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# **Annual Financial Report**

**FOR THE FISCAL YEAR 2016**



**The Railroad Commission of Texas**

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**Christi Craddick**  
Commissioner

**David Porter**  
Chairman

**Ryan Sitton**  
Commissioner

**ANNUAL FINANCIAL REPORT**

**UNAUDITED**

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

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**Year Ended August 31, 2016**



# RAILROAD COMMISSION OF TEXAS

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

November 15, 2016

Honorable Greg Abbott, Governor  
Honorable Glenn Hegar, Comptroller  
Ursula Parks, Director, Legislative Budget Board  
Lisa R. Collier, First Assistant State Auditor, CPA, CPE, CIDA

Ladies and Gentlemen:

We are pleased to submit the annual financial report of the Railroad Commission of Texas for the year ended August 31, 2016, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Pursuant 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,

A handwritten signature in black ink that reads "David Porter".

David Porter, Chairman

A handwritten signature in black ink that reads "Christi Craddick".

Christi Craddick, Commissioner

A handwritten signature in black ink that reads "Ryan Sitton".

Ryan Sitton, Commissioner

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RAILROAD COMMISSION OF TEXAS (455)

## **Combined Financial Statements**

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

For the Fiscal Year Ended August 31, 2016

	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	26,853,789.81	26,853,789.81	-	-	26,853,789.81
Legislative Appropriations	3,616,964.00	3,616,964.00	-	-	3,616,964.00
Federal Receivable	-	-	-	-	-
Interfund Receivables	-	-	-	-	-
Due from Other Agencies	-	-	-	-	-
Consumable Inventories	28,526.53	28,526.53	-	-	28,526.53
Prepaid Items	614,197.81	614,197.81	-	-	614,197.81
Total Current Assets	<u>\$ 31,113,478.15</u>	<u>\$ 31,113,478.15</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,113,478.15</u>
Non-Current Assets:					
Capital Assets (Note 2):					
Non-Depreciable:					
Construction in Progress	-	-	-	-	-
Other Capital Assets	-	-	-	-	-
Depreciable:					
Buildings and Building Improvements	-	-	313,458.40	-	313,458.40
Less Accumulated Depreciation	-	-	(131,876.79)	-	(131,876.79)
Furniture and Equipment	-	-	2,911,471.95	-	2,911,471.95
Less Accumulated Depreciation	-	-	(2,274,564.30)	-	(2,274,564.30)
Vehicles, Boats, and Aircraft	-	-	6,342,018.24	-	6,342,018.24
Less Accumulated Depreciation	-	-	(3,426,097.93)	-	(3,426,097.93)
Amortizable:					
Computer Software	-	-	13,360,985.35	-	13,360,985.35
Less Accumulated Amortization	-	-	(3,166,038.49)	-	(3,166,038.49)
Total Non-Current Assets	<u>-</u>	<u>-</u>	<u>13,929,356.43</u>	<u>-</u>	<u>13,929,356.43</u>
Total Assets	<u>\$ 31,113,478.15</u>	<u>\$ 31,113,478.15</u>	<u>\$ 13,929,356.43</u>	<u>\$ -</u>	<u>\$ 45,042,834.58</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Current Liabilities:					
Payables from:					
Accounts Payable	\$ 1,697,419.23	\$ 1,697,419.23	\$ -	\$ -	\$ 1,697,419.23
Payroll Payable	4,537,644.03	4,537,644.03	-	-	4,537,644.03
Interfund Payable	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-
Deferred Revenue (Fed Sch 1A - Note 7)	-	-	-	-	-
Employees' Compensable Leave (Note 5)	-	-	-	2,250,905.61	2,250,905.61
Pollution Remediation Obligation (Note 5)	-	-	-	3,263,915.48	3,263,915.48
Total Current Liabilities	<u>\$ 6,235,063.26</u>	<u>\$ 6,235,063.26</u>	<u>\$ -</u>	<u>\$ 5,514,821.09</u>	<u>\$ 11,749,884.35</u>
Non-Current Liabilities:					
Employees' Compensable Leave (Note 5)	-	-	-	1,653,321.73	1,653,321.73
Total Non-Current Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,653,321.73</u>	<u>\$ 1,653,321.73</u>
Total Liabilities	<u>\$ 6,235,063.26</u>	<u>\$ 6,235,063.26</u>	<u>\$ -</u>	<u>\$ 7,168,142.82</u>	<u>\$ 13,403,206.08</u>
<b>Fund Financial Statement - Fund</b>					
Fund Balances (Deficits):					
Nonspendable	\$ 642,724.34	642,724.34	-	-	642,724.34
Restricted	5,420,117.78	5,420,117.78	-	-	5,420,117.78
Committed	16,310,885.08	16,310,885.08	-	-	16,310,885.08
Assigned	-	-	-	-	-
Unassigned	2,504,687.69	2,504,687.69	-	-	2,504,687.69
Total Fund Balances	<u>\$ 24,878,414.89</u>	<u>\$ 24,878,414.89</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,878,414.89</u>
Total Liabilities and Fund Balances	<u>\$ 31,113,478.15</u>	<u>\$ 31,113,478.15</u>	<u>\$ -</u>	<u>\$ 7,168,142.82</u>	<u>\$ 13,403,206.08</u>
<b>Government-wide Statement - Net Assets</b>					
Net Assets:					
Invested in Capital Assets, Net of Related Debt					
			\$ 13,929,356.43		\$ 13,929,356.43
Restricted for:					
Employee Benefits				(3,904,227.34)	(3,904,227.34)
Pollution Remediation Obligation				(3,263,915.48)	(3,263,915.48)
Claims and Judgments				-	-
Total Net Assets			<u>\$ 13,929,356.43</u>	<u>\$ (7,168,142.82)</u>	<u>\$ 31,639,628.50</u>

