

AGRICENTER INTERNATIONAL, INC.
(A Component Unit of Shelby County, Tennessee)
FINANCIAL STATEMENTS
June 30, 2014 and 2013



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, 2014

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

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

Agricenter Commission

Marsh Campbell	Richard Hollis, Jr
Dorothy Cleaves	Tom Needham
William Gillon	Heidi Shafer
Hamilton Smythe, III	



Watkins Uiberall, PLLC
Certified Public Accountants

Independent Member of BKR International

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Organization'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, 2014 and 2013, and the respective changes in net position, 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 on pages 5–9 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agricenter International, Inc.'s basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, 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.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 15, 2014

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, 2014. 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, 2013 and June 30, 2012 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.

2014 Financial Highlights

- The overall financial position of Agricenter International reflected positive growth in 2013-2014. At the close of the fiscal year ended June 30, 2014, Agricenter had total assets of \$2,601,081, liabilities of \$968,465, and net position of \$1,632,616.
- Agricenter's operating income for the year ended June 30, 2014 was \$ 127,226 and includes \$208,235 in depreciation charges.
- Operating income reflects a loss of \$141,688 from Show Place Arena operations in the ninth full year of the management agreement with Shelby County Government. Cumulative losses for this operation total \$930,810 as of June 30, 2014.
- Total gross revenue increased by 5.23% over the prior year. Total expenses increased by 3.25% over the prior year.
- Long term notes payable increased from \$141,109 to \$296,673. Current notes payable increased from \$53,727 to \$134,829.
- 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. As of June 30, 2014, Agricenter had \$962 in borrowings outstanding on this line.

Statements of Net Position

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

	June 30		
	2014	2013	2012
Current assets	\$ 787,915	\$ 863,004	\$ 828,905
Capital assets	1,813,166	1,553,643	1,529,340
Total assets	<u>\$ 2,601,081</u>	<u>\$ 2,416,647</u>	<u>\$ 2,358,245</u>
Debt outstanding	\$ 431,502	\$ 194,836	\$ 180,893
Other liabilities	536,963	716,421	742,946
Total liabilities	<u>\$ 968,465</u>	<u>\$ 911,257</u>	<u>\$ 923,839</u>
Invested in capital assets, net of related debt	\$ 1,381,664	\$ 1,358,807	\$ 1,348,447
Unrestricted	250,952	146,583	85,959
Total net position	<u>\$ 1,632,616</u>	<u>\$ 1,505,390</u>	<u>\$ 1,434,406</u>

Total assets increased by 7.64%. This includes a decrease in cash and cash equivalents of 6.86% and a decrease in accounts receivable of 10.5% compared to the prior year. Accounts receivable include ongoing collections from expositions, shows and tenants.

Capital assets increased 16.71% over 2013, which reflects capitalized leasehold improvements and equipment purchases totaling \$379,129 and depreciation expense of \$208,235. There were no asset disposals during the fiscal year.

Notes payable increased 121.4% over 2013 due to financing of farm equipment, digital signs, and a new building for Catch'em Lake. This debt consists of loans from local banks and financing companies for specific farm equipment and other capitalized asset purchases.

The growth in unrestricted net position over the past two years reflects positive results of operations consistent with budget planning.

Statements of Revenues, Expenses and Changes in Net Position

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 Position are presented as follows:

	For the Years Ended June 30		
	2014	2013	2012
Rental and Program Revenue	\$ 2,579,633	\$ 2,458,197	\$ 2,591,199
Farm and Research Revenue	758,554	728,539	834,154
Other Revenue	112,471	92,465	95,152
Interest	2,453	4,539	3,160
Total revenues	<u>3,453,111</u>	<u>3,283,740</u>	<u>3,523,665</u>
Operating Expenses	2,883,086	2,760,940	2,752,866
Farm Expenses	213,496	264,371	364,009
Depreciation Expense	208,235	175,545	176,547
Total Expenses	<u>3,304,817</u>	<u>3,200,856</u>	<u>3,293,422</u>
Operating Income	148,294	82,884	230,243
Change in Restricted Net Assets			
Other Income (Expense)	<u>(21,068)</u>	<u>(11,900)</u>	<u>(16,342)</u>
Change in Net Position	127,226	70,984	213,901
Beginning Net Position	<u>1,505,390</u>	<u>1,434,406</u>	<u>1,220,505</u>
Ending Net Position	<u><u>\$ 1,632,616</u></u>	<u><u>\$ 1,505,390</u></u>	<u><u>\$ 1,434,406</u></u>

