

AGRICENTER INTERNATIONAL, INC.

(A Component Unit of Shelby County Tennessee)

Financial Statements

June 30, 2010 and 2009

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Independent Auditor's Report

To the Board of Directors
Agricenter International, Inc.
Memphis, Tennessee

We have audited the accompanying statements of net assets of Agricenter International, Inc. (a component unit of Shelby County, Tennessee) (the "Agricenter") as of June 30, 2010 and 2009, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of Agricenter's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and those 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 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Agricenter International, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2010, on our consideration of Agricenter International, Inc.'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 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 result of our audits.

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Frazee Ivy Davis PLC
December 10, 2010

Introduction

The Management Discussion and Analysis provides an overview of the financial position and results of Agricenter International, Inc. (the "Agricenter") for the year ended June 30, 2010. It has been prepared by management and is required supplemental information to the financial statements and footnotes that follow this section. Comparative information for the year ended June 30, 2009 has been provided in a few select instances.

The referenced financial statements were prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board. Agricenter International, Inc. is a component unit of Shelby County Tennessee. Shelby County issues consolidated financial statements which include Agricenter International, Inc.

Agricenter International, Inc. is a self-sustaining, not-for-profit organization that provides economic development and improved quality of life by facilitating agricultural research, educational programs, environmental conservation, natural area preservation and recreational opportunities.

Financial Highlights

The financial position of Agricenter has remained strong through 2009-2010. At June 30, 2010, we had total assets of \$2.014 million, liabilities of \$571,000 and net assets of \$1.443 million. Agricenter's decrease in net assets for the year ended June 30, 2010 was \$14,000 compared to a \$263,000 decrease for the year ended June 30, 2009. Depreciation expense for the year ended June 30, 2010 was \$205,000. The current year decrease in net assets includes a loss from Show Place Arena operations of \$153,000 in the fifth full year of the management agreement with the Shelby County Government. Total expenses for the year ended June 30, 2010 increased by 3.77% over the prior year.

As a result of a wage and hour audit by the U. S. Department of Labor during the year ended June 30, 2010, it was determined that Agricenter owed certain employees additional overtime compensation that was incurred from 2008 through 2010. The additional compensation and payroll taxes totaled approximately \$40,000.

Debt outstanding at June 30, 2010 totaled \$108,000 compared to \$15,000 as of June 30, 2009. Agricenter had outstanding borrowings under its line of credit with Regions Bank of \$66,000 at June 30, 2010. In addition, Agricenter entered into a \$40,000 term loan with Regions Bank in order to purchase farm equipment during the year ended June 30, 2010.

Total revenues for the year ended June 30, 2010 were up by \$378,000 over the prior year. The increase in revenues was led by an increase in farm and farm research revenue of \$257,000, an increase in rental and lease revenue of \$41,000, and an increase in program and special events revenue of \$56,000. The increase in farm and farm research revenue was due primarily to an increase in the number of farm research projects conducted during the year ended June 30, 2010. The following table highlights each cost center within Agricenter for the years ended June 30, 2010 and 2009:

<u>Cost Center Name</u>	<u>2010</u>	<u>2009</u>	<u>Change</u>
General administration	\$ (608,591)	\$ (608,687)	\$ 96
Agricenter/Corridor	62,833	77,632	(14,799)
Farmers Market	8,205	(7,565)	15,770
Farm	(19,410)	(12,312)	(7,098)
Land leases/Catch'em Lake	311,761	305,659	6,102
Farm research	248,637	35,174	213,463
Show Place Arena	(181,084)	(134,373)	(46,711)
RV Park	163,158	81,723	81,435
Decrease in net assets	<u>\$ (14,491)</u>	<u>\$ (262,749)</u>	<u>\$ 248,258</u>

Statement of Net Assets

The statement of net assets represents the financial position of Agricenter at the end of the fiscal year and includes all assets and liabilities. Total assets increased by 2.45%. This includes a decrease in cash and cash equivalents of 22.19% and an increase in accounts receivable of 275.40% compared to prior year. Capital assets are down over the prior year by 7.52%. Capital asset additions for the year totaled \$79,000, and depreciation expense for the year totaled \$205,000.

