Annual Financial Report

FOR THE FISCAL YEAR 2018

The Railroad Commission of Texas

Ryan Sitton	Christi Craddick	Wayne Christian
Commissioner	Chairman	Commissioner

ANNUAL FINANCIAL REPORT

UNAUDITED

RAILROAD COMMISSION OF TEXAS
Austin, Texas

Year Ended August 31, 2018

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

RAILROAD COMMISSION OF TEXAS

October 30th, 2018

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, 2018, 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 Mr. Corey Crawford at 512-463-5011. Mr. Crawford may also be contacted for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

Christi Craddick

Christi Craddick, Chairman

Ryan Sitton, Commissioner

Wayne Christian, Commissioner

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RAILROAD COMMISSION OF TEXAS (455)

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Combined Financial Statements

RAILROAD COMMISSION OF TEXAS (455)

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

For the Fiscal Year Ended August 31, 2018

	Governmental Fund Types				
	General Funds	Governmental Funds Total	Capital Asset Adjustments	Long-Term Liabilities Adjustments	Statement of Net Assets
ASSETS					
Current Assets:					
Cash and Cash Equivalents:					
Cash on Hand	$ -	$ -	$ -	$ -	$ -
Cash in State Treasury	58,324,002.21	58,324,002.21	-	-	58,324,002.21
Legislative Appropriations	15,089,788.55	15,089,788.55	-	-	15,089,788.55
Federal Receivable	-	-	-	-	-
Interfund Receivables	-	-	-	-	-
Due from Other Agencies	1,042,588.48	1,042,588.48	-	-	1,042,588.48
Consumable Inventories	46,928.86	46,928.86	-	-	46,928.86
Prepaid Items	-	-	-	-	-
Total Current Assets	$ 74,503,308.10	$ 74,503,308.10	$ -	$ -	$ 74,503,308.10
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	-	-	(148,820.55)	-	(148,820.55)
Furniture and Equipment	-	-	3,028,475.36	-	3,028,475.36
Less Accumulated Depreciation	-	-	(2,609,297.07)	-	(2,609,297.07)
Vehicles, Boats, and Aircraft	-	-	7,408,898.84	-	7,408,898.84
Less Accumulated Depreciation	-	-	(4,582,021.76)	-	(4,582,021.76)
Amortizable:					
Computer Software	-	-	13,360,985.35	-	13,360,985.35
Less Accumulated Amortization	-	-	(8,263,698.85)	-	(8,263,698.85)
Total Non-Current Assets	-	-	8,507,979.72	-	8,507,979.72
Total Assets	$ 74,503,308.10	$ 74,503,308.10	$ 8,507,979.72	$ -	$ 83,011,287.82
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Payables from:					
Accounts Payable	$ 5,767,391.98	$ 5,767,391.98	$ -	$ -	$ 5,767,391.98
Payroll Payable	4,901,569.06	4,901,569.06	-	-	4,901,569.06
Interfund Payble	-	-	-	-	-
Due to Other Agencies	-	-	-	-	-
Deferred Revenue	-	-	-	-	-
Employees' Compensable Leave (Note 5)	-	-	-	2,768,171.44	2,768,171.44
Pollution Remediation Obligation (Note 5)	-	-	-	13,358,341.65	13,358,341.65
Total Current Liabilities	$ 10,668,961.04	$ 10,668,961.04	$ -	$ 16,126,513.09	$ 26,795,474.13
Non-Current Liabilities:					
Employees' Compensable Leave (Note 5)		-	-	1,427,144.97	1,427,144.97
Total Non-Current Liabilities	$ -	$ -	$ -	$ 1,427,144.97	$ 1,427,144.97
Total Liabilities	$ 10,668,961.04	$ 10,668,961.04	$ -	$ 17,553,658.06	$ 28,222,619.10
Fund Financial Statement - Fund					
Fund Balances (Deficits):					
Nonspendable	$ 46,928.86	46,928.86			46,928.86
Restricted	7,887,181.04	7,887,181.04			7,887,181.04
Committed	43,394,450.82	43,394,450.82			43,394,450.82
Assigned	-	-			-
Unassigned	12,505,786.34	12,505,786.34			12,505,786.34
Total Fund Balances	$ 63,834,347.06	$ 63,834,347.06			$ 63,834,347.06
Total Liabilities and Fund Balances	$ 74,503,308.10	$ 74,503,308.10			
Government-wide Statement - Net Assets					
Net Assets:					
Invested in Capital Assets,					
Net of Related Debt			$ 8,507,979.72		$ 8,507,979.72
Restricted for:					
Employee Benefits				(4,195,316.41)	(4,195,316.41)
Pollution Remediation Obligation				(13,358,341.65)	(13,358,341.65)
Claims and Judgments				-	-
Total Net Assets			$ 8,507,979.72	$ (17,553,658.06)	$ 54,788,668.72