Support and revenue for the year ended June 30, 2014 was \$169,371 or 5.16% more than the prior year due primarily to the increase in rental and program revenues as well as an increase in farm related income. Rental and program revenues increased by 4.94% over the previous year.

Operating expenses increased by 3.25% over the previous year. Farm and research expenses decreased by 19.25% over the previous year due primarily to a reduction in farm acreage.

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 303 events and expositions in 2013-14 as compared to 312 events and expositions in 2012-13. Events and expositions include the Delta Fair, Mid-South Maize, Flea Markets, livestock exhibitions, and 4-H activities. Agricenter also rents office space and land to organizations with agriculture and/or educational related missions. In 2013-2014, 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 2013, Agricenter provided research test plots that covered 298.48 acres to 28 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 2013, Agricenter produced these crops on 492.48 acres of its complex, compared to 517.96 acres in 2012. Of the total 790.96 acres on (Farm Services Agency) Farm #783 and Farm #1125 devoted to crop production and research, 298.48 acres was in research, and 517.96 acres in production crops. Due to construction in Shelby Farms Park, Agricenter lost approximately 46 acres of leased production ground in 2013. The 2013 crop season was a marginal year from both a weather and commodity price perspective. Total production crop revenue increased by \$24,899 over 2012. Total farm research revenue increased by \$12,773 over the previous year.

RV Park revenue increased by \$44,408 over the previous year. Event revenue for all venues on Agricenter property decreased by \$1,245 over the previous year. See the table below highlighting each cost center within Agricenter for the current fiscal years ended June 30, 2014, 2013 and 2012.

	For the Years Ended June 30		
	2014	2013	2012
Cost Center:			
Farm Research	\$ (40,866)	\$ (3,228)	\$ 74,524
Education	(60,402)	(110,448)	(69,571)
Farm	60,226	(60,452)	(124,743)
Land Leases	285,438	316,919	215,160
Agricenter Corridor / Expo Center	(20,576)	45,577	54,722
Show Place Arena	(141,688)	(157,665)	(30,039)
Farmers Market	(31,705)	(32,337)	(29,872)
RV Park	76,799	72,618	123,721
Change in net position	<u>\$ 127,226</u>	<u>\$ 70,984</u>	<u>\$ 213,902</u>

Capital Assets

Agricenter's investment in leasehold improvements, buildings, farm equipment, landscaping equipment, office equipment and vehicles as of June 30, 2014, was \$5.33 million, net of accumulated depreciation.

Leasehold improvements increased by 8.07%. Landscaping and other equipment increased by 44.05%. In 2013-14, Agricenter made several large capital purchases including a new building at Catch'em Lake, new digital signage, and new irrigation equipment. Agricenter depreciates assets over the useful life of the asset using straight-line depreciation.

The following table reflects the above noted changes:

	June 30		
	2014	2013	2012
Buildings	\$ 925,282	\$ 857,895	\$ 857,895
Leasehold Improvements	2,938,619	2,719,349	2,649,603
Farm Equipment	493,700	493,673	383,117
Landscaping and Other Equipment	522,903	363,020	358,106
Donated Equipment	164,511	164,511	164,511
Office Equipment	218,468	197,227	185,015
Vehicles	63,422	63,421	61,052
Subtotal	5,326,905	4,859,096	4,659,299
Depreciation	<u>(3,513,739)</u>	<u>(3,305,453)</u>	<u>(3,129,959)</u>
Net Fixed Assets	<u>\$ 1,813,166</u>	<u>\$ 1,553,643</u>	<u>\$ 1,529,340</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 POSITION

