

**EAST TENNESSEE REGIONAL AGRIBUSINESS
MARKETING AUTHORITY**

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2014

**with
INDEPENDENT AUDITORS' REPORT**

**McFarland and Gann, P.C.
Certified Public Accountants
Jefferson City, Tennessee**

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
East Tennessee Regional Agribusiness Marketing Authority
White Pine, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of East Tennessee Regional Agribusiness Marketing Authority (the "Authority") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

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.

Auditors' Responsibility

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. 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Tennessee Regional Agribusiness Marketing Authority as of June 30, 2014, and the respective changes in net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The other information is presented for the purpose of additional information and is not a required part of the financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014 on our consideration of the East Tennessee Regional Agribusiness Marketing Authority's internal control over financial reporting and 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* in considering the East Tennessee Regional Agribusiness Marketing Authority's internal control over financial reporting and compliance.

McFarland and Gann, P.C.

November 19, 2014

**EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2014**

MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of East Tennessee Regional Agribusiness Marketing Authority’s (the “Authority”) financial performance provides an overview of the Authority’s financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Authority’s financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS OF THE AUTHORITY

- East Tennessee Regional Agribusiness Marketing Authority’s net position decreased by \$28,170 for the fiscal year ended June 30, 2014.
- During the fiscal year ended June 30, 2014, the Authority had operating expenses that were \$36,026 more than the \$112,491 generated in operating revenues.
- The Authority’s operating revenues increased by 16.44% for the fiscal year ended June 30, 2014, and its operating expenses increased by 4.99%.

USING THESE ANNUAL FINANCIAL STATEMENTS

East Tennessee Regional Agribusiness Marketing Authority is a public and governmental entity acting as an agent for the following counties: Claiborne, Cocke, Grainger, Greene, Hamblen, Hancock, Hawkins, Jefferson, Johnson, Sullivan, Unicoi, and Washington.

The Authority is an enterprise fund, operating much like a private-sector company and is considered a business-type activity. The Authority receives commissions from sales of agricultural products and rental income from various leases.

This annual report of the East Tennessee Regional Agribusiness Marketing Authority consists of a series of financial statements. The Statement of Net Position, the Statement of Revenues and Expenses and Changes in Net Position, and the Statement of Cash Flows (on pages 7-9) provide information about the Authority’s operations. These statements include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the Authority’s revenues and expenses for the year ended June 30, 2014 have been taken into account regardless of when cash was received or paid.

The Statement of Net Position and the Statement of Revenues and Expenses and Changes in Net Position report the Authority’s net position and changes in it. The term “net position” is the difference between assets and liabilities as of a certain point in time. The financial health, or *financial assets*, of the Authority can be measured, in part by the amount of its net position. Over time, increases or decreases in the Authority’s net position are one indicator of whether its financial health is improving or deteriorating. Of course, there are other non-financial factors in assessing the overall health of the Authority, such as providing a market for the farmers of the region to sell their products, and providing buyers a convenient place to purchase the products.

**EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2014**

AUTHORITY DETAILS

As previously stated, the Authority’s net position decreased by \$28,170 during the fiscal year ended June 30, 2014. The unrestricted net position – the part of the net position that can be used to finance day-to-day operations without constraints established by legal requirements - changed from \$305,961 at June 30, 2013 to \$354,854 at June 30, 2014, an increase of \$48,893. Operating expenses of the Authority have continued to exceed revenues.

The Authority’s primary purpose in providing the regional food distribution center is to further the economy and growth of the agricultural industry in the counties it serves. Management continually strives to find new markets and buyers for the products the farmers produce as well as encouraging farmers to bring their products to the center to sell.

The Authority also leases various portions of its buildings and land to several tenants. During the 2014 fiscal year, lease income totaled \$109,752, an increase of \$14,435 over the prior fiscal year.

Administrative costs decreased by \$6,301 for the year ended June 30, 2014.

The following tables summarize the Authority’s Net Position (Table 1) and Changes in Net Position (Table 2).