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

UNAUDITED

RAILROAD COMMISSION OF TEXAS (455)

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, 2018

	General Fund	Governmental Funds Total	Capital Asset Adjustments	Long-Term Liabilities Adjustments	Statement of Activities
REVENUES					
Legislative Appropriations:					
Original Appropriations	$ 30,550,662.00	$ 30,550,662.00	$ -	$ -	$ 30,550,662.00
Additional Appropriations	6,812,066.06	6,812,066.06	-	-	6,812,066.06
Federal Revenue (Fed Sch 1A)	11,402,759.38	11,402,759.38	-	-	11,402,759.38
Federal Pass Through Revenue (Fed Sch 1A)	350,111.42	350,111.42	-	-	350,111.42
State Grant Pass Through Revenue (Sch 1B)	-	-	-	-	-
Licenses, Fees and Permits	82,831,455.09	82,831,455.09	-	-	82,831,455.09
Interest, Dividend & Other Income	448.03	448.03	-	-	448.03
Sales of Goods and Services	2,637,462.62	2,637,462.62	-	-	2,637,462.62
Settlement of Claims	-	-	-	-	-
Other	49,466.36	49,466.36	-	-	49,466.36
Total Revenues	$ 134,634,430.96	$ 134,634,430.96	$ -	$ -	$ 134,634,430.96
EXPENDITURES					
Salaries and Wages	44,164,646.82	44,164,646.82	$ -	346,770.17	44,511,416.99
Payroll Related Costs	16,413,602.82	16,413,602.82	-	-	16,413,602.82
Professional Fees and Services	6,045,068.22	6,045,068.22	-	-	6,045,068.22
Travel	901,254.85	901,254.85	-	-	901,254.85
Materials and Supplies	2,449,104.71	2,449,104.71	-	-	2,449,104.71
Communication and Utilities	701,131.73	701,131.73	-	-	701,131.73
Repairs and Maintenance	521,306.17	521,306.17	-	-	521,306.17
Rentals and Leases	776,213.42	776,213.42	-	-	776,213.42
Printing and Reproduction	488,593.39	488,593.39	-	-	488,593.39
Claims and Judgements	100,702.10	100,702.10	-	-	100,702.10
Federal Pass Through Expenditures	-	-	-	-	-
Intergovernmental Payments	-	-	-	-	-
Other Expenditures	28,943,002.62	28,943,002.62	-	-	28,943,002.62
Capital Outlay (Note 2)	1,577,882.87	1,577,882.87	(1,577,882.87)	-	-
Amortization Expense (Note 2)	-	-	2,548,642.56	-	2,548,642.56
Depreciation Expense (Note 2)	-	-	1,115,707.34	-	1,115,707.34
Adjustments (Note 2)	-	-	1,332.50	-	1,332.50
Pollution Remediation Obligation	-	-	-	9,747,580.41	9,747,580.41
Total Expenditures/Expenses	$ 103,082,509.72	$ 103,082,509.72	$ 2,087,799.53	$ 10,094,350.58	$ 115,264,659.83
Excess (deficiency) of revenues over expenditures	$ 31,551,921.24	$ 31,551,921.24	$ (2,087,799.53)	$ (10,094,350.58)	$ 19,369,771.13
OTHER FINANCING SOURCES (USES)					
Insurance Recoveries	$ -	$ -	$ -	$ -	$ -
Sale of Capital Assets	31,777.00	31,777.00	$ (31,777.00)	-	-
Transfers In	7,260,975.68	7,260,975.68	$ -	-	7,260,975.68
Transfers Out	(3,168,973.98)	(3,168,973.98)	$ (4,273.00)	-	(3,173,246.98)
Appropriations Lapsed	14,286.95	14,286.95		-	14,286.95
Gain (Loss) on Sale of Capital Assets	-	-	$ 683.35	-	683.35
Total other financing sources and uses	$ 4,138,065.65	$ 4,138,065.65	$ (35,366.65)	$ -	$ 4,102,699.00
Net Change in Fund Balances/Net Assets	$ 35,689,986.89	$ 35,689,986.89	$ (2,123,166.18)	$ (10,094,350.58)	$ 23,472,470.13
Fund Financial Statement - Fund Balances					
Fund Balances - September 1, 2017	28,144,396.43	28,144,396.43			28,144,396.43
Restatements	(36.26)	(36.26)			(36.26)
Fund Balances - September 1, 2017, as Restated	28,144,360.17	28,144,360.17			28,144,360.17
Fund Balances - August 31, 2018	$ 63,834,347.06	$ 63,834,347.06	$ (2,123,166.18)	$ (10,094,350.58)	$ 51,616,830.30
Government-wide Statement - Net Assets					
Change in Net Assets		$ 63,834,347.06	$ (2,123,166.18)	$ (10,094,350.58)	$ 51,616,830.30
Net Assets - September 1, 2017			10,631,145.90	(7,459,307.48)	3,171,838.42
Net Assets - August 31, 2018		$ 63,834,347.06	$ 8,507,979.72	$ (17,553,658.06)	54,788,668.72

