

Annual Financial Report

FOR THE FISCAL YEAR 2017



The Railroad Commission of Texas

Ryan Sitton
Commissioner

Christi Craddick
Chairman

Wayne Christian
Commissioner

ANNUAL FINANCIAL REPORT

UNAUDITED

RAILROAD COMMISSION OF TEXAS
Austin, Texas

Year Ended August 31, 2017

CHRISTI CRADDICK, CHAIRMAN
RYAN SITTON, COMMISSIONER
WAYNE CHRISTIAN, COMMISSIONER



RAILROAD COMMISSION OF TEXAS

November 7, 2017

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, 2017, 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,

Handwritten signature of Christi Craddick in black ink.

Christi Craddick, Chairman

Handwritten signature of Ryan Sitton in blue ink.

Ryan Sitton, Commissioner

Handwritten signature of Wayne Christian in black ink.

Wayne Christian, Commissioner

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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, 2017

	Governmental Fund Types		Capital Asset Adjustments	Long-Term Liabilities Adjustments	Statement of Net Assets
	General Funds	Governmental Funds Total			
ASSETS					
Current Assets:					
Cash and Cash Equivalents:					
Cash on Hand	\$ -	\$ -	\$ -	\$ -	\$ -
Cash in State Treasury	30,041,385.28	30,041,385.28	-	-	30,041,385.28
Legislative Appropriations	5,585,497.59	5,585,497.59	-	-	5,585,497.59
Federal Receivable	-	-	-	-	-
Interfund Receivables	-	-	-	-	-
Due from Other Agencies	-	-	-	-	-
Consumable Inventories	35,888.85	35,888.85	-	-	35,888.85
Prepaid Items	614,197.81	614,197.81	-	-	614,197.81
Total Current Assets	\$ 36,276,969.53	\$ 36,276,969.53	\$ -	\$ -	\$ 36,276,969.53
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	-	-	(140,348.67)	-	(140,348.67)
Furniture and Equipment	-	-	2,882,191.95	-	2,882,191.95
Less Accumulated Depreciation	-	-	(2,422,962.91)	-	(2,422,962.91)
Vehicles, Boats, and Aircraft	-	-	6,189,665.56	-	6,189,665.56
Less Accumulated Depreciation	-	-	(3,836,787.49)	-	(3,836,787.49)
Amortizable:					
Computer Software	-	-	13,360,985.35	-	13,360,985.35
Less Accumulated Amortization	-	-	(5,715,056.29)	-	(5,715,056.29)
Total Non-Current Assets	-	-	10,631,145.90	-	10,631,145.90
Total Assets	\$ 36,276,969.53	\$ 36,276,969.53	\$ 10,631,145.90	\$ -	\$ 46,908,115.43
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Payables from:					
Accounts Payable	\$ 3,734,780.11	\$ 3,734,780.11	\$ -	\$ -	\$ 3,734,780.11
Payroll Payable	4,447,691.80	4,447,691.80	-	-	4,447,691.80
Interfund Payable	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Employees' Compensable Leave (Note 5)	-	-	-	4,167,594.50	4,167,594.50
Pollution Remediation Obligation (Note 5)	-	-	-	3,610,761.24	3,610,761.24
Total Current Liabilities	\$ 8,182,471.91	\$ 8,182,471.91	\$ -	\$ 7,778,355.74	\$ 15,960,827.65
Non-Current Liabilities:					
Employees' Compensable Leave (Note 5)	-	-	-	-	-
Total Non-Current Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	\$ 8,182,471.91	\$ 8,182,471.91	\$ -	\$ 7,778,355.74	\$ 15,960,827.65
Fund Financial Statement - Fund					
Fund Balances (Deficits):					
Nonspendable	\$ 650,086.66	650,086.66	-	-	650,086.66
Restricted	5,942,745.43	5,942,745.43	-	-	5,942,745.43
Committed	16,999,294.32	16,999,294.32	-	-	16,999,294.32
Assigned	-	-	-	-	-
Unassigned	4,502,371.21	4,502,371.21	-	-	4,502,371.21
Total Fund Balances	\$ 28,094,497.62	\$ 28,094,497.62	\$ -	\$ -	\$ 28,094,497.62
Total Liabilities and Fund Balances	\$ 36,276,969.53	\$ 36,276,969.53	\$ -	\$ 7,778,355.74	\$ 46,908,115.43
Government-wide Statement - Net Assets					
Net Assets:					
Invested in Capital Assets, Net of Related Debt			\$ 10,631,145.90		\$ 10,631,145.90
Restricted for:					
Employee Benefits				(4,167,594.50)	(4,167,594.50)
Pollution Remediation Obligation				(3,610,761.24)	(3,610,761.24)
Claims and Judgments				-	-
Total Net Assets			\$ 10,631,145.90	\$ (7,778,355.74)	\$ 30,947,287.78

