

# **Annual Financial Report**

**FOR THE FISCAL YEAR 2015**



**The Railroad Commission of Texas**

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**Christi Craddick**  
Commissioner

**David Porter**  
Chairman

**Ryan Sitton**  
Commissioner



# RAILROAD COMMISSION OF TEXAS

DAVID PORTER, *CHAIRMAN*  
CHRISTI CRADDICK, *COMMISSIONER*  
RYAN SITTON, *COMMISSIONER*

November 17, 2015

Honorable Greg Abbott, Governor  
Honorable Glenn Hegar, Comptroller  
Ursula Parks, Director, Legislative Budget Board  
John Keel, CPA, State Auditor

Ladies and Gentlemen:

We are pleased to submit the annual financial report of the Railroad Commission of Texas for the year ended August 31, 2015, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) Statement No. 34, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the state auditor as part of the audit of the State of Texas *Comprehensive Annual Financial Report (CAFR)*; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Wei Wang at (512) 463-5011. Mr. Wang may also be contacted for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

Handwritten signature of David Porter in black ink.

David Porter, *Chairman*

Handwritten signature of Christi Craddick in black ink.

Christi Craddick, *Commissioner*

Handwritten signature of Ryan Sitton in black ink.

Ryan Sitton, *Commissioner*

**ANNUAL FINANCIAL REPORT**

**UNAUDITED**

**RAILROAD COMMISSION OF TEXAS**  
**Austin, Texas**

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**Year Ended August 31, 2015**

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RAILROAD COMMISSION OF TEXAS (455)

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## **Combined Financial Statements**

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RAILROAD COMMISSION OF TEXAS (455)

Exhibit I - Combined Balance Sheet/Statement of Net Assets - Governmental Funds

For the Fiscal Year Ended August 31, 2015

|  | Governmental Fund Types |                          | Capital Asset Adjustments | Long-Term Liabilities Adjustments | Statement of Net Assets |
|--|-------------------------|--------------------------|---------------------------|-----------------------------------|-------------------------|
|  | General Funds           | Governmental Funds Total |                           |                                   |                         |
| <b>ASSETS</b>                                      |                         |                          |                           |                                   |                         |
| Current Assets:                                    |                         |                          |                           |                                   |                         |
| Cash and Cash Equivalents:                         |                         |                          |                           |                                   |                         |
| Cash on Hand                                       | \$ -                    | \$ -                     | \$ -                      | \$ -                              | \$ -                    |
| Cash in State Treasury                             | 25,547,349.18           | 25,547,349.18            | -                         | -                                 | 25,547,349.18           |
| Legislative Appropriations                         | 5,971,200.34            | 5,971,200.34             | -                         | -                                 | 5,971,200.34            |
| Federal Receivable                                 | -                       | -                        | -                         | -                                 | -                       |
| Interfund Receivables                              | -                       | -                        | -                         | -                                 | -                       |
| Due from Other Agencies                            | -                       | -                        | -                         | -                                 | -                       |
| Consumable Inventories                             | 31,664.00               | 31,664.00                | -                         | -                                 | 31,664.00               |
| Prepaid Items                                      | 614,197.81              | 614,197.81               | -                         | -                                 | 614,197.81              |
| <b>Total Current Assets</b>                        | <b>\$ 32,164,411.33</b> | <b>\$ 32,164,411.33</b>  | <b>\$ -</b>               | <b>\$ -</b>                       | <b>\$ 32,164,411.33</b> |
| Non-Current Assets:                                |                         |                          |                           |                                   |                         |
| Capital Assets (Note 2):                           |                         |                          |                           |                                   |                         |
| Non-Depreciable:                                   |                         |                          |                           |                                   |                         |
| Construction in Progress                           | -                       | -                        | 12,743,214.18             | -                                 | 12,743,214.18           |
| Other Capital Assets                               | -                       | -                        | -                         | -                                 | -                       |
| Depreciable:                                       |                         |                          |                           |                                   |                         |
| Buildings and Building Improvements                | -                       | -                        | 313,458.40                | -                                 | 313,458.40              |
| Less Accumulated Depreciation                      | -                       | -                        | (123,404.91)              | -                                 | (123,404.91)            |
| Furniture and Equipment                            | -                       | -                        | 3,184,511.01              | -                                 | 3,184,511.01            |
| Less Accumulated Depreciation                      | -                       | -                        | (2,466,916.67)            | -                                 | (2,466,916.67)          |
| Vehicles, Boats, and Aircraft                      | -                       | -                        | 6,653,730.60              | -                                 | 6,653,730.60            |
| Less Accumulated Depreciation                      | -                       | -                        | (3,005,411.82)            | -                                 | (3,005,411.82)          |
| Amortizable:                                       |                         |                          |                           |                                   |                         |
| Computer Software                                  | -                       | -                        | 617,771.17                | -                                 | 617,771.17              |
| Less Accumulated Amortization                      | -                       | -                        | (617,771.17)              | -                                 | (617,771.17)            |
| <b>Total Non-Current Assets</b>                    | <b>-</b>                | <b>-</b>                 | <b>17,299,180.79</b>      | <b>-</b>                          | <b>17,299,180.79</b>    |
| <b>Total Assets</b>                                | <b>\$ 32,164,411.33</b> | <b>\$ 32,164,411.33</b>  | <b>\$ 17,299,180.79</b>   | <b>\$ -</b>                       | <b>\$ 49,463,592.12</b> |
| <b>LIABILITIES AND FUND BALANCES</b>               |                         |                          |                           |                                   |                         |
| Current Liabilities:                               |                         |                          |                           |                                   |                         |
| Payables from:                                     |                         |                          |                           |                                   |                         |
| Accounts Payable                                   | \$ 2,018,986.59         | \$ 2,018,986.59          | \$ -                      | \$ -                              | \$ 2,018,986.59         |
| Payroll Payable                                    | 4,541,645.62            | 4,541,645.62             | -                         | -                                 | 4,541,645.62            |
| Interfund Payable                                  | -                       | -                        | -                         | -                                 | -                       |
| Due to Other Agencies                              | -                       | -                        | -                         | -                                 | -                       |
| Deferred Revenue (Fed Sch 1A - Note 7)             | -                       | -                        | -                         | -                                 | -                       |
| Employees' Compensable Leave (Note 5)              | -                       | -                        | -                         | 2,651,253.47                      | 2,651,253.47            |
| Pollution Remediation Obligation (Note 5)          | -                       | -                        | -                         | 14,140,668.71                     | 14,140,668.71           |
| <b>Total Current Liabilities</b>                   | <b>\$ 6,560,632.21</b>  | <b>\$ 6,560,632.21</b>   | <b>\$ -</b>               | <b>\$ 16,791,922.18</b>           | <b>\$ 23,352,554.39</b> |
| Non-Current Liabilities:                           |                         |                          |                           |                                   |                         |
| Employees' Compensable Leave (Note 5)              | -                       | -                        | -                         | 2,025,154.54                      | 2,025,154.54            |
| <b>Total Non-Current Liabilities</b>               | <b>\$ -</b>             | <b>\$ -</b>              | <b>\$ -</b>               | <b>\$ 2,025,154.54</b>            | <b>\$ 2,025,154.54</b>  |
| <b>Total Liabilities</b>                           | <b>\$ 6,560,632.21</b>  | <b>\$ 6,560,632.21</b>   | <b>\$ -</b>               | <b>\$ 18,817,076.72</b>           | <b>\$ 25,377,708.93</b> |
| <b>Fund Financial Statement - Fund</b>             |                         |                          |                           |                                   |                         |
| Fund Balances (Deficits):                          |                         |                          |                           |                                   |                         |
| Nonspendable                                       | \$ 645,861.81           | 645,861.81               | -                         | -                                 | 645,861.81              |
| Restricted   | 3,211,233.48            | 3,211,233.48             | -                         | -                                 | 3,211,233.48            |
| Committed  | 17,448,112.43           | 17,448,112.43            | -                         | -                                 | 17,448,112.43           |
| Assigned   | -                       | -                        | -                         | -                                 | -                       |
| Unassigned   | 4,298,571.40            | 4,298,571.40             | -                         | -                                 | 4,298,571.40            |
| <b>Total Fund Balances</b>                         | <b>\$ 25,603,779.12</b> | <b>\$ 25,603,779.12</b>  | <b>\$ -</b>               | <b>\$ -</b>                       | <b>\$ 25,603,779.12</b> |
| <b>Total Liabilities and Fund Balances</b>         | <b>\$ 32,164,411.33</b> | <b>\$ 32,164,411.33</b>  | <b>\$ -</b>               | <b>\$ -</b>                       | <b>\$ 49,463,592.12</b> |
| <b>Government-wide Statement - Net Assets</b>      |                         |                          |                           |                                   |                         |
| Net Assets:  |                         |                          |                           |                                   |                         |
| Invested in Capital Assets,<br>Net of Related Debt | -                       | -                        | \$ 17,299,180.79          | -                                 | \$ 17,299,180.79        |
| Restricted for:                                    | -                       | -                        | -                         | -                                 | -                       |
| Employee Benefits                                  | -                       | -                        | -                         | (4,676,408.01)                    | (4,676,408.01)          |
| Pollution Remediation Obligation                   | -                       | -                        | -                         | (14,140,668.71)                   | (14,140,668.71)         |
| Claims and Judgments                               | -                       | -                        | -                         | -                                 | -                       |
| <b>Total Net Assets</b>                            | <b>\$ -</b>             | <b>\$ -</b>              | <b>\$ 17,299,180.79</b>   | <b>\$ (18,817,076.72)</b>         | <b>\$ 24,085,883.19</b> |