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

RAILROAD COMMISSION OF TEXAS (455)

Exhibit VI - Combined Statement of Net Assets - Fiduciary Funds

For the Fiscal Year Ended August 31, 2018

	Agency Funds	Totals
ASSETS		
Current		
Cash in the State Treasury	$ 77,589,590.68	$ 77,589,590.68
Total Current Assets	77,589,590.68	77,589,590.68
Total Assets	$ 77,589,590.68	$ 77,589,590.68
LIABILITIES		
Current		
Accounts Payable	$ 250,000.00	$ 250,000.00
Funds Held for Others	77,339,590.68	77,339,590.68
Total Current Liabilities	77,589,590.68	77,589,590.68
Total Liabilities	$ 77,589,590.68	$ 77,589,590.68
NET ASSETS		
Total Net Assets	$ -	$ -

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

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.

Fiduciary Fund Types

Agency Funds

Texa$aver 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).

Fin Sec Closure of Comm Disp. Facility (Fund 5145) accounts for cash deposits provided by oil & gas operators to comply with financial security requirements under Natural Resources Code §91.109.

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

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 are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period that 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 fiscal 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.

Basis conversion adjustment fund types convert modified accrued basis to full accrued basis of accounting. The following activities are recognized in these fund types:

- Capital assets
- Accumulated depreciation
- Unpaid employee compensable leave
- The outstanding debt service principal on long-term liabilities
- Capital leases
- Long-term claims and judgments
- Full accrual revenues and expenses
- Pension amounts in governmental activities

BUDGET AND BUDGETARY ACCOUNTING

The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act). The Commissioners adopt an annual operating budget consistent with these appropriations. Encumbrance accounting is utilized for budgetary control purposes.

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

ASSETS, LIABILITIES, AND FUND BALANCES / NET ASSETS

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 both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally using 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 and proprietary fund types. The cost of these items is expensed when the items are used or consumed.

Capital Assets

Assets that meet the reporting threshold and useful life are capitalized. The capitalization threshold and the estimated useful life vary depending on the asset type. These assets are capitalized at cost or, if 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. “Inexhaustible” assets (such as works of art and historical treasures) are not depreciated. Road and highway infrastructure are depreciated over the estimate of average useful live of a grouping of assets using composite method. Other depreciable assets are depreciated over the estimated useful life of the asset using the straight-line method.

All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are reported at acquisition value. Depreciation is charged to operations over the estimated useful life of each asset using the straight-line method.

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.

Employees' Compensable Leave Balances

Employees' compensable leave balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net position. 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 POSITION

"Fund balance" is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the governmental fund statements. "Net position" is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the government-wide and fiduciary 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:
  - Not in spendable form
  - 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 either:

  - The Texas Legislature
  - 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.

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.

Unrestricted Net Assets

Unrestricted net position consists of net resources 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 TRANSACTIONS

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.