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

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

Statement of Activities - Governmental Funds

For the Fiscal Year Ended August 31, 2016

	General Fund	Governmental Funds Total	Capital Asset Adjustments	Long-Term Liabilities Adjustments	Statement of Activities
<b>REVENUES</b>					
Legislative Appropriations:					
Original Appropriations	\$ 11,050,547.00	\$ 11,050,547.00	\$ -	\$ -	\$ 11,050,547.00
Additional Appropriations	4,698,035.71	4,698,035.71	-	-	4,698,035.71
Federal Revenue (Fed Sch 1A)	11,843,794.45	11,843,794.45	-	-	11,843,794.45
Federal Pass Through Revenue (Fed Sch 1A)	242,231.25	242,231.25	-	-	242,231.25
State Grant Pass Through Revenue (Sch 1B)	(85,904.60)	(85,904.60)	-	-	(85,904.60)
Licenses, Fees and Permits	61,919,722.75	61,919,722.75	-	-	61,919,722.75
Interest, Dividend & Other Income	40.97	40.97	-	-	40.97
Sales of Goods and Services	704,482.59	704,482.59	-	-	704,482.59
Settlement of Claims	472,715.00	472,715.00	-	-	472,715.00
Other	164,354.32	164,354.32	-	-	164,354.32
<b>Total Revenues</b>	<b>\$ 91,010,019.44</b>	<b>\$ 91,010,019.44</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 91,010,019.44</b>
<b>EXPENDITURES</b>					
Salaries and Wages	42,401,137.70	42,401,137.70	\$ -	(772,180.67)	41,628,957.03
Payroll Related Costs	16,326,210.60	16,326,210.60	-	-	16,326,210.60
Professional Fees and Services	9,605,359.04	9,605,359.04	-	-	9,605,359.04
Travel	644,815.81	644,815.81	-	-	644,815.81
Materials and Supplies	1,564,004.18	1,564,004.18	-	-	1,564,004.18
Communication and Utilities	725,456.14	725,456.14	-	-	725,456.14
Repairs and Maintenance	446,535.20	446,535.20	-	-	446,535.20
Rentals and Leases	1,269,106.78	1,269,106.78	-	-	1,269,106.78
Printing and Reproduction	397,887.14	397,887.14	-	-	397,887.14
Claims and Judgements	10,052.79	10,052.79	-	-	10,052.79
Federal Pass Through Expenditures	-	-	-	-	-
Intergovernmental Payments	328,494.00	328,494.00	-	-	328,494.00
Other Expenditures	12,896,977.57	12,896,977.57	-	-	12,896,977.57
Capital Outlay (Note 2)	176,435.50	176,435.50	(248,635.50)	-	(72,200.00)
Amortization Expense (Note 2)	-	-	2,548,267.32	-	2,548,267.32
Depreciation Expense (Note 2)	-	-	1,000,815.49	-	1,000,815.49
Pollution Remediation Obligation	-	-	-	(10,876,753.23)	(10,876,753.23)
<b>Total Expenditures/Expenses</b>	<b>\$ 86,792,472.45</b>	<b>\$ 86,792,472.45</b>	<b>\$ 3,300,447.31</b>	<b>\$ (11,648,933.90)</b>	<b>\$ 78,443,985.86</b>
Excess (deficiency) of revenues over expenditures	\$ 4,217,546.99	\$ 4,217,546.99	\$ (3,300,447.31)	\$ 11,648,933.90	\$ 12,566,033.58
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of Capital Assets	\$ 167,795.82	\$ 167,795.82	\$ (167,795.82)	\$ -	\$ -
Transfers In	234.94	234.94	12,743,214.18	-	12,743,449.12
Transfers Out	(2,945,046.44)	(2,945,046.44)	(12,743,214.18)	-	(15,688,260.62)
Appropriations Lapsed	(1,834,319.00)	(1,834,319.00)	-	-	(1,834,319.00)
Gain (Loss) on Sale of Capital Assets	-	-	98,418.77	-	98,418.77