Total liabilities increased by 12.32% in the current year, and, as previously mentioned, include \$66,000 in outstanding borrowings under Agricenter's line of credit with Regions Bank, as well as, \$41,000 in notes payable. The following table summarizes the statement of net assets:

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>% Change</u>
Current assets	\$ 464,338	\$ 290,291	\$ 174,047	59.96%
Capital assets	<u>1,549,219</u>	<u>1,675,185</u>	<u>(125,966)</u>	<u>-7.52%</u>
Total assets	<u>\$ 2,013,557</u>	<u>\$ 1,965,476</u>	<u>\$ 48,081</u>	<u>2.45%</u>
Debt outstanding	\$ 107,522	\$ 15,499	\$ 92,023	593.74%
Other liabilities	<u>463,050</u>	<u>492,501</u>	<u>(29,451)</u>	<u>-5.98%</u>
Total liabilities	<u>\$ 570,572</u>	<u>\$ 508,000</u>	<u>\$ 62,572</u>	<u>12.32%</u>
Invested in capital assets, net of related debt	\$ 1,507,929	\$ 1,659,686	\$ (151,757)	-9.14%
Unrestricted	(64,944)	(234,246)	169,302	-72.28%
Temporarily restricted	<u>-</u>	<u>32,036</u>	<u>(32,036)</u>	<u>-100.00%</u>
Total net assets	<u>\$ 1,442,985</u>	<u>\$ 1,457,476</u>	<u>\$ (14,491)</u>	<u>-0.99%</u>

Statement of Activities

The statement of activities presents Agricenter's financial activity for the year.

Agricenter has a diverse revenue stream, which helps during economic downturns or when crop yields decrease. Total revenue for the year ended June 30, 2010 was \$3.569 million or 11.86% more than the prior year largely due to a \$257,000 increase in farm and farm research revenue. Event revenue from the Agricenter Expo Center and the Show Place Arena increased by \$55,000 compared to the prior year. Office and land rents were down by \$7,000 compared to prior year, and Catch'em Lake revenue increased by \$5,000 compared to the prior year.

Expenses for the year ended June 30, 2010 increased by 3.77% due mainly to increases in fertilizer prices, utilities, and payroll expenses. Expenses also include \$47,000 in bad debt write-offs for the year ended June 30, 2010. The bad debt expense is largely the result of a tenant going out of business.

The following table summarizes the statement of activities:

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>% Change</u>
Rental and program revenues	\$ 2,532,151	\$ 2,435,124	\$ 97,027	3.98%
Farm and research revenue	920,996	663,605	257,391	38.79%
Other revenue	59,946	57,399	2,547	4.44%
Total operating revenues	3,513,093	3,156,128	356,965	11.31%
Operating expenses, excluding farm and depreciation expenses	2,780,667	2,698,119	82,548	3.06%
Farm and farm research expenses	509,058	516,626	(7,568)	-1.46%
Depreciation expense	205,104	215,125	(10,021)	-4.66%
Total operating expenses	3,494,829	3,429,870	64,959	1.89%
Operating income (loss)	18,264	(273,742)	292,006	-106.67%
Change in restricted net assets	(32,036)	1,943	(33,979)	-1748.79%
Other income (expense)	(719)	9,050	(9,769)	-107.94%
Change in net assets	(14,491)	(262,749)	282,237	-107.42%
Beginning net assets	1,457,476	1,720,225	(262,749)	-15.27%
Ending net assets	<u>\$ 1,442,985</u>	<u>\$ 1,457,476</u>	<u>\$ (14,491)</u>	<u>-0.99%</u>

Capital Assets

To date, Agricenter has invested \$4.373 million in capital assets that include leasehold improvements, buildings, farm equipment, landscaping equipment, office equipment and vehicles. Gross capital assets increased by \$79,000 largely due to \$19,000 in leasehold improvements and \$45,000 in farm equipment purchases. Agricenter depreciates capital assets over their estimated useful lives using the straight line method. The following table summarizes Agricenter's capital assets:

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>% Change</u>
Buildings	\$ 857,895	\$ 857,895	\$ -	0.00%
Leasehold improvements	2,544,417	2,524,920	19,497	0.77%
Farm equipment	222,371	177,149	45,222	25.53%
Landscaping and other equipment	359,408	352,087	7,321	2.08%
Donated equipment	134,197	134,197	-	0.00%
Office equipment	178,734	178,107	627	0.35%
Vehicles	75,857	69,386	6,471	9.33%
Subtotal	4,372,879	4,293,741	79,138	1.84%
Depreciation	(2,823,660)	(2,618,556)	(205,104)	7.83%
Net capital assets	<u>\$ 1,549,219</u>	<u>\$ 1,675,185</u>	<u>\$ (125,966)</u>	<u>-7.52%</u>

Contacting the Agricenter International, Inc. Management

This financial report is designed to provide the public with a general overview of the Agricenter's finances. The management of Agricenter International, Inc. may be contacted at the following:

7777 Walnut Grove Road
Memphis, TN 38120
(901) 757-7777
www.agricenter.org

AGRICENTER INTERNATIONAL, INC.

(A Component Unit of Shelby County Tennessee)

Statements of Net Assets**June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 143,662	\$ 184,636
Accounts receivable, net	246,044	65,541
Insurance claim receivable	57,570	-
Prepaid expenses	12,730	35,425
Inventory, at cost	<u>4,332</u>	<u>4,689</u>
Total current assets	464,338	290,291
Capital assets, net of accumulated depreciation	<u>1,549,219</u>	<u>1,675,185</u>
Total assets	<u><u>\$ 2,013,557</u></u>	<u><u>\$ 1,965,476</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 184,210	\$ 238,562
Accrued expenses	148,870	149,054
Deferred income	80,500	70,280
Security deposits	49,470	34,605
Line of credit	66,232	-
Current maturities of notes payable	<u>14,209</u>	<u>8,778</u>
Total current liabilities	543,491	501,279
Long-term liabilities		
Notes payable, net of current maturities	<u>27,081</u>	<u>6,721</u>
Total liabilities	570,572	508,000
Net assets		
Invested in capital assets, net of related debt	1,507,929	1,659,686
Restricted for education	-	32,036
Unrestricted deficit	<u>(64,944)</u>	<u>(234,246)</u>
Total net assets	<u>1,442,985</u>	<u>1,457,476</u>
Total liabilities and net assets	<u><u>\$ 2,013,557</u></u>	<u><u>\$ 1,965,476</u></u>

AGRICENTER INTERNATIONAL, INC.**(A Component Unit of Shelby County Tennessee)*****Statements of Activities******For the years ended June 30, 2010 and 2009***

	<u>2010</u>	<u>2009</u>
Operating revenue		
Rental and lease revenue	\$ 1,222,548	\$ 1,181,188
Program and special events	1,309,603	1,253,936
Farm and research revenue	920,996	663,605
Other revenue	<u>59,946</u>	<u>57,399</u>
Total operating revenue	<u>3,513,093</u>	3,156,128
Operating expenses	<u>3,494,829</u>	<u>3,429,870</u>
Operating income (loss)	<u>18,264</u>	<u>(273,742)</u>
Other income (expenses)		
Interest income	5,966	11,508
Interest expense	<u>(6,685)</u>	<u>(2,458)</u>
Total other income (expense)	<u>(719)</u>	<u>9,050</u>
Change in unrestricted net assets	<u>17,545</u>	<u>(264,692)</u>
Restricted		
Contributions	49,747	22,789
Education expense	<u>(81,783)</u>	<u>(20,846)</u>
Change in restricted net assets	<u>(32,036)</u>	<u>1,943</u>
Decrease in net assets (as restated in 2009)	<u>(14,491)</u>	<u>(262,749)</u>
Net assets, as previously reported	1,476,873	1,720,225
Prior period adjustment	<u>(19,397)</u>	<u>-</u>
Net assets, beginning of year, as restated	<u>1,457,476</u>	<u>1,720,225</u>
Net assets, end of year	<u>\$ 1,442,985</u>	<u>\$ 1,457,476</u>

AGRICENTER INTERNATIONAL, INC.