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

UNAUDITED

RAILROAD COMMISSION OF TEXAS (455)

Exhibit II - Combined Statement of Revenues, Expenditures, and Changes in Fund Balances /

Statement of Activities - Governmental Funds

For the Fiscal Year Ended August 31, 2015

|   | General<br>Fund           | Governmental<br>Funds<br>Total | Capital<br>Asset<br>Adjustments | Long-Term<br>Liabilities<br>Adjustments | Statement<br>of<br>Activities |
|---|---------------------------|--------------------------------|---------------------------------|---|-------------------------------|
| <b>REVENUES</b>                                   |                           |                                |                                 |   |                               |
| Legislative Appropriations:                       |                           |                                |                                 |   |                               |
| Original Appropriations                           | \$ 12,014,368.00          | \$ 12,014,368.00               | \$ -                            | \$ -                                    | \$ 12,014,368.00              |
| Additional Appropriations                         | 954,819.73                | 954,819.73                     | -                               | -                                       | 954,819.73                    |
| Federal Revenue (Fed Sch 1A)                      | 10,585,338.00             | 10,585,338.00                  | -                               | -                                       | 10,585,338.00                 |
| Federal Pass Through Revenue (Fed Sch 1A)         | 139,540.97                | 139,540.97                     | -                               | -                                       | 139,540.97                    |
| State Grant Pass Through Revenue (Sch 1B)         | 291,807.00                | 291,807.00                     | -                               | -                                       | 291,807.00                    |
| Licenses, Fees and Permits                        | 60,642,112.26             | 60,642,112.26                  | -                               | -                                       | 60,642,112.26                 |
| Interest and Investment Income                    | 0.86                      | 0.86                           | -                               | -                                       | 0.86                          |
| Sales of Goods and Services                       | 945,808.19                | 945,808.19                     | -                               | -                                       | 945,808.19                    |
| Other   | 308,456.18                | 308,456.18                     | -                               | -                                       | 308,456.18                    |
| Total Revenues                                    | <u>\$ 85,882,251.19</u>   | <u>\$ 85,882,251.19</u>        | <u>\$ -</u>                     | <u>\$ -</u>                             | <u>\$ 85,882,251.19</u>       |
| <b>EXPENDITURES</b>                               |                           |                                |                                 |   |                               |
| Salaries and Wages                                | 42,198,069.38             | 42,198,069.38                  | \$ -                            | (82,333.77)                             | 42,115,735.61                 |
| Payroll Related Costs                             | 14,984,682.96             | 14,984,682.96                  | -                               | -                                       | 14,984,682.96                 |
| Professional Fees and Services                    | 8,680,698.53              | 8,680,698.53                   | -                               | -                                       | 8,680,698.53                  |
| Travel  | 564,789.67                | 564,789.67                     | -                               | -                                       | 564,789.67                    |
| Materials and Supplies                            | 2,198,672.00              | 2,198,672.00                   | -                               | -                                       | 2,198,672.00                  |
| Communication and Utilities                       | 691,737.87                | 691,737.87                     | -                               | -                                       | 691,737.87                    |
| Repairs and Maintenance                           | 504,514.08                | 504,514.08                     | -                               | -                                       | 504,514.08                    |
| Rentals and Leases                                | 697,917.36                | 697,917.36                     | -                               | -                                       | 697,917.36                    |
| Printing and Reproduction                         | 573,018.66                | 573,018.66                     | -                               | -                                       | 573,018.66                    |
| Claims and Judgements                             | 18,691.84                 | 18,691.84                      | -                               | -                                       | 18,691.84                     |
| Federal Pass Through Expenditures                 | -                         | -                              | -                               | -                                       | -                             |
| Intergovernmental Payments                        | 55,192.00                 | 55,192.00                      | -                               | -                                       | 55,192.00                     |
| Other Expenditures                                | 14,167,120.80             | 14,167,120.80                  | -                               | -                                       | 14,167,120.80                 |
| Capital Outlay (Note 2)                           | 12,812,003.92             | 12,812,003.92                  | (12,812,003.92)                 | -                                       | (0.00)                        |
| Amortization Expense (Note 2)                     | -                         | -                              | -                               | -                                       | -                             |
| Depreciation Expense (Note 2)                     | -                         | -                              | 986,792.87                      | -                                       | 986,792.87                    |
| Pollution Remediation Obligation                  | -                         | -                              | -                               | 4,840,107.26                            | 4,840,107.26                  |
| Total Expenditures/Expenses                       | <u>\$ 98,147,109.07</u>   | <u>\$ 98,147,109.07</u>        | <u>\$ (11,825,211.05)</u>       | <u>\$ 4,757,773.49</u>                  | <u>\$ 91,079,671.51</u>       |
| Excess (deficiency) of revenues over expenditures | <u>\$ (12,264,857.88)</u> | <u>\$ (12,264,857.88)</u>      | <u>\$ 11,825,211.05</u>         | <u>\$ (4,757,773.49)</u>                | <u>\$ (5,197,420.32)</u>      |
| <b>OTHER FINANCING SOURCES (USES)</b>             |                           |                                |                                 |   |                               |
| Sale of Capital Assets                            | \$ 97,290.00              | \$ 97,290.00                   | \$ (97,290.00)                  | \$ -                                    | \$ -                          |
| Transfers In                                      | 17,151,663.84             | 17,151,663.84                  | -                               | -                                       | 17,151,663.84                 |
| Transfers Out                                     | (18,509,493.28)           | (18,509,493.28)                | (9,080.96)                      | -                                       | (18,518,574.24)               |
| Gain (Loss) on Sale of Capital Assets             | -                         | -                              | 28,705.91                       | -                                       | 28,705.91                     |
| Total other financing sources and uses            | <u>\$ (1,260,539.44)</u>  | <u>\$ (1,260,539.44)</u>       | <u>\$ (77,665.05)</u>           | <u>\$ -</u>                             | <u>\$ (1,338,204.49)</u>      |
| Net Change in Fund Balances/Net Assets            | <u>\$ (13,525,397.32)</u> | <u>\$ (13,525,397.32)</u>      | <u>\$ 11,747,546.00</u>         | <u>\$ (4,757,773.49)</u>                | <u>\$ (6,535,624.81)</u>      |
| <b>Fund Financial Statement - Fund Balances</b>   |                           |                                |                                 |   |                               |
| Fund Balances - September 1, 2014                 | 39,284,077.53             | 39,284,077.53                  |                                 |   | 39,284,077.53                 |
| Fund Balances - September 1, 2014, as Restated    | <u>39,284,077.53</u>      | <u>39,284,077.53</u>           |                                 |   | <u>39,284,077.53</u>          |
| Appropriations Lapsed                             | (154,901.09)              | (154,901.09)                   |                                 |   | (154,901.09)                  |
| Fund Balances - August 31, 2015                   | <u>\$ 25,603,779.12</u>   | <u>\$ 25,603,779.12</u>        | <u>\$ 11,747,546.00</u>         | <u>\$ (4,757,773.49)</u>                | <u>\$ 32,593,551.63</u>       |
| <b>Government-wide Statement - Net Assets</b>     |                           |                                |                                 |   |                               |
| Change in Net Assets                              |                           | \$ 25,603,779.12               | \$ 11,747,546.00                | \$ (4,757,773.49)                       | \$ 32,593,551.63              |
| Net Assets - September 1, 2014                    |                           |                                | 5,551,634.79                    | (14,059,303.23)                         | (8,507,668.44)                |
| Net Assets - August 31, 2015                      |                           | <u>\$ 25,603,779.12</u>        | <u>\$ 17,299,180.79</u>         | <u>\$ (18,817,076.72)</u>               | <u>\$ 24,085,883.19</u>       |