<b>Total other financing sources and uses</b>	<b>\$ (4,611,334.68)</b>	<b>\$ (4,611,334.68)</b>	<b>\$ (69,377.05)</b>	<b>\$ -</b>	<b>\$ (4,680,711.73)</b>
<b>Net Change in Fund Balances/Net Assets</b>	<b>\$ (393,787.69)</b>	<b>\$ (393,787.69)</b>	<b>\$ (3,369,824.36)</b>	<b>\$ 11,648,933.90</b>	<b>\$ 7,885,321.85</b>
<b>Fund Financial Statement - Fund Balances</b>					
Fund Balances - September 1, 2015	25,269,264.25	25,269,264.25			25,269,264.25
Restatements	2,938.33	2,938.33			2,938.33
Fund Balances - September 1, 2015, as Restated	25,272,202.58	25,272,202.58			25,272,202.58
Fund Balances - August 31, 2016	\$ 24,878,414.89	\$ 24,878,414.89	\$ (3,369,824.36)	\$ 11,648,933.90	\$ 33,157,524.43
<b>Government-wide Statement - Net Assets</b>					
Change in Net Assets		\$ 24,878,414.89	\$ (3,369,824.36)	\$ 11,648,933.90	\$ 33,157,524.43
Net Assets - September 1, 2015			17,299,180.79	(18,817,076.72)	(1,517,895.93)
Net Assets - August 31, 2016		\$ 24,878,414.89	\$ 13,929,356.43	\$ (7,168,142.82)	\$ 31,639,628.50

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

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**Exhibit VI - Combined Statement of Net Assets - Fiduciary Funds**

For the Fiscal Year Ended August 31, 2016

	Agency Funds	Totals
<b>ASSETS</b>		
Current		
Cash in the State Treasury	\$ 61,326,627.96	\$ 61,326,627.96
Total Current Assets	61,326,627.96	61,326,627.96
<b>Total Assets</b>	<b>\$ 61,326,627.96</b>	<b>\$ 61,326,627.96</b>
<b>LIABILITIES</b>		
Current		
Accounts Payable	\$ -	\$ -
Funds Held for Others	61,326,627.96	61,326,627.96
Total Current Liabilities	61,326,627.96	61,326,627.96
<b>Total Liabilities</b>	<b>\$ 61,326,627.96</b>	<b>\$ 61,326,627.96</b>
<b>NET ASSETS</b>		
<b>Total Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>

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**

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The Railroad Commission of Texas (Commission) complies 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, and environmental protection. 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, (GASB 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**

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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 Commission is mainly funded with General Revenue Fund (Fund 0001) and Oil and Gas Regulation and Cleanup Fund (Fund 5155) – This General Revenue Dedicated fund was established by Chapter 81 of the Natural Resources Code.

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.

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.

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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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In accordance with generally accepted accounting principles and accounting policies and procedures set forth by the Comptroller of Public Accounts, the Commission recognizes revenue when received. Expenditures are recognized on a modified accrual basis.