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, 2017

	General Fund	Governmental Funds Total	Capital Asset Adjustments	Long-Term Liabilities Adjustments	Statement of Activities
REVENUES					
Legislative Appropriations:					
Original Appropriations	\$ 11,059,503.00	\$ 11,059,503.00	\$ -	\$ -	\$ 11,059,503.00
Additional Appropriations	6,138,710.62	6,138,710.62	-	-	6,138,710.62
Federal Revenue (Fed Sch 1A)	9,792,617.64	9,792,617.64	-	-	9,792,617.64
Federal Pass Through Revenue (Fed Sch 1A)	317,737.38	317,737.38	-	-	317,737.38
Slate Grant Pass Through Revenue (Sch 1B)	-	-	-	-	-
Licenses, Fees and Permits	66,943,346.92	66,943,346.92	-	-	66,943,346.92
Interest, Dividend & Other Income	98.79	98.79	-	-	98.79
Sales of Goods and Services	1,973,040.22	1,973,040.22	-	-	1,973,040.22
Settlement of Claims	1,295.28	1,295.28	-	-	1,295.28
Other	164,324.61	164,324.61	-	-	164,324.61
Total Revenues	\$ 96,390,674.46	\$ 96,390,674.46	\$ -	\$ -	\$ 96,390,674.46
EXPENDITURES					
Salaries and Wages	41,218,763.50	41,218,763.50	\$ -	263,367.16	41,482,130.66
Payroll Related Costs	16,441,738.96	16,441,738.96	-	-	16,441,738.96
Professional Fees and Services	8,822,248.97	8,822,248.97	-	-	8,822,248.97
Travel	631,595.27	631,595.27	-	-	631,595.27
Materials and Supplies	1,202,799.09	1,202,799.09	-	-	1,202,799.09
Communication and Utilities	758,281.19	758,281.19	-	-	758,281.19
Repairs and Maintenance	428,082.30	428,082.30	-	-	428,082.30
Rentals and Leases	710,465.74	710,465.74	-	-	710,465.74
Printing and Reproduction	393,020.80	393,020.80	-	-	393,020.80
Claims and Judgements	20,920.97	20,920.97	-	-	20,920.97
Federal Pass Through Expenditures	-	-	-	-	-
Intergovernmental Payments	167,311.00	167,311.00	-	-	167,311.00
Other Expenditures	17,993,409.55	17,993,409.55	-	-	17,993,409.55
Capital Outlay (Note 2)	360,049.80	360,049.80	(293,254.00)	-	66,795.80
Amortization Expense (Note 2)	-	-	2,548,642.56	-	2,548,642.56
Depreciation Expense (Note 2)	-	-	988,210.62	-	988,210.62
Pollution Remediation Obligation	-	-	-	346,845.76	346,845.76
Total Expenditures/Expenses	\$ 89,148,687.14	\$ 89,148,687.14	\$ 3,243,599.18	\$ 610,212.92	\$ 93,002,499.24
Excess (deficiency) of revenues over expenditures	\$ 7,241,987.32	\$ 7,241,987.32	\$ (3,243,599.18)	\$ (610,212.92)	\$ 3,388,175.22
OTHER FINANCING SOURCES (USES)					
Insurance Recoveries	\$ 16,586.46	\$ 16,586.46	\$ -	\$ -	\$ 16,586.46
Sale of Capital Assets	165,063.75	165,063.75	(165,063.75)	-	-
Transfers In	-	-	-	-	-
Transfers Out	(3,992,686.72)	(3,992,686.72)	(1,819.64)	-	(3,994,506.36)
Appropriations Lapsed	(142,668.08)	(142,668.08)	-	-	(142,668.08)
Gain (Loss) on Sale of Capital Assets	-	-	112,647.28	-	112,647.28
Total other financing sources and uses	\$ (3,953,704.59)	\$ (3,953,704.59)	\$ (54,236.11)	\$ -	\$ (4,007,940.70)
Net Change in Fund Balances/Net Assets	\$ 3,288,282.73	\$ 3,288,282.73	\$ (3,297,835.29)	\$ (610,212.92)	\$ (619,765.48)
Fund Financial Statement - Fund Balances					
Fund Balances - September 1, 2016	24,806,214.89	24,806,214.89			24,806,214.89
Restatements	-	-			-
Fund Balances - September 1, 2016, as Restated	24,806,214.89	24,806,214.89			24,806,214.89
Fund Balances - August 31, 2017	\$ 28,094,497.62	\$ 28,094,497.62	\$ (3,297,835.29)	\$ (610,212.92)	\$ 24,186,449.41
Government-wide Statement - Net Assets					
Change in Net Assets		\$ 28,094,497.62	\$ (3,297,835.29)	\$ (610,212.92)	\$ 24,186,449.41
Net Assets - September 1, 2016			13,928,981.19	(7,168,142.82)	6,760,838.37
Net Assets - August 31, 2017		\$ 28,094,497.62	\$ 10,631,145.90	\$ (7,778,355.74)	\$ 30,947,287.78