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

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RAILROAD COMMISSION OF TEXAS (455)

Exhibit VI - Combined Statement of Net Assets - Fiduciary Funds

For the Fiscal Year Ended August 31, 2015

|                            | <u>Agency<br/>Funds</u> | <u>Totals</u>           |
|----------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>              |                         |                         |
| Current                    |                         |                         |
| Cash in the State Treasury | \$ 50,483,472.84        | \$ 50,483,472.84        |
| Total Current Assets       | <u>50,483,472.84</u>    | <u>50,483,472.84</u>    |
| <b>Total Assets</b>        | <u>\$ 50,483,472.84</u> | <u>\$ 50,483,472.84</u> |
| <b>LIABILITIES</b>         |                         |                         |
| Current                    |                         |                         |
| Accounts Payable           | \$ -                    | \$ -                    |
| Funds Held for Others      | 50,483,472.84           | 50,483,472.84           |
| Total Current Liabilities  | <u>50,483,472.84</u>    | <u>50,483,472.84</u>    |
| <b>Total Liabilities</b>   | <u>\$ 50,483,472.84</u> | <u>\$ 50,483,472.84</u> |
| <b>NET ASSETS</b>          |                         |                         |
| <b>Total Net Assets</b>    | <u>\$ -</u>             | <u>\$ -</u>             |

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

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RAILROAD COMMISSION OF TEXAS (455)

## **Notes to the Financial Statements**

## RAILROAD COMMISSION OF TEXAS (455)

**Notes to the Financial Statements****NOTE 1: Summary of Significant Accounting Policies****Entity**

The Railroad Commission of Texas (Commission) is an agency of the State and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

The Commission was established in 1891 and operates under the state constitution and other enabling statutes. The operations of the Commission are conducted under the direction of three Commissioners who are elected by popular vote to serve overlapping six-year terms. The Commission is a regulatory agency with enforcement powers in areas dealing primarily with energy, pipeline safety, environmental protection, and public safety. In addition to its headquarters located in the William B. Travis State Office Building in Austin, the Commission maintains offices in various cities throughout the State.

The Commission is a component unit of the statewide reporting entity, which will be audited.

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

There are no component units within the Commission.

**Fund Structure**

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

**Governmental Fund Types and Government-Wide Adjustment Fund Types**General Revenue Funds

The General Revenue Fund (Fund 0001) is the principal operating fund used to account for all financial resources of the state except those required to be accounted for in another fund.

Oil and Gas Regulation and Cleanup Fund (Fund 5155) – This General Revenue Dedicated fund was established by Chapter 81 of the Natural Resources Code for any purpose related to the regulation of oil and gas development, including oil and gas monitoring and inspections, oil and gas remediation, oil and gas well plugging, public information and services related to those activities, and administrative costs and state benefits for personnel involved in those activities.

Capital Assets Adjustment Fund Type

The Capital Assets Adjustment Fund (Fund 9998) will be used to convert governmental fund types' capital assets from modified accrual to full accrual.

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### RAILROAD COMMISSION OF TEXAS (455)

#### Long-Term Liabilities Adjustment Fund Type

The Long-Term Liabilities Adjustment Fund (Fund 9997) will be used to convert governmental fund types' debt from modified accrual to full accrual.

#### Fiduciary Fund Types

Fiduciary Funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

#### Agency Funds

TexaSaver 401(k) Trust (Fund 0942) accounts for tax-deferred portion of salaries of state employees in accordance with the provisions of IRC Section 401(k).

Inactive Well Blanket Trust (Fund 5146) accounts for cash deposits provided by oil & gas operators to comply on an organizational basis with inactive well requirements under Natural Resources Code §89.023(a) (4) (E).

Inactive Well Individual Trust (Fund 5147) accounts for cash deposits provided by oil & gas operators to comply on a per-well basis with inactive well requirements under Natural Resources Code §89.023(a)(4)(E).

Inactive Well Escrow Trust (Fund 5148) accounts for cash deposits provided by oil & gas operators to comply with inactive well requirements under Natural Resources Code §89.023(a) (4) (F).

P5 Cash Option Trust (Fund 5149) accounts for the cash deposits provided by oil and gas operators to meet the statewide financial assurance requirements mandated by Natural Resources Code §91.104.

#### **Basis of Accounting**

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The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The State of Texas considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year for fund financial statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build Government-wide Financial Statements are accounted for using the full accrual basis of accounting. This includes capital assets, accumulated depreciation, unpaid Employee Compensable Leave, long-term capital leases, long-term claims and judgments and full accrual revenues and expenses. The activity is recognized in these fund types.

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RAILROAD COMMISSION OF TEXAS (455)

**Centralized Accounting and Payroll/Personnel System (CAPPS)**

In FY 2015, the Commission started using CAPPS financial software as its accounting system.

**Budget and Budgetary Accounting**

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The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act).

Unencumbered appropriations are generally subject to lapse 60 days after the end of the biennium year for which they were appropriated.

**Assets, Liabilities, and Fund Balances/Net Assets**

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**ASSETS**

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Inventories and Prepaid Items

Inventories include consumable inventories valued at cost, generally utilizing the last-in, first-out method. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental fund type. The cost of these items is expensed when the items are consumed.

Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if any purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

The Construction in Process (CIP) includes work that was completed by June 13, 2015 as part of the Information Technology Modernization Program (ITMP), the amortization for which will begin on September 1, 2015.

Current Receivables-Current

Other receivables include year-end revenue accruals.

**LIABILITIES**

Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Other Payables-Current

Payables are the accrual at year-end of expenditure transactions.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that become "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by

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covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net assets. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid.

#### Pollution Remediation Obligation

A pollution remediation obligation refers to a government's responsibility to address the current or potential detrimental effects of existing pollution through such activities as environmental assessments or cleanups. The Commission recognizes this liability when it begins to clean up pollution or conducts related remediation activities to the extent that the government is legally obligated to complete those activities.

#### **FUND BALANCE/NET ASSETS**

The difference between fund assets and liabilities is "net assets" on the government-wide, proprietary and fiduciary fund statements, and the "fund balance" is the difference between fund assets and liabilities on the governmental fund statements.

#### Fund Balance Components

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned in the fund financial statements.

- Nonspendable fund balance includes amounts not available to be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- Restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.
- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the Texas Legislature, the state's highest level of decision making authority.
- Assigned fund balance includes amounts constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (1) the Texas Legislature or (2) a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

#### Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

#### Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are imposed by law through constitutional provisions or enabling legislation. This represents approved and authorized orders to expend funds for plugging abandoned wells and cleanup of sites, pursuant to Chapter 89, Texas Natural Resource Code, and for site remediation pursuant to Chapter 91, Texas Natural Resource Code.

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Unrestricted Net Assets

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

**INTERFUND ACTIVITIES AND BALANCES**

The agency has the following types of transactions between funds:

Transfers: Legally required transfers that are reported when incurred as 'Transfers In' by the recipient fund and as 'Transfers Out' by the disbursing fund.

Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.

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**NOTE 2: Capital Assets**

|  | PRIMARY GOVERNMENT   |                       |                       |                      |                    | Balance<br>08/31/2015 |
|--|----------------------|-----------------------|-----------------------|----------------------|--------------------|-----------------------|
|  | Balance<br>09/1/2014 | Reclassifications     |                       | Additions            | Deletions          |                       |
|  |                      | Inc-Int' agy<br>Trans | Dec-Int' agy<br>Trans |                      |                    |                       |
| <b>Non-Depreciable Assets:</b>                     |                      |                       |                       |                      |                    |                       |
| Construction in Process                            | 976,990.21           |                       |                       | 11,766,223.97        |                    | 12,743,213.18         |
| Total Non-Depreciable Assets at Historical Cost    | 976,990.21           |                       |                       | 11,766,223.97        |                    | 12,743,213.18         |
| <b>Depreciable Assets:</b>                         |                      |                       |                       |                      |                    |                       |
| Buildings and Building Improvements                | 313,458.40           |                       |                       |                      |                    | 313,458.40            |
| Infrastructure                                     | -                    |                       |                       |                      |                    | -                     |
| Facilities & Other Improvements                    | -                    |                       |                       |                      |                    | -                     |
| Furniture and Equipment                            | 3,997,103.03         |                       |                       |                      | (812,592.02)       | 3,184,511.01          |
| Vehicle, Boats & Aircraft                          | 5,845,509.06         |                       | (20,073.12)           | 1,045,779.95         | (217,485.29)       | 6,653,730.60          |
| Other Capital Assets                               | -                    |                       |                       |                      |                    | -                     |
| Total Depreciable Assets at Historical Cost        | 10,156,070.49        | 0.00                  | (20,073.12)           | 1,045,779.95         | (1,030,077.31)     | 10,151,700.01         |
| Less Accumulated Depreciation for:                 |                      |                       |                       |                      |                    |                       |
| Buildings and Improvements                         | (110,285.83)         |                       |                       | (13,119.08)          |                    | (123,404.91)          |
| Infrastructure                                     | -                    |                       |                       |                      |                    | -                     |
| Facilities & Other Improvements                    | -                    |                       |                       |                      |                    | -                     |
| Furniture and Equipment                            | (3,118,188.85)       |                       |                       | (161,319.84)         | 812,592.02         | (2,466,916.67)        |
| Vehicles, Boats & Aircraft                         | (2,352,951.23)       |                       | 10,992.16             | (812,353.95)         | 148,901.20         | (3,005,411.82)        |
| Other Capital Assets                               | -                    |                       |                       |                      |                    | -                     |
| Total Accumulated Depreciation                     | (5,581,425.91)       | 0.00                  | 10,992.16             | (986,792.87)         | 961,493.22         | (5,595,733.40)        |
| Depreciable Assets, Net                            | 4,574,644.58         | 0.00                  | (9,080.96)            | 58,987.08            | (68,584.09)        | 4,555,966.61          |
| <b>Amortizable Assets – Intangible:</b>            |                      |                       |                       |                      |                    |                       |
| Land use Rights - Term                             | -                    |                       |                       |                      |                    | -                     |
| Computer Software - Intangible                     | 617,771.17           |                       |                       |                      |                    | 617,771.17            |
| Other Intangible Capital Assets - Term             | -                    |                       |                       |                      |                    | -                     |
| Total Intangible Assets at Historical Cost         | 617,771.17           | -                     | -                     | -                    | -                  | 617,771.17            |
| Less Accumulated Amortization for:                 |                      |                       |                       |                      |                    |                       |
| Land use Rights - Term                             | -                    |                       |                       |                      |                    | -                     |
| Computer Software - Intangible                     | (617,771.17)         |                       |                       |                      |                    | (617,771.17)          |
| Other Intangible Capital Assets - Term             | -                    |                       |                       |                      |                    | -                     |
| Total Accumulated Amortization                     | (617,771.17)         | -                     | -                     | -                    | -                  | (617,771.17)          |
| Amortizable Assets – Net                           | -                    | -                     | -                     | -                    | -                  | -                     |
| <b>Governmental Activities Capital Assets, Net</b> | <b>5,551,634.79</b>  | <b>-</b>              | <b>(9,080.96)</b>     | <b>11,825,211.05</b> | <b>(68,584.09)</b> | <b>17,299,180.79</b>  |

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**NOTE 3: Deposits, Investments, and Repurchase Agreements**

Not applicable.

**NOTE 4: Short-Term Debt**

Not applicable.

**NOTE 5: Long-Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2015, the following changes occurred in liabilities.

| <b>Governmental Activities</b>       | <b>Balance 09/01/2014</b> | <b>Additions</b>       | <b>Deductions</b>      | <b>Balance 08/31/2015</b> | <b>Amounts Due Within One Year</b> |
|--------------------------------------|---------------------------|------------------------|------------------------|---------------------------|------------------------------------|
| Employees' Compensable Leave         | \$4,758,741.78            | \$3,919,495.81         | \$4,001,829.58         | \$4,676,408.01            | \$2,651,253.47                     |
| Pollution Remediation Obligation     | 9,300,561.45              | 21,715,961.95          | 16,875,854.69          | 14,140,668.71             | 14,140,668.71                      |
| Claims and Judgments                 | 0.00                      | 0                      | 0                      | 0.00                      | 0.00                               |
| <b>Total Governmental Activities</b> | <b>\$14,059,303.23</b>    | <b>\$25,635,457.76</b> | <b>\$20,877,684.27</b> | <b>\$18,817,076.72</b>    | <b>\$16,791,922.18</b>             |

**Employees' Compensable Leave**

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**Pollution Remediation Obligations**

The Commission recognizes a pollution remediation obligation when it commences, or legally obligates itself to commence, cleanup activities. An abandoned site becomes a candidate for state cleanup when the responsible party fails or refuses to take action, or is unknown,

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deceased, or bankrupt. Cleanup prioritization is based on public health, safety, and the protection of the environment.

