

VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3
McFarland, Wisconsin

COMPILED
FINANCIAL STATEMENTS

Including Accountants' Compilation Report

From the Date of Creation
Through December 31, 2011

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

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From Date of Creation Through December 31, 2011

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ACCOUNTANTS' COMPILATION REPORT

To the Village Board
Village of McFarland
McFarland, Wisconsin

We have compiled the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered Through Tax Increments and Historical Summary of Sources, Uses, and Status of Funds of the Village of McFarland's Tax Incremental District No. 3 as of and for the year ended December 31, 2011. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

As discussed in Note 1, the financial statements present only the transactions of the district and do not purport to, and do not, present fairly the financial position of the Village of McFarland as of December 31, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the district adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective January 1, 2011.

The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, do not express an opinion or provide any assurance on such supplementary information.

To the Village Board
Village of McFarland

Management has omitted the management's discussion and analysis that is required to be presented for purposes of additional analysis. Such missing information, although not a required part of the financial statements, is required by accounting principles generally accepted in the United States of America and is considered to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 16, 2012

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
BALANCE SHEET
As of December 31, 2011

	<u>Capital Projects Fund</u>
ASSETS	
Cash and investments	\$ 907,672
Taxes receivable	753,774
Accounts receivable	142,883
Advances to other funds	<u>337,868</u>
TOTAL ASSETS	<u>\$ 2,142,197</u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable	\$ 239
Deferred revenue	<u>862,853</u>
Total Liabilities	<u>863,092</u>
Fund Balance	
Restricted	<u>1,279,105</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,142,197</u>

See accompanying notes to financial statements and accountants' compilation report.

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
HISTORICAL SUMMARY OF PROJECT COSTS, PROJECT REVENUES
AND NET COST TO BE RECOVERED THROUGH TAX INCREMENTS
For the Year Ended December 31, 2011
and From Date of Creation Through December 31, 2011

	<u>Year Ended</u>	<u>From Date of Creation</u>
PROJECT COSTS		
Capital expenditures	\$ 11,095	\$ 4,130,032
Administrative expenditures	38,151	318,736
Interest on advance	-	38,446
Interest and fiscal charges	194,449	1,235,894
Total Project Costs	<u>243,695</u>	<u>5,723,108</u>
PROJECT REVENUES		
Tax increments	836,120	3,381,015
Intergovernmental	15,273	44,758
Licenses and permits	-	8,152
Investment income	472	30,535
Rent	11,100	58,974
Debt premium	-	43,779
Total Project Revenues	<u>862,965</u>	<u>3,567,213</u>
NET COST RECOVERABLE (RECOVERED) THROUGH TIF INCREMENTS - DECEMBER 31, 2011	<u>\$ (619,270)</u>	<u>\$ 2,155,895</u>
RECONCILIATION OF RECOVERABLE COSTS		
G.O. Debt outstanding		\$ 3,435,000
Less: Fund balance		<u>(1,279,105)</u>
NET COST RECOVERABLE THROUGH TIF INCREMENTS - DECEMBER 31, 2011		<u>\$ 2,155,895</u>

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
HISTORICAL SUMMARY OF SOURCES, USES, AND STATUS OF FUNDS
For the Year Ended December 31, 2011
and From Date of Creation Through December 31, 2011

	<u>Year Ended</u>	<u>From Date of Creation</u>
SOURCES OF FUNDS		
Tax increments	\$ 836,120	\$ 3,381,015
Intergovernmental	15,273	44,758
Licenses and permits	-	8,152
Investment income	472	30,535
Rent	11,100	58,974
Debt premium	-	43,779
Long-term debt issued	-	7,355,000
Total Sources of Funds	<u>862,965</u>	<u>10,922,213</u>
USES OF FUNDS		
Capital expenditures	11,095	4,130,032
Administrative expenditures	38,151	318,736
Interest on advance	-	38,446
Interest and fiscal charges	194,449	1,235,894
Principal on long-term debt	<u>345,000</u>	<u>3,920,000</u>
Total Uses of Funds	<u>588,695</u>	<u>9,643,108</u>
Excess of sources of funds over uses of funds	274,270	1,279,105
FUND BALANCE - Beginning of Period	<u>1,004,835</u>	<u>-</u>
FUND BALANCE - DECEMBER 31, 2011	<u>\$ 1,279,105</u>	<u>\$ 1,279,105</u>

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of McFarland's Tax Incremental District No. 3 (the "district") conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

The Village of McFarland uses the criteria set forth by the Governmental Accounting Standards Board to determine the scope of the reporting entity of Tax Incremental District No. 3. The accompanying financial statements reflect all the significant operations of Village of McFarland's Tax Incremental District No. 3.

