

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**  
**FINANCIAL STATEMENTS**  
June 30, 2013 and 2012



Watkins Uiberall, PLLC  
Certified Public Accountants & Financial Advisors  
Independent Member of BKR International

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# AGRICENTER INTERNATIONAL, INC.

## MANAGEMENT AND GOVERNANCE OFFICIALS

June 30, 2013

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### Agricenter Management Staff

John Charles Wilson, President  
Jason Morgan, Controller / CFO  
Amy Barton, Director of Sales and Marketing  
Bruce Kirksey, Director of Research  
Jamie White, Showplace Arena Manager  
Mark Moore, Operations Manager

### Agricenter Board of Directors

William A. Gillon, Chairman	Lewis Fort
Agnes Pokrandt, Vice-Chairman	David Hawkins
Jim Boyd, Treasurer	Randy Graves
Steve Shields, Secretary	Andrew Jordan
Joe McKinnon, Immediate Past Chair	Jimmy Johnson
John Charles Wilson, President	Fletcher Maynard
Willie German, At Large Member	Bill Mayfield
Penny Estes, At Large Member	Deb Nichols
Charles Askew	Gary Taylor
Joe Callaway	Jai Templeton
Ron Carlsson	Lee Todd
Dorothy Cleaves	Marjory Walker
Mike Dennison	Shelton Wilder
Cathy Faust	Marshall Wixon

### Agricenter Commission

Ken Plunk, Chairman	Dorothy Mells
William Taylor, Vice-Chairman	Tom Needham
Marsh Campbell	Heidi Shafer
Richard Hollis	



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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Agricenter International, Inc. (a component unit of Shelby County, Tennessee) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the entity's basic 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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agricenter International, Inc. (a component unit of Shelby County, Tennessee), as of June 30, 2013 and 2012, and the respective changes in net assets, and cash flows thereof for the years then ended in accordance 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 and budgetary comparison information on pages 4–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of the Agricenter International, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Agricenter International, Inc.'s internal control over financial reporting and compliance.



Memphis, Tennessee  
November 13, 2013

## **Agricenter International, Inc. Management's Discussion and Analysis**

### **Introduction**

The management of Agricenter International, Inc. presents this narrative overview and analysis of the financial position and results of operations of Agricenter International, Inc. for the year ended June 30, 2013. This discussion has been prepared by management as required supplemental information to the financial statements and footnotes that follow this section, and should be read in conjunction with them. Comparative information for the years ended June 30, 2012 and June 30, 2011 have been provided in certain instances to provide insight into changes in financial position and results of operations from one fiscal period to another.

Accounting principles generally accepted in the United States of America for governmental entities are established by the Governmental Accounting Standards Board (GASB). This annual financial report uses the standards established by the GASB's Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Agricenter International, Inc. prepares its financial statements in accordance with Governmental Accounting Standards and Generally Accepted Accounting Principles. Agricenter International, Inc. is a component unit of Shelby County Tennessee. Shelby County issues its own financial statements which include Agricenter International, Inc.

Agricenter International, Inc. (Agricenter) is a 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 recreation.

### **2013 Financial Highlights**

- The overall financial position of Agricenter International reflected positive growth in 2012-2013. At the close of the fiscal year ended June 30, 2013, Agricenter had total assets of \$2,416,647, liabilities of \$911,257, and net assets of \$1,505,390.
- Agricenter's change in net assets for the year ended June 30, 2013 was \$ 70,984 and includes \$175,545 in depreciation charges.
- Operating income reflects a loss of \$157,665 from Show Place Arena operations in the eighth full year of the management agreement with Shelby County Government. Cumulative losses for this operation total \$789,122 as of June 30, 2013.
- Total gross revenue decreased by 6.85% over the prior year. Total expenses decreased by 3% over the prior year.
- Long term notes payable increased from \$135,169 to \$141,109. Current notes payable increased from \$45,724 to \$53,727.
- Agricenter International has a \$250,000 line of credit. This line of credit is primarily used for operating capital between the spring planting season and the fall harvest. At of June 30, 2013, Agricenter had no borrowings outstanding on this line.