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, 2017

	Agency Funds	Totals
ASSETS		
Current		
Cash in the State Treasury	\$ 72,533,393.33	\$ 72,533,393.33
Total Current Assets	<u>72,533,393.33</u>	<u>72,533,393.33</u>
Total Assets	<u>\$ 72,533,393.33</u>	<u>\$ 72,533,393.33</u>
LIABILITIES		
Current		
Accounts Payable	\$ -	\$ -
Funds Held for Others	<u>72,533,393.33</u>	<u>72,533,393.33</u>
Total Current Liabilities	<u>72,533,393.33</u>	<u>72,533,393.33</u>
Total Liabilities	<u>\$ 72,533,393.33</u>	<u>\$ 72,533,393.33</u>
NET ASSETS		
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>

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

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Notes to the Financial Statements

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RAILROAD COMMISSION OF TEXAS (455)

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies

Entity

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 oil and natural gas, alternative fuels, gas utilities, 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 throughout the State.

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

GASB 34

The Comptroller of Public Accounts does not require agencies to comply with all the requirements of the Governmental Accounting Standards Board Statement No. 34, ('GASB 34', *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*) in the preparation of their annual financial report. However, the financial report can 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). 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.

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).

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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)(3)(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)(3)(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)(3)(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

In accordance with 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. Encumbrances are recognized at the time a purchase order is dispatched.

The recognitions are consistent with generally accepted accounting principles (GAAP) for state governments as maintained by GASB.

