

**Kennedale Economic
Development
Corporation**
(Component Unit of the City of
Kennedale, Texas)

Annual Financial Report

**For the Fiscal Year Ended
September 30, 2022**



Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)
For the Fiscal Year Ended September 30, 2022

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Independent Auditor's Report

The Honorable Mayor and
Members of the Board of Directors
City of Kennedale, Texas

Opinions

We have audited the financial statements of the governmental activities and the major fund of the Kennedale Economic Development Corporation (KEDC), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the KEDC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the KEDC, as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the KEDC, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Emphasis of Matters

As discussed in *Note 1* to the financial statements, the KEDC adopted Governmental Accounting Standards Board Statement No. 87, *Leases*, in fiscal year 2022.

As discussed in *Note 2* to the financial statements, beginning of the year net position for the governmental activities and fund balance for the general fund has been restated for an error correction.

Our opinions are not modified with respect to these matters.

Responsibilities of Management 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, and for 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 error or fraud.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the KEDC's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 KEDC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the KEDC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, as 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 GAAS, 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.

FORVIS,LLP

**Dallas, Texas
May 11, 2023**

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)
Management's Discussion and Analysis
(Unaudited)

As management of the Kennedale Economic Development Corporation (KEDC), we offer readers of the KEDC's financial statements, this narrative overview and analysis of the financial activities of the KEDC for the fiscal year ended September 30, 2022. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the KEDC exceeded its liabilities at the close of the most recent fiscal year by \$5,283,929.
- The KEDC's restated net position increased by \$211,303.
- As of the close of the current fiscal year, the KEDC's governmental fund reports restated fund balance of \$2,132,096, an increase of \$357,586 in comparison with the prior year.
- At the end of the current fiscal year, the restricted fund balance for the General Fund was \$2,122,096.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the KEDC's basic financial statements. The Corporation's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the KEDC's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the KEDC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the KEDC is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

Governmental Activities: The KEDC's basic expenditures are reported here, including administrative and incentive grants. Sales taxes, rent, and investment earnings finance these activities.

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)
Management's Discussion and Analysis
(Unaudited)

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The KEDC uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The KEDC uses the following fund type:

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The KEDC maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, which is considered to be a major fund.

Required Supplementary Information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the KEDC's annual budget. The KEDC adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the financial section.

The KEDC adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided in required supplementary information for General Fund to demonstrate compliance with the budget.

Government-Wide Financial Analysis

As noted earlier, over time, net position may serve as a useful indicator of the KEDC's financial position. In the case of the KEDC, assets exceeded liabilities by \$5,283,929 at the close of the most recent fiscal year.

Kennedale Economic Development Corporation
 (Component Unit of the City of Kennedale, Texas)
Management's Discussion and Analysis
 (Unaudited)

Kennedale Economic Development Corporation's Statement of Net Position

	Governmental Activities	
	2022	2021*
Assets		
Cash and cash equivalents	\$ 2,011,221	\$ 1,197,045
Receivables (net of allowance)	128,468	214,016
Prepaid items	10,000	10,000
Capital assets (net of depreciation)	3,820,735	4,099,999
Total assets	5,970,424	5,521,060
Liabilities		
Accounts payable	141	10,455
Accrued interest	7,606	13,778
Accrued liabilities	33,899	33,188
Bond and loan payable	661,296	788,105
Total liabilities	702,942	845,526
Net Position		
Net investment in capital assets	3,159,439	3,311,894
Restricted for economic development	2,124,490	1,363,640
Total net position	\$ 5,283,929	\$ 4,675,534

The KEDC's restated net position increased by \$211,303 during the current fiscal year. The increase was due to operations and was consistent with results in 2021.

*The 2021 balances have not been adjusted for the error correction discussed at *Note 2*.

Kennedale Economic Development Corporation
 (Component Unit of the City of Kennedale, Texas)
Management's Discussion and Analysis
 (Unaudited)

Kennedale Economic Development Corporation's Changes in Net Position

	Governmental Activities	
	2022	2021*
General/Program Revenues		
Sales tax	\$ 619,749	\$ 687,092
Leases	312,171	251,500
Miscellaneous	35,103	37,799
Investment earnings	11,002	426
Total revenues	<u>978,025</u>	<u>976,817</u>
Expenses		
Economic development	726,319	706,167
Interest and other	40,403	47,655
Total expenses	<u>766,722</u>	<u>753,822</u>
Change in Net Position	<u>211,303</u>	<u>222,995</u>
Net Position, Beginning as Previously Reported	4,675,534	-
Adjustment applicable to prior years due to an error correction	<u>397,092</u>	<u>-</u>
Net Position, Beginning	<u>5,072,626</u>	<u>4,452,539</u>
Net Position, Ending	<u>\$ 5,283,929</u>	<u>\$ 4,675,534</u>

*The 2021 balances have not been adjusted for the error correction discussed at *Note 2*.