## Statement of Net Assets

The Statements of Net Assets represent the financial position of Agricenter at the end of the fiscal year and includes all assets and liabilities. Condensed Statements of Net Assets are presented below:

	<b>June 30</b>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 863,004	\$ 828,905	\$ 560,394
Capital assets	<u>1,553,643</u>	<u>1,529,340</u>	<u>1,643,145</u>
Total assets	<u><u>\$ 2,416,647</u></u>	<u><u>\$ 2,358,245</u></u>	<u><u>\$ 2,203,539</u></u>
Debt outstanding	\$ 194,836	\$ 180,893	\$ 226,516
Other liabilities	<u>716,421</u>	<u>742,946</u>	<u>756,518</u>
Total liabilities	<u><u>\$ 911,257</u></u>	<u><u>\$ 923,839</u></u>	<u><u>\$ 983,034</u></u>
Invested in capital assets, net of related debt	\$ 1,358,807	\$ 1,348,447	\$ 1,416,629
Unrestricted	<u>146,583</u>	<u>85,959</u>	<u>(196,124)</u>
Total net assets	<u><u>\$ 1,505,390</u></u>	<u><u>\$ 1,434,406</u></u>	<u><u>\$ 1,220,505</u></u>

Total assets increased by 3%. This includes an increase in cash and cash equivalents of 13% and an increase in accounts receivable of 14% compared to the prior year. Accounts receivable include ongoing collections from expositions, shows and tenants.

Capital assets increased 2% over 2012, which reflects additions of farm equipment totaling \$24,303 and depreciation expense of \$175,545. There were no asset disposals during the fiscal year.

Notes payable increased 8% over 2012 due to financing of farm equipment purchased in 2013. This debt consists of notes payable to a local bank and financing company for specific farm equipment purchases.

The growth in Unrestricted Net Assets over the past two years reflects positive results of operations consistent with budget planning.

## Statement of Revenues, Expenses and Changes in Net Assets

Agricenter International, Inc. has a diverse revenue stream, which mitigates the impact of economic downturns or fluctuations in crop prices or production yields. Condensed Statements of Revenues, Expenses and Changes in Net Assets are presented as follows:

	<b>For the Years Ended June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Rental and Program Revenue	\$ 2,458,197	\$ 2,591,199	\$ 2,584,678
Farm and Research Revenue	728,539	834,154	562,176
Other Revenue	92,465	95,152	133,417
Interest	4,539	3,160	1,372
<b>Total revenues</b>	<b>3,283,740</b>	<b>3,523,665</b>	<b>3,281,643</b>
Operating Expenses	2,760,940	2,752,866	2,983,560
Farm Expenses	264,371	364,009	326,268
Depreciation Expense	175,545	176,547	183,423
<b>Total Expenses</b>	<b>3,200,856</b>	<b>3,293,422</b>	<b>3,493,251</b>
Operating Income (Loss)	82,884	230,243	(211,608)
Change in Restricted Net Assets			(32,036)
Other Income (Expense)	(11,900)	(16,342)	(10,872)
<b>Change in Net Assets</b>	<b>70,984</b>	<b>213,901</b>	<b>(222,480)</b>
Beginning Net Assets	1,434,406	1,220,505	1,442,985
<b>Ending Net Assets</b>	<b>\$ 1,505,390</b>	<b>\$ 1,434,406</b>	<b>\$ 1,220,505</b>

Support and revenue for the year ended June 30, 2013 was \$239,925 or 6.8% less than the prior year due primarily to the decrease in farm related income as well as RV Park and event revenue. Rental and program revenues decreased by 5.13% over the previous year.

Total expenses for the year ended June 30, 2013 decreased by 3%. Operating expenses increased by .02%. Farm and research expenses decreased by 13%,

Agricenter hosts events and expositions as well as indoor and outdoor shows in its "Agricenter corridor" space to bring the public to a place where it showcases agriculture and related activities as the number one industry in the nation. Agricenter hosted 312 events and expositions in 2012-13 as compared to 339 events and expositions in 2011-12. Events and expositions include the

Delta Fair, Mid-South Maize, Flea Markets, livestock exhibitions, and 4H activities. Agricenter also rents office space and land, generally to organizations with agriculture-related missions. In 2012-2013, Agricenter leased 24,766 square feet of office space to 10 tenants and 188 acres of land within its 1,000 acre complex.