The Commission enters into contracts with third parties for abandoned site remediation and abandoned well plugging. These contracts are used to estimate the amount of the plugging and pollution remediation obligation. Cost recoveries from the responsible parties are deposited into the Oil and Gas Regulation and Cleanup fund.

Under Texas Natural Resource Code §89.043, The Commission may plug abandoned wells if the wells will cause or are likely to cause a serious threat of pollution or injury to the public health. The Commission has 66 active well plugging projects as of August 31, 2015, with an estimated cost of \$12,359,043.49. Under Texas Natural Resource Code §91.113, the Commission may clean up abandoned oil and gas sites that are causing or are likely to cause the pollution of surface or subsurface water. The Commission has 10 active site remediation projects as of August 31, 2015, with an estimated cost of \$686,942.62. Funding for these programs come from regulatory and permit fees paid by the Oil and Gas industry.

Under the Texas Surface Coal Mining and Reclamation Act, The Commission administers funds from the U.S. Department of the Interior for the Abandoned Mine Land Reclamation Program. The Commission has one grading project as of August 31, 2015, with an estimated cost of \$1,094,682.60.

**Claims & Judgments**

There are no pending or settled claims outstanding

**NOTE 6: Bonded Indebtedness**

Not applicable.

**NOTE 7: Derivative Instruments**

Not applicable.

**TE 8: Leases**

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating lease obligations:

| Fund Type                             |                      |
|---------------------------------------|----------------------|
| General Fund                          | 47,922.34            |
| General Revenue Dedicated – Fund 5155 | 31,599.68            |
| Federal Fund                          | 420,381.80           |
| <b>Totals – Memorandum Only</b>       | <b>\$ 499,903.82</b> |

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Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are as follows:

| Year Ended August 31,                             |                        |
|---|------------------------|
| 2016  | 502,832.25             |
| 2017  | 504,202.25             |
| 2018  | 194,522.95             |
| 2019  | 83,161.90              |
| 2020  | 12,355.92              |
| 2021-2025   | -                      |
| <b>Total Minimum Future Lease Rental Payments</b> | <b>\$ 1,297,075.27</b> |

**NOTE 9: Pension Plans and Optional Retirement Program**

Not applicable.

**NOTE 10: Deferred Compensation**

Not applicable.

**NOTE 11: Post-Employment Health Care and Life Insurance Benefits**

Not applicable.

**NOTE 12: Interfund Activity and Transactions**

Not applicable.

**NOTE 13: Continuance Subject to Review**

The Commission is subject to Chapter 325, Government Code (Texas Sunset Act). Unless continued in existence by the 85<sup>th</sup> Legislature the Commission is abolished September 1, 2017.

**NOTE 14: Adjustments to Fund Balances / Net Assets**

Not applicable.

**NOTE 15: Contingent Liabilities**

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The Commission is a party to numerous lawsuits in the ordinary course of its business of regulating various segments of the energy industry. Some of these are enforcement actions that have been initiated by the Commission to collect penalties for violations of the Commission's rules. Other cases are appeals of administrative orders issued by the Commission and represent little or no potential for monetary recovery against the Commission.

None of the first four pending cases listed below is likely to result in a recovery against the Commission.

(1) *Osmond Onwuzu v. Texas Railroad Commission*, Cause No. 03-2480-B, in the 114<sup>th</sup> Judicial District Court of Smith County, Texas, was filed on September 16, 2003, seeking unspecified damages for the alleged wrongful termination of plaintiff.

(2) *Rev. David Hudson, individually and on behalf of those similarly situated v. The State of Texas through the Texas Railroad Commission, et al.*, Cause No. 2:06-CV-246, in the United States District Court for the Eastern District of Texas, was filed on June 19, 2006, seeking compensatory damages, punitive damages, attorney's fees, and costs all in unspecified amounts together with a declaratory judgment that the Commission failed to properly enforce its environmental regulations allegedly resulting in contamination of water wells in Panola County, Texas. The Commissioners, individually, were added as defendants by an amended pleading. The Court signed an order on August 13, 2007, dismissing plaintiff's suit against the State of Texas through the Texas Railroad Commission on Eleventh Amendment grounds. The Attorney General filed a Motion to Dismiss the Plaintiff's "takings" claim and to dismiss the Commissioners individually. On January 12, 2010, the Court dismissed the Plaintiff's "takings" claim and closed the case administratively. The Attorney General does not anticipate further action in this case, but is continuing to monitor it.

(3) *Frederick Wright v. Railroad Commission of Texas*, Cause No. 201347739, pending in the 11<sup>th</sup> Judicial District Court of Harris County, Texas, was filed on August 14, 2013, seeking unspecified damages for the alleged wrongful termination of plaintiff.

(4) *Lee Perry v. The Railroad Commission of Texas, Barry T. Smitherman, Chairman, Anadarko Petroleum Corporation, CEO R. A. Walker, Maverick Production Company, CEO J. Michael Yeager, Samson Exploration LLC, Samson Lone Star LLC, President Stacy Schusterman, Forest Oil Corporation, President Patrick R. McDonald, and Viesca Gas Company, President Paul EschenFelder*, Civil Action File Number A 15 CV 0111 SS, pending in the United States District Court for the Western District of Texas, Austin Division. Plaintiff pleads for the delivery of several wells to him and unspecified damages. The Court has ordered this *pro se* plaintiff to reply with a more definite statement of what his suit is about.

The case listed below has the potential for a monetary recovery against the Commission.

(5) *Railroad Commission of Texas v. Gulf Energy Exploration Corporation*; Cause No. 14-0534, pending in the Supreme Court of Texas. This is a suit alleging that Superior, a contractor performing plugging operations for the Commission, allegedly plugged the wrong well on public lands in the Gulf of Mexico. The Texas Legislature, in Senate Concurrent Resolution No. 72, authorized Gulf Energy to sue the Commission for no more than \$2,500,000.00. The Attorney General filed an interlocutory appeal in the 13<sup>th</sup> Court of Appeals on the trial court's denial of the Commission's Plea to the Jurisdiction. On August 5, 2010, the 13<sup>th</sup> Court issued its opinion excluding the fraud and negligent misrepresentation claims and allowing the suit to proceed only on the grounds of breach of contract and simple negligence. The case was tied to a jury in Port Lavaca in January, 2012. The jury rendered a verdict against the Commission. The Court

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entered a Judgment against the Commission for \$2,500,000.00 on March 19, 2012. The Commission appealed that Judgment to the 13<sup>th</sup> Court of Appeals in Corpus Christi. On May 29, 2014, the 13<sup>th</sup> Court of Appeals issued its Judgment and Opinion affirming the trial court in all things. The Supreme Court heard oral argument in this case on September 22, 2015. No opinion has issued.

**NOTE 16: Subsequent Events**

There are no subsequent events.

**NOTE 17: Risk Management**

The Commission is exposed to a variety of claims resulting from the performance of its duties.

The Commission assumes substantially all risks due to the performance of its duties. Currently, there is no purchase of commercial insurance. The Commission participates in the State Office of Risk Management's (SORM) Risk Management and Worker's Compensation Coverage Program.

**NOTE 18: Management Discussion and Analysis**

In FY 2015, a significant decline in crude oil prices triggered a decline in revenue in the Oil and Gas Regulation and Cleanup Fund (5155).

**NOTE 19: The Financial Reporting Entity**

Not applicable.

