

City of Franklin, Texas

Financial Statements

For the Year Ended September 30, 2025

CITY OF FRANKLIN, TEXAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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Ingram, Wallis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council of the
City of Franklin, Texas

Opinions

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, Texas (the "City"), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, Texas as of September 30, 2025, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other 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 audit opinions.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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 City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 City'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 City'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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor governmental funds financial statement is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 combining nonmajor governmental funds financial statement is fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Ingram, Wallis & Company

Bryan, Texas
July 17, 2026

CITY OF FRANKLIN, TEXAS
Statement of Net Position - Cash Basis
September 30, 2025

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 2,209,273	\$ 1,721,670	\$ 3,930,943
Time Deposits	<u>453,980</u>	<u>-</u>	<u>453,980</u>
Total Assets	<u><u>\$ 2,663,253</u></u>	<u><u>\$ 1,721,670</u></u>	<u><u>\$ 4,384,923</u></u>
Net Position			
Restricted for:			
Special Revenue	\$ 1,083,804	\$ -	\$ 1,083,804
Unrestricted	<u>1,579,449</u>	<u>1,721,670</u>	<u>3,301,119</u>
Total Net Position	<u><u>\$ 2,663,253</u></u>	<u><u>\$ 1,721,670</u></u>	<u><u>\$ 4,384,923</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF FRANKLIN, TEXAS
Statement of Activities - Cash Basis
For the Year Ended September 30, 2025

		Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position		
		Charges for	Operating	Governmental	Business-type	Total
	Cash Disbursements	Services	Grants and Contributions	Activities	Activities	
Governmental Activities:						
General Government	\$ 831,103	\$ 17,291	\$ 39,190	\$ (774,622)	\$ -	\$ (774,622)
Economic Development	54,537	-	-	(54,537)	-	(54,537)
Law Enforcement	915,916	840,860	45,826	(29,230)	-	(29,230)
Human Services	91,717	-	-	(91,717)	-	(91,717)
Fire	16,369	-	-	(16,369)	-	(16,369)
Capital Outlay	158,549	-	-	(158,549)	-	(158,549)
Total Governmental Activities	2,068,191	858,151	85,016	(1,125,024)	-	(1,125,024)
Business-type Activities:						
Utility Fund	904,166	1,228,253	40,000	-	364,087	364,087
Capital Outlay	68,461	-	-	-	(68,461)	(68,461)
Total Business-type Activities	972,627	1,228,253	40,000	-	295,626	295,626
Total Primary Government	<u>\$ 3,040,818</u>	<u>\$ 2,086,404</u>	<u>\$ 125,016</u>	<u>(1,125,024)</u>	<u>295,626</u>	<u>(829,398)</u>
General Receipts:						
Property Taxes				383,134	-	383,134
Sales Taxes				862,871	-	862,871
Franchise Taxes				68,196	-	68,196
Hotel Occupancy Taxes				117,565	-	117,565
Investment Income				48,244	40,383	88,627
Sale of Capital Assets				9,400	-	9,400
Transfers				(26,400)	26,400	-
Total General Receipts and Transfers				<u>1,463,010</u>	<u>66,783</u>	<u>1,529,793</u>
Change in Net Position				337,986	362,409	700,395
Net Position - beginning of year				<u>2,325,267</u>	<u>1,359,261</u>	<u>3,684,528</u>
Net Position - end of year				<u>\$ 2,663,253</u>	<u>\$ 1,721,670</u>	<u>\$ 4,384,923</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FRANKLIN, TEXAS
Statement of Cash Basis Assets and Fund Balances and
Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances - Governmental Funds
As of and For the Year Ended September 30, 2025