Table 1
Net Position

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 364,004	\$ 315,611
Capital assets	<u>4,400,245</u>	<u>4,477,308</u>
Total assets	4,764,249	4,792,919
Total liabilities	(9,150)	(9,650)
Net position		
Net investment in capital assets	4,400,245	4,477,308
Unrestricted	<u>354,854</u>	<u>305,961</u>
Total net position	<u>\$ 4,755,099</u>	<u>\$ 4,783,269</u>

**EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2014**

Table 2
Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Commissions	\$ 1,659	\$ 460
Lease income	109,752	95,317
Scale usage	930	810
Miscellaneous	<u>150</u>	<u>25</u>
Total operating revenues	112,491	96,612
Operating expenses:		
Bank charges	-	6
Contracted services	15,753	16,187
Utilities	2,688	2,550
Telephone	960	854
Insurance	10,363	11,896
Repairs and maintenance	9,936	10,325
Supplies	143	215
Professional services	4,997	9,034
Miscellaneous	195	269
Depreciation	<u>103,482</u>	<u>90,121</u>
Total operating expenses	<u>148,517</u>	<u>141,457</u>
Operating loss	(36,026)	(44,845)
Nonoperating revenues	<u>7,856</u>	<u>504</u>
Change in net position	<u>\$ (28,170)</u>	<u>\$ (44,341)</u>

CAPITAL ASSETS

At June 30, 2014, East Tennessee Regional Agribusiness Marketing Authority had \$5,817,060 invested in capital assets (before accumulated depreciation), the majority of which was invested in land and buildings (\$5,096,382). The remaining capital assets consisted of equipment. Net capital assets decreased by \$77,063 for the year ended June 30, 2014. The decrease was due to depreciation expense (\$103,482) exceeding capital asset purchases totaling \$26,419, including a new rack and transformer system and new concrete in one of the existing buildings.

**EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2014**

The following table summarizes the Authority’s capital assets for the years ended June 30, 2014 and 2013 (Table 3).

Table 3
Capital Assets at June 30, (net of depreciation)

	<u>2014</u>	<u>2013</u>
Land	\$ 463,549	\$ 463,549
Land improvements	2,506,093	2,506,093
Buildings	1,099,471	1,138,432
Equipment	<u>331,132</u>	<u>369,234</u>
Totals	<u>\$ 4,400,245</u>	<u>\$ 4,477,308</u>

ECONOMIC FACTORS

East Tennessee Regional Agribusiness Marketing Authority’s income is dependent upon maintaining operating leases and receiving produce from area farmers. If the Authority is unable to lease the property or if farmers are unable to supply the produce, then the Authority’s operations and income are limited.

CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and taxpayers with a general overview of the Authority’s finances and to show the Authority’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact East Tennessee Regional Agribusiness Marketing Authority’s business office at 1715 Garden Valley Drive, White Pine, Tennessee 37890.

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
STATEMENT OF NET POSITION
June 30, 2014

ASSETS

Current Assets	
Cash and cash equivalents	\$ 300,754
Prepaid insurance	<u>2,890</u>
Total Current Assets	303,644
Noncurrent Assets	
Utility deposits	360
Receivable from local governments	60,000
Capital assets	
Land	463,549
Land improvements	2,506,093
Building	2,126,740
Equipment	<u>720,678</u>
Total capital assets	5,817,060
Accumulated depreciation	<u>(1,416,815)</u>
Net capital assets	<u>4,400,245</u>
Total Noncurrent Assets	<u>4,460,605</u>
TOTAL ASSETS	<u>\$ 4,764,249</u>

LIABILITIES AND NET POSITION

Current Liabilities	
Current liabilities payable from current assets	
Accrued liabilities	\$ 7,300
Prepaid rent	<u>1,850</u>
Total Liabilities	9,150
Net Position	
Investment in capital assets	4,400,245
Unrestricted	<u>354,854</u>
Total Net Position	<u>4,755,099</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,764,249</u>

See notes to financial statements.