NOTE 2: Capital Assets

	PRIMARY GOVERNMENT				
	Balance 09/1/2017	**Adjustments**	**Additions**	**Deletions**	**Balance 08/31/2018**
Depreciable Assets:					
Buildings and Building Improvements	313,458.40				313,458.40
Furniture and Equipment	2,882,191.95	(7,106.06)	163,039.47	(9,650.00)	3,028,475.36
Vehicle, Boats & Aircraft	6,189,665.56		1,414,843.40	(195,610.12)	7,408,898.84
Total Depreciable Assets at Historical Cost	9,385,315.91	(7,106.06)	1,577,882.87	(205,260.12)	10,750,832.60
Less Accumulated Depreciation for:					
Buildings and Improvements	(140,348.67)		(8,471.88)		(148,820.55)
Furniture and Equipment	(2,422,962.91)	5,773.56	(201,757.72)	9,650.00	(2,609,297.07)
Vehicles, Boats & Aircraft	(3,836,787.49)		(905,477.74)	160,243.47	(4,582,021.76)
Total Accumulated Depreciation	(6,400,099.07)	5,773.56	(1,115,707.34)	169,893.47	(7,340,139.38)
Depreciable Assets, Net	2,985,216.84	(1,332.50)	462,175.53	(35,366.65)	3,410,693.22
Amortizable Assets – Intangible:					
Computer Software - Intangible	13,360,985.35	-	-	-	13,360,985.35
Total Intangible Assets at Historical Cost	13,360,985.35	-	-	-	13,360,985.35
Less Accumulated Amortization for:					
Computer Software - Intangible	(5,715,056.29)	-	(2,548,642.56)	-	(8,263,698.85)
Total Accumulated Amortization	(5,715,056.29)	-	(2,548,642.56)	-	(8,263,698.85)
Amortizable Assets – Net	7,645,929.06	-	(2,548,642.56)	-	5,097,286.50
Governmental Activities Capital Assets, Net	10,631,145.90	(1,332.50)	(2,086,467.03)	(35,366.65)	8,507,979.72

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, 2018, the following changes occurred in liabilities.

Governmental Activities	Balance 09/01/2017	Additions	Deductions	Balance 08/31/2018	Amounts Due Within One Year
Employees' Compensable Leave	$3,848,546.24	$4,861,770.67	$4,515,000.50	$4,195,316.41	$2,768,171.44
Pollution Remediation Obligation	3,610,761.24	37,380,174.08	27,632,593.67	13,358,341.65	13,358,341.65
Claim and Judgment	0.00	100,702.10	100,702.10	0.00	0.00
Total Governmental Activities	**$7,459,307.48**	**$42,342,646.85**	**$32,248,296.27**	**$17,553,658.06**	**$16,126,513.09**

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.

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 25 active well plugging projects as of August 31, 2018, with an estimated cost of $12,478,623.03.

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 47 active site remediation projects as of August 31, 2018, with an estimated cost of $879,718.62. Funding for these programs come from regulatory and permit fees paid by the oil and gas industry.

Claims & Judgments

The Attorney General's Claims Section assisted in settling five claims on the Commission's behalf during FY 2018, without resort to litigation, arising from motor vehicle accidents involving Commission employees acting within the course and scope of their employment. As of FY 2018, there were total of six claims, including five from vehicle accidents and one from settlement case.

Claimant Kalpana Kyasa received $3,281.15; Claimant John Joseph DiPietro Jr received $987.78; Claimant Velma Washington received $1,475.04; Claimant Automotive Rental Inc. received $1,435.60; Claimant Ashley Davis received $3,522.53; Claimant Burdine Wynne LLP received $90,000.00.

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	30,316.23
General Revenue Dedicated – Fund 5155	529,230.05
Federal Fund	37,648.01
Totals – Memorandum Only	**$597,194.29**

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,	
2019	627,980.14
2020	568,238.64
2021	559,769.92
2022	483,645.91
2023	307,227.24
2024-2028	1,319,865.52
Total Minimum Future Lease Rental Payments	**$ 3,866,727.37**

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 and Net Position

The Comptroller of Public Accounts made an adjustment to the balance of the GR (Fund 0001) in the amount of $49,898.91 after the Railroad Commission's submission of the FY 2017 Annual Financial Report. This adjustment is to account for legislative revenues. The beginning fund balance for FY 2018 includes the adjustment made by the Comptroller.