In February 2009, the GASB issued Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications based primarily on the extent to which the government is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

The district made the decision to implement this standard effective January 1, 2011.

A. DESCRIPTION OF FUND STRUCTURE AND LONG-TERM DEBT

This report contains the financial information of the Village of McFarland's Tax Incremental District No. 3. The summary statements were prepared from data recorded in the following funds and the village's long-term debt:

General Fund
Capital Projects Fund

Detailed descriptions of the purpose of these funds and long-term debt can be found in the Village of McFarland's basic financial statements.

The data was consolidated for purposes of this report. Therefore, the amounts shown in the accompanying statements will not directly correlate with amounts shown in the basic financial statements.

The district was created under the provisions of Wisconsin Statute Section 66.1105. The purpose of that section is to allow a municipality to recover development and improvements costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the district. The tax on the increased value is called a tax increment.

The statutes allow the district to collect tax increments until the net project cost has been fully recovered, or until 23 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date are absorbed by the Village of McFarland. Project costs may be incurred up to five years before the unextended termination date of the district.

<u>Original Project Plan</u>	<u>Creation Date</u>	<u>Last Date to Incur Project Costs</u>	<u>Last Year to Collect Increment</u>
TID No. 3	08/09/04	08/09/23	2028

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

A. DESCRIPTION OF FUND STRUCTURE AND LONG-TERM DEBT (cont.)

Plan Amendment	Adoption Date	Last Date to Incur Project Costs
TID No. 3	12/10/07	08/09/23

B. BASIS OF ACCOUNTING

The modified accrual basis of accounting was followed in the preparation of these statements. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Project costs, other than interest on long-term debt, are recorded when the related fund liability is incurred.

District increments are recorded as revenues in the year due. Intergovernmental aids and grants are recognized as revenues in the period the related expenditures are incurred, if applicable, or when the village is entitled to the aids.

Other general revenues are recognized when received in cash or when measurable and available under the criteria described above.

C. USE OF ESTIMATES

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

D. MEASUREMENT FOCUS

The measurement focus of all governmental funds is the funds flow concept. Under the funds flow concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as deferred revenue or a reservation of fund equity. Liabilities for claims, judgments, compensated absences and pension contributions which will not be currently liquidated using expendable available financial resources are shown in the long-term debt footnote disclosure. The related expenditures are recognized when the liabilities are liquidated.

E. PROJECT PLAN BUDGET

The estimated revenues and expenditures of the district are adopted in the project plan. Those estimates are for the entire life of the district, and may not be comparable to interim results presented in this report.

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

F. LONG-TERM DEBT

Short-term liabilities are recorded as fund liabilities. All other long-term liabilities are shown in the long-term debt footnote disclosure.

Proceeds of long-term debt issues not recorded as fund liabilities are reflected as "Sources of Funds" in the operating statement of the recipient fund. Retirement of these issues is reported as an expenditure in the year in which the debt matures or is repaid, whichever is earlier.

G. CLAIMS AND JUDGMENTS

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments is only reported in governmental funds if it has matured. Claims and judgments are disclosed in the long-term debt footnote when the related liabilities are incurred.

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

The district invests its funds in accordance with the provisions of the Wisconsin Statutes 66.0603(1m) and 67.11(2).

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

The district, as a fund of the village, maintains common cash and investment accounts at the same financial institutions utilized by the village. Federal depository insurance and the State of Wisconsin Guarantee fund insurance apply to the Village of McFarland as an individual municipality, and, accordingly, the amount of insured funds is not determinable for the district.

NOTE 3 – LONG-TERM DEBT

A. GENERAL OBLIGATION BONDS AND BOND ANTICIPATION NOTES

General obligation bonds and bond anticipation notes are payable from future tax increments accumulated by the TIF district. If those revenues are not sufficient, payments will be made by future tax levies or borrowings, as applicable.

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011

NOTE 3 – LONG-TERM DEBT (cont.)