**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 09/1/2015	Reclassifications		Additions	Deletions	Balance 08/31/2016
		Inc-Int' agy Trans	Dec-Int' agy Trans			
<b>Non-Depreciable Assets:</b>						
Construction in Process	12,743,214.18		(12,743,214.18)			-
Total Non-Depreciable Assets at Historical Cost	12,743,214.18		(12,743,214.18)			-
<b>Depreciable Assets:</b>						
Buildings and Building Improvements	313,458.40					313,458.40
Infrastructure	-					-
Facilities & Other Improvements	-					-
Furniture and Equipment	3,184,511.01			80,446.25	(353,485.31)	2,911,471.95
Vehicle, Boats & Aircraft	6,653,730.60		(35,538.33)	168,189.25	(444,363.28)	6,342,018.24
Other Capital Assets	-					-
Total Depreciable Assets at Historical Cost	10,151,700.01	-	(35,538.33)	248,635.50	(797,848.59)	9,566,948.59
Less Accumulated Depreciation for:						
Buildings and Improvements	(123,404.91)			(8,471.88)		(131,876.79)
Infrastructure	-					-
Facilities & Other Improvements	-					-
Furniture and Equipment	(2,466,916.67)			(160,728.80)	353,081.17	(2,274,564.30)
Vehicles, Boats & Aircraft	(3,005,411.82)		35,538.33	(831,614.81)	375,390.37	(3,426,097.93)
Other Capital Assets	-					-
Total Accumulated Depreciation	(5,595,733.40)	-	35,538.33	(1,000,815.49)	728,471.54	(5,833,539.02)
Depreciable Assets, Net	4,555,966.61	-	-	(752,179.99)	(69,377.05)	3,734,409.57
<b>Amortizable Assets – Intangible:</b>						
Land use Rights - Term	-					-
Computer Software - Intangible	617,771.17	12,743,214.18				13,360,985.35
Other Intangible Capital Assets - Term	-					-
Total Intangible Assets at Historical Cost	617,771.17	12,743,214.18				13,360,985.35
Less Accumulated Amortization for:						
Land use Rights - Term	-					-
Computer Software - Intangible	(617,771.17)			(2,548,267.32)		(3,166,038.49)
Other Intangible Capital Assets - Term	-					-
Total Accumulated Amortization	(617,771.17)	-	-	(2,548,267.32)		(3,166,038.49)
Amortizable Assets – Net	-	12,743,214.18	-	(2,548,267.32)	-	10,194,946.86
<b>Governmental Activities Capital Assets, Net</b>	<b>17,299,180.79</b>	<b>12,743,214.18</b>	<b>(12,743,214.18)</b>	<b>(3,300,822.31)</b>	<b>(69,377.05)</b>	<b>13,929,356.43</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, 2016, 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	\$4,676,408.01	\$3,339,687.68	\$4,171,868.35	\$3,904,227.34	\$2,250,905.61
Pollution Remediation Obligation	14,140,668.71	12,459,032.54	23,335,785.77	3,263,915.48	3,263,915.48
Claims and Judgments	0.00	10,052.79	10,052.79	0.00	0.00
<b>Total Governmental Activities</b>	<b>\$18,817,076.72</b>	<b>\$15,868,773.01</b>	<b>\$27,517,706.91</b>	<b>\$7,168,142.82</b>	<b>\$5,514,821.09</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 Railroad Commission of Texas recognizes a pollution remediation obligation when it commences, or legally obligates itself to commence, cleanup activities

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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.

Under Texas Natural Resource Code §89.043, the Railroad 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 38 active well plugging projects as of August 31, 2016, with an estimated cost of \$3,001,941.48. 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 no active site remediation projects as of August 31, 2016. 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 Railroad Commission administers funds from the U.S. Department of the Interior for the Abandoned Mine Land Reclamation Program. The Commission has one project as of August 31, 2016, with an estimated cost of \$261,974.00.

**Claims & Judgments**

The Attorney General’s Claims Section assisted in settling three claims on the Commission’s behalf during FY 2016, without resort to litigation, arising from motor vehicle accidents involving Commission employees acting within the course and scope of their employment. Claimant Alejandro & Beatriz Snell received \$1,114.56; Claimant Andrew Thornton received \$2,033.00; Claimant Liberty Mutual Insurance received \$6,905.23 for total claim payment in FY 2016 of \$10,052.79.

**NOTE 6: Bonded Indebtedness**

Not applicable.