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 08/31/2017
	Balance 09/1/2016	Reclassifications		Additions	Deletions	
		Inc-Int'gy Trans	Dec-Int'gy Trans			
Non-Depreciable Assets:						
Construction in Process	-					-
Total Non-Depreciable Assets at Historical Cost	-					-
Depreciable Assets:						
Buildings and Building Improvements	313,458.40					313,458.40
Infrastructure	-					-
Facilities & Other Improvements	-					-
Furniture and Equipment	2,911,471.95				(29,280.00)	2,882,191.95
Vehicle, Boats & Aircraft	6,342,018.24		(78,999.50)	293,254.00	(366,607.18)	6,189,665.56
Other Capital Assets	-					-
Total Depreciable Assets at Historical Cost	9,566,948.59	-	(78,999.50)	293,254.00	(395,887.18)	9,385,315.91
Less Accumulated Depreciation for:						
Buildings and Improvements	(131,876.79)			(8,471.88)		(140,348.67)
Infrastructure	-					-
Facilities & Other Improvements	-					-
Furniture and Equipment	(2,274,564.30)			(177,678.61)	29,280.00	(2,422,962.91)
Vehicles, Boats & Aircraft	(3,426,097.93)		77,179.86	(802,060.13)	314,190.71	(3,836,787.49)
Other Capital Assets	-					-
Total Accumulated Depreciation	(5,832,539.02)	-	77,179.86	(988,210.62)	343,470.71	(6,400,099.07)
Depreciable Assets, Net	3,734,409.57	-	(1,819.64)	(694,956.62)	(52,416.47)	2,985,216.84
Amortizable Assets – Intangible:						
Land use Rights - Term	-					-
Computer Software - Intangible	13,360,985.35					13,360,985.35
Other Intangible Capital Assets - Term	-					-
Total Intangible Assets at Historical Cost	13,360,985.35					13,360,985.35
Less Accumulated Amortization for:						
Land use Rights - Term	-					-
Computer Software - Intangible	(3,166,413.73)			(2,548,642.56)		(5,715,056.29)
Other Intangible Capital Assets - Term	-					-
Total Accumulated Amortization	(3,166,413.49)	-	-	(2,548,642.56)		(5,715,056.29)
Amortizable Assets – Net	10,194,571.62	-	-	(2,548,642.56)	-	7,645,929.06
Governmental Activities Capital Assets, Net	13,928,981.19	-	(1,819.64)	(3,243,599.18)	(52,416.47)	10,631,145.90

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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, 2017, the following changes occurred in liabilities.

Governmental Activities	Balance 09/01/2016	Additions	Deductions	Balance 08/31/2017	Amounts Due Within One Year
Employees' Compensable Leave	\$3,904,227.34	\$1,133,471.64	\$870,104.48	\$4,167,594.50	\$4,167,594.50
Pollution Remediation Obligation	3,263,915.48	16,393,153.11	16,046,307.35	3,610,761.24	3,610,761.24
Claims and Judgments	0.00	20,920.97	20,920.97	0.00	0.00
Total Governmental Activities	\$7,168,142.82	\$17,547,545.72	\$16,937,332.80	\$7,778,355.74	\$7,778,355.74

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. 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 at year end.

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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 15 active well plugging projects as of August 31, 2017, with an estimated cost of \$2,821,682.90.

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 4 active site remediation projects as of August 31, 2017, with an estimated cost of \$205,409.34. 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 two projects on-going as of August 31, 2017, with an estimated cost of \$583,669.00.

Claims & Judgments

The Attorney General's Claims Section assisted in settling five claims on the Commission's behalf during FY 2017, without resort to litigation, arising from motor vehicle accidents involving Commission employees acting within the course and scope of their employment.

Claimant Sidney Becknell received \$4,205.07; Claimant Amanda Rowse received \$794.25; Claimant Carole Hickman received \$8,000.00; Claimant Jose Velez received \$1,991.57; Claimant Gary Norris received \$5,930.08 for total claim payment in FY 2017 of \$20,920.97.

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	22,799.35
General Revenue Dedicated – Fund 5155	440,696.94
Federal Fund	33,010.33
Totals – Memorandum Only	\$ 496,506.62

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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,	
2018	547,337.04
2019	459,613.51
2020	357,674.19
2021	351,465.27
2022	310,519.24
2023-2027	981,466.35
2028-2032	46,149.09
Total Minimum Future Lease Rental Payments	\$ 3,054,224.69

NOTE 9: Defined Benefit Pension Plans and Defined Contribution Plan

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, Texas Government Code. Unless continued in existence by the Legislature, the Commission is abolished September 1, 2029.

NOTE 14: Adjustments to Fund Balances/ Net Assets

The Comptroller of Public Accounts made an adjustment to the balance of the OGRC (Fund 5155) in the amount of \$72,200 after the Railroad Commission's submission of the FY 2016 Annual Financial Report. This adjustment is to account for an accrued purchase of controlled assets made for FY 2016.