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
 STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
 Year Ended June 30, 2014

OPERATING REVENUES

Charges for sales and service	
Commissions on farm products sold	\$ 1,659
Lease income	109,752
Scale usage	930
Miscellaneous income	<u>150</u>

TOTAL OPERATING REVENUES 112,491

OPERATING EXPENSES

Administrative	
Contracted services	15,753
Utilities	2,688
Telephone	960
Insurance	10,363
Repairs and maintenance	9,936
Supplies	143
Professional services	4,997
Miscellaneous	<u>195</u>

Total Administrative 45,035

Depreciation 103,482

TOTAL OPERATING EXPENSES 148,517

OPERATING LOSS (36,026)

NON-OPERATING REVENUE

Interest income	356
Sale of parts	<u>7,500</u>

TOTAL NON-OPERATING REVENUE 7,856

CHANGE IN NET POSITION (28,170)

NET POSITION, JULY 1, 2013 4,783,269

NET POSITION, JUNE 30, 2014 \$ 4,755,099

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

Cash Flows From Operating Activities	
Cash received from sale of farm products	\$ 21,103
Cash received from lease income	109,752
Cash received from scale usage	930
Cash received from miscellaneous income	150
Cash payments for farm products	(19,444)
Cash payments to suppliers for goods and services	<u>(45,595)</u>
Net Cash Provided By Operating Activities	66,896
Cash Flows From Noncapital Financing Activities	-
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	(26,419)
Cash received from other governmental entities	58,350
Sale of parts	<u>7,500</u>
Net Cash Provided by Capital and Related Financing Activities	39,431
Cash Flows From Investing Activities	
Interest Income	<u>356</u>
Net Increase in Cash and Cash Equivalents	106,683
Cash and Cash Equivalents, July 1, 2013	<u>194,071</u>
Cash and Cash Equivalents, June 30, 2014	<u>\$ 300,754</u>
Reconciliation of Net Loss From Operations to Net Cash Provided by Operating Activities	
Operating loss	\$ (36,026)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	103,482
Increase in prepaid insurance	(60)
Decrease in accrued liabilities	<u>(500)</u>
Net Cash Provided by Operating Activities	<u>\$ 66,896</u>

See notes to financial statements.

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The East Tennessee Regional Agribusiness Marketing Authority (the “Authority”) was created in 1998 under Title 64 of the Code of the State of Tennessee. The Authority was created as a public and governmental body acting as an agent and instrumentality of the counties with respect to which the authority is organized. The purpose of the Authority is to establish and operate a market for agricultural products of the region through a food distribution center, to provide farmers of the region with a ready market for agricultural products, and to provide the citizens of the region and other buyers a convenient place to purchase these products. The financial statements of the Authority conform to generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Authority are described below.

Basis of Presentation

The Authority is governed by a Board of Directors consisting of the county mayor of each county, or the county mayor’s designee. The following counties comprise the authority: Claiborne, Cocke, Grainger, Greene, Hamblen, Hancock, Hawkins, Jefferson, Johnson, Sullivan, Unicoi and Washington. The Authority’s board also has (2) non-voting members including the Commissioner of the Department of Agriculture or the commissioner’s designee, and the Dean of the University of Tennessee Agricultural Extension Service, or the dean’s designee. The board has an executive committee consisting of the chairman, vice chairman, secretary, treasurer, and the center manager as an ex officio member. The executive committee is authorized to act on behalf of the board in the day to day operations of the authority.

The Authority operates as a governmental enterprise fund, used for activities which are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Accounting Changes

GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, became effective for the year ended June 30, 2013. This statement incorporates into GASB’s literature the provisions in FASB Statements and Interpretations, Accounting Principles

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed. This applies to business-type activities and proprietary fund types. This Statement did not have any significant effect on the Authority's financial statements.

Definition of Operating Activities

The Authority considers operating revenues and expenses to be those that result from providing a market for agricultural products of the region and from the lease of other commercial property owned by the Authority.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurement made, regardless of the measurement focus applied.

The Authority's records are accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recorded when they are earned, and expenses are recorded at the time liabilities are incurred.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents includes bank demand deposits and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets owned by the Authority are recorded at cost. Repairs and maintenance are recorded as expenses. Betterments and renewals are capitalized. Depreciation of fixed assets is charged as an expense against its operations. Accumulated depreciation is reported on the balance sheet.

The Authority has provided for depreciation over the estimated useful lives of assets using the straight line method. The estimated useful lives are as follows:

Buildings	40 years
Equipment	5 - 20 years

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2014

Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles 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 income and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

The Authority maintained checking and savings accounts at Community National Bank during the year ended June 30, 2014. State law requires deposits of the Authority's funds to be insured or collateralized. At June 30, 2014 the Authority had deposits totaling \$300,754. All funds held in the bank were adequately insured.