(A Component Unit of Shelby County Tennessee)

Statement of Cash Flows

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,025,384	\$ 1,740,108
Receipts from programs and special events	1,324,468	1,210,462
Interest received	5,966	11,508
Payments to suppliers	(2,107,720)	(1,738,047)
Payments to employees	(1,295,272)	(1,239,619)
Interest paid	<u>(6,685)</u>	<u>(2,458)</u>
Net cash used in operating activities	<u>(53,859)</u>	<u>(18,046)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(79,138)	(89,941)
Net advances on line of credit	66,232	-
Proceeds from note payable	40,000	-
Principal payments on notes payable	<u>(14,209)</u>	<u>(19,770)</u>
Net cash provided by (used in) capital and related financing activities	<u>12,885</u>	<u>(109,711)</u>
Change in cash and cash equivalents	(40,974)	(127,757)
Cash and cash equivalents, beginning of year	<u>184,636</u>	<u>312,393</u>
Cash and cash equivalents, end of year	<u>\$ 143,662</u>	<u>\$ 184,636</u>
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ (14,491)	\$ (262,749)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	205,104	215,125
Bad debts	46,317	2,900
Decrease (increase) in operating assets		
Accounts receivable	(226,820)	23,420
Insurance claim receivable	(57,570)	-
Prepaid expenses	22,695	(14,046)
Inventory	357	(2,846)
Increase (decrease) in operating liabilities		
Accounts payable	(54,352)	72,196
Accrued expenses	(184)	12,240
Deferred income	10,220	(64,286)
Security deposits	<u>14,865</u>	<u>-</u>
Net cash used in operating activities	<u>\$ (53,859)</u>	<u>\$ (18,046)</u>

See accompanying notes to the financial statements and independent auditor's report.

Note 1 – Summary of significant accounting policies*Organization and nature of operations*

Agricenter International, Inc. (the "Agricenter") is a self-sustaining, not-for-profit organization that provides economic development and improved quality of life by facilitating agricultural research, educational programs, environmental conservation, natural area preservation, and recreational opportunities. The activities of the Agricenter are overseen by the Shelby County Agricenter Commission, a commission created by the State of Tennessee and approved by vote of the Board of Commissioners of Shelby County. Shelby County provides for Agricenter's structural insurance for buildings on the grounds. The Agricenter insures and pays all other types of insurance and maintenance of the buildings and grounds. The Agricenter's financial statements are reported as a component unit of Shelby County, Tennessee.

Governmental accounting standards

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board ("GASB") is the established and recognized standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by the Agricenter.

Private-sector accounting standards are established by the Financial Accounting Standards Board ("FASB"). FASB standards issued on or before November 30, 1989, are generally followed for the financial statements to the extent those standards do not conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, paragraph 7, governments have the option to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Agricenter has elected not to apply subsequent FASB standards.

Measurement focus, basis of accounting and financial statement presentation

The Agricenter's financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Lease revenues are recognized at the beginning of each month as they become due. Revenue from event rental is recognized when earned. Sales of crops are recognized when the crops are sold. Donations are recorded at fair value and are recognized when contributed.

Cash and cash equivalents

For statement of cash flow purposes, Agricenter considers all cash accounts, which are not subject to significant withdrawal restrictions or penalties, and highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents. At June 30, 2010 and 2009, cash and cash equivalents included certificates of deposit of \$122,722 and \$163,381, respectively.

Accounts receivable

Agricenter records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific accounts and general reserve based upon aging of outstanding balances. Past due balances of delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. The allowance for doubtful accounts was \$7,610 and \$7,859 at June 30, 2010 and 2009, respectively.

Note 1 –Summary of significant accounting policies (continued)*Inventory*

Inventory is valued at the lower of cost or market as determined by the first-in, first-out method.

Capital assets

Capital assets are stated at acquisition cost, if purchased, and estimated fair value at the date of the contribution, if contributed. Major renewals and betterments that extend the useful lives of assets are also recorded at cost. Expenditures for normal repair and maintenance are expensed as they occur. Depreciation is determined using various methods over the estimated useful lives of the assets, which range from 3 to 30 years. Depreciation expense was \$205,104 and \$215,125 for the years ended June 30, 2010 and 2009, respectively.

Compensated absences

Agricenter employees are granted sick and annual leave in varying amounts in accordance with administrative policies. Accumulated vacation days in excess of five days are required to be used annually. Upon termination of employment, unused accumulated vacation up to fifteen days will be paid.

Deferred revenue

Deferred revenue includes amounts that were unearned at year end. Deferred revenues primarily include unearned revenues from amounts received in advance for rent of facilities and land.