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.

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 nor is the agency involved in any risk pools with other government entities. The Commission participates in the State Office of Risk Management's (SORM) Risk Management and Worker's Compensation Coverage Program.

Changes in the balances of the Commission's claims liabilities during fiscal years 2017 and 2018 were:

	Beginning Balance	Increases	Decreases	Ending Balance
2017	$0.00	$20,920.97	$20,920.97	$0.00
2018	$0.00	$100,712.10	$100,702.10	$0.00

NOTE 18: Management Discussion and Analysis

In FY 2018, 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.

The Commission was appropriated $19.8 million of General Revenue from the Gas Utility Pipeline Tax by the 85th Legislature.

NOTE 19: The Financial Reporting Entity

Not applicable.

NOTE 20: Stewardship, Compliance and Accountability

As of October 1, 2018, 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.

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.

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 2018.
0001	0454	Restricted	Federally Appropriated	Federal funds, restrictions are externally imposed by federal government agencies.
0001	0599	Unassigned	State Appropriated	Economic Stabilization Fund appropriated for well plugging program.
0001	0827	Committed	Natural Resources Code Sec. 121.003	State funds, restrictions are established in the Texas Natural Resources Code.
0001	5041	Restricted	Federal CFDA 66.433, 81.086, 15.668, 66.817, 20.700, and 15.250.	Federal funds, restrictions are externally imposed by federal government agencies.
0001	5155	Committed	Natural Resources Code Sec. 81.068	State funds, restrictions are established in the Texas Natural Resources Code.

Combined Financial Statements- Exhibits

RAILROAD COMMISSION OF TEXAS (455)

Exhibit A 1 Combining Balance Sheet All General and Consolidated Funds

For the Fiscal Year Ended August 31, 2018

	General Revenue	Consolidated Accounts					
	General Revenue Fund (0001) U/F (0001)	Land Reclaimation Fund (0454) U/F (0454)	Economic Stabilization Fd Fund (0599) U/F (0599)	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)	Total
ASSETS							
Current Assets:							
Cash and Cash Equivalents:							
Cash on Hand	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash in State Treasury	-	412,815.02	-	50,610.50	7,891,203.47	49,969,373.22	58,324,002.21
Legislative Appropriations	15,089,788.55	-	-	-	-	-	15,089,788.55
Federal Receivables	-	-	-	-	-	-	-
Interfund Receivable	-	-	-	-	-	-	-
Due from Other Agencies	-	-	1,042,588.48	-	-	-	1,042,588.48
Consumable Inventories	46,928.86	-	-	-	-	-	46,928.86
Prepaid Items	-	-	-	-	-	-	-
Total Current Assets	$ 15,136,717.41	$ 412,815.02	$ 1,042,588.48	$ 50,610.50	$ 7,891,203.47	$ 49,969,373.22	$ 74,503,308.10
Total Assets	$ 15,136,717.41	$ 412,815.02	$ 1,042,588.48	$ 50,610.50	$ 7,891,203.47	$ 49,969,373.22	$ 74,503,308.10
LIABILITIES AND FUND BALANCES							
Current Liabilities:							
Payables from:							
Accounts Payable	$ 590,190.05	$ -	$ 1,042,588.48	$ -	$ -	$ 4,134,613.45	$ 5,767,391.98
Payroll Payable	1,993,812.16	-	-	-	416,837.45	2,490,919.45	4,901,569.06
Interfund Payable	-	-	-	-		-	-
Due to Other Agencies	-	-	-	-		-	-
Deferred Revenue	-	-	-	-		-	-
Total Current Liabilities	$ 2,584,002.21	$ -	$ 1,042,588.48	$ -	$ 416,837.45	$ 6,625,532.90	$ 10,668,961.04
Total Liabilities	$ 2,584,002.21	$ -	$ 1,042,588.48	$ -	$ 416,837.45	$ 6,625,532.90	$ 10,668,961.04
Fund Balances (Deficits):							
Nonspendable	46,928.86	-	-	-	-	-	46,928.86
Restricted	-	412,815.02	-	-	7,474,366.02	-	7,887,181.04
Committed	-	-	-	50,610.50	-	43,343,840.32	43,394,450.82
Assigned	-	-	-		-	-	-
Unassigned	12,505,786.34	-	-	-	-	-	12,505,786.34
Total Fund Balances	$ 12,552,715.20	$ 412,815.02	$ -	$ 50,610.50	$ 7,474,366.02	$ 43,343,840.32	$ 63,834,347.06
Total Liabilities and Fund Balances	$ 15,136,717.41	$ 412,815.02	$ 1,042,588.48	$ 50,610.50	$ 7,891,203.47	$ 49,969,373.22	$ 74,503,308.10