Agricenter provides agricultural field crop research plots to agribusinesses, University systems, and government and non-government organizations. Agricenter conducts applied field research and development in a unique location in the heart of Shelby County, Tennessee, which many consider the epicenter of southern row-crop agriculture. In calendar crop year 2012, Agricenter provided research test plots that covered 273 acres to 27 organizations seeking trials for products and processes.

To maintain its competency as a working farm, and to take advantage of demonstration and educational opportunities to showcase row crop production, Agricenter produces corn, soybeans and cotton on the land that is not utilized in crop research. In calendar crop year 2011, Agricenter produced these crops on 517.96 acres of its complex, compared to 517.96 acres in 2012. Of the total 837.25 acres on (Farm Services Agency) Farm #783 and Farm #1125 devoted to Agricenter crops, 273 acres was in research, 517.96 acres in production crops, and 46.27 acres was released back to Shelby Farms Park for their School Garden Project. The 2011 and 2012 crop growing seasons were extreme contrasts: record floods in 2011 and a horrible drought in 2012 adversely impacted yields. Under these conditions, producers experienced near record commodity prices for grain and oilseeds, however crop sales as a whole in the 2012 calendar crop year were down by \$101,798 over the previous year primarily due to these conditions affecting yield.

RV Park revenue decreased by \$70,689 over the previous year. Event revenue for all venues on Agricenter property decreased by \$52,242 over the previous year. In 2011-2012, Agricenter began allocating all General and Administrative costs to each department. See the table below highlighting each cost center within Agricenter for the current fiscal years ended June 30, 2013, 2012 and 2011.

	<b>For the Years Ended June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Cost Center:</b>			
Farm Research	\$ (3,228)	\$ 74,524	\$ (100,320)
Education	(110,448)	(69,571)	(77,486)
Farm	(60,452)	(124,743)	(109,332)
Land Leases	316,919	215,160	381,158
Agricenter Corridor / Expo Center	45,577	54,722	171,595
Show Place Arena	(157,665)	(30,039)	(112,086)
Farmers Market	(32,337)	(29,872)	(8,926)
RV Park	72,618	123,721	178,271
General & Administrative	-	-	(545,354)
Change in net assets	<u>\$ 70,984</u>	<u>\$ 213,902</u>	<u>\$ (222,480)</u>

## Capital Assets

Agricenter's investment in leasehold improvements, buildings, farm equipment, landscaping equipment, office equipment and vehicles as of June 30, 2013, was \$4.85 million, net of accumulated depreciation.

Leasehold improvements increased by 2.63%. Several small improvement projects were completed in 2012-13 including air conditioning repairs and upgrades in the main expo building. Farm equipment increased by 28.85%. Agricenter depreciates assets over the useful life of the asset using straight line depreciation.

The following table reflects the above noted changes:

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Buildings	\$ 857,895	\$ 857,895	\$ 857,895
Leasehold Improvements	2,719,349	2,649,603	2,574,009
Farm Equipment	493,673	383,117	456,607
Landscaping and Other Equip	363,020	358,106	360,908
Donated Equipment	164,511	164,511	134,197
Office Equipment	197,227	185,015	187,955
Vehicles	63,421	61,052	78,657
Subtotal	4,859,096	4,659,299	4,650,228
Depreciation	<u>(3,305,453)</u>	<u>(3,129,959)</u>	<u>(3,007,083)</u>
Net Fixed Assets	<u>\$ 1,553,643</u>	<u>\$ 1,529,340</u>	<u>\$ 1,643,145</u>

## Contacting Agricenter International, Inc. Management

This financial report is designed to provide citizens, taxpayers, exhibitors, contributors and creditors with a general overview of the Agricenter's finances and to show the organization's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information may be addressed to the management of Agricenter International, Inc. at 7777 Walnut Grove Road, Memphis, TN 38120.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF NET ASSETS**