**NOTE 7: Derivative Instruments**

Not applicable.

**NOTE 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	36,431.68
General Revenue Dedicated – Fund 5155	442,546.61
Federal Fund	33,961.10
<b>Totals – Memorandum Only</b>	<b>\$ 512,939.39</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:

<b>Year Ended August 31,</b>	
2017	504,202.25
2018	194,522.95
2019	83,161.90
2020	12,355.92
2021	4,118,64
2022-2026	-
<b>Total Minimum Future Lease Rental Payments</b>	<b>\$ 798,361.66</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.

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

According to the Comptroller, the GR Reconciliation analysis discovered the GR Legislative Appropriation was understated at the end of 2016. The 2017 beginning balance was increased \$2,938.33.

**NOTE 15: Contingent Liabilities**

The Commission is a party to numerous lawsuits that have generally arisen out of the regulation of various segments of the energy industry or relating to claims made by former employees. Some of these lawsuits involve enforcement actions 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.

A case identified as Cause No. 09-08-0809, *Gulf Energy Exploration Corp. v. Railroad Commission of Texas*, is pending in the 267<sup>th</sup> Judicial District Court of Calhoun County, Texas is reasonably likely to result in a monetary judgment against the Commission. The plaintiffs in that case seek damages of up to \$2.5 million against the Commission.

**NOTE 16: Subsequent Events**

There are no subsequent events.

**NOTE 17: Risk Management**

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 FY2016, the crude oil price remained at lower levels compared to FY2014. As a result, the Commission has continued to experience a decline of Oil & Gas revenues in fund 5155.

**NOTE 19: The Financial Reporting Entity**

Not applicable.

RAILROAD COMMISSION OF TEXAS (455)

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

As of November 20, 2016, 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**

The Commission completed major Information Technology projects during 2016 in the amount of \$12,743,214.18; thus, the projects were reclassified from "Construction in Process" to "Computer Software- Intangible", in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

**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.

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***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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RAILROAD COMMISSION OF TEXAS (455)

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

For the Fiscal Year Ended August 31, 2016

	Consolidated Accounts					Total
	General Revenue	Land Reclamation Fund (0454) U/JF (0454)	Anthropogenic Carbon Dioxide Fund (0827) U/JF (0827)	Federal Fund (5041) U/JF (5041)	Oil and Gas Regulation and Cleanup Fund (5155) U/JF (5155)	
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents:						
Cash on Hand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash in State Treasury	-	472,715.02	10,045.42	5,831,293.65	20,539,735.72	26,853,789.81
Legislative Appropriations	3,616,964.00	-	-	-	-	3,616,964.00
Federal Receivables	-	-	-	-	-	-
Interfund Receivable	-	-	-	-	-	-
Due from Other Agencies	-	-	-	-	-	-
Consumable Inventories	28,526.53	-	-	-	-	28,526.53
Prepaid Items	614,197.81	-	-	-	-	614,197.81
Total Current Assets	\$ 4,259,688.34	\$ 472,715.02	\$ 10,045.42	\$ 5,831,293.65	\$ 20,539,735.72	\$ 31,113,478.15
Total Assets	\$ 4,259,688.34	\$ 472,715.02	\$ 10,045.42	\$ 5,831,293.65	\$ 20,539,735.72	\$ 31,113,478.15
<b>LIABILITIES AND FUND BALANCES</b>						
Current Liabilities:						
Payables from:						
Accounts Payable	\$ 26,508.89	\$ -	\$ -	\$ 42,999.30	\$ 1,627,911.04	\$ 1,697,419.23
Payroll Payable	1,085,767.42	-	-	368,176.57	3,083,700.04	4,537,644.03
Interfund Payable	-	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-	-
Deferred Revenue (Fed Sch 1A - Note 7)	-	-	-	-	-	-
Total Current Liabilities	\$ 1,112,276.31	\$ -	\$ -	\$ 411,175.87	\$ 4,711,611.08	\$ 6,235,063.26
Total Liabilities	\$ 1,112,276.31	\$ -	\$ -	\$ 411,175.87	\$ 4,711,611.08	\$ 6,235,063.26
Fund Balances (Deficits):						
Nonspendable	642,724.34	-	-	-	-	642,724.34
Restricted	-	-	-	5,420,117.78	-	5,420,117.78
Committed	-	472,715.02	10,045.42	-	15,828,124.64	16,310,885.08
Assigned	-	-	-	-	-	-
Unassigned	2,504,667.69	-	-	-	-	2,504,667.69
Total Fund Balances	\$ 3,147,412.03	\$ 472,715.02	\$ 10,045.42	\$ 5,420,117.78	\$ 15,828,124.64	\$ 24,878,414.89
Total Liabilities and Fund Balances	\$ 4,259,688.34	\$ 472,715.02	\$ 10,045.42	\$ 5,831,293.65	\$ 20,539,735.72	\$ 31,113,478.15