In-kind contributions

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skill, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donations of capital assets are recorded as unrestricted contributions at the date of donation unless the donor has restricted the donated asset to a specific purpose. During the year ended June 30, 2009, Agricenter received \$19,730 in donated advertising services.

Advertising costs

All advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2010 and 2009 was \$15,168 and \$25,530, respectively.

Concentration of risk

The Agricenter maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Agricenter has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk for cash and cash equivalents.

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

Note 1 – Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the June 30, 2009 financial statement presentation to correspond to the current year’s format. Net assets and changes in net assets are unchanged due to these reclassifications.

Subsequent events

Management has evaluated subsequent events through December 10, 2010, the date the financial statements were available to be issued.

Note 2 – Capital assets

Summaries of changes in Agricenter’s capital assets at June 30, 2010 are as follows:

	<u>Balance 6/30/09</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 6/30/10</u>
Buildings	\$ 857,895	\$ -	\$ -	\$ 857,895
Leasehold improvements	2,524,920	19,497	-	2,544,417
Farm equipment	177,149	45,222	-	222,371
Donated equipment	134,197	-	-	134,197
Landscaping and other equipment	352,087	7,321	-	359,408
Office equipment	178,107	627	-	178,734
Vehicles	<u>69,386</u>	<u>6,471</u>	<u>-</u>	<u>75,857</u>
Total capital assets	<u>4,293,741</u>	<u>79,138</u>	<u>-</u>	<u>4,372,879</u>
 Less accumulated depreciation:				
Buildings	434,906	27,292	-	462,198
Leasehold improvements	1,554,921	116,715	-	1,671,636
Farm equipment	124,467	10,016	-	134,483
Donated equipment	81,489	5,647	-	87,136
Landscaping and other equipment	218,936	30,692	-	249,628
Office equipment	152,701	8,365	-	161,066
Vehicles	<u>51,136</u>	<u>6,377</u>	<u>-</u>	<u>57,513</u>
	<u>2,618,556</u>	<u>205,104</u>	<u>-</u>	<u>2,823,660</u>
 Net capital assets	 <u>\$ 1,675,185</u>	 <u>\$ (125,966)</u>	 <u>\$ -</u>	 <u>\$ 1,549,219</u>

Note 2 – Capital assets (continued)

Summaries of changes in Agricenter’s capital assets at June 30, 2009 are as follows:

	Balance 6/30/08	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 6/30/09
Buildings	\$ 857,895	\$ -	\$ -	\$ 857,895
Leasehold improvements	2,466,766	58,154	-	2,524,920
Farm equipment	161,149	16,000	-	177,149
Donated equipment	134,197	-	-	134,197
Landscaping and other equipment	342,802	9,285	-	352,087
Office equipment	171,605	6,502	-	178,107
Vehicles	69,386	-	-	69,386
Total capital assets	<u>4,203,800</u>	<u>89,941</u>	<u>-</u>	<u>4,293,741</u>
Less accumulated depreciation:				
Buildings	406,936	27,970	-	434,906
Leasehold improvements	1,434,162	120,759	-	1,554,921
Farm equipment	115,449	9,018	-	124,467
Donated equipment	75,005	6,484	-	81,489
Landscaping and other equipment	186,442	32,494	-	218,936
Office equipment	140,237	12,464	-	152,701
Vehicles	45,200	5,936	-	51,136
	<u>2,403,431</u>	<u>215,125</u>	<u>-</u>	<u>2,618,556</u>
Net capital assets	<u>\$ 1,800,369</u>	<u>\$ (125,184)</u>	<u>\$ -</u>	<u>\$ 1,675,185</u>

Note 3 – Notes payable

Notes payable at June 30, 2010 and 2009, consisted of the following:

	<u>2010</u>	<u>2009</u>
Note payable to Regions Bank, 6.25% interest, due in monthly installments of \$795 principal and interest, maturing December 28, 2011, secured by inventory, accounts, equipment, and fixtures.	\$ 6,690	\$ 15,499
Note payable to Regions Bank, 4.95% interest, due in monthly installments of \$755 principal and interest, maturing September 25, 2014, secured by inventory, accounts, equipment, and fixtures.	<u>34,600</u>	<u>-</u>
Total notes payable	41,290	15,499
Less current maturities	<u>14,209</u>	<u>8,778</u>
Notes payable, net of current maturities	<u>\$ 27,081</u>	<u>\$ 6,721</u>