UNAUDITED

RAILROAD COMMISSION OF TEXAS (455)

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, 2018

	General Revenue	Consolidated Accounts						
	General Revenue Fund (0001) U/F (0001)	Land Reclaimation Fund (0454) U/F (0454)	Economic Stabilization Fd Fund (0599) U/F (0599)	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)	Unappropriated General Revenue EFF (1000) U/F (1000)	Total
REVENUES								
Legislative Appropriations:								
Original Appropriations	$ 30,550,662.00	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,550,662.00
Additional Appropriations	6,812,066.06	-	-	-	-	-	-	6,812,066.06
Federal Revenue (Fed Sch 1A)	-	-	-	-	8,250,332.35	-	3,152,427.03	11,402,759.38
Federal Pass Through Revenue (Fed Sch 1A)	-	-	-	-	350,111.42	-	-	350,111.42
State Grant Pass Through Revenue (Sch 1B)	-	-	-	-	-	-	-	-
Licenses, Fees and Permits	2,660,637.38	-	-	40,000.00	-	80,130,817.71	-	82,831,455.09
Interest, Dividend & Other Income	-	-	-	459.07	-	(11.04)	-	448.03
Settlement of Claims	-	-	-	-	-	-	-	-
Sales of Goods and Services	1,623.51	-	-	-	-	2,635,839.11	-	2,637,462.62
Other	30,037.03	-	-	-	-	19,429.33	-	49,466.36
Total Revenues	$ 40,055,025.98	$ -	$ -	$ 40,459.07	$ 8,600,443.77	$ 82,786,075.11	$ 3,152,427.03	$ 134,634,430.96
EXPENDITURES								
Salaries and Wages	18,086,599.44	-	-	-	3,858,484.65	22,219,562.73	-	44,164,646.82
Payroll Related Costs	5,245,291.92	-	-	-	1,197,484.28	9,970,826.62	-	16,413,602.82
Professional Fees and Services	4,658,627.92	-	-	-	968,805.64	417,634.66	-	6,045,068.22
Travel	230,898.07	-	-	-	321,968.94	348,387.84	-	901,254.85
Materials and Supplies	816,772.34	-	-	-	132,516.82	1,499,815.55	-	2,449,104.71
Communication and Utilities	264,985.84	-	-	-	47,161.87	388,984.02	-	701,131.73
Repairs and Maintenance	220,731.99	-	-	-	10,575.31	289,998.87	-	521,306.17
Rentals and Leases	121,057.75	-	-	-	46,873.41	608,282.26	-	776,213.42
Printing and Reproduction	411,003.42	-	-	-	15,567.33	62,022.64	-	488,593.39
Claims and Judgements	93,281.15	-	-	-	-	7,420.95	-	100,702.10
Federal Pass Through Expenditures	-	-	-	-	-	-	-	-
Intergovernmental Payments	-	-	-	-	-	-	-	-
Other Expenditures	1,172,592.37	-	7,260,975.68	-	30,073.48	20,479,361.09	-	28,943,002.62
Capital Outlay	1,412,305.99	-	-	-	16,345.00	149,231.88	-	1,577,882.87
Total Expenditures/Expenses	$ 32,734,148.20	$ -	$ 7,260,975.68	$ -	$ 6,645,856.73	$ 56,441,529.11	$ -	$ 103,082,509.72
Excess(deficiency) of revenues over expenditures	$ 7,320,877.78	$ -	$ (7,260,975.68)	$ 40,459.07	$ 1,954,587.04	$ 26,344,546.00	$ 3,152,427.03	$ 31,551,921.24
OTHER FINANCING SOURCES (USES)								
Insurance Recoveries	-	-	-	-	-	-	-	-
Sale of Capital Assets	31,777.00	-	-	-	-	-	-	31,777.00
Cash Transfers In	-	-	7,260,975.68	-	-	-	-	7,260,975.68
Cash Transfers Out	(16,546.95)	-	-	-	-	-	(3,152,427.03)	(3,168,973.98)
Appropriations Lapsed	14,286.95	-	-	-	-	-	-	14,286.95
Total other financing sources and uses	$ 29,517.00	$ -	$ 7,260,975.68	$ -	$ -	$ -	$ (3,152,427.03)	$ 4,138,065.65
Net Change in Fund Balances	7,350,394.78	-	-	40,459.07	1,954,587.04	26,344,546.00	-	35,689,986.89
Fund Financial Statement - Fund Balances								
Fund Balances, September 1, 2017	5,202,356.68	412,815.02	-	10,151.43	5,519,778.98	16,999,294.32	-	28,144,396.43
Restatements	(36.26)	-	-	-			-	(36.26)
Fund Balances, September 1, 2017, as Restated	$ 5,202,320.42	$ 412,815.02	$ -	$ 10,151.43	$ 5,519,778.98	$ 16,999,294.32	$ -	$ 28,144,360.17
Fund Balances - August 31, 2018	$ 12,552,715.20	$ 412,815.02	$ -	$ 50,610.50	$ 7,474,366.02	$ 43,343,840.32	$ -	$ 63,834,347.06