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**RAILROAD COMMISSION OF TEXAS (455)**  
**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, 2016

	General Revenue		Consolidated Accounts					Total
			Oil and Gas		Unappropriated			
	General Revenue Fund (0001) U/F (0001)	Land Reclamation Fund (0454) U/F (0454)	Anthropogenic Carbon Dioxide Fund (0827) U/F (0827)	Federal Fund (5041) U/F (5041)	Cleanup Fund (5155) U/F (5155)	General Revenue EFF (1000) U/F (1000)		
<b>REVENUES</b>								
Legislative Appropriations:								
Original Appropriations	\$ 11,050,547.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,050,547.00
Additional Appropriations	4,698,035.71	-	-	-	-	-	-	4,698,035.71
Federal Revenue (Fed Sch 1A)	-	-	-	9,024,829.20	-	2,818,965.25	-	11,843,794.45
Federal Pass Through Revenue (Fed Sch 1A)	-	-	-	242,231.25	-	-	-	242,231.25
State Grant Pass Through Revenue (Sch 1B)	(65,904.60)	-	-	-	-	-	-	(65,904.60)
Licenses, Fees and Permits	2,073,627.99	-	-	-	59,846,094.76	-	-	61,919,722.75
Interest, Dividend & Other Income	-	-	45.42	-	(4.45)	-	-	40.97
Sales of Goods and Services	5,873.30	-	-	-	696,609.29	-	-	704,482.59
Settlement of Claims	-	472,715.00	-	-	-	-	-	472,715.00
Other	127,148.95	-	10,000.00	-	27,205.37	-	-	164,354.32
<b>Total Revenues</b>	<b>\$ 17,869,328.35</b>	<b>\$ 472,715.00</b>	<b>\$ 10,045.42</b>	<b>\$ 9,267,060.45</b>	<b>\$ 60,571,904.97</b>	<b>\$ 2,818,965.25</b>	<b>\$ 91,010,019.44</b>	
<b>EXPENDITURES</b>								
Salaries and Wages	10,010,122.14	-	-	3,810,490.69	28,580,524.87	-	-	42,401,137.70
Payroll Related Costs	2,906,997.34	-	-	1,216,087.42	12,203,125.84	-	-	16,326,210.60
Professional Fees and Services	2,844,869.62	-	-	1,427,575.37	5,332,894.05	-	-	9,605,359.04
Travel	128,752.75	-	-	236,542.25	279,520.81	-	-	644,815.81
Materials and Supplies	24,171.05	-	-	108,516.20	1,431,316.93	-	-	1,564,004.18
Communication and Utilities	57,045.09	-	-	47,189.79	621,251.26	-	-	725,456.14
Repairs and Maintenance	27,900.33	-	-	20,830.73	397,804.14	-	-	446,535.20
Rentals and Leases	596,325.88	-	-	42,473.07	630,307.83	-	-	1,269,106.78
Printing and Reproduction	163,002.04	-	-	36,549.31	196,335.79	-	-	387,887.14
Claims and Judgements	1,114.56	-	-	-	8,938.23	-	-	10,052.79
Federal Pass Through Expenditures	-	-	-	-	-	-	-	-
Intergovernmental Payments	-	-	-	-	328,494.00	-	-	328,494.00
Other Expenditures	667,943.81	-	-	57,901.00	12,171,132.76	-	-	12,896,977.57
Capital Outlay	114,138.93	-	-	54,050.32	8,246.25	-	-	176,435.50
<b>Total Expenditures/Expenses</b>	<b>\$ 17,542,403.54</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,058,176.15</b>	<b>\$ 62,191,892.76</b>	<b>\$ -</b>	<b>\$ 86,792,472.45</b>	
Excess(deficiency) of revenues over expenditures	\$ 326,924.81	\$ 472,715.00	\$ 10,045.42	\$ 2,208,884.30	\$ (1,619,987.79)	\$ 2,818,965.25	\$ 4,217,546.99	
<b>OTHER FINANCING SOURCES (USES)</b>								
Sale of Capital Assets	167,795.82	-	-	-	-	-	-	167,795.82
Cash Transfers In	234.94	-	-	-	-	-	-	234.94
Cash Transfers Out	(126,081.19)	-	-	-	-	(2,818,965.25)	-	(2,945,046.44)
Appropriations Lapsed	(1,834,319.00)	-	-	-	-	-	-	(1,834,319.00)
<b>Total other financing sources and uses</b>	<b>\$ (1,792,369.43)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,818,965.25)</b>	<b>\$ (4,611,334.68)</b>	
Net Change in Fund Balances	(1,465,444.62)	472,715.00	10,045.42	2,208,884.30	(1,619,987.79)	-	(393,787.69)	
<b>Fund Financial Statement - Fund Balances</b>								
Fund Balances, September 1, 2015	4,609,918.32	0.02	-	3,211,233.48	17,448,112.43	-	25,269,264.25	
Restatements	2,938.33	-	-	-	-	-	2,938.33	
Fund Balances, September 1, 2015, as Restated	\$ 4,612,856.65	\$ 0.02	\$ -	\$ 3,211,233.48	\$ 17,448,112.43	\$ -	\$ 25,272,202.58	
Fund Balances - August 31, 2016	\$ 3,147,412.03	\$ 472,715.02	\$ 10,045.42	\$ 5,420,117.78	\$ 15,828,124.64	\$ -	\$ 24,878,414.89	