June 30, 2013 and 2012

	<u>Assets</u>	
	2013	2012
<b>Current Assets</b>		
Cash and cash equivalents	\$ 481,412	\$ 424,529
Accounts receivable - net	322,107	296,819
Vendor credit receivable	-	45,195
Prepaid expenses	20,913	30,577
Agricultural inventory	38,572	31,785
Total current assets	863,004	828,905
<b>Capital Assets</b>		
Capital assets, being depreciated, net	1,553,643	1,529,340
	\$ 2,416,647	\$ 2,358,245
	<u>Liabilities and Net Assets</u>	
<b>Current Liabilities</b>		
Accounts payable	\$ 252,983	\$ 228,353
Accrued expenses	155,549	108,496
Deferred revenue	267,134	314,094
Security deposits	40,755	42,005
Line of credit	-	49,998
Current maturities of notes payable	53,727	45,724
Total current liabilities	770,148	788,670
<b>Long-Term Liabilities</b>		
Notes payable, net of current maturities	141,109	135,169
Total liabilities	911,257	923,839
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,358,807	1,348,447
Unrestricted	146,583	85,959
Total net assets	1,505,390	1,434,406
	\$ 2,416,647	\$ 2,358,245

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

For the Years Ended June 30, 2013 and 2012

	2013	2012
Unrestricted Net Assets		
Operating Support and Revenues		
Rental and lease revenue	\$ 1,131,063	\$ 1,165,823
Program and special events, net of bad debts	1,327,134	1,419,224
Agricultural research and farm revenue	728,539	834,154
Contributions	23,223	30,971
Other revenue	69,242	64,181
Total operating support and revenues	3,279,201	3,514,353
Operating Expenses		
Salaries and wages	1,181,088	1,172,164
Employee benefits and taxes	277,991	271,640
Advertising, marketing and promotion	4,750	6,077
Contract labor	46	4,300
Depreciation	175,545	176,547
Education	139,807	100,942
Equipment rental	57,332	61,522
Farm supplies	264,371	364,009
Insurance	172,694	160,515
Janitorial	32,202	40,373
Landscaping, repairs, maintenance and supplies	224,128	230,154
Legal and professional	29,887	35,125
Miscellaneous	5,909	9,045
Office and computer supplies	24,640	23,656
Program and special events	15,716	37,792
Security	6,637	4,336
Seminars and meeting	1,524	728
Taxes and licenses	6,873	5,644
Telephone	43,086	46,438
Travel	22,649	16,524
Utilities and waste disposal	513,981	519,739
Total operating expenses	3,200,856	3,287,270
Operating income	78,345	227,083

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED)**

For the Years Ended June 30, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
Non-Operating Revenue (Expense)		
Interest income	4,539	3,160
Interest expense	<u>(11,900)</u>	<u>(16,342)</u>
Total non-operating revenue (expense)	<u>(7,361)</u>	<u>(13,182)</u>
 Change in net assets	 70,984	 213,901
Net assets - beginning of year	<u>1,434,406</u>	<u>1,220,505</u>
Net assets - end of year	<u><u>\$ 1,505,390</u></u>	<u><u>\$ 1,434,406</u></u>

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows Provided By (Used For) Operating Activities		
Receipts from customers	\$ 3,250,898	\$ 3,487,418
Payments to suppliers	(1,365,230)	(1,550,421)
Payments to employees	(1,585,521)	(1,562,709)
Net cash provided by operating activities	300,147	374,288
Cash Flows From (Used For) Capital and Related Financing Activities		
Purchases of capital assets	(124,688)	(63,019)
Proceeds from sale of capital assets	-	600
Net payments on line of credit	(49,998)	(15,897)
Principal payments on notes payable	(61,217)	(45,623)
Interest paid	(11,900)	(16,342)
Net cash used for capital and related financing activities	(247,803)	(140,281)
Cash Flows From Investing Activities		
Investment income received	4,539	3,160
Net increase in cash and cash equivalents	56,883	237,167
Cash and cash equivalents at beginning of the year	424,529	187,362
Cash and cash equivalents at end of the year	\$ 481,412	\$ 424,529

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

For the Years Ended June 30, 2013 and 2012

Reconciliation of Operating Income to Net Cash  
 Provided By (Used For) Operating Activities:

	2013	2012
Cash Flows Provided By (Used For) Operating Activities		
Operating income	\$ 78,345	\$ 227,083
Adjustments to Reconcile Net Assets to Net Cash Used for Operating Activities:		
Depreciation	175,545	176,547
Gain on sale of fixed assets	-	(323)
Bad debts	4,804	6,152
Changes in Assets and Liabilities:		
Accounts receivable	(30,092)	(11,090)
Vendor credit receivable	45,195	(45,195)
Prepaid expenses	9,664	(17,060)
Inventory	(6,787)	35,849
Accounts payable	24,630	(12,171)
Accrued expenses	47,053	(9,025)
Deferred revenue	(46,960)	17,521
Security deposits	(1,250)	6,000
Total adjustments	221,802	147,205
Net cash provided by operating activities	\$ 300,147	\$ 374,288
Noncash Investing and Financing Activities:		
Equipment financed through the issuance of notes payable	\$ 75,160	\$ -

The accompanying notes are an integral part of the financial statements.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2013 and 2012

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Nature of Operations

Agricenter International, Inc. (the "Agricenter") is a 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 Agricenter's land, buildings, and 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.

Measurement Focus, Basis, and Method of Accounting

Agricenter is an enterprise fund of Shelby County, Tennessee. Enterprise funds account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Therefore, the financial statements of the Agricenter are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred, regardless of when the related cash transaction takes place.

The Agricenter applies Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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.

### Concentration of Credit Risk

The Agricenter maintains its cash in bank deposit accounts which at times may exceed the federally insured limit of \$250,000. 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.

### 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.

### Advertising Costs

All advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2013 and 2012 was \$4,750 and \$6,077, respectively.

### 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, 2013 and 2012, cash and cash equivalents included certificates of deposit of \$123,831 and \$123,769, respectively.

### Accounts Receivable

Agricenter records accounts receivable at estimated net realizable value. Management records an allowance for doubtful accounts based upon estimates 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 uncollectable by management. The allowance for doubtful accounts was \$10,889 and \$9,187 at June 30, 2013 and 2012, respectively.

### Vendor Credit Receivable

The Agricenter receives utility credits for electricity produced by the solar panels. These credits are payable to the leaseholder that owns and manages the solar panels. The Agricenter records these credits as an asset and related liability.

### Inventory

Inventory consists of agricultural chemicals and seed for farm production. Inventory is valued at the lower of cost or market as determined by the first-in, first-out method.

### Income Tax Exemption

The Agricenter is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Donations to Agricenter are deductible by the donor as charitable contributions for federal income tax purposes. The Agricenter files an exempt return in the U.S. federal jurisdiction. The federal returns for the tax years 2009 and beyond remain subject to examination by the taxing jurisdiction. Management is not aware of any course of action or series of events that have occurred that might adversely affect this tax-exempt status.

### 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 39 years.

### Net Assets

Net assets are displayed in three components:

- a. Invested in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any notes payable that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets.”

### 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.

### Reclassifications

Certain amounts in the 2012 financial statements have been reclassified for comparative purposes to conform to the 2013 presentation. The reclassifications have no effect on previously reported net assets.

### Date of Management's Review

Management has evaluated subsequent events through November 13, 2013, the date the financial statements were available to be issued and is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

### **NOTE 2 – BUDGETARY INFORMATION**

Management proposes an annual budget compiled from revenue and expense projections. The Board of Directors reviews and approves the final budget for the Agricenter. The budget can be amended during the year as the Board deems necessary. Management presents proposed budget amendments to the Board by line item during Board meetings. The amendments are discussed and then voted on during the meeting. When amendments are passed, management makes adjustments to the budget to include the approved amendments.

### **NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Reclassification	Additions	Disposals	Balance June 30, 2013
Capital Assets, Being Depreciated:					
Buildings	\$ 857,895	\$ -	\$ -	\$ -	\$ 857,895
Leasehold improvements	2,649,603	-	69,771	-	2,719,374
Farm equipment	383,117	-	110,583	-	493,700
Donated equipment	164,511	-	-	-	164,511
Landscaping and other equipment	358,106	-	4,913	-	363,019
Office equipment	185,015	-	12,211	-	197,226
Vehicles	61,052	-	2,370	-	63,422
Total capital assets, being depreciated	4,659,299	-	199,848	-	4,859,147
Less accumulated depreciation	(3,129,959)	-	(175,545)	-	(3,305,504)
Total capital assets being depreciated, net	<u>\$ 1,529,340</u>	<u>\$ -</u>	<u>\$ 24,303</u>	<u>\$ -</u>	<u>\$ 1,553,643</u>