NOTE C – RESTRICTED NET POSITION

The Authority had no restricted net position at June 30, 2014.

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 is as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2014</u>
Non-depreciable assets:				
Land	\$ 463,549	\$ -	\$ -	\$ 463,549
Land improvements	<u>2,506,093</u>	<u>-</u>	<u>-</u>	<u>2,506,093</u>
Total non-depreciable assets	2,969,642	-	-	2,969,642
Depreciable assets:				
Buildings	2,112,635	14,105	-	2,126,740
Equipment	<u>708,364</u>	<u>12,314</u>	<u>-</u>	<u>720,678</u>
Total depreciable assets	2,820,999	26,419	-	2,847,418
Less accumulated depreciation for:				
Buildings	974,204	53,065	-	1,027,269
Equipment	<u>339,129</u>	<u>50,417</u>	<u>-</u>	<u>389,546</u>
Total accumulated depreciation	<u>1,313,333</u>	<u>103,482</u>	<u>-</u>	<u>1,416,815</u>
Total net depreciable assets	<u>1,507,666</u>	<u>(77,063)</u>	<u>-</u>	<u>1,430,603</u>
Total net capital assets	<u>\$ 4,477,308</u>	<u>\$ (77,063)</u>	<u>\$ -</u>	<u>\$ 4,400,245</u>

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE E - RISK FINANCING ACTIVITIES

The Authority is exposed to various risks related to general liability and property and casualty losses. The Authority carries commercial insurance to cover their risks related to general liability, property and casualty and officers and directors.

Settled claims have not exceeded their commercial coverage in any of the past three years.

NOTE F – LEASING OPERATIONS AND GEOGRAPHICAL RISK

The Authority receives a major portion of its income from leasing real estate. The lease periods are normally for a period of one year.

Also, the Authority's operations are centered in the Upper East Tennessee region and are dependent on farmers of the area providing produce for sale at the market.

NOTE G – REGIONAL SEWER SYSTEM IMPLEMENTATION STUDY PLAN

In April of 2011, East Tennessee Regional Agribusiness Marketing Authority applied for a Rural Business Enterprise Grant. The purpose of the grant was for an implementation study plan for a regional sanitary sewer system. The project was estimated to cost \$150,000 with \$90,000 coming from the federal grant and \$60,000 from local sources. East Tennessee Regional Agribusiness Marketing Authority agreed to fund up to \$150,000 of the cost. The grant funds and funds from the local governments, which would benefit from the prospective sewer system, would be used to repay East Tennessee Regional Agribusiness Marketing Authority. During the year ended June 30, 2014, East Tennessee Regional Agribusiness Marketing Authority received \$58,350 from USDA. The remaining receivable shown on the Authority's Statement of Net Position at June 30, 2014 was \$60,000.

EAST TENNESSEE REGIONAL AGRIBUSINESS MARKETING AUTHORITY
OTHER INFORMATION
AUTHORITY DIRECTORS AND OFFICERS (Unaudited)

Jack Daniels
Alan Broyles
Melville Bailey
Steve M. Godsey
Vaughn Moore
Alan Palmieri
Greg Lynch
Bill Brittain
Mark Hipsher
Thomas Harrison
Larry Potter
Mike Williams

Claiborne County
Greene County
Hawkins County
Sullivan County
Cocke County
Jefferson County
Unicoi County
Hamblen County
Grainger County
Hancock County
Johnson County
Union County

Terry Oliver

Tennessee Commissioner of Agriculture

Cornell Howard

Manager

**INDEPENDENT AUDITORS' 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
East Tennessee Regional Agribusiness Marketing Authority
White Pine, Tennessee

We have audited, in accordance with the 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, the financial statements of East Tennessee Regional Agribusiness Marketing Authority, as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the East Tennessee Regional Agribusiness Marketing Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the East Tennessee Regional Agribusiness Marketing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the East Tennessee Regional Agribusiness Marketing Authority's internal control.

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 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Tennessee Regional Agribusiness Marketing Authority'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of management, others within the organization, The Board of Directors of East Tennessee Regional Agribusiness Marketing Authority, the State of Tennessee, Division of Municipal Audit, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McFarland and Gann, P.C.

November 19, 2014