The KEDC's revenues increased by \$1,208 from last year. The increase was due to increased rental revenue, but offset by a reduction in sales tax revenue.

General Fund Budgetary Highlights: The actual expenditures for the year were \$620,439, as compared to the budgeted amount of \$625,073. The budget overage in economic development was offset by debt service coming in under budget.

For fiscal year 2022, the actual revenues were \$978,025, as compared to the budgeted amount of \$800,048 as all revenue sources exceeded projections as the economy continues to recover from the pandemic.

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)
Management's Discussion and Analysis
(Unaudited)

Capital Asset and Debt Administration

Capital Assets: The investment in capital assets for the governmental activities as of September 30, 2022, amounts to \$3,820,735 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and infrastructure.

Additional information on the capital assets can be found in the notes to the financial statements on page 21.

Long-term Debt: At year-end, the KEDC had revenue bonds and a loan in the amount of \$460,000 and \$201,296, respectively. No new debt was issued in fiscal year 2022.

Additional information on the long-term debt can be found in the notes to the financial statements on page 22.

Discussion of Currently Known Facts, Decisions, or Conditions in Fiscal Year 2023

The Kennedale Economic Development Corporation's projects for the fiscal year and beyond include: 1) Opening a "sit-down" restaurant in the Oak Crest development, 2) building a hotel in the Oak Crest development, 3) continuing the development of the Kennedale Town Center, and 4) identifying potential tracts of land to acquire, consolidate, clear and resell for light manufacturing uses.

Request for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Kennedale Economic Development Corporation, 405 Municipal Dr., Kennedale, Texas 76060.

Basic Financial Statements

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Statement of Net Position

Government-wide
September 30, 2022

Assets

Cash and cash equivalents	\$ 2,011,221
Receivables	
Accounts	22,766
Sales tax	105,702
Leases	594,841
Prepaid items	10,000
Capital assets	
Nondepreciable	870,292
Depreciable, net of accumulated depreciation	<u>2,950,443</u>
 Total assets	 <u>6,565,265</u>

Liabilities

Accounts payable	141
Customer deposits	33,899
Accrued interest	7,606
Current portion of bond and loan payable	128,345
Noncurrent liabilities	
Bond and loan payable	<u>532,951</u>
 Total liabilities	 <u>702,942</u>

Deferred Inflows of Resources

Lease related	<u>578,394</u>
 Total deferred inflows of resources	 <u>578,394</u>

Net Position

Net investment in capital assets	3,159,439
Restricted for	
Economic development	<u>2,124,490</u>
 Total net position	 <u><u>\$ 5,283,929</u></u>

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Statement of Activities

Government-wide

For the Year Ended September 30, 2022

Program Revenue	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Position
Functions/Program			
Governmental Activities			
Economic development	\$ 726,319	\$ 312,171	\$ (414,148)
Interest and other	<u>40,403</u>	<u>-</u>	<u>(40,403)</u>
Total governmental activities	<u>\$ 766,722</u>	<u>\$ 312,171</u>	<u>(454,551)</u>
 General Revenues			
Sales taxes			619,749
Investment earnings			11,002
Miscellaneous			<u>35,103</u>
Total general revenues			<u>665,854</u>
Change in Net Position			<u>211,303</u>
Net Position, Beginning as Previously Reported			4,675,534
Adjustment applicable to prior years due to an error correction			<u>397,092</u>
Net Position, Beginning of Year, as Restated			<u>5,072,626</u>
Net Position, End of Year			<u>\$ 5,283,929</u>

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Balance Sheet
General Fund
September 30, 2022

Assets

Cash and cash equivalents	\$ 2,011,221
Receivables	
Accounts	105,702
Other	22,766
Lease	594,841
Prepaid items	<u>10,000</u>
Total assets	<u>\$ 2,744,530</u>

Liabilities

Accounts payable	\$ 141
Customer deposits	<u>33,899</u>
Total liabilities	<u>34,040</u>

Deferred Inflows of Resources

Lease related	<u>578,394</u>
Total deferred inflows of resources	<u>578,394</u>

Fund Balances

Nonspendable	10,000
Restricted for economic development	<u>2,122,096</u>
Total fund balances	<u>2,132,096</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 2,744,530</u>

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)
Reconciliation of the Balance Sheet of the
Governmental Fund to the Statement of Net Position
September 30, 2022