	General Fund	Franklin Community Development Corp - 4B	Other Governmental Funds	Total Governmental Funds
Receipts				
Taxes	\$ 1,098,484	\$ 215,718	\$ 117,564	\$ 1,431,766
Permits and Licenses	4,125	-	-	4,125
Fines, Forfeits, and Penalties	795,345	-	45,515	840,860
Investment Income	27,459	20,785	-	48,244
Grant Revenue	85,016	-	-	85,016
Other	13,166	-	-	13,166
Total Receipts	<u>2,023,595</u>	<u>236,503</u>	<u>163,079</u>	<u>2,423,177</u>
Disbursements				
General Government	831,103	-	-	831,103
Economic Development	-	54,537	-	54,537
Law Enforcement	907,351	-	8,565	915,916
Human Services	-	-	91,717	91,717
Fire	16,369	-	-	16,369
Capital Outlay	158,549	-	-	158,549
Total Disbursements	<u>1,913,372</u>	<u>54,537</u>	<u>100,282</u>	<u>2,068,191</u>
Excess of Receipts Over Disbursements	<u>110,223</u>	<u>181,966</u>	<u>62,797</u>	<u>354,986</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	9,400	-	-	9,400
Transfers Out	-	(26,400)	-	(26,400)
Total Other Financing Sources (Uses)	<u>9,400</u>	<u>(26,400)</u>	<u>-</u>	<u>(17,000)</u>
Net Change in Fund Balance	119,623	155,566	62,797	337,986
Cash Basis Fund Balance - beginning of year	<u>1,459,826</u>	<u>477,574</u>	<u>387,867</u>	<u>2,325,267</u>
Cash Basis Fund Balance - end of year	<u>\$ 1,579,449</u>	<u>\$ 633,140</u>	<u>\$ 450,664</u>	<u>\$ 2,663,253</u>
Cash Basis Assets - end of year				
Cash and Cash Equivalents	\$ 1,348,523	\$ 410,086	\$ 450,664	\$ 2,209,273
Time Deposits	230,926	223,054	-	453,980
	<u>\$ 1,579,449</u>	<u>\$ 633,140</u>	<u>\$ 450,664</u>	<u>\$ 2,663,253</u>
Cash Basis Fund Balances - end of year				
Restricted	\$ -	\$ 633,140	\$ 450,664	\$ 1,083,804
Unassigned	1,579,449	-	-	1,579,449
Total Fund Balance	<u>\$ 1,579,449</u>	<u>\$ 633,140</u>	<u>\$ 450,664</u>	<u>\$ 2,663,253</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FRANKLIN, TEXAS
Statement of Cash Basis Assets and Net Position and
Cash Receipts, Disbursements, and Changes in Cash Basis Net Position - Proprietary Funds
As of and For the Year Ended September 30, 2025

	<u>Utility Fund</u>	<u>Total Utility Fund</u>
Receipts		
Charges for Services	\$ 1,228,253	\$ 1,228,253
Grant Revenue	40,000	40,000
Investment Income	<u>40,383</u>	<u>40,383</u>
Total Receipts	<u>1,308,636</u>	<u>1,308,636</u>
Disbursements		
Auto	29,489	29,489
Salaries and Wages	327,052	327,052
Payroll Taxes	25,397	25,397
Employee Benefits	63,201	63,201
Materials and Supplies	167,980	167,980
Contractual Services	35,324	35,324
Maintenance and Repairs	73,519	73,519
Utilities	69,887	69,887
Administrative and General	112,317	112,317
Capital Outlay	<u>68,461</u>	<u>68,461</u>
Total Disbursements	<u>972,627</u>	<u>972,627</u>
Excess of Receipts Over Disbursements	<u>336,009</u>	<u>336,009</u>
Other Financing Sources		
Transfers In	<u>26,400</u>	<u>26,400</u>
Total Other Financing Sources	<u>26,400</u>	<u>26,400</u>
Change in Net Position	362,409	362,409
Cash Basis Net Position - beginning of year	<u>1,359,261</u>	<u>1,359,261</u>
Cash Basis Net Position - end of year	<u>\$ 1,721,670</u>	<u>\$ 1,721,670</u>
Cash Basis Assets - end of year		
Cash and Cash Equivalents	<u>\$ 1,721,670</u>	<u>\$ 1,721,670</u>
Cash Basis Net Position - end of year		
Unrestricted	<u>\$ 1,721,670</u>	<u>\$ 1,721,670</u>

The notes to the financial statements are an integral part of this statement

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1C, these financial statements are presented on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the cash basis of accounting.

A. FINANCIAL REPORTING ENTITY

The City of Franklin, Texas (the “City”), the financial reporting entity in these financial statements, was incorporated in 1872, and operates under an elected Mayor/Council form of government. The City’s major operations include public safety, streets, parks, public utilities, economic development, and general administrative services.

The City’s financial reporting entity is composed of the following:

Primary Government:	City of Franklin, Texas
Blended Component Unit:	Franklin Community Development Corporation 4B

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*.