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, 2016

	Beginning Balance September 1, 2015	Additions	Deductions	Ending Balance August 31, 2016
<b>Trust Accounts: Fund 5146, 5147, 5148, 5149</b>				
<b>ASSETS</b>				
Current				
Cash in the State Treasury	\$ 50,462,745.13	\$ 71,070,433.42	\$ 60,308,562.20	\$ 61,224,616.35
Total Assets	<u>\$ 50,462,745.13</u>	<u>\$ 71,070,433.42</u>	<u>\$ 60,308,562.20</u>	<u>\$ 61,224,616.35</u>
<b>LIABILITIES</b>				
Current				
Accounts Payable	\$ -	\$ 5,666,106.37	\$ 5,666,106.37	\$ -
Funds Held for Others	50,462,745.13	20,607,688.29	9,845,817.07	61,224,616.35
Total Liabilities	<u>\$ 50,462,745.13</u>	<u>\$ 26,273,794.66</u>	<u>\$ 15,511,923.44</u>	<u>\$ 61,224,616.35</u>
<b>Child Support Employee Deducts (0807)</b>				
<b>ASSETS</b>				
Current				
Cash in the State Treasury	\$ 10,347.01	\$ 160,922.35	\$ 159,483.34	\$ 11,786.02
Total Assets	<u>\$ 10,347.01</u>	<u>\$ 160,922.35</u>	<u>\$ 159,483.34</u>	<u>\$ 11,786.02</u>
<b>LIABILITIES</b>				
Current				
Accounts Payable	\$ -	\$ 149,136.33	\$ 149,136.33	\$ -
Funds Held for Others	10,347.01	160,922.35	159,483.34	11,786.02
Total Liabilities	<u>\$ 10,347.01</u>	<u>\$ 310,058.68</u>	<u>\$ 308,619.67</u>	<u>\$ 11,786.02</u>
<b>Suspense Fund (0900) U/F (0900)</b>				
<b>ASSETS</b>				
Current				
Cash in the State Treasury	\$ 10,380.70	\$ 6,351,938.19	\$ 6,272,093.30	\$ 90,225.59
Total Assets	<u>\$ 10,380.70</u>	<u>\$ 6,351,938.19</u>	<u>\$ 6,272,093.30</u>	<u>\$ 90,225.59</u>
<b>LIABILITIES</b>				
Current				
Accounts Payable	\$ -	\$ 192.70	\$ 192.70	\$ -
Funds Held for Others	10,380.70	6,351,938.19	6,272,093.30	90,225.59
Total Liabilities	<u>\$ 10,380.70</u>	<u>\$ 6,352,130.89</u>	<u>\$ 6,272,286.00</u>	<u>\$ 90,225.59</u>