June 30, 2014 and 2013

	<u>Assets</u>	
	2014	2013
Current Assets		
Cash and cash equivalents	\$ 448,392	\$ 481,412
Accounts receivable - net	288,311	322,107
Prepaid expenses	18,528	20,913
Agricultural inventory	32,684	38,572
Total current assets	787,915	863,004
Capital Assets		
Capital assets, being depreciated, net	1,813,166	1,553,643
	\$ 2,601,081	\$ 2,416,647
	<u>Liabilities and Net Position</u>	
Current Liabilities		
Accounts payable	\$ 106,148	\$ 252,983
Accrued expenses	35,657	155,549
Unearned revenue	355,741	267,134
Security deposits	38,455	40,755
Line of credit	962	-
Current maturities of notes payable	134,829	53,727
Total current liabilities	671,792	770,148
Long-Term Liabilities		
Notes payable, net of current maturities	296,673	141,109
Total liabilities	968,465	911,257
Net Position		
Net investment in capital assets	1,381,664	1,358,807
Unrestricted	250,952	146,583
Total net position	1,632,616	1,505,390
	\$ 2,601,081	\$ 2,416,647

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 POSITION

For the Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted Net Position		
Operating Support and Revenues		
Rental and lease revenue	\$ 1,263,045	\$ 1,131,063
Program and special events, net of bad debts	1,316,588	1,327,134
Agricultural research and farm revenue	758,554	728,539
Contributions	27,013	23,223
Other revenue	85,458	69,242
Total operating support and revenues	3,450,658	3,279,201
Operating Expenses		
Salaries and wages	1,221,412	1,181,088
Employee benefits and taxes	310,631	277,991
Advertising, marketing and promotion	15,411	4,750
Contract labor	1,854	46
Depreciation	208,235	175,545
Education	87,853	139,807
Equipment rental	56,808	57,332
Farm supplies	213,496	264,371
Insurance	213,169	172,694
Janitorial	33,963	32,202
Landscaping, repairs, maintenance and supplies	267,871	224,128
Legal and professional	23,089	29,887
Miscellaneous	6,216	5,909
Office and computer supplies	28,163	24,640
Program and special events	12,360	15,716
Security	4,651	6,637
Seminars and meeting	1,850	1,524
Taxes and licenses	1,574	6,873
Telephone	35,508	43,086
Travel	30,382	22,649
Utilities and waste disposal	530,321	513,981
Total operating expenses	3,304,817	3,200,856
Operating income	145,841	78,345

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 POSITION (CONTINUED)

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Non-Operating Revenue (Expense)		
Interest income	2,453	4,539
Interest expense	<u>(21,068)</u>	<u>(11,900)</u>
Total non-operating revenue (expense)	<u>(18,615)</u>	<u>(7,361)</u>
 Change in net position	 127,226	 70,984
Net position - beginning of year	<u>1,505,390</u>	<u>1,434,406</u>
Net position - end of year	<u><u>\$ 1,632,616</u></u>	<u><u>\$ 1,505,390</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, 2014 and 2013

	2014	2013
Cash Flows Provided By (Used For) Operating Activities		
Receipts from customers	\$ 3,570,761	\$ 3,250,898
Payments to suppliers	(1,668,321)	(1,365,230)
Payments to employees	(1,686,715)	(1,585,521)
Net cash provided by operating activities	215,725	300,147
Cash Flows From (Used For) Capital and Related Financing Activities		
Purchases of capital assets	(138,158)	(124,688)
Net draws (payments) on line of credit	962	(49,998)
Principal payments on notes payable	(92,934)	(61,217)
Interest paid	(21,068)	(11,900)
Net cash used for capital and related financing activities	(251,198)	(247,803)
Cash Flows From Investing Activities		
Investment income received	2,453	4,539
Net increase (decrease) in cash and cash equivalents	(33,020)	56,883
Cash and cash equivalents at beginning of the year	481,412	424,529
Cash and cash equivalents at end of the year	\$ 448,392	\$ 481,412