**NOTE 20: Stewardship, Compliance and Accountability**

As of November 20, 2015, management is unaware of any issues that affected stewardship, compliance, or accountability.

**NOTE 22: Donor Restricted Endowments**

Not applicable.

**NOTE 23: Extraordinary and Special Items**

Not applicable.

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**NOTE 24: Disaggregation of Receivable and Payable Balances**

Not applicable.

**NOTE 25: Termination Benefits**

Not applicable.

**NOTE 26: Segment Information**

Not applicable.

**NOTE 27: Service Concession Arrangements**

Not applicable.

**NOTE 28: Deferred Outflows of Resources and Deferred Inflows of Resources**

Not applicable.

**NOTE 29: Trouble Debt Restructuring**

Not applicable.

**NOTE 30: Non-Exchange Financial Guarantees**

Not applicable.

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## **Combining Statement – Exhibits**

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Exhibit A-1 - Combining Balance Sheet - All General and Consolidated Funds

For the Fiscal Year Ended August 31, 2015

|  | General Revenue                              | Consolidated Accounts                |   |                         |
|--|--|--------------------------------------|---|-------------------------|
|  | General Revenue<br>Fund (0001)<br>U/F (0001) | Federal<br>Fund (5041)<br>U/F (5041) | Oil and Gas<br>Regulation and<br>Cleanup<br>Fund (5155)<br>U/F (5155) | Total                   |
| <b>ASSETS</b>                          |  |                                      |   |                         |
| Current Assets:                        |  |                                      |   |                         |
| Cash and Cash Equivalents:             |  |                                      |   |                         |
| Cash on Hand                           | \$ -   | \$ -                                 | \$ -  | \$ -                    |
| Cash in State Treasury                 | -  | 3,670,886.30                         | 21,876,462.88   | 25,547,349.18           |
| Legislative Appropriations             | 5,971,200.34                                 | -                                    | -   | 5,971,200.34            |
| Federal Receivables                    | -  | -                                    | -   | -                       |
| Interfund Receivable                   | -  | -                                    | -   | -                       |
| Due from Other Agencies                | -  | -                                    | -   | -                       |
| Consumable Inventories                 | 31,664.00                                    | -                                    | -   | 31,664.00               |
| Prepaid Items                          | 614,197.81                                   | -                                    | -   | 614,197.81              |
| Total Current Assets                   | <u>\$ 6,617,062.15</u>                       | <u>\$ 3,670,886.30</u>               | <u>\$ 21,876,462.88</u>   | <u>\$ 32,164,411.33</u> |
| Total Assets                           | <u>\$ 6,617,062.15</u>                       | <u>\$ 3,670,886.30</u>               | <u>\$ 21,876,462.88</u>   | <u>\$ 32,164,411.33</u> |
| <b>LIABILITIES AND FUND BALANCES</b>   |  |                                      |   |                         |
| Current Liabilities:                   |  |                                      |   |                         |
| Payables from:                         |  |                                      |   |                         |
| Accounts Payable                       | \$ 719,935.52                                | \$ 86,893.69                         | \$ 1,212,157.38   | \$ 2,018,986.59         |
| Payroll Payable                        | 952,693.42                                   | 372,759.13                           | 3,216,193.07  | 4,541,645.62            |
| Interfund Payable                      | -  | -                                    | -   | -                       |
| Due to Other Agencies                  | -  | -                                    | -   | -                       |
| Deferred Revenue (Fed Sch 1A - Note 7) | -  | -                                    | -   | -                       |
| Total Current Liabilities              | <u>\$ 1,672,628.94</u>                       | <u>\$ 459,652.82</u>                 | <u>\$ 4,428,350.45</u>  | <u>\$ 6,560,632.21</u>  |
| Total Liabilities                      | <u>\$ 1,672,628.94</u>                       | <u>\$ 459,652.82</u>                 | <u>\$ 4,428,350.45</u>  | <u>\$ 6,560,632.21</u>  |
| Fund Balances (Deficits):              |  |                                      |   |                         |
| Nonspendable                           | 645,861.81                                   | -                                    | -   | 645,861.81              |
| Restricted                             | -  | 3,211,233.48                         | -   | 3,211,233.48            |
| Committed                              | -  | -                                    | 17,448,112.43   | 17,448,112.43           |
| Assigned                               | -  | -                                    | -   | -                       |
| Unassigned                             | 4,298,571.40                                 | -                                    | -   | 4,298,571.40            |
| Total Fund Balances                    | <u>\$ 4,944,433.21</u>                       | <u>\$ 3,211,233.48</u>               | <u>\$ 17,448,112.43</u>   | <u>\$ 25,603,779.12</u> |
| Total Liabilities and Fund Balances    | <u>\$ 6,617,062.15</u>                       | <u>\$ 3,670,886.30</u>               | <u>\$ 21,876,462.88</u>   | <u>\$ 32,164,411.33</u> |

Exhibit A-2 - Combining Statement of Revenues, Expenditures, and Changes in Fund Balance  
All General and Consolidated Funds