BLENDED COMPONENT UNIT

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit’s governing body is the same or substantially the same as the City Council, and there is a financial benefit or burden relationship with the City, or City management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the City; or (c) the component’s unit’s debt is expected to be repaid entirely or almost entirely with resources of the City. The blended component unit’s funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The City’s blended component unit is presented below:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>	<u>Fund Included In</u>
Franklin Community Development Corporation 4B	Collects and utilizes the proceeds of a one-half cent sales tax to promote and assist in the economic development of the City. The board is appointed by the City Council.	Franklin Community Development Corporation 4B

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, net position or fund balance, receipts, and disbursements. The City's funds are organized into two major categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, receipts, or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. Total assets, receipts, or disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue fund which is reported as a major fund:

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

<u>Fund</u>	<u>Brief Description</u>
Franklin Community Development Corporation 4B	Accounts for proceeds of one-half cent sales tax to promote and assist in the economic development of the City.

The reporting entity includes the following special revenue funds that are reported as nonmajor funds:

<u>Fund</u>	<u>Brief Description</u>
Municipal Court Technology Fund	Accounts for a portion of the traffic fee collected by the City which is reserved for municipal court technology.
Municipal Court Security Fund	Accounts for a portion of the traffic fee collected by the City which is reserved for municipal court building security.
Consolidated Security & Technology Fund	Accounts for a portion of the traffic fee collected by the City which is reserved for municipal court building security and municipal court technology funds.
Local Truancy Prevention Fund	Accounts for a portion of the traffic fee collected by the City which is reserved for local truancy prevention.
Local Municipal Court Jury Fund	Accounts for a portion of the traffic fee collected by the City which is reserved for local municipal court jury.
Hotel Occupancy Tax Fund	Accounts for hotel occupancy tax collected by the City reserved to enhance and promote tourism and the convention and hotel industry in the City.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

<u>Fund</u>	<u>Brief Description</u>
Utility Fund	Accounts for the activities of providing water, wastewater, and sanitation services to the public.

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined in item b below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the cash basis of accounting. Only current financial assets are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, net financial position, and cash flows. All assets (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the cash basis of accounting.

BASIS OF ACCOUNTING

The financial statements are presented on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves the reporting of only cash and cash equivalents and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) reported in the period in which they occurred.

The cash basis of accounting differs from GAAP primarily because revenues (cash receipts) are recognized when received in cash rather than when earned and susceptible to accrual, and expenditures or expenses (cash disbursements) are recognized when paid rather than when incurred or subject to accrual.

If the City utilized the basis of accounting recognized as generally accepted in the United States of America, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. FINANCIAL POSITION

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

TIME DEPOSITS

Time deposits classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months.

NET POSITION/FUND BALANCE CLASSIFICATION

Government-Wide Statements

Net position is classified and displayed in two components:

- a. Restricted – Consists of restricted assets with restriction constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- b. Unrestricted – Net amount of assets that are not included in the determination of the restricted component of net position.

It is the City's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Financial Statements

Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

- a. Nonspendable – Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.
- b. Restricted – Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.
- c. Committed – Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the City's highest level of decision-making authority. Commitments are evidenced by adoptions of an ordinance by the City Council.

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- d. Assigned – Amounts constrained by the City’s intent to be used for specific purposes but that are neither restricted nor committed. Assignments are evidenced by resolution of the City Council.
- e. Unassigned – The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the City’s policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also City policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The City has no formal minimum fund balance policies or any formal stabilization arrangements in place.

Proprietary Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

E. RECEIPTS AND DISBURSEMENTS

PROGRAM RECEIPTS

In the Statement of Activities, cash basis receipts that are derived directly from each activity or from parties outside the City’s taxpayers are reported as program receipts.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

OPERATING RECEIPTS AND DISBURSEMENTS

Receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services.

F. INTERNAL AND INTERFUND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity in the fund financial statements have been eliminated or reclassified.

FUND FINANCIAL STATEMENTS

Interfund activity, resulting from cash transactions or events, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
2. Interfund transfers – Flow of assets from one fund to another when repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity resulting from cash transactions or events, if any, is eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers-Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

A. BUDGETARY NONCOMPLIANCE

For the year ended September 30, 2025, expenditures exceeded appropriations at the legal level of control in the individual funds as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 3,724
Hotel Occupancy Tax Fund	\$ 492

B. UNINSURED AND UNCOLLATERALIZED DEPOSITS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State or political subdivision debt obligations, surety bonds, or certain letters of credit. At September 30, 2025, the City's deposits were fully collateralized.