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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 267th Judicial District Court of Calhoun County, Texas may result in a monetary judgement against the Commission. The plaintiffs in that case seek damages of up to \$2.5 million against the Commission. The case is set for trial in Port Lavaca, TX on September 1, 2018. The trial was postponed as a result of Hurricane Harvey.

NOTE 16: *Subsequent Events*

There are no subsequent events to report.

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 FY 2017, the crude oil price improved but still remained at lower levels compared to that of FY 2014. As a result, the Commission has continued to experience lower oil & gas revenues in fund 5155. We continue to monitor the price of oil and gas and related revenues on a monthly, quarterly, and annual basis.

NOTE 19: *The Financial Reporting Entity*

Not applicable.

NOTE 20: *Stewardship, Compliance and Accountability*

Not applicable.

NOTE 21: *Not Applicable to the AFR, formerly (Donor-Restricted Endowments)*

Not applicable.

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RAILROAD COMMISSION OF TEXAS (455)

NOTE 22: Donor Restricted Endowments

Not applicable.

NOTE 23: Extraordinary and Special Items

Not applicable.

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: Troubled Debt Restructuring

Not applicable.

NOTE 30: Non-Exchange Financial Guarantees

Not applicable.

NOTE 31: Tax Abatements

Not applicable.

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NOTE 32: Fund Balances

GAAP Fund	Fund	AFR 54 Class	Citation	Comments
0001	0001	Nonspendable	GASB 54 (6)	This fund includes consumable inventories and prepaid items that were not expended in FY 2017.

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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, 2017

	General Revenue	Consolidated Accounts				Total
	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)	Oil and Gas Regulation and	
					Cleanup Fund (5155) U/F (5155)	
ASSETS						
Current Assets:						
Cash and Cash Equivalents:						
Cash on Hand	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash in State Treasury	-	412,815.02	10,151.43	5,932,532.35	23,685,886.48	30,041,385.28
Legislative Appropriations	5,585,497.59	-	-	-	-	5,585,497.59
Federal Receivables	-	-	-	-	-	-
Interfund Receivable	-	-	-	-	-	-
Due from Other Agencies	-	-	-	-	-	-
Consumable Inventories	35,888.85	-	-	-	-	35,888.85
Prepaid Items	614,197.81	-	-	-	-	614,197.81
Total Current Assets	<u>\$ 6,235,584.25</u>	<u>\$ 412,815.02</u>	<u>\$ 10,151.43</u>	<u>\$ 5,932,532.35</u>	<u>\$ 23,685,886.48</u>	<u>\$ 36,276,969.53</u>
Total Assets	<u>\$ 6,235,584.25</u>	<u>\$ 412,815.02</u>	<u>\$ 10,151.43</u>	<u>\$ 5,932,532.35</u>	<u>\$ 23,685,886.48</u>	<u>\$ 36,276,969.53</u>
LIABILITIES AND FUND BALANCES						
Current Liabilities:						
Payables from:						
Accounts Payable	\$ 19,901.28	\$ -	\$ -	\$ 59,375.60	\$ 3,655,503.23	\$ 3,734,780.11
Payroll Payable	1,063,225.10	-	-	353,377.77	3,031,088.93	4,447,691.80
Interfund Payable	-	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-
Total Current Liabilities	<u>\$ 1,083,126.38</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,753.37</u>	<u>\$ 6,686,592.16</u>	<u>\$ 8,182,471.91</u>
Total Liabilities	<u>\$ 1,083,126.38</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,753.37</u>	<u>\$ 6,686,592.16</u>	<u>\$ 8,182,471.91</u>
Fund Balances (Deficits):						
Nonspendable	650,086.66	-	-	-	-	650,086.66
Restricted	-	412,815.02	10,151.43	5,519,778.98	-	5,942,745.43
Committed	-	-	-	-	16,999,294.32	16,999,294.32
Assigned	-	-	-	-	-	-
Unassigned	4,502,371.21	-	-	-	-	4,502,371.21
Total Fund Balances	<u>\$ 5,152,457.87</u>	<u>\$ 412,815.02</u>	<u>\$ 10,151.43</u>	<u>\$ 5,519,778.98</u>	<u>\$ 16,999,294.32</u>	<u>\$ 28,094,497.62</u>
Total Liabilities and Fund Balances	<u>\$ 6,235,584.25</u>	<u>\$ 412,815.02</u>	<u>\$ 10,151.43</u>	<u>\$ 5,932,532.35</u>	<u>\$ 23,685,886.48</u>	<u>\$ 36,276,969.53</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 A-2 - Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