A. GENERAL OBLIGATION BONDS AND BOND ANTICIPATION NOTES (cont.)

Title of Issue	Date of Issue	Due Date	Interest Rates	Original Indebtedness	Repaid	Balance 12-31-11
2004 BANS	12/28/04	12/31/09	4.50%	\$ 1,535,000	\$ 1,535,000	\$ -
2005 BANS	05/15/05	09/01/09	3.50%	1,420,000	1,420,000	-
2008 Taxable G.O. Promissory Notes	12/15/08	12/01/17	4.50-6.15%	2,635,000	715,000	1,920,000
2008 G.O. Refunding Bonds	12/15/08	12/01/23	4.50-4.75%	1,415,000	-	1,415,000
2008 State Trust Fund Loan	03/25/08	03/15/23	4.75%	140,000	140,000	-
2008 G.O. Promissory Notes	12/15/08	12/01/18	4.00-4.25%	210,000	110,000	100,000
				<u>\$ 7,355,000</u>	<u>\$ 3,920,000</u>	<u>\$ 3,435,000</u>

Aggregate maturities of all long-term debt relating to the district are as follows:

	Principal	Interest	Total
2012	\$ 360,000	\$ 178,311	\$ 538,311
2013	380,000	160,376	540,376
2014	345,000	140,728	485,728
2015	365,000	122,063	487,063
2016	385,000	101,076	486,076
2017 - 2021	1,000,000	305,546	1,305,546
2022 - 2023	600,000	40,725	640,725
Totals	<u>\$ 3,435,000</u>	<u>\$ 1,048,825</u>	<u>\$ 4,483,825</u>

NOTE 4 – ADVANCES TO OTHER FUNDS

TIF District No.3 is advancing funds to TIF District No. 4. The amount advanced is determined by the deficiency of revenues over expenditures and other financing sources since the District's inception. No repayment schedule has been determined for the advances. TIF District No. 3 is charging TIF District No.4 interest on the advance based on the average outstanding advance balance during the year at a floating interest rate. The interest rate charged for 2011 was 0.14%.

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011

NOTE 5 – GUARANTEED REVENUE

During 2004, the Village of McFarland entered into a development agreement with High Track, LLC. The agreement guarantees that the developer will pay the difference between the guaranteed tax increment and the tax increment actually levied on an annual basis.

During 2004, the village loaned High Track (the developer) \$1,500,000 for eligible costs under the Tax Incremental law. The developer proposed to construct within TID No. 3 a cold storage facility (approximately 140,000 square feet) and related offices, with the estimated final completion value of approximately \$9,000,000.

The developer agreed to construct the cold storage facility in TIF District No. 3 so that the fair market value on January 1, 2005 would generate a tax increment of \$150,000. If the development generated less than \$150,000, the developer would owe the village the difference. The payment would be made by the developer to the village. One-half of the payment was due on or before January 31, 2006 with the balance due on or before July 31, 2006. The actual property taxes for 2005 totaled \$137,832, thus triggering a supplemental increment requirement of \$12,167. Consistent with the terms of the agreement, half of the supplemental payment was due January 31, 2006 and the remaining half due July 31, 2006.

By January 1, 2006, the developer agreed that the fair market value of the facility would generate a tax increment of \$225,000. If the development generates less than this amount, the developer is required to annually, thereafter, pay the village a sum which is the difference between the increment generated and \$225,000. This payment will be made semi-annually by developer to village on or before January 31 and July 31 of each succeeding year.

During 2007, 2008, 2009, 2010 and 2011, the fair market value of the facility generated enough increment that no supplemental increment payment was required to be made by High Track.

In May 2010, the High Track refrigerated warehousing business located at 4704 Terminal Drive was sold by High Track, LLC to Midwest Refrigerated Services, Inc. As a result of the sale and reduced demand for warehousing space due to the weak economy, the assessed valuation of the real estate decreased from \$15,785,900 in 2009 to \$13,600,000 in 2010. The property continues to have the highest value of any single property in TIF District No. 3 and the value is not expected to decrease further. The sale and change in property value should have no bearing on the repayment of the loan as the current loan was assumed by the new owners and the annual property taxes exceeds the guaranteed annual tax increment of \$225,000.

The Village of McFarland has also entered into development agreements with Spartan Properties and 84 Lumber under which TIF District No. 3 has provided loans to facilitate two separate redevelopment projects. Both of these development agreements guarantee certain minimum assessed valuations for the properties in the year following the completion of construction. If the actual assessed values fall short of the guaranteed assessment amounts, the developers are obligated to make additional payments to the village equivalent to the property taxes that would have been due on the shortfall in valuation. At the end of 2011, the village has a receivable in the amount of \$109,079 from Spartan Properties and \$33,804 from 84 Lumber, to be received in 2012, for shortfall payments.

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2011

NOTE 5 – GUARANTEED REVENUE (cont.)