Future scheduled maturities payable at June 30, 2010, are as follows:

<u>Year ending June 30,</u>	
2011	\$ 14,209
2012	7,900
2013	8,300
2014	8,720
2015	<u>2,161</u>
	<u>\$ 41,290</u>

Note 4 – Line of credit

The Agricenter has \$183,768 of credit available at June 30, 2010 under a \$250,000 revolving line of credit agreement with a financial institution. Interest is payable monthly at the bank’s prime rate plus one percent (4.25% at June 30, 2010). The credit line is secured by the inventory, accounts, equipment, and fixtures of the Agricenter.

Note 5 – Lease income

The Agricenter leases land, buildings, and office space under noncancellable operating leases that expire on various dates through 2015. The leases require fixed lease payments plus subsequent adjustments based on the prior year’s consumer price index. The Agricenter also leases a cell tower under two noncancellable operating leases that expire on various dates through 2020. One tower lease requires fixed lease payments, and the other tower lease requires fixed lease payments plus a percentage of the rental amounts received from all parties utilizing the tower.

Note 5 – Lease income (continued)

Future minimum rentals from noncancellable operating leases are as follows:

<u>Year ending June 30,</u>	
2011	\$ 833,022
2012	495,979
2013	290,050
2014	152,172
2015	118,010
Thereafter	<u>60,000</u>
	<u><u>\$ 1,949,233</u></u>

Note 6 – Lease agreement with Shelby County Agricenter Commission

The Agricenter leases approximately 1,000 acres, which includes the main building, farmers markets, farm shop, and recycling plant located at Shelby Farms, from the Shelby County Agricenter Commission. The lease agreement provides that the Agricenter will pay annually a minimum rent of \$1. The term of the lease is for a period of ten years beginning February 1, 2005, with three additional ten-year renewal options. This in-kind donation and related expense have not been reflected in the financial statements.

Additional payments of \$20,000 annually paid to the Agricenter Commission are to be used for repairs and maintenance to the Agricenter facility or other purposes as determined by the Commission that comply with the mission of the Agricenter. This contingency fund will be paid to a maximum of \$200,000.

Note 7 – Agreement with Shelby County

The Agricenter entered into a one-year lease with Shelby Farms Park on February 1, 2010 concerning approximately 300 acres of farmland located at Shelby Farms. The agreement includes an option to renew for one additional one-year period and allows for the Agricenter to farm this land with annual rent due to Shelby Farms Park of \$4,000.

The Agricenter has a management agreement with Shelby County Government to manage the Show Place Arena. The term of this contract began on January 1, 2009 and continues through December 31, 2013. The contract may be extended upon mutual written consent of the parties for three additional five-year renewal periods. The contract provides that any profits realized by Agricenter from the operation of the Show Place Arena will be used to make up any accumulated operating deficits incurred by Agricenter. Profits above and beyond the forgoing will be used to improve the Show Place Arena.

Note 8 – Retirement plans

The Agricenter sponsors a 401(a) Retirement Plan to provide retirement benefits for employees who meet certain eligibility requirements. The Agricenter contributes 4% of each participant’s gross wages into the Plan. Participating employees become vested in employer contributions over a six year period. Agricenter’s contributions during the years ended June 30, 2010 and 2009 were \$40,378 and \$36,098, respectively. Effective July 1, 2006, Agricenter sponsored a 401(k) retirement plan under which employees may defer a portion of compensation in an amount not to exceed the annual statutory limits of the Internal Revenue Code.

Note 9 – Risk management

It is the policy of the Agricenter to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker’s compensation, employee health and accident, and environmental. Payments of premiums for these policies are recorded as expenses of the Agricenter. Buildings included in the lease from the Shelby County Agricenter Commission are insured by Shelby County. Insurance settlements have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in coverage compared to prior years.