All General and Consolidated Funds

For the Fiscal Year Ended August 31, 2017

	General Revenue			Consolidated Accounts			Total
	General Revenue Fund (0001) U/F (0001)	Land Reclamation Fund (0454) U/F (0454)	Anthropogenic Carbon Dioxide Fund (0827) U/F (0827)	Oil and Gas Regulation and		Unappropriated General Revenue EFF (1000) U/F (1000)	
				Federal Fund (5041) U/F (5041)	Cleanup Fund (5155) U/F (5155)		
REVENUES							
Legislative Appropriations:							
Original Appropriations	\$ 11,059,503.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,059,503.00
Additional Appropriations	6,138,710.62	-	-	-	-	-	6,138,710.62
Federal Revenue (Fed Sch 1A)	-	-	-	5,923,728.73	-	3,868,888.91	9,792,617.64
Federal Pass Through Revenue (Fed Sch 1A)	-	-	-	317,737.38	-	-	317,737.38
State Grant Pass Through Revenue (Sch 1B)	-	-	-	-	-	-	-
Licenses, Fees and Permits	2,266,736.84	-	-	-	64,676,610.08	-	66,943,346.92
Interest, Dividend & Other Income	-	-	106.01	-	(7.22)	-	98.79
Settlement of Claims	-	-	-	-	1,295.28	-	1,295.28
Sales of Goods and Services	6,806.95	-	-	-	1,966,233.27	-	1,973,040.22
Other	158,059.34	-	-	-	6,265.27	-	164,324.61
Total Revenues	\$ 19,629,816.75	\$ -	\$ 106.01	\$ 6,241,466.11	\$ 66,650,396.68	\$ 3,868,888.91	\$ 96,390,674.46
EXPENDITURES							
Salaries and Wages	10,106,366.29	-	-	3,373,711.29	27,738,685.92	-	41,218,763.50
Payroll Related Costs	3,026,534.43	-	-	1,090,037.55	12,325,166.98	-	16,441,738.96
Professional Fees and Services	3,192,439.09	59,900.00	-	959,154.52	4,610,755.36	-	8,822,248.97
Travel	130,075.06	-	-	223,790.11	277,730.10	-	631,595.27
Materials and Supplies	120,682.11	-	-	121,386.92	960,730.06	-	1,202,799.09
Communication and Utilities	102,883.54	-	-	50,985.37	604,412.28	-	758,281.19
Repairs and Maintenance	29,181.63	-	-	21,292.84	377,607.83	-	428,082.30
Rentals and Leases	95,457.82	-	-	49,478.44	565,529.48	-	710,465.74
Printing and Reproduction	69,140.19	-	-	45,270.24	278,610.37	-	393,020.80
Claims and Judgements	-	-	-	-	20,920.97	-	20,920.97
Federal Pass Through Expenditures	-	-	-	-	-	-	-
Intergovernmental Payments	-	-	-	-	167,311.00	-	167,311.00
Other Expenditures	634,269.61	-	-	62,075.49	17,297,064.45	-	17,993,409.55
Capital Outlay	16,339.00	-	-	144,622.14	199,088.66	-	360,049.80
Total Expenditures/Expenses	\$ 17,523,368.77	\$ 59,900.00	\$ -	\$ 6,141,804.91	\$ 65,423,613.46	\$ -	\$ 89,148,687.14
Excess(deficiency) of revenues over expenditures	\$ 2,106,447.98	\$ (59,900.00)	\$ 106.01	\$ 99,661.20	\$ 1,226,783.22	\$ 3,868,888.91	\$ 7,241,987.32
OTHER FINANCING SOURCES (USES)							
Insurance Recoveries	-	-	-	-	16,586.46	-	16,586.46
Sale of Capital Assets	165,063.75	-	-	-	-	-	165,063.75
Cash Transfers In	-	-	-	-	-	-	-
Cash Transfers Out	(123,797.81)	-	-	-	-	(3,868,888.91)	(3,992,686.72)
Appropriations Lapsed	(142,668.08)	-	-	-	-	-	(142,668.08)
Total other financing sources and uses	\$ (101,402.14)	\$ -	\$ -	\$ -	\$ 16,586.46	\$ (3,868,888.91)	\$ (3,953,704.59)
Net Change in Fund Balances	2,005,045.84	(59,900.00)	106.01	99,661.20	1,243,369.68	-	3,288,282.73
Fund Financial Statement - Fund Balances							
Fund Balances, September 1, 2016	3,147,412.03	472,715.02	10,045.42	5,420,117.78	15,755,924.64	-	24,806,214.89
Restatements	-	-	-	-	-	-	-
Fund Balances, September 1, 2016, as Restated	\$ 3,147,412.03	\$ 472,715.02	\$ 10,045.42	\$ 5,420,117.78	\$ 15,755,924.64	\$ -	\$ 24,806,214.89
Fund Balances - August 31, 2017	\$ 5,152,457.87	\$ 412,815.02	\$ 10,151.43	\$ 5,519,778.98	\$ 16,999,294.32	\$ -	\$ 28,094,497.62