For the Fiscal Year Ended August 31, 2015

|   | Consolidated Accounts                        |                                      |  |   | Total                    |
|---|--|--------------------------------------|--|---|--------------------------|
|   | General Revenue                              |                                      | Oil and Gas  |   |                          |
|   | General Revenue<br>Fund (0001)<br>U/F (0001) | Federal<br>Fund (5041)<br>U/F (5041) | Regulation and<br>Cleanup<br>Fund (5155)<br>U/F (5155) | Unappropriated<br>General Revenue<br>EFF (1000)<br>U/F (1000) |                          |
| <b>REVENUES</b>                                   |  |                                      |  |   |                          |
| Legislative Appropriations:                       |  |                                      |  |   |                          |
| Original Appropriations                           | \$ 12,014,368.00                             | \$ -                                 | \$ -   | \$ -  | \$ 12,014,368.00         |
| Additional Appropriations                         | 954,819.73                                   | -                                    | -  | -   | 954,819.73               |
| Federal Revenue (Fed Sch 1A)                      | -  | 9,300,480.93                         | -  | 1,284,857.07  | 10,585,338.00            |
| Federal Pass Through Revenue (Fed Sch 1A)         | 291,807.00                                   | 139,540.97                           | -  | -   | 431,347.97               |
| State Grant Pass Through Revenue (Sch 1B)         | 2,509,621.47                                 | -                                    | -  | -   | 2,509,621.47             |
| Licenses, Fees and Permits                        | -  | 4.87                                 | 58,132,490.79  | -   | 58,132,495.66            |
| Interest and Investment Income                    | -  | -                                    | (4.01)   | -   | (4.01)                   |
| Sales of Goods and Services                       | 16,374.40                                    | -                                    | 929,433.79   | -   | 945,808.19               |
| Other   | 383,606.18                                   | (0.01)                               | (75,149.99)  | -   | 308,456.18               |
| <b>Total Revenues</b>                             | <b>\$ 16,170,596.78</b>                      | <b>\$ 9,440,026.76</b>               | <b>\$ 58,986,770.58</b>                                | <b>\$ 1,284,857.07</b>  | <b>\$ 85,882,251.19</b>  |
| <b>EXPENDITURES</b>                               |  |                                      |  |   |                          |
| Salaries and Wages                                | 8,715,575.01                                 | 3,755,395.12                         | 29,727,099.25  | -   | 42,198,069.38            |
| Payroll Related Costs                             | 2,428,205.25                                 | 1,065,796.45                         | 11,490,681.26  | -   | 14,984,682.96            |
| Professional Fees and Services                    | 2,987,420.66                                 | 2,737,970.59                         | 2,955,307.28   | -   | 8,680,698.53             |
| Travel  | 307,784.45                                   | 166,612.46                           | 90,392.76  | -   | 564,789.67               |
| Materials and Supplies                            | 570,058.43                                   | 134,134.28                           | 1,494,479.29   | -   | 2,198,672.00             |
| Communication and Utilities                       | 235,978.94                                   | 43,418.72                            | 412,340.21   | -   | 691,737.87               |
| Repairs and Maintenance                           | 178,847.09                                   | 19,507.23                            | 306,159.76   | -   | 504,514.08               |
| Rentals and Leases                                | 98,756.63                                    | 32,139.87                            | 567,020.86   | -   | 697,917.36               |
| Printing and Reproduction                         | 223,125.47                                   | 15,738.56                            | 334,154.63   | -   | 573,018.66               |
| Claims and Judgements                             | 18,001.85                                    | -                                    | 689.99   | -   | 18,691.84                |
| Federal Pass Through Expenditures                 | -  | -                                    | -  | -   | -                        |
| Intergovernmental Payments                        | -  | -                                    | 55,192.00  | -   | 55,192.00                |
| Other Expenditures                                | 1,276,496.83                                 | 1,978,807.40                         | 10,911,816.57  | -   | 14,167,120.80            |
| Capital Outlay                                    | 2,338,139.08                                 | 385,761.29                           | 10,088,103.55  | -   | 12,812,003.92            |
| <b>Total Expenditures/Expenses</b>                | <b>\$ 19,378,389.69</b>                      | <b>\$ 10,335,281.97</b>              | <b>\$ 68,433,437.41</b>                                | <b>\$ -</b>   | <b>\$ 98,147,109.07</b>  |
| Excess (deficiency) of revenues over expenditures | \$ (3,207,792.91)                            | \$ (895,255.21)                      | \$ (9,446,666.83)                                      | \$ 1,284,857.07   | \$ (12,264,857.88)       |
| <b>OTHER FINANCING SOURCES (USES)</b>             |  |                                      |  |   |                          |
| Sale of Capital Assets                            | 97,290.00                                    | -                                    | -  | -   | 97,290.00                |
| Transfers In                                      | 3,028,898.75                                 | 8,802,001.62                         | 5,320,763.47   | -   | 17,151,663.84            |
| Transfers Out                                     | (3,101,866.25)                               | (12,255,365.96)                      | (1,867,404.00)   | (1,284,857.07)  | (18,509,493.28)          |
| <b>Total other financing sources and uses</b>     | <b>\$ 24,322.50</b>                          | <b>\$ (3,453,364.34)</b>             | <b>\$ 3,453,359.47</b>                                 | <b>\$ (1,284,857.07)</b>                                      | <b>\$ (1,260,539.44)</b> |
| Net Change in Fund Balances                       | (3,183,470.41)                               | (4,348,619.55)                       | (5,993,307.36)   | -   | (13,525,397.32)          |
| <b>Fund Financial Statement - Fund Balances</b>   |  |                                      |  |   |                          |
| Fund Balances, September 1, 2014, as Restated     | 8,282,804.71                                 | 7,559,853.03                         | 23,441,419.79  | -   | 39,284,077.53            |
| Fund Balances, September 1, 2014, as Restated     | 8,282,804.71                                 | 7,559,853.03                         | 23,441,419.79  | -   | 39,284,077.53            |
| Appropriations Lapsed                             | (154,901.09)                                 | -                                    | -  | -   | (154,901.09)             |
| <b>Fund Balances - August 31, 2015</b>            | <b>\$ 4,944,433.21</b>                       | <b>\$ 3,211,233.48</b>               | <b>\$ 17,448,112.43</b>                                | <b>\$ -</b>   | <b>\$ 25,603,779.12</b>  |

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

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RAILROAD COMMISSION OF TEXAS (455)

Exhibit J-1 Combining Statement of Changes in Assets and Liabilities - Agency Funds

For the Fiscal Year Ended August 31, 2015

|  | Beginning<br>Balance<br>September 1, 2014 | Additions               | Deductions              | Ending<br>Balance<br>August 31, 2015 |
|--|---|-------------------------|-------------------------|--------------------------------------|
| <b>Trust Accounts: Fund 5146, 5147, 5148, 5149</b> |   |                         |                         |                                      |
| <b>ASSETS</b>                                      |   |                         |                         |                                      |
| Current  |   |                         |                         |                                      |
| Cash in the State Treasury                         | \$ 45,684,549.48                          | \$ 57,846,339.48        | \$ 53,068,143.83        | \$ 50,462,745.13                     |
| Total Assets                                       | <u>\$ 45,684,549.48</u>                   | <u>\$ 57,846,339.48</u> | <u>\$ 53,068,143.83</u> | <u>\$ 50,462,745.13</u>              |
| <b>LIABILITIES</b>                                 |   |                         |                         |                                      |
| Current  |   |                         |                         |                                      |
| Accounts Payable                                   | \$ -                                      | \$ 4,132,147.05         | \$ 4,132,147.05         | \$ -                                 |
| Funds Held for Others                              | 45,684,549.48                             | 12,127,390.00           | 7,349,194.35            | 50,462,745.13                        |
| Total Liabilities                                  | <u>\$ 45,684,549.48</u>                   | <u>\$ 16,259,537.05</u> | <u>\$ 11,481,341.40</u> | <u>\$ 50,462,745.13</u>              |
| <b>Child Support Employee Deducts (0807)</b>       |   |                         |                         |                                      |
| <b>ASSETS</b>                                      |   |                         |                         |                                      |
| Current  |   |                         |                         |                                      |
| Cash in the State Treasury                         | \$ 9,528.01                               | \$ 134,621.57           | \$ 133,802.57           | \$ 10,347.01                         |
| Total Assets                                       | <u>\$ 9,528.01</u>                        | <u>\$ 134,621.57</u>    | <u>\$ 133,802.57</u>    | <u>\$ 10,347.01</u>                  |
| <b>LIABILITIES</b>                                 |   |                         |                         |                                      |
| Current  |   |                         |                         |                                      |
| Accounts Payable                                   | \$ -                                      | \$ 124,274.56           | \$ 124,274.56           | \$ -                                 |
| Funds Held for Others                              | 9,528.01                                  | 134,621.57              | 133,802.57              | 10,347.01                            |
| Total Liabilities                                  | <u>\$ 9,528.01</u>                        | <u>\$ 258,896.13</u>    | <u>\$ 258,077.13</u>    | <u>\$ 10,347.01</u>                  |
| <b>Suspense Fund (0900) U/F (0900)</b>             |   |                         |                         |                                      |
| <b>ASSETS</b>                                      |   |                         |                         |                                      |
| Current  |   |                         |                         |                                      |
| Cash in the State Treasury                         | \$ 334,630.22                             | \$ 7,390,165.91         | \$ 7,714,415.43         | \$ 10,380.70                         |
| Total Assets                                       | <u>\$ 334,630.22</u>                      | <u>\$ 7,390,165.91</u>  | <u>\$ 7,714,415.43</u>  | <u>\$ 10,380.70</u>                  |
| <b>LIABILITIES</b>                                 |   |                         |                         |                                      |
| Current  |   |                         |                         |                                      |
| Accounts Payable                                   | \$ -                                      | \$ 350,000.00           | \$ 350,000.00           | \$ -                                 |
| Funds Held for Others                              | 334,630.22                                | 7,390,165.91            | 7,714,415.43            | 10,380.70                            |
| Total Liabilities                                  | <u>\$ 334,630.22</u>                      | <u>\$ 7,740,165.91</u>  | <u>\$ 8,064,415.43</u>  | <u>\$ 10,380.70</u>                  |