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

	Balance June 30, 2011	Reclassification	Additions	Disposals	Balance June 30, 2012
Capital Assets, Being Depreciated:					
Buildings	\$ 857,895	\$ -	\$ -	\$ -	\$ 857,895
Leasehold improvements	2,574,009	54,400	26,221	(5,027)	2,649,603
Farm equipment	456,607	(54,400)	-	(19,090)	383,117
Donated equipment	134,197	-	31,637	(1,323)	164,511
Landscaping and other equipment	360,908	-	2,406	(5,208)	358,106
Office equipment	187,955	-	-	(2,940)	185,015
Vehicles	78,657	-	2,755	(20,360)	61,052
Total capital assets, being depreciated	4,650,228	-	63,019	(53,948)	4,659,299
Less accumulated depreciation	(3,007,083)	-	(176,547)	53,671	(3,129,959)
Total capital assets being depreciated, net	<u>\$ 1,643,145</u>	<u>\$ -</u>	<u>\$ (113,528)</u>	<u>\$ (277)</u>	<u>\$ 1,529,340</u>

#### NOTE 4 – LINE OF CREDIT

The Agricenter has \$250,000 of credit available at June 30, 2013 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, 2013 and 2012). The credit line is secured by the inventory, accounts receivable, equipment, and fixtures of the Agricenter.

#### NOTE 5 – COMMITMENTS

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 pay annual 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 6 – NOTES PAYABLE

Notes payable activity for the years ended June 30, 2013 and 2012, was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2013</u>
Notes payable	<u>\$ 180,893</u>	<u>\$ 75,160</u>	<u>\$ (61,217)</u>	<u>\$ 194,836</u>

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2012</u>
Notes payable	<u>\$ 226,516</u>	<u>\$ -</u>	<u>\$ (45,623)</u>	<u>\$ 180,893</u>

Notes payable at June 30, 2013 and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
Note payable to bank. 4.95% interest, due in monthly installments of \$755 principal and interest. Repaid in March 2013. Secured by inventory, accounts, equipment and fixtures.	\$ -	\$ 19,242
Note payable to bank. 5.25% interest, due in monthly installments of \$2,716 principal and interest, maturing on May 19, 2016. Secured by inventory, accounts, equipment and fixtures.	88,257	115,357
Note payable to bank. 5.05% interest, due in monthly installments of \$1,027 principal and interest, maturing on August 29, 2016. Secured by inventory, accounts, equipment and fixtures.	36,094	46,294
Note payable to bank. 2.90% interest, due in monthly installments of \$1,347 principal and interest, maturing on February 15, 2018. Secured by tractor.	70,485	-
Total notes payable	<u>194,836</u>	<u>180,893</u>
Less current maturities	<u>(53,727)</u>	<u>(45,724)</u>
Notes payable, net of current maturities	<u>\$ 141,109</u>	<u>\$ 135,169</u>

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

	Principal	Interest	Total
2014	\$ 53,727	\$ 7,362	\$ 61,089
2015	56,244	3,220	59,464
2016	56,478	2,202	58,680
2017	17,722	568	18,290
2018	10,665	116	10,781
	<u>\$ 194,836</u>	<u>\$ 13,468</u>	<u>\$ 208,304</u>

#### **NOTE 7 – RELATED PARTY TRANSACTIONS**

Agricenter conducts transactions with companies that are affiliated with members of the Board. For the year ended June 30, 2013, Agricenter's financial statements include related party transactions of \$14,079 in legal fees, \$3,186 in equipment purchases, \$53,093 in chemical purchases, and \$43,296 in event revenue. For the year ended June 30, 2012, related party transactions included \$18,601 in legal fees, \$17,730 in equipment purchases, \$43,129 in chemical purchases, and \$42,790 in event revenue.

#### **NOTE 8 – AGREEMENTS WITH SHELBY COUNTY**

The Agricenter entered into a one-year lease with Shelby Farms Park on February 1, 2012 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 exercised its option to renew the lease with Shelby County, Tennessee on February 1, 2013.