NOTE 3 – DETAIL NOTES - TRANSACTION CLASSES AND ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, fund balance, receipts, and disbursements.

A. CASH AND TIME DEPOSITS

CUSTODIAL CREDIT RISK—DEPOSITS

The table presented below is designed to disclose the level of custodial credit risk assumed by the City based upon how its deposits were insured or secured with collateral at September 30, 2025. The

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 3 – DETAIL NOTES - TRANSACTION CLASSES AND ACCOUNTS – CONTINUED

comparison relates to the primary government only. The categories of custodial credit risk are defined as follows:

- Category 1 Insured by Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the City or by its agent in its name.
- Category 2 Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uninsured and uncollateralized with securities held by the pledging financial institution or by its trust department or agent but not in the City's name; or property collateralized with no written and approved collateral agreement.

Primary Government

As of September 30, 2025:

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Custody Credit Risk Category</u>			<u>Total Carrying Value</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
Insured deposits	\$ 954,446	\$ 954,446	\$ ---	\$ ---	
Uninsured deposits:					
Collateralized	3,496,857	---	3,496,857	---	
Uncollateralized	---	---	---	---	
Total Deposits	\$4,451,303	\$ 954,446	\$3,496,857	\$ ---	\$4,384,673
Petty cash					250
					<u>\$4,384,923</u>

B. INTERFUND TRANSFERS

Transfers between funds of the primary government for the year ended September 30, 2025, were as follows:

As of September 30, 2025:

	<u>Transfers In</u>	<u>Transfers Out</u>
MAJOR FUNDS:		
Franklin Community Development Corporation 4B	\$ -	\$ 26,400
Enterprise Fund:		
Utility Fund	<u>26,400</u>	<u>-</u>
TOTAL	<u>\$ 26,400</u>	<u>\$ 26,400</u>

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 3 – DETAIL NOTES - TRANSACTION CLASSES AND ACCOUNTS – CONTINUED

The transfers detailed above were made by the City to fund improvement projects during fiscal year 2025.

C. FUND BALANCES

Restricted fund balances for governmental funds at September 30, 2025 are reported as follows:

September 30, 2025

FRANKLIN COMMUNITY DEVELOPMENT CORPORATION 4B:	
Restricted for Economic Development	\$ 633,140
OTHER GOVERNMENTAL FUNDS:	
Restricted for Court Security	135,096
Restricted for Court Technology	22,730
Restricted for Hotel Occupancy Tax	200,283
Restricted for Local Municipal Court Jury	1,629
Restricted for Local Truancy Prevention	81,614
Restricted for Consolidated Security & Technology	<u>9,312</u>
TOTAL	<u>\$1,083,804</u>

NOTE 4 – OTHER NOTES

A. EMPLOYEE PENSION PLAN

PLAN DESCRIPTION

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available annual comprehensive financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 4 – OTHER NOTES – CONTINUED

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee deposit rate	7%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	0/25
Updated Service Credit	0%
Annuity Increase (to retirees)	0% of CPI

CONTRIBUTIONS

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The rate contributed by the City can change each January. The rates were 5.04% and 5.84% beginning January 1, 2025 and 2024 respectively. During fiscal year 2025, the City reported contributions of \$40,579 to TMRS.

B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The City manages these various risks of loss as follows:

<i>Type of Loss</i>	<i>Method Managed</i>	<i>Risk of Loss Retained</i>
a. Torts, errors, and omissions	Purchase commercial insurance	\$5,000 deductible
b. Workers compensation, health and life	Purchase commercial insurance	None
c. Physical property loss and natural disasters	Purchase commercial insurance	\$1,000 deductible

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any part of the past three fiscal years.

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 4 – OTHER NOTES – CONTINUED

C. PROPERTY TAXES

Revenue from property taxes is recorded on the cash basis and includes penalties and interest collected on delinquent taxes. Property taxes are levied on October 1 based on assessed value of property listed. Property taxes become a lien on the first day of the levy year (January 1) and may be paid in two equal installments. The first installment is due on or before November 30 and the second installment is due on or before June 30. If the installment payment method is not elected, taxes are payable by January 31, and by statute become delinquent on February 1 at which time they begin accruing penalty and interest.