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

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, 2018

	Beginning Balance September 1, 2017	Additions	Deductions	Ending Balance August 31, 2018
Trust Accounts: Fund 5146, 5147, 5148, 5149				
ASSETS				
Current				
Cash in the State Treasury	$ 72,088,807.54	$ 88,619,211.39	$ 83,228,891.47	$ 77,479,127.46
Total Assets	$ 72,088,807.54	$ 88,619,211.39	$ 83,228,891.47	$ 77,479,127.46
LIABILITIES				
Current				
Accounts Payable	$ -	$ 6,683,624.02	$ 6,433,624.02	$ 250,000.00
Funds Held for Others	72,088,807.54	16,452,301.75	11,311,981.83	77,229,127.46
Total Liabilities	$ 72,088,807.54	$ 23,135,925.77	$ 17,745,605.85	$ 77,479,127.46
Child Support Employee Deducts (0807)				
ASSETS				
Current				
Cash in the State Treasury	$ 12,461.79	$ 177,823.67	$ 175,837.24	$ 14,448.22
Total Assets	$ 12,461.79	$ 177,823.67	$ 175,837.24	$ 14,448.22
LIABILITIES				
Current				
Accounts Payable	$ -	$ 163,375.45	$ 163,375.45	$ -
Funds Held for Others	12,461.79	177,823.67	175,837.24	14,448.22
Total Liabilities	$ 12,461.79	$ 341,199.12	$ 339,212.69	$ 14,448.22
City, County, MTA & SPD Sales Taxes (0882)				
ASSETS				
Current				
Cash in the State Treasury	$ -	$ 353.89	$ 353.89	$ -
Total Assets	$ -	$ 353.89	$ 353.89	$ -
LIABILITIES				
Current				
Accounts Payable	$ -			$ -
Funds Held for Others	-	353.89	353.89	-
Total Liabilities	$ -	$ 353.89	$ 353.89	$ -
Suspense Fund (0900) U/F (0900)				
ASSETS				
Current				
Cash in the State Treasury	$ 432,124.00	$ 12,089,625.41	$ 12,425,734.41	$ 96,015.00
Total Assets	$ 432,124.00	$ 12,089,625.41	$ 12,425,734.41	$ 96,015.00
LIABILITIES				
Current				
Accounts Payable	$ -	$ -	$ -	$ -
Funds Held for Others	432,124.00	11,706,334.58	12,042,443.58	96,015.00
Total Liabilities	$ 432,124.00	$ 11,706,334.58	$ 12,042,443.58	$ 96,015.00
Direct Deposit Correction (0980)				
ASSETS				
Current				
Cash in the State Treasury	$ -	$ 12,247.95	$ 12,247.95	$ -
Total Assets	$ -	$ 12,247.95	$ 12,247.95	$ -
LIABILITIES				
Current				
Accounts Payable	$ -			$ -
Funds Held for Others	-	12,247.65	12,247.65	-
Total Liabilities	$ -	$ 12,247.65	$ 12,247.65	$ -
Unappropriated General Revenue (1000)				
ASSETS				
Current				
Cash in the State Treasury	$ -	$ 31,452,160.68	$ 31,452,160.68	$ -
Total Assets	$ -	$ 31,452,160.68	$ 31,452,160.68	$ -
LIABILITIES				
Current				
Accounts Payable	$ -	$ 1,639.51	$ 1,639.51	$ -
Funds Held for Others	-	31,452,160.68	31,452,160.68	-
Total Liabilities	$ -	$ 31,453,800.19	$ 31,453,800.19	$ -