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 9 – RETIREMENT PLAN**

The Agricenter sponsors a 401(k) Retirement Plan to provide retirement benefits for employees who meet certain eligibility requirements. The Agricenter makes matching contributions to the Plan equal to 100% of each participant's salary deferral up to 4% of the participant's compensation. Participating employees become vested in employer contributions over a six year period. Agricenter's contributions during the years ended June 30, 2013 and 2012 were \$25,143 and \$23,663, respectively. The contributions made by Plan members for the years ended June 30, 2013 and 2012 were \$31,559 and \$30,210, respectively.

Effective July 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 10 – RISK MANAGEMENT**

The Agricenter purchases 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 11 – LEASE INCOME**

The Agricenter leases land, buildings, and office space under noncancellable operating leases that expire on various dates through 2037. 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. Future minimum rentals from noncancellable operating leases are as follows for the years ending June 30:

2014	\$ 670,282
2015	556,493
2016	343,831
2017	349,097
2018	106,982
Thereafter	<u>747,070</u>
	<u>\$ 2,773,755</u>

**REQUIRED SUPPLEMENTAL INFORMATION**

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**BUDGETARY COMPARISON SCHEDULE**

For the Year Ended June 30, 2013

	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
<b>Operating Support and Revenues</b>			
Rental and lease revenue	\$ 1,191,607	\$ 1,131,063	\$ (60,544)
Program and special events	1,371,886	1,327,134	(44,752)
Agriculture research and farm revenue	617,072	728,539	111,467
Contributions	13,400	23,223	9,823
Other revenue	54,980	69,242	14,262
Total operating support and revenues	3,248,945	3,279,201	30,256
<b>Operating Expenses</b>			
Salaries and wages	1,201,224	1,181,088	20,136
Employee benefits and taxes	305,961	277,991	27,970
Advertising, marketing and promotion	4,040	4,750	(710)
Contract labor	3,640	46	3,594
Depreciation	165,528	175,545	(10,017)
Education	111,600	139,807	(28,207)
Equipment rental	19,047	57,332	(38,285)
Farm supplies	260,235	264,371	(4,136)
Insurance	203,499	172,694	30,805
Janitorial	34,950	32,202	2,748
Landscaping, repairs, maintenance and supplies	177,672	224,128	(46,456)
Legal and professional	25,980	29,887	(3,907)
Miscellaneous	5,700	5,909	(209)
Office and computer supplies	26,139	24,640	1,499
Program and special events	9,000	15,716	(6,716)
Security	3,380	6,637	(3,257)
Seminars and meeting	600	1,524	(924)
Taxes and licenses	5,882	6,873	(991)
Telephone	42,036	43,086	(1,050)
Travel	22,650	22,649	1
Utilities and waste disposal	527,597	513,981	13,616
Total operating expenses	3,156,360	3,200,856	(44,496)
Operating income	92,585	78,345	(14,240)

See independent auditor's report.

**AGRICENTER INTERNATIONAL, INC.**  
**(A Component Unit of Shelby County, Tennessee)**

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)**

For the Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Non-Operating Revenue (Expense)			
Interest income	600	4,539	3,939
Interest expense	<u>(14,314)</u>	<u>(11,900)</u>	<u>2,414</u>
Total non-operating revenue (expense)	<u>(13,714)</u>	<u>(7,361)</u>	<u>6,353</u>
 Change in net assets	 <u>\$ 78,871</u>	 <u>\$ 70,984</u>	 <u>\$ (7,887)</u>

See independent auditor's report.



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## **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**

The Board of Directors  
Agricenter International, Inc.  
Memphis, 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 the Agricenter International, Inc. (a component unit of Shelby County, Tennessee), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agricenter International, Inc.'s basic financial statements, and have issued our report thereon dated November 13, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agricenter International, Inc.'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 Agricenter International, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Agricenter International, Inc.'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 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. 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 was not designed to 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 the Agricenter International, Inc.'s financial statements are free from 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*.

We noted certain matters that we reported to management of Agricenter in a separate letter dated November 13, 2013.

### **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.

A handwritten signature in black ink that reads "Watkins Wilkerson, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee  
November 13, 2013