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, 2014 and 2013

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

	2014	2013
Cash Flows Provided By (Used For) Operating Activities		
Operating income	\$ 145,841	\$ 78,345
Adjustments to Reconcile Net Position to Net Cash Used for Operating Activities:		
Depreciation	208,235	175,545
Bad debts	2,243	4,804
Changes in Assets and Liabilities:		
Accounts receivable	31,553	(30,092)
Vendor credit receivable	-	45,195
Prepaid expenses	2,385	9,664
Inventory	5,888	(6,787)
Accounts payable	(146,835)	24,630
Accrued expenses	(119,892)	47,053
Deferred revenue	88,607	(46,960)
Security deposits	(2,300)	(1,250)
Total adjustments	69,884	221,802
Net cash provided by operating activities	\$ 215,725	\$ 300,147
Noncash Investing and Financing Activities:		
Equipment financed through the issuance of notes payable	\$ 329,600	\$ 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, 2014 and 2013

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 accounted for as an enterprise fund and reported as a component unit of Shelby County, Tennessee.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the Agricenter. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the Agricenter. All other expenses are reported as non-operating expenses.

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, 2014 and 2013 was \$15,411 and \$4,750, 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, 2014 and 2013, cash and cash equivalents included certificates of deposit of \$123,893 and \$123,831, 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 \$9,202 and \$10,889 at June 30, 2014 and 2013, 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 2010 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 Position

Net position is 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 position – consists of net position 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 position – any other net position that does 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.

Date of Management's Review

Management has evaluated subsequent events through December 15, 2014, 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 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2014, the Agricenter's operating expenditures exceeded appropriations by \$97,322.

C. Deficit Fund Equity

As of June 30, 2013, the Agricenter did not have a deficit in fund equity.

NOTE 3 – CAPITAL ASSETS

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

	Balance June 30, 2013	Reclassification	Additions	Disposals	Balance June 30, 2014
Capital Assets, Being Depreciated:					
Buildings	\$ 857,895	\$ -	\$ 67,387	\$ -	\$ 925,282
Leasehold improvements	2,719,374	-	219,245	-	2,938,619
Farm equipment	493,700	-	-	-	493,700
Donated equipment	164,511	-	-	-	164,511
Landscaping and other equipment	363,019	-	159,884	-	522,903
Office equipment	197,226	-	21,242	-	218,468
Vehicles	63,422	-	-	-	63,422
Total capital assets, being depreciated	4,859,147	-	467,758	-	5,326,905
Less accumulated depreciation	(3,305,504)	-	(208,235)	-	(3,513,739)
Total capital assets being depreciated, net	<u>\$ 1,553,643</u>	<u>\$ -</u>	<u>\$ 259,523</u>	<u>\$ -</u>	<u>\$ 1,813,166</u>

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>

NOTE 4 – LINE OF CREDIT

The Agricenter has \$249,038 of credit available at June 30, 2014 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, 2014 and 2013). 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, 2014 and 2013, was as follows:

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance June 30, 2014</u>
Notes payable	<u>\$ 194,836</u>	<u>\$ 329,600</u>	<u>\$ (92,934)</u>	<u>\$ 431,502</u>
	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance June 30, 2013</u>
Notes payable	<u>\$ 180,893</u>	<u>\$ 75,160</u>	<u>\$ (61,217)</u>	<u>\$ 194,836</u>