The rate for the 2025 tax roll was 0.327500 per \$100 valuation. The City's delinquent property taxes were \$19,059 at September 30, 2025.

D. EXCLUSIVE MANAGEMENT AGREEMENT

- a. The City entered into an exclusive management agreement with the Franklin Chamber of Commerce, a Texas Non-Profit Corporation (Chamber). The original agreement is for a period of one year beginning on February 1, 2008 and ending on January 31, 2009. The agreement automatically renews each January 31 unless the Chamber gives written notice of non-renewal to the City. The agreement is still in effect as of September 30, 2025.

The City owns the property and any facilities on the property. The Chamber will build a community center, offices, and facilities on the property as it deems appropriate. The Chamber shall exclusively manage the property and the facilities located on the property at the Chamber's sole discretion. The property may be used only for community center purposes for a period of fifty years from the date of the agreement.

The Chamber shall receive all revenue and income from the property and the facilities located on the property and the Chamber shall pay all expenses for the property and the facilities, including utilities, maintenance, repairs, and any increased cost to the City for insurance.

- b. The City entered into an exclusive management agreement with Robertson County Care, Inc., a Texas Non-Profit Corporation. The agreement is for a period of one year beginning on January 1, 2017 and ending on December 31, 2017. The agreement automatically renews each January 1 unless Robertson County Care gives written notice of non-renewal to the City. This agreement is still in effect as of September 30, 2025.

The City owns the property and any improvements made to the property. Robertson County Care will build a facility to house and operate the food pantry. Robertson County Care shall exclusively manage the property and the facilities located on the property at their sole discretion. The property may be used only for the intended purpose for a period of fifty years from the date of the agreement.

Robertson County Care shall receive all revenue and income from the property and the facilities located on the property and they shall pay all expenses for the property and the facilities, including utilities, maintenance, repairs, and any increased cost to the City for insurance.

CITY OF FRANKLIN, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED
SEPTEMBER 30, 2025

NOTE 4 – OTHER NOTES – CONTINUED

E. RELATED PARTY

The City's attorney is the managing partner at the law firm Palmos, Russ, McCullough & Russ, LLP where the City's Mayor also works as an attorney. The City utilizes the law firm for various legal services.

CITY OF FRANKLIN, TEXAS
Statement of Cash Basis Assets and Fund Balances and
Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances - Non-Major Governmental Funds
As of and for the Year Ended September 30, 2025

	Municipal Court Security	Municipal Court Technology	Hotel Occupancy	Local Municipal Court Jury Fund	Local Truancy Prevention Fund	Consolidated Security & Technology Fund	Total Non-Major Governmental Funds
Receipts							
Taxes	\$ -	\$ -	\$ 117,564	\$ -	\$ -	\$ -	\$ 117,564
Fines, forfeits, and penalties	10,897	9,035	-	319	15,952	9,312	45,515
Total Receipts	10,897	9,035	117,564	319	15,952	9,312	163,079
Disbursements							
Law Enforcement	-	8,565	-	-	-	-	8,565
Human Services	-	-	91,717	-	-	-	91,717
Total Disbursements	-	8,565	91,717	-	-	-	100,282
Excess of Receipts Over Disbursements	10,897	470	25,847	319	15,952	9,312	62,797
Net Change in Fund Balance	10,897	470	25,847	319	15,952	9,312	62,797
Cash Basis Fund Balance - beginning of year	124,199	22,260	174,436	1,310	65,662	-	387,867
Cash Basis Fund Balance - end of year	<u>\$ 135,096</u>	<u>\$ 22,730</u>	<u>\$ 200,283</u>	<u>\$ 1,629</u>	<u>\$ 81,614</u>	<u>\$ 9,312</u>	<u>\$ 450,664</u>
Cash Basis Assets - end of year							
Cash and Cash Equivalents	<u>\$ 135,096</u>	<u>\$ 22,730</u>	<u>\$ 200,283</u>	<u>\$ 1,629</u>	<u>\$ 81,614</u>	<u>\$ 9,312</u>	<u>\$ 450,664</u>
Cash Basis Fund Balances - end of year							
Restricted	<u>\$ 135,096</u>	<u>\$ 22,730</u>	<u>\$ 200,283</u>	<u>\$ 1,629</u>	<u>\$ 81,614</u>	<u>\$ 9,312</u>	<u>\$ 450,664</u>