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, 2017

	Beginning Balance September 1, 2016	Additions	Deductions	Ending Balance August 31, 2017
Trust Accounts: Fund 5146, 5147, 5148, 5149				
ASSETS				
Current				
Cash in the State Treasury	\$ 61,224,616.35	\$ 86,744,423.59	\$ 75,880,232.40	\$ 72,088,807.54
Total Assets	\$ 61,224,616.35	\$ 86,744,423.59	\$ 75,880,232.40	\$ 72,088,807.54
LIABILITIES				
Current				
Accounts Payable	\$ -	\$ 4,751,545.10	\$ 4,751,545.10	\$ -
Funds Held for Others	61,224,616.35	25,619,807.24	14,755,616.05	72,088,807.54
Total Liabilities	\$ 61,224,616.35	\$ 30,371,352.34	\$ 19,507,161.15	\$ 72,088,807.54
Child Support Employee Deducts (0807)				
ASSETS				
Current				
Cash in the State Treasury	\$ 11,786.02	\$ 160,946.83	\$ 160,271.06	\$ 12,461.79
Total Assets	\$ 11,786.02	\$ 160,946.83	\$ 160,271.06	\$ 12,461.79
LIABILITIES				
Current				
Accounts Payable	\$ -	\$ 148,485.04	\$ 148,485.04	\$ -
Funds Held for Others	11,786.02	160,946.83	160,271.06	12,461.79
Total Liabilities	\$ 11,786.02	\$ 309,431.87	\$ 308,756.10	\$ 12,461.79
City, County, MTA & SPD Sales Taxes (0882)				
ASSETS				
Current				
Cash in the State Treasury	\$ -	\$ 261.36	\$ 261.36	\$ -
Total Assets	\$ -	\$ 261.36	\$ 261.36	\$ -
LIABILITIES				
Current				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Funds Held for Others	-	262.32	262.32	-
Total Liabilities	\$ -	\$ 262.32	\$ 262.32	\$ -
Suspense Fund (0900) U/F (0900)				
ASSETS				
Current				
Cash in the State Treasury	\$ 90,225.59	\$ 5,573,223.46	\$ 5,231,325.05	\$ 432,124.00
Total Assets	\$ 90,225.59	\$ 5,573,223.46	\$ 5,231,325.05	\$ 432,124.00
LIABILITIES				
Current				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Funds Held for Others	90,225.59	5,573,223.46	5,231,325.05	432,124.00
Total Liabilities	\$ 90,225.59	\$ 5,573,223.46	\$ 5,231,325.05	\$ 432,124.00
Direct Deposit Correction (0980)				
ASSETS				
Current				
Cash in the State Treasury	\$ -	\$ 69,153.68	\$ 69,153.68	\$ -
Total Assets	\$ -	\$ 69,153.68	\$ 69,153.68	\$ -
LIABILITIES				
Current				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Funds Held for Others	-	69,153.68	69,153.68	-
Total Liabilities	\$ -	\$ 69,153.68	\$ 69,153.68	\$ -
Unappropriated General Revenue (1000)				
ASSETS				
Current				
Cash in the State Treasury	\$ -	\$ 31,163,476.52	\$ 31,163,476.52	\$ -
Total Assets	\$ -	\$ 31,163,476.52	\$ 31,163,476.52	\$ -
LIABILITIES				
Current				
Accounts Payable	\$ -	\$ 500.00	\$ 500.00	\$ -
Funds Held for Others	-	31,195,552.57	31,195,552.57	-
Total Liabilities	\$ -	\$ 31,196,052.57	\$ 31,196,052.57	\$ -