TOTAL- ALL AGENCY FUNDS

	Beginning Balance September 1, 2017	Additions	Deductions	Ending Balance August 31, 2018
ASSETS				
Current				
Cash in State Treasury	$ 72,533,393.33	$ 132,351,422.99	$ 127,295,225.64	$ 77,589,590.68
Total Assets	$ 72,533,393.33	$ 132,351,422.99	$ 127,295,225.64	$ 77,589,590.68
LIABILITIES				
Current				
Accounts Payable	$ -	$ 6,848,638.98	$ 6,598,638.98	$ 250,000.00
Funds Held for Others	72,533,393.33	59,801,222.22	54,995,024.87	77,339,590.68
Total Liabilities	$ 72,533,393.33	$ 66,649,861.20	$ 61,593,663.85	$ 77,589,590.68

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

State and Federal Pass-Through Schedules

RAILROAD COMMISSION OF TEXAS (455)

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, 2018

Certified

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	NSE Name/ *Identifying Number*	Agy/ Univ No	Pass-through From: Pass-Through From Agencies or Universities Amount	Pass-through From: Pass-Through From Non-State Entities Amount	Direct Program Amount	Total PT From and Direct Prog. Amount	Agy/ Univ No.	Pass-through To: Pass-Through To Agencies or Universities Amount	Pass-through To: Pass-Through To Non-State Entities Amount	Expenditures Amount	Total PT To and Expenditures Amount
Environmental Protection Agency												
Direct Programs:												
State Underground Water Source Protection	66.433					1,247,905.41	1,247,905.41				1,247,905.41	1,247,905.41
State and Tribal Response Program Grants	66.817					146,181.83	146,181.83				146,181.83	146,181.83
Pass-Through From:												
Nonpoint Source Implementation Grants	66.460						350,111.42				350,111.42	350,111.42
Pass-Through From:												
Texas Commission on Environmental Quality			582	350,111.42								
Totals - Environmental Protection Agency				350,111.42	0	1,394,087.24	1,744,198.66		0	0	1,744,198.66	1,744,198.66
U.S. Department of the Interior												
Direct Programs:												
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250					3,528,169.44	3,528,169.44				3,528,169.44	3,528,169.44
Abandoned Mine Land Reclamation (AMLR)	15.252					1,682,654.69	1,682,654.69				1,682,654.69	1,682,654.69
Totals - U.S. Department of the Interior				0	0	5,210,824.13	5,210,824.13		0	0	5,210,824.13	5,210,824.13
U.S. Department of Transportation												
Direct Programs:												
Pipeline Safety Program State Base Grant	20.700					4,797,848.01	4,797,848.01				4,797,848.01	4,797,848.01
Totals - U.S. Department of Transportation				0	0	4,797,848.01	4,797,848.01		0	0	4,797,848.01	4,797,848.01
Total Expenditures of Federal Awards				**350,111.42**	**0**	**11,402,759.38**	**11,752,870.80**		**0**	**0**	**11,752,870.80**	**11,752,870.80**

SCHEDULE 1A

Schedule of Expenditures of Federal Awards — Notes

For the Fiscal Year Ended August 31, 2018

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)	$ 11,402,759.38
Governmental Funds - Federal Pass-Through Revenues (Exhibit II)	350,111.42
Total Pass Through and Expenditures per Federal Schedule	$ 11,752,870.80

SCHEDULE 1B

Schedule of State Grant Pass Throughs From/To State Agencies

For the Fiscal Year Ended August 31, 2018

None