Total Fund Balance	\$ 2,132,096
Amounts reported in the statement of net position are different because:	
Interest payable on long-term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the balance sheet.	(7,606)
Capital assets used in governmental activities are not financial resources; therefore, are not reported as assets in fund financial statements. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.	3,820,735
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	<u>(661,296)</u>
Total Net Position	<u><u>\$ 5,283,929</u></u>

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Year Ended September 30, 2022

Revenues	
Sales taxes	\$ 619,749
Leases	312,171
Investment earnings	11,002
Miscellaneous	<u>35,103</u>
Total revenues	<u>978,025</u>
 Expenditures	
Current	
Economic development	447,055
Debt service	
Principal	126,809
Interest	<u>46,575</u>
Total expenditures	<u>620,439</u>
Increase of Revenues Over Expenditures	<u>357,586</u>
Net Change in Fund Balance	<u>357,586</u>
Fund Balance, Beginning of Year, as Previously Reported	1,377,418
Adjustment applicable to prior years due to an error correction	<u>397,092</u>
Fund Balance, Beginning of Year, as Restated	<u>1,774,510</u>
Fund Balance, End of Year	<u><u>\$ 2,132,096</u></u>

Kennedale Economic Development Corporation

(Component Unit of the City of Kennedale, Texas)

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Fund to the Statement of Activities

For the Year Ended September 30, 2022

Net Change in Fund Balance	\$ 357,586
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	25,000
Depreciation	(304,264)
Current year changes in accrued interest payable do require the use of current financial resources; therefore, are reported as expenditures in the fund financials.	
	6,172
Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements.	
	<u>126,809</u>
Change in Net Position	<u>\$ 211,303</u>

Kennedale Economic Development Corporation

(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements

September 30, 2022

Note 1: Summary of Significant Accounting Policies

The financial statements of Kennedale Economic Development Corporation (Corporation or KEDC) have been prepared in conformity with generally accepted accounting principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB's jurisdiction includes nonprofit corporations that are in substance part of a governmental unit. The most significant accounting and reporting policies of the Corporation are described in the following notes to the financial statements.

Reporting Entity

The Corporation was incorporated on December 2, 1996. The Corporation is a nonprofit corporation organized and operating under the laws of the State of Texas, particularly Section 4B of the *Development Corporation Act of 1979*, as amended and Article 5190.6, Vernon's Texas Civil Statutes (Act), as amended. The Corporation was created following an election held by the City of Kennedale, Texas (City), on August 10, 1996, to levy 0.5 percent local sales and use tax in the City for the benefit of the Corporation. The Corporation, as currently organized, is to promote economic development within the City, including, but not limited to, construction, operation, and administration, as permitted by Section 4B of the Act, as amended. The Corporation is a discretely presented component unit of the City.

As required by generally accepted accounting principles, these financial statements present the Corporation and do not include any component units, entities for which the Corporation is considered to be financially accountable. The Corporation did not have any entities which meet the component unit criteria. Therefore, the reporting entity is limited to those departments which comprise the Corporation's legally adopted jurisdiction. However, the Corporation is considered to be, and is reported as, a component unit of the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the government. Governmental activities are supported by taxes, rent, and investment revenue.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as general revenue.

The government-wide and fund financial statements are provided for the governmental fund of the Corporation with a reconciliation between the two provided.

Kennedale Economic Development Corporation

(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements

September 30, 2022

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Sales tax and interest income associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Corporation.

The Corporation reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the Corporation. There are no other funds of the Corporation.

Assets, Liabilities, and Net Position or Fund Balance

Cash and Investments

The Corporation's cash and investments are pooled with the City of Kennedale's cash and investments to maximize earnings. Investment income is allocated to the Corporation based upon its pro rata participation in the Pool.

Investments in government pools are recorded at amortized cost or net asset value. All other investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Capital Assets

Capital assets, which include buildings, improvements, and infrastructure are reported in the government-wide financial statements. The Corporation defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements
September 30, 2022

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	20 years
Infrastructure	35 - 125 years

Long-term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Lease Receivable

The KEDC is a lessor for noncancellable leases of buildings and recognized a related lease receivable and a deferred inflow of resources. At the commencement of a lease, the KEDC initially measures the lease receivable at the present value of lease payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured at the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

The KEDC monitors changes in circumstances that would require a remeasurement of its leases, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements
September 30, 2022

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Corporation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Nature and Purpose of Classifications on Fund Balances

Governmental funds fund balances classified as restricted can only be used for specific purposes pursuant to constraints imposed by state law for Type A development corporations. Fund balances classified as nonspendable include amounts that cannot be spent because they are not in a spendable form.