TOTAL- ALL AGENCY FUNDS

	Beginning Balance September 1, 2016	Additions	Deductions	Ending Balance August 31, 2017
ASSETS				
Current				
Cash in State Treasury	\$ 61,326,627.96	\$ 123,711,485.44	\$ 112,504,720.07	\$ 72,533,393.33
Total Assets	\$ 61,326,627.96	\$ 123,711,485.44	\$ 112,504,720.07	\$ 72,533,393.33
LIABILITIES				
Current				
Accounts Payable	\$ -	\$ 4,900,530.14	\$ 4,900,530.14	\$ -
Funds Held for Others	61,326,627.96	62,618,946.10	51,412,180.73	72,533,393.33
Total Liabilities	\$ 61,326,627.96	\$ 67,519,476.24	\$ 56,312,710.87	\$ 72,533,393.33

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

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RAILROAD COMMISSION OF TEXAS (455)

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, 2017

Certified

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	NSE Name/ Identifying Number	Aqy/ Univ No	Pass-through From		Direct Program Amount	Total PT From and Direct Prog. Amount	Pass-through To		Expenditures Amount	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			
Environmental Protection Agency												
<u>Direct Programs:</u>												
State Underground Water Source Protection	66.433					138,417.82	138,417.82			138,417.82	138,417.82	
State and Tribal Response Program Grants	66.817					83,370.90	83,370.90			83,370.90	83,370.90	
<u>Pass-Through From:</u>												
Nonpoint Source Implementation Grants	66.460						287,737.38			287,737.38	287,737.38	
<u>Pass-Through From:</u>												
Texas Commission on Environmental Quality			582	287,737.38								
Totals - Environmental Protection Agency					287,737.38	0	221,788.72	509,526.10	0	0	509,526.10	509,526.10
U.S. Department of the Interior												
<u>Direct Programs:</u>												
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250					1,630,079.05	1,630,079.05			1,630,079.05	1,630,079.05	
Abandoned Mine Land Reclamation (AMLR)	15.252					861,804.88	861,804.88			861,804.88	861,804.88	
<u>Pass-Through From:</u>												
Coastal Impact Assistance	15.668						30,000.00			30,000.00	30,000.00	
<u>Pass-Through From:</u>												
General Land Office			305	30,000.00								
Totals - U.S. Department of the Interior					30,000.00	0	2,491,883.93	2,521,883.93	0	0	2,521,883.93	2,521,883.93
U.S. Department of Transportation												
<u>Direct Programs:</u>												
Pipeline Safety Program State Base Grant	20.700					7,078,944.99	7,078,944.99			7,078,944.99	7,078,944.99	
Totals - U.S. Department of Transportation					0	0	7,078,944.99	7,078,944.99	0	0	7,078,944.99	7,078,944.99
Total Expenditures of Federal Awards					317,737.38	0	9,792,617.64	10,110,355.02	0	0	10,110,355.02	10,110,355.02

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RAILROAD COMMISSION OF TEXAS (455)

SCHEDULE 1A

Schedule of Expenditures of Federal Awards — Notes

For the Fiscal Year Ended August 31, 2017

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)	\$ 9,792,617.64
Governmental Funds - Federal Pass-Through Revenues (Exhibit II)	<u>317,737.38</u>
Total Pass Through and Expenditures per Federal Schedule	<u>\$ 10,110,355.02</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, 2017

None