15,870	14,862	0
27,294	39,500	12,206	0
<u>2,252</u>	<u>49,952</u>	<u>47,700</u>	<u>0</u>
<u>\$ 96,579</u>	<u>\$ 324,743</u>	<u>\$ 250,768</u>	<u>\$ 22,603</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, 2012, which collectively comprise Little Tennessee Valley Educational Cooperative's basic financial statements and have issued our report thereon dated December 20, 2012. 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

Management of Little Tennessee Valley Educational Cooperative is responsible for establishing and maintaining effective 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 an 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 Little Tennessee Valley Educational Cooperative'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.

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

December 20, 2012