Net Position/Fund Balance Flow Assumption

It is the KEDC's policy to consider restricted net position/fund balances to have been depleted before unrestricted net position/fund balances is applied.

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 deferred inflows of resources, and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue.

Adoption of GASB Statement No. 87, Leases (GASB 87)

In 2022, the KEDC adopted GASB 87. The Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. The adoption of GASB 87 resulted in a lease receivable, related deferred inflow of resources, and related disclosure in the notes to the financial statements. The adoption of GASB 87 had no impact on the KEDC's beginning net position.

Kennedale Economic Development Corporation

(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements

September 30, 2022

Note 2: Detail Notes on Funds and Activities

Cash, Cash Equivalents, and Investments

The *Public Funds Investment Act*, Government Code Chapter 2256 (Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Corporation to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity; (2) portfolio diversification; (3) allowable investments; (4) acceptable risk levels; (5) expected rates of return; (6) maximum allowable stated maturity of portfolio investments; (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio; (8) investment staff quality and capabilities; and (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the Corporation to invest in: (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers' acceptances; (7) Mutual Funds; (8) Investment pools; (9) guaranteed investment contracts; and (10) common trust funds. The Act also requires the Corporation to have independent auditors perform test procedures related to investment practices as provided by the Act. The Corporation is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Act, the Corporation has adopted a deposit and investment policy. That policy does address the following risks:

- (A) ***Custodial Credit Risk:*** Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2022, all of the Corporation's deposits were in the TexPool and TexStar accounts held by the City.
- (B) ***Credit Risk:*** It is the Corporation's policy to limit investments to investment types with an investment quality rating no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.
- (C) ***Interest Rate Risk:*** In accordance with the Corporation's investment policy, the Corporation manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 90 days or less, dependent on market conditions.
- (D) ***Concentration of Credit Risk:*** The Corporation's investment policy states the maximum percentage allowed for each different investment instrument that can be used to make up the portfolio.

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements
September 30, 2022

At September 30, 2022, the carrying amounts of the Corporation's deposits were as follows:

TexPool	\$ 1,798,442
TexStar	31,583
Money market investments	<u>181,196</u>
Total investments	<u>\$ 2,011,221</u>

Public Funds Investment Pools

Public funds investment pools in Texas (Pools) are established under the authority of the *Interlocal Cooperation Act* (Act), Chapter 79 of the Texas Government Code, and are subject to the provisions of the Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

All investments are measured using amortized cost or net asset value per share (or its equivalent). The carrying value amounts included above approximate amortized cost or net asset value for all related external investment pool balances. Balances held in Pools are readily available and are recorded as cash equivalents for financial statement purposes.

Risk Management

The Corporation carries its general insurance risks with a public entity risk pool by transferring all risks to the insurance carrier except for small deductible amounts. There has been no significant reduction in coverage from 2021 to 2022; nor have settlement amounts exceeded coverage for each of the past three years.

Lease Receivable

The KEDC leases building space to third parties, the terms of which expire over various years through 2028. The KEDC recognized approximately \$203,000 in lease revenue and interest revenue during the current fiscal year related to these leases. As of September 30, 2022, the KEDC's receivable for lease payments was \$594,841 and the balance of the deferred inflow of resources related to this lease was \$578,394. The KEDC recognized lease revenue of approximately \$109,000 for the year ended September 30, 2022, for variable payments related to common area maintenance, not previously included in the measurement of the lease receivable.

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements
September 30, 2022

Agreement with City

The Corporation has no employees. The personnel duties for the Corporation are performed by employees of the City of Kennedale, and the Corporation is charged for expenses related to these duties.

Capital Assets

Capital assets activity for year ended September 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$ 845,292	\$ -	\$ -	\$ 845,292
Construction in progress	-	25,000	-	25,000
	<hr/>	<hr/>	<hr/>	<hr/>
Totals capital assets not being depreciated	845,292	25,000	-	870,292
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, being depreciated				
Buildings	4,917,189	-	-	4,917,189
Improvements	1,084,193	-	-	1,084,193
Infrastructure	209,707	-	-	209,707
	<hr/>	<hr/>	<hr/>	<hr/>
Totals capital assets being depreciated	6,211,089	-	-	6,211,089
	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation for:				
Buildings	2,384,439	245,859	-	2,630,298
Improvements	543,085	54,210	-	597,295
Infrastructure	28,858	4,195	-	33,053
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	2,956,382	304,264	-	3,260,646
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets, being depreciated, net	3,254,707	(304,264)	-	2,950,443
	<hr/>	<hr/>	<hr/>	<hr/>
Capital assets, net	<u>\$ 4,099,999</u>	<u>\$ (279,264)</u>	<u>\$ -</u>	<u>\$ 3,820,735</u>