Note 10 – Operating expenses

Operating expenses for the years ended June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Salaries	\$ 1,295,088	\$ 1,250,480
Utilities and waste disposal	457,706	475,051
Farm expenses	356,551	344,393
Employee benefits and taxes	350,860	344,721
Landscaping, repairs, maintenance, and supplies	256,262	255,122
Depreciation	205,104	215,125
Insurance	142,103	133,001
Program and special events	101,326	78,141
Telephone	53,744	44,124
Legal and professional	47,413	42,658
Bad debts	46,317	2,900
Education	42,944	81,285
Janitorial	38,253	39,239
Travel	20,114	18,377
Office and computer supplies	17,944	16,515
Advertising, marketing, and promotion	15,168	25,530
Seminars and meeting	14,231	17,791
Rent, equipment	12,288	20,515
Miscellaneous	9,117	8,309
Taxes and licenses	4,969	7,048
Security	3,724	4,132
Contract labor	2,090	2,478
IT supplies	<u>1,513</u>	<u>2,935</u>
 Total operating expenses	 <u>\$ 3,494,829</u>	 <u>\$ 3,429,870</u>

Note 11 – Related party transactions

Agricenter conducts transactions with companies that are affiliated with members of the Board. As of and for the year ended June 30, 2010, Agricenter’s financial statements include the following related party transactions:

	<u>2010</u>
Accounts receivable, net	<u>\$ 8,879</u>
Accounts payable	<u>\$ 48,506</u>
Rental and lease revenue	<u>\$ 22,658</u>
Program and special events	<u>\$ 21,289</u>
Restricted contributions	<u>\$ 5,000</u>
Operating expenses	<u>\$ 158,964</u>

Note 12 – Prior period adjustment

During the year ended June 30, 2010, management determined that accrued salaries and payroll taxes were understated at June 30, 2009. Consequently, the prior year financial statements have been restated to reflect the accrual of additional salaries and payroll taxes. The effect of this restatement was to increase accrued expenses and decrease the change in net assets by \$19,397.

The following summarizes the effect of prior period adjustment:

	<u>As previously stated</u>	<u>As restated</u>	<u>Effect of restatement</u>
Statement of net assets at June 30, 2009:			
Accrued expenses	\$ 129,657	\$ 149,054	\$ 19,397
Net assets	1,476,873	1,457,476	(19,397)
 Statement of activities for the year ended June 30, 2009:			
Salaries	\$ 1,232,462	\$ 1,250,480	\$ 18,018
Employee benefits and taxes	343,342	344,721	1,379
Change in net assets	(243,352)	(262,749)	(19,397)



INDEPENDENT AUDITOR'S 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
Agricenter International, Inc.
Memphis, Tennessee

We have audited the financial statements of Agricenter International, Inc. (the Agricenter) (a component unit of Shelby County, Tennessee) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 10, 2010. 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 the Agricenter's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agricenter's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agricenter'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 the 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. However, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses:

Information and communication

During our audit, we noted a lack of adequate communication and coordination between accounting personnel and various departments with respect to the scope and timing of customer arrangements, including the proper identification of all undelivered obligations that may affect revenue recognition in order to ensure that related revenues were accurately recorded in accordance with generally accepted accounting principles.

Accounts payable

During our search for unrecorded liabilities, we discovered several invoices included in the "unprocessed invoice" file dated prior to year end that had not been recorded to the general ledger. All unprocessed invoices should be recorded in a timely manner to ensure transactions are being recorded in the proper accounting period. We recommend the controller verify that all unprocessed invoices have been recorded as a step in the financial close process.

Recording of restricted activities

We discovered that restricted contributions and the related expenditures to satisfy the restrictions were being recorded in the statement of net assets. In order to be consistent with generally accepted accounting principles, restricted contributions and the related expenditures should be recorded in the statement of activities. The transactions should also be clearly identified as restricted to ensure the funds are being used in a manner to satisfy the donor's intentions.

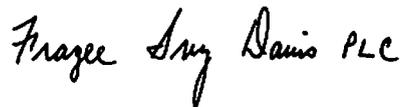
Cash collections

During the year ended June 30, 2010, it was discovered that the former controller was embezzling cash collections from Agricenter. Additional internal control procedures need to be put in place to prevent any further occurrences. These procedures should include expanded monitoring of the cash collection process through the utilization of more detailed reports regarding the collection of cash as well as on-site verification of the amounts included in the reports by someone not involved in the cash collection process. In addition, a third person should at least periodically compare the cash reports to the amounts actually deposited in the bank.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agricenter'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 the Board of Directors, management, others within the organization, Shelby County, and the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.



Frazee Ivy Davis PLC
December 10, 2010