The 84 Lumber wholesale building products business located at 4414 Terminal Drive has closed and the property is for sale. With a 2010 assessed real estate valuation of \$4,866,300 this property has the second highest value of any single property in TIF District No. 3. It is unclear what effect a sale might have on the assessed valuation but it is possible the value could decrease. The existing loan from TIF District No. 3 to 84 Lumber has a due on sale provision which would likely be exercised by the Village.

NOTE 6 – COMMITMENT AND CONTINGENCIES

The Village of McFarland has entered into a development agreement with Spartan Properties under which TIF District No. 3 has provided loans to facilitate a redevelopment project. The Village of McFarland is still committed to an additional loan amount of \$158,750 to Spartan Properties, pending final design approvals and the issuance of construction permits for the project. The additional loan amount may be reduced by the amount of shortfall payments Spartan Properties owes to the Village.

SUPPLEMENTAL INFORMATION

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
DETAILED SCHEDULE OF SOURCES, USES, AND STATUS OF FUNDS
From Date of Creation Through December 31, 2011

	2004	2005	2006	2007	2008	2009	2010	2011	Totals	Project Plan Estimate
SOURCES										
Tax increments	\$ -	\$ -	\$ 164,170	\$ 331,293	\$ 462,568	\$ 728,816	\$ 858,048	\$ 836,120	\$ 3,381,015	\$ 13,604,672
Intergovernmental	-	-	3,244	8,725	6,345	3,339	7,832	15,273	44,758	-
Licenses and permits	-	-	8,152	-	-	-	-	-	8,152	-
Investment income	-	25,513	-	-	420	3,534	596	472	30,535	1,574,000
Rent	-	-	4,500	10,800	10,800	10,800	10,974	11,100	58,974	-
Debt premium	-	1,545	-	-	42,234	-	-	-	43,779	-
Long-term debt issued	1,535,000	1,420,000	-	-	4,400,000	-	-	-	7,355,000	2,955,000
Total Sources	1,535,000	1,447,058	180,066	350,818	4,922,367	746,489	877,450	862,965	10,922,213	18,133,672
USES										
Capital expenditures	1,964,250	627,599	510,890	162,146	693,101	26,588	134,363	11,095	4,130,032	14,639,818
Administrative expenditures	30,166	42,640	40,350	36,816	40,363	33,342	56,908	38,151	318,736	-
Interest on advance	5,749	4,089	7,531	14,149	6,928	-	-	-	38,446	-
Interest and fiscal charges	28,100	32,359	173,727	115,091	212,218	270,964	208,986	194,449	1,235,894	538,854
Principal on long-term debt	-	-	-	-	-	3,250,000	325,000	345,000	3,920,000	2,955,000
Total Uses	2,028,265	706,687	732,498	328,202	952,610	3,580,894	725,257	588,695	9,643,108	18,133,672
Excess (deficiency) of sources of funds over uses of funds	(493,265)	740,371	(552,432)	22,616	3,969,757	(2,834,405)	152,193	274,270	1,279,105	
Fund Balance - Beginning of Period (Deficit)	-	(493,265)	247,106	(305,326)	(282,710)	3,687,047	852,642	1,004,835	-	
FUND BALANCE - END OF PERIOD (DEFICIT)	\$ (493,265)	\$ 247,106	\$ (305,326)	\$ (282,710)	\$ 3,687,047	\$ 852,642	\$ 1,004,835	\$ 1,279,105	\$ 1,279,105	

**VILLAGE OF MCFARLAND
TAX INCREMENTAL DISTRICT NO. 3**

COMPILED
DETAILED SCHEDULE OF CAPITAL EXPENDITURES
From Date of Creation Through December 31, 2011

	Actual	Project Plan Estimate
CAPITAL EXPENDITURES		
Ivywood Trail improvements	\$ 408,153	\$ 408,153
Siggelkow Road improvements	-	420,000
Sanitary sewer - Terminal Drive	672,788	1,000,000
Street improvements - Terminal Drive (urban)	127,136	1,846,000
Storm water improvements - Terminal Drive/Triangle St	216,851	513,665
Triangle Street improvements	10,001	1,070,000
Meinders Road improvements	19,690	232,000
USH 51 landscaping	-	250,000
Planning and engineering redevelopment plan	136,064	400,000
Marketing and business recruitment incentives	500,000	1,000,000
Economic development	1,899,299	5,000,000
Land acquisition, relocation, demolition	140,050	2,500,000
 TOTAL CAPITAL EXPENDITURES	 \$ 4,130,032	 \$ 14,639,818