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements
September 30, 2022

Long-term Debt

During fiscal year 2011, a loan was issued for \$1,700,000 at 3.25 percent for the purpose of financing new projects. Revenue bonds were issued in fiscal year 2007 for \$1,200,000 at 6.95 percent also for the purpose of financing new projects. Revenue bonds and loans outstanding at year end are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Discretely Presented Component Unit					
Revenue bonds	\$ 535,000	\$ -	\$ 75,000	\$ 460,000	\$ 80,000
Texas leverage fund loan	253,105	-	51,809	201,296	48,345
Total	<u>\$ 788,105</u>	<u>\$ -</u>	<u>\$ 126,809</u>	<u>\$ 661,296</u>	<u>\$ 128,345</u>

Annual debt service requirements to maturity for the revenue bonds and loan of the Corporation are as follows:

Fiscal Year	Governmental Activities		
	Principal	Interest	Total
2023	128,345	38,497	166,842
2024	135,065	31,218	166,283
2025	141,845	23,529	165,374
2026	153,689	15,431	169,120
2027	102,352	7,311	109,663
Total	<u>\$ 661,296</u>	<u>\$ 115,986</u>	<u>\$ 777,282</u>

Prior Period Adjustment

Subsequent to the issuance of the September 30, 2021 financial statements, an error was identified relating to an allocation of sales tax revenue between the City and KEDC. As a result of this error, beginning net position and fund balance of the governmental activities and the General Fund was increased by \$397,092.

The correction of error above had an impact on change in net position for the prior year as follows: increase change in net position by approximately \$40,000 for governmental activities and increase change in fund balance by approximately \$40,000 for the General Fund.

Kennedale Economic Development Corporation
(Component Unit of the City of Kennedale, Texas)

Notes to Basic Financial Statements
September 30, 2022

Note 3: Future Change in Accounting Principle

The GASB also issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Arrangements*. This statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The KEDC expects to first apply GASB 94 during the year ending September 30, 2023, using the facts and circumstances in place at the time of adoption. The impact of applying the Statement has not been determined.

The GASB also issued Statement No. 96, *Subscription-Based Information Technology Agreements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. This statement will become effective for KEDC's fiscal year ending September 30, 2023. The impact of applying the Statement has not been determined.

Required Supplementary Information

Kennedale Economic Development Corporation

(Component Unit of the City of Kennedale, Texas)

Schedule of Revenues, Expenditures, and Changes in Fund Balance

Budget to Actual (Unaudited)

For the Year Ended September 30, 2022

	<u>Budgeted Amounts</u>		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Sales taxes	\$ 550,000	\$ 550,000	\$ 619,749	\$ 69,749
Rent taxes	243,848	243,848	312,171	68,323
Miscellaneous income	4,200	4,200	35,103	30,903
Investment earnings	2,000	2,000	11,002	9,002
	<u>800,048</u>	<u>800,048</u>	<u>978,025</u>	<u>177,977</u>
Total revenues				
Expenditures				
Current				
Economic development	316,075	316,075	447,055	(130,980)
Debt service				
Principal	308,998	308,998	126,809	182,189
Interest	-	-	46,575	(46,575)
	<u>625,073</u>	<u>625,073</u>	<u>620,439</u>	<u>4,634</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>174,975</u>	<u>174,975</u>	<u>357,586</u>	<u>182,611</u>
Net Change in Fund Balances	174,975	174,975	357,586	182,611
Fund Balance, Beginning of Year, as Restated	<u>1,774,510</u>	<u>1,774,510</u>	<u>1,774,510</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 1,949,485</u>	<u>\$ 1,949,485</u>	<u>\$ 2,132,096</u>	<u>\$ 182,611</u>

Kennedale Economic Development Corporation
Notes to Required Supplementary Information
For the Year Ended September 30, 2022

Budgetary Information

The Economic Development Board of Directors and the City Council of the City of Kennedale, Texas, follow these procedures in establishing budgets reflected in the financial statements:

1. Prior to the beginning of each fiscal year, the Executive Director submits a proposed budget to the Corporation's Board of Directors for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the Corporation's Board of Directors and ratified by the City Council of the City.
4. The Board of Directors and the City Council must approve any budget amendments. At the end of each fiscal year, all appropriations lapse.
5. Annual budgets adopted for the Economic Development Fund are adopted on a basis consistent with generally accepted accounting principles.
6. The legal level of budgetary control is maintained at the fund level.