**TOTAL- ALL AGENCY FUNDS**

	Beginning Balance September 1, 2015	Additions	Deductions	Ending Balance August 31, 2016
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 50,483,472.84	\$ 77,583,293.96	\$ 66,740,138.84	\$ 61,326,627.96
Total Assets	<u>\$ 50,483,472.84</u>	<u>\$ 77,583,293.96</u>	<u>\$ 66,740,138.84</u>	<u>\$ 61,326,627.96</u>
<b>LIABILITIES</b>				
Current				
Accounts Payable	\$ -	\$ 5,815,435.40	\$ 5,815,435.40	\$ -
Funds Held for Others	\$ 50,483,472.84	\$ 27,120,548.83	\$ 16,277,393.71	\$ 61,326,627.96
Total Liabilities	<u>\$ 50,483,472.84</u>	<u>\$ 32,935,984.23</u>	<u>\$ 22,092,829.11</u>	<u>\$ 61,326,627.96</u>

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## **State and Federal Pass-Through 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, 2016

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

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	NSE Name/Identifying Number	Agry/Univ No	Pass-through From		Direct Program Amount	Total PT from and Direct Prog. Amount	Agry/Univ No.	Pass-through To		Total PT to and Expenditures Amount	
				Pass-Through From Agencies or Universities Amount	Pass-Through From Non-State Entities Amount				Pass-Through To Agencies or Universities Amount	Pass-Through To Non-State Entities Amount		
<b>Environmental Protection Agency</b>												
<b>Direct Programs:</b>												
State Underground Water Source Protection	66.433					654,471.77	654,471.77				654,471.77	
State and Tribal Response Program Grants	66.817					129,064.73	129,064.73				129,064.73	
<b>Pass-Through From</b>												
Nonpoint Source Implementation Grants	66.460					242,231.25	242,231.25				242,231.25	
<i>Pass-Through From:</i>												
Texas Commission on Environmental Quality												
Totals-Environmental Protection Agency												
			562	242,231.25	-	783,536.50	1,025,767.75		0.00	0.00	1,025,767.75	
<b>U.S. Department of the Interior</b>												
<b>Direct Programs:</b>												
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250					2,406,763.17	2,406,763.17				2,406,763.17	
Abandoned Mine Land Reclamation (AMLR) Program	15.252					1,741,927.44	1,741,927.44				1,741,927.44	
<b>Totals- U.S. Department of the Interior</b>												
				0.00	0.00	4,148,690.61	4,148,690.61		0.00	0.00	4,148,690.61	
<b>U.S. Department of Homeland Security</b>												
<b>Direct Programs:</b>												
State Access to the Oil Spill Liability Trust Fund	97.013					32,244.34	32,244.34				32,244.34	
<b>Totals- U.S. Department of Homeland Security</b>												
				0.00	0.00	32,244.34	32,244.34		0.00	0.00	32,244.34	
<b>U.S. Department of Transportation</b>												
<b>Pipeline Safety Program State Base Grant</b>												
<i>Totals - U.S. Department of Transportation</i>												
				0.00	0.00	6,879,323.00	6,879,323.00		0.00	0.00	6,879,323.00	
<b>Total Expenditures of Federal Awards</b>												
				242,231.25	0.00	11,843,794.45	12,086,025.70		0.00	0.00	12,086,025.70	

RAILROAD COMMISSION OF TEXAS (455)

SCHEDULE 1A

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

For the Fiscal Year Ended August 31, 2016

**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)	\$ 11,843,794.45
Governmental Funds - Federal Pass-Through Revenues (Exhibit II)	<u>242,231.25</u>
Total Pass Through and Expenditures per Federal Schedule	<u><u>\$ 12,086,025.70</u></u>

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RAILROAD COMMISSION OF TEXAS (455)

**SCHEDULE 1B**

**Schedule of State Grant Pass Throughs From/To State Agencies**

**For the Fiscal Year Ended August 31, 2016**

**Pass Through From:**

Texas Commission on Environmental Quality (Agency 582)	<u>\$ (85,904.60)</u>
Total Pass-Through From Other Agencies (Exhibit II)	<u><u>\$ (85,904.60)</u></u>