Notes payable at June 30, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
Note payable to bank. 4.70% interest, due in monthly installments of \$2,432 principal and interest, maturing on October 25, 2018. Secured by irrigation system.	\$ 114,042	\$ -
Note payable to bank. 4.83% interest, due in monthly installments of \$2,824 principal and interest, maturing on August 22, 2018. Secured by digital signs.	127,453	-
Note payable to related party, due in monthly installments of \$1,000 principal only, maturing on March 1, 2019.	48,800	-
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.	59,678	88,257
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.	25,359	36,094
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.	56,170	70,485
Total notes payable	<u>431,502</u>	<u>194,836</u>
Less current maturities	<u>(134,829)</u>	<u>(53,727)</u>
Notes payable, net of current maturities	<u>\$ 296,673</u>	<u>\$ 141,109</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 134,829	\$ 15,368	\$ 150,197
2016	111,772	10,149	121,921
2017	85,480	5,769	91,249
2018	83,393	2,455	85,848
2019	16,028	130	16,158
	<u>\$ 431,502</u>	<u>\$ 33,871</u>	<u>\$ 465,373</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, 2014, Agricenter's financial statements include related party transactions of \$4,097 in legal fees, \$80,259 in chemical purchases, \$43,353 in event revenue, and \$18,103 in research services. For the year ended June 30, 2013, related party transactions included \$14,079 in legal fees, \$3,186 in equipment purchases, \$53,093 in chemical purchases, and \$43,296 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 continued through December 31, 2013. A resolution was approved February 24, 2014, to extend the contract of another three years. The contract can 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, 2014 and 2013 were \$37,947 and \$25,143, respectively. The contributions made by Plan members for the years ended June 30, 2014 and 2013 were \$37,831 and \$31,559, respectively.

Effective July 2006, the 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.

Effective April 1, 2014, the Agricenter sponsored (1) a Section 125 Flexible Benefit Plan under which the employees may choose among certain benefits that are made available and the expenses will be paid with a portion of pre-tax wages and (2) a Health Reimbursement Arrangement Plan under which the employees may receive reimbursement for the cost of eligible medical expenses without taxation to the individual.

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:

2015	\$ 899,713
2016	592,953
2017	491,325
2018	241,076
Thereafter	<u>870,305</u>
	<u>\$ 3,095,372</u>

SUPPLEMENTAL INFORMATION

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

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2014

	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
Operating Support and Revenues			
Rental and lease revenue	\$ 1,181,131	\$ 1,263,045	\$ 81,914
Program and special events	1,398,594	1,316,588	(82,006)
Agriculture research and farm revenue	605,041	758,554	153,513
Contributions	17,100	27,013	9,913
Other revenue	67,725	85,458	17,733
Total operating support and revenues	3,269,591	3,450,658	181,067
Operating Expenses			
Salaries and wages	1,213,612	1,221,412	(7,800)
Employee benefits and taxes	302,295	310,631	(8,336)
Advertising, marketing and promotion	3,340	15,411	(12,071)
Contract labor	-	1,854	(1,854)
Depreciation	206,560	208,235	(1,675)
Education	99,000	87,853	11,147
Equipment rental	21,015	56,808	(35,793)
Farm supplies	217,112	213,496	3,616
Insurance	217,560	213,169	4,391
Janitorial	32,662	33,963	(1,301)
Landscaping, repairs, maintenance and supplies	202,128	267,871	(65,743)
Legal and professional	27,900	23,089	4,811
Miscellaneous	6,121	6,216	(95)
Office and computer supplies	26,911	28,163	(1,252)
Program and special events	12,900	12,360	540
Security	3,320	4,651	(1,331)
Seminars and meeting	1,620	1,850	(230)
Taxes and licenses	6,605	1,574	5,031
Telephone	41,760	35,508	6,252
Travel	25,850	30,382	(4,532)
Utilities and waste disposal	539,224	530,321	8,903
Total operating expenses	3,207,495	3,304,817	(97,322)
Operating income	62,096	145,841	83,745

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, 2014

	Original and Final Budget	Actual	Favorable (Unfavorable) Variance
Non-Operating Revenue (Expense)			
Interest income	1,440	2,453	1,013
Interest expense	<u>(22,220)</u>	<u>(21,068)</u>	<u>1,152</u>
Total non-operating revenue (expense)	<u>(20,780)</u>	<u>(18,615)</u>	<u>2,165</u>
 Change in net position	 <u>\$ 41,316</u>	 <u>\$ 127,226</u>	 <u>\$ 85,910</u>

See independent auditor's report.



Watkins Uiberall, PLLC
Certified Public Accountants

Independent Member of BKR International

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

210 East Main Street • Suite 2C
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

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, 2014, 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 December 15, 2014.

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*.

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.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 15, 2014