**TOTAL- ALL AGENCY FUNDS**

|                        | Beginning<br>Balance<br>September 1, 2014 | Additions               | Deductions              | Ending<br>Balance<br>August 31, 2015 |
|------------------------|---|-------------------------|-------------------------|--------------------------------------|
| <b>ASSETS</b>          |   |                         |                         |                                      |
| Current                |   |                         |                         |                                      |
| Cash in State Treasury | \$ 46,028,707.71                          | \$ 65,371,126.96        | \$ 60,916,361.83        | \$ 50,483,472.84                     |
| Total Assets           | <u>\$ 46,028,707.71</u>                   | <u>\$ 65,371,126.96</u> | <u>\$ 60,916,361.83</u> | <u>\$ 50,483,472.84</u>              |
| <b>LIABILITIES</b>     |   |                         |                         |                                      |
| Current                |   |                         |                         |                                      |
| Accounts Payable       | \$ -                                      | \$ 4,606,421.61         | \$ 4,606,421.61         | \$ -                                 |
| Funds Held for Others  | \$ 46,028,707.71                          | \$ 19,652,177.48        | \$ 15,197,412.35        | \$ 50,483,472.84                     |
| Total Liabilities      | <u>\$ 46,028,707.71</u>                   | <u>\$ 24,258,599.09</u> | <u>\$ 19,803,833.96</u> | <u>\$ 50,483,472.84</u>              |

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

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## **Schedules**

State of Texas — Annual Financial Reporting  
 Schedule of Expenditures of Federal Awards  
 (SEFA)

Agency 455 - Railroad Commission of Texas  
 Schedule 1A  
 For the Fiscal Year Ended August 31, 2015

\*\*\*Certified\*\*\*

| Federal Grantor/Pass-through Grantor/Program Title                      | CFDA Number | NSE Name/Identifying Number | Agy/Univ No | Pass-through From                                 |   | Direct Program Amount | Total PT from and Direct Prog. Amount | Agy/Univ No. | Pass-Through To Agencies or Universities Amount | Pass-Through To Non-State Entities Amount | Expenditures Amount  | Total PT to and Expenditures Amount |
|---|-------------|-----------------------------|-------------|---|---|-----------------------|---------------------------------------|--------------|---|---|----------------------|-------------------------------------|
|   |             |                             |             | Pass-Through From Agencies or Universities Amount | Pass-Through From Non-State Entities Amount |                       |                                       |              |   |   |                      |                                     |
| <b>U.S. Department of the Interior</b>                                  |             |                             |             |   |   |                       |                                       |              |   |   |                      |                                     |
| <b>Direct Programs:</b>   |             |                             |             |   |   |                       |                                       |              |   |   |                      |                                     |
| Regulation of Surface Coal Mining and Surface Effects of Underground Co | 15.250      |                             |             |   |   | 1,706,970.45          | 1,706,970.45                          |              |   |   | 1,706,970.45         | 1,706,970.45                        |
| Abandoned Mine Land Reclamation (AMLR) Program                          | 15.252      |                             |             |   |   | 2,755,881.63          | 2,755,881.63                          |              |   |   | 2,755,881.63         | 2,755,881.63                        |
| Science and Technology Projects Related to Coal Mining and Reclamation  | 15.255      |                             |             |   |   | 10,932.73             | 10,932.73                             |              |   |   | 10,932.73            | 10,932.73                           |
| <i>Totals - U.S. Department of the Interior</i>                         |             |                             |             | 0   | 0   | 4,473,784.81          | 4,473,784.81                          | 0            | 0   | 0   | 4,473,784.81         | 4,473,784.81                        |
| <b>U.S. Department of Transportation</b>                                |             |                             |             |   |   |                       |                                       |              |   |   |                      |                                     |
| Pipeline Safety Program State Base Grant                                | 20.700      |                             |             |   |   | 5,352,646.35          | 5,352,646.35                          |              |   |   | 5,352,646.35         | 5,352,646.35                        |
| <i>Totals - U.S. Department of Transportation</i>                       |             |                             |             | 0   | 0   | 5,352,646.35          | 5,352,646.35                          | 0            | 0   | 0   | 5,352,646.35         | 5,352,646.35                        |
| <b>Environmental Protection Agency</b>                                  |             |                             |             |   |   |                       |                                       |              |   |   |                      |                                     |
| State Underground Water Source Protection                               | 66.433      |                             |             |   |   | 656,079.67            | 656,079.67                            |              |   |   | 656,079.67           | 656,079.67                          |
| State and Tribal Response Program Grants                                | 66.817      |                             |             |   |   | 102,827.17            | 102,827.17                            |              |   |   | 102,827.17           | 102,827.17                          |
| <b>Pass-Through From:</b>   |             |                             |             |   |   |                       |                                       |              |   |   |                      |                                     |
| Nonpoint Source Implementation Grants                                   | 66.460      |                             |             | 582   | 139,540.97                                  |                       | 139,540.97                            |              |   |   | 139,540.97           | 139,540.97                          |
| <i>Totals - Environmental Protection Agency</i>                         |             |                             |             |   | 139,540.97                                  | 758,906.84            | 898,447.81                            | 0            | 0   | 0   | 898,447.81           | 898,447.81                          |
| <b>Total Expenditures of Federal Awards</b>                             |             |                             |             |   | <b>139,540.97</b>                           | <b>10,585,338.00</b>  | <b>10,724,878.97</b>                  | <b>0</b>     | <b>0</b>  | <b>0</b>                                  | <b>10,724,878.97</b> | <b>10,724,878.97</b>                |

RAILROAD COMMISSION OF TEXAS (455)

SCHEDULE 1A

**Schedule of Expenditures of Federal Awards — Notes**

For the Fiscal Year Ended August 31, 2015

**Note 2 - Reconciliation**

Below is a reconciliation of the total of federal pass-through and federal expenditures as reported on the Schedule of Federal Financial Assistance to the total of **federal revenues** and **federal grant** pass-through revenues as reported in the general-purpose financial statements. Generally, federal funds are not earned until expended; therefore, federal revenues equal federal expenditures for the reporting period.

**Federal Revenues:**

Per Combined Governmental Operating Statement/Statement of Activities

|   |                                |
|---|--------------------------------|
| Governmental Funds - Federal Revenue (Exhibit II)               | \$ 10,585,338.00               |
| Governmental Funds - Federal Pass-Through Revenues (Exhibit II) | <u>139,540.97</u>              |
| Total Pass Through and Expenditures per Federal Schedule        | <u><u>\$ 10,724,878.97</u></u> |

**Note 7 - Federal Deferred Revenue**

| CFDA         | Balance<br>September 1, 2014 | Net Change  | Balance<br>August 31, 2015 |
|--------------|------------------------------|-------------|----------------------------|
|              | \$ -                         | \$ -        | \$ -                       |
| <b>Total</b> | <u>\$ -</u>                  | <u>\$ -</u> | <u>\$ -</u>                |

RAILROAD COMMISSION OF TEXAS (455)

SCHEDULE 1B

**Schedule of State Grant Pass Throughs From/To State Agencies**  
For the Fiscal Year Ended August 31, 2015

**Pass Through From:**

|  |                             |
|--|-----------------------------|
| Texas Commission on Environmental Quality (Agency 582) | <u>\$ 291,807.00</u>        |
| Total Pass-Through From Other Agencies (Exhibit II)    | <u><u>\$ 291,807.00</u></u> |