

Annual Financial Report

FISCAL YEAR 2023



Railroad Commission of Texas

Wayne Christian
Commissioner

Christi Craddick
Chairman

Jim Wright
Commissioner

ANNUAL FINANCIAL REPORT

UNAUDITED

RAILROAD COMMISSION OF TEXAS
Austin, Texas

Year Ended August 31, 2023

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RAILROAD COMMISSION OF TEXAS (455)

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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, 2023

	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 in State Treasury	\$ 186,498,864.80	\$ 186,498,864.80			\$ 186,498,864.80
Legislative Appropriations	36,511,821.74	36,511,821.74			36,511,821.74
Federal Receivables	4,672,867.61	4,672,867.61			4,672,867.61
Total Current Assets	<u>\$ 227,683,554.15</u>	<u>\$ 227,683,554.15</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,683,554.15</u>
Capital Outlay (Note 2)					
Depreciable Assets:					
Buildings and Building Improvements	\$ -	\$ -	\$ 313,458.40		\$ 313,458.40
Less Accumulated Depreciation	-	-	(191,179.95)		(191,179.95)
Furniture and Equipment	-	-	2,144,012.04		2,144,012.04
Less Accumulated Depreciation	-	-	(1,738,904.44)		(1,738,904.44)
Vehicle, Boats & Aircraft	-	-	16,400,194.03		16,400,194.03
Less Accumulated Depreciation	-	-	(6,784,541.07)		(6,784,541.07)
Amortizable Assets - Intangible:					
Computer Software - Intangible	-	-	12,748,560.18		12,748,560.18
Less Accumulated Amortization	-	-	(12,748,560.18)		(12,748,560.18)
Amortizable Assets - IRTU					
Building and Building Improvements	-	-	4,961,731.71		4,961,731.71
Less Accumulated Amortization	-	-	(1,502,561.73)		(1,502,561.73)
Total Non-Current Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,602,208.99</u>	<u>\$ -</u>	<u>\$ 13,602,208.99</u>
Total Assets	<u>\$ 227,683,554.15</u>	<u>\$ 227,683,554.15</u>	<u>\$ 13,602,208.99</u>	<u>\$ -</u>	<u>\$ 241,285,763.14</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Current Liabilities:					
Payables from:					
Accounts	\$ 24,156,007.88	\$ 24,156,007.88		\$ -	\$ 24,156,007.88
Payroll	8,075,643.77	8,075,643.77		-	8,075,643.77
Interest	-	-		3,788.23	3,788.23
Unearned Revenues	84,052.50	84,052.50		-	84,052.50
Claims and Judgments (Note 5)	-	-		773.99	773.99
Right to Use Lease Obligations (Note 5)	-	-		634,826.46	634,826.46
Employees' Compensable Leave (Note 5)	-	-		4,776,744.51	4,776,744.51
Pollution Remediation Obligation (Note 5)	-	-		1,489,428.54	1,489,428.54
Funds Held For Others	-	-		-	-
Total Current Liabilities	<u>\$ 32,315,704.15</u>	<u>\$ 32,315,704.15</u>	<u>\$ -</u>	<u>\$ 6,905,561.73</u>	<u>\$ 39,221,265.88</u>
Non-Current Liabilities:					
Other Non-Current Liabilities	\$ 103,901,711.24	\$ 103,901,711.24		\$ -	\$ 103,901,711.24
Right to Use Lease Obligations (Note 5)	-	-		2,913,614.21	2,913,614.21
Employees' Compensable Leave (Note 5)	-	-		3,774,517.90	3,774,517.90
Total Non-Current Liabilities	<u>\$ 103,901,711.24</u>	<u>\$ 103,901,711.24</u>	<u>\$ -</u>	<u>\$ 6,688,132.11</u>	<u>\$ 110,589,843.35</u>
Total Liabilities	<u>\$ 136,217,415.39</u>	<u>\$ 136,217,415.39</u>	<u>\$ -</u>	<u>\$ 13,593,693.84</u>	<u>\$ 149,811,109.23</u>
Fund Financial Statement					
Fund Balances (Deficits):					
Restricted	\$ 10,511,693.53	\$ 10,511,693.53			\$ 10,511,693.53
Committed	64,522,181.94	64,522,181.94			64,522,181.94
Assigned	-	-			-
Unassigned	16,432,263.29	16,432,263.29			16,432,263.29
Total Fund Balances	<u>\$ 91,466,138.76</u>	<u>\$ 91,466,138.76</u>			<u>\$ 91,466,138.76</u>
Total Liabilities and Fund Balances	<u>\$ 227,683,554.15</u>	<u>\$ 227,683,554.15</u>			
Government-Wide Statement - Net Position					
Net Position:					
Net Investment in Capital Asset, Related Debt			\$ 13,602,208.99	(3,548,440.67)	\$ 10,053,768.32
Unrestricted for:					
Interest Payable				(3,788.23)	(3,788.23)
Claims and Judgments				(773.99)	(773.99)
Employee Compensable Leave				(8,551,262.41)	(8,551,262.41)
Pollution Remediation Obligation				(1,489,428.54)	(1,489,428.54)
Total Net Position			<u>\$ 13,602,208.99</u>	<u>\$ (13,593,693.84)</u>	<u>\$ 91,474,653.91</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, 2023

	General Fund	Governmental Funds Total	Capital Asset Adjustments	Long-Term Liabilities Adjustments	Statement of Activities
REVENUES					
Legislative Appropriations:					
Original Appropriations	\$ 75,245,448.00	\$ 75,245,448.00			\$ 75,245,448.00
Additional Appropriations	14,599,844.10	14,599,844.10			14,599,844.10
Federal Revenue (Fed Sch 1A)	40,106,370.56	40,106,370.56			40,106,370.56
Federal Pass Through Revenue (Fed Sch 1A)	-	-			-
State Grant Pass Through Revenue (Sch 1B)	-	-			-
Licenses, Fees and Permits	80,262,273.41	80,262,273.41			80,262,273.41
Interest, Dividend & Other Income	5,359.86	5,359.86			5,359.86
Settlement of Claims	1,372.02	1,372.02			1,372.02
Sales of Goods and Services	4,178,683.09	4,178,683.09			4,178,683.09
Total Revenues	\$ 214,399,351.04	\$ 214,399,351.04	\$ -	\$ -	\$ 214,399,351.04
EXPENDITURES					
Salaries and Wages	\$ 70,625,012.86	\$ 70,625,012.86		\$ 923,815.05	\$ 71,548,827.91
Payroll Related Costs	24,783,793.67	24,783,793.67			24,783,793.67
Professional Fees and Services	49,889,201.68	49,889,201.68			49,889,201.68
Travel	1,194,348.84	1,194,348.84			1,194,348.84
Materials and Supplies	5,359,381.30	5,359,381.30			5,359,381.30
Communication and Utilities	1,323,781.71	1,323,781.71			1,323,781.71
Repairs and Maintenance	1,463,737.28	1,463,737.28			1,463,737.28
Rentals and Leases	829,012.85	829,012.85			829,012.85
Printing and Reproduction	660,783.76	660,783.76			660,783.76
Claims and Judgements	162,620.04	162,620.04		(11,728.47)	150,891.57
Other Expenditures	65,928,277.64	65,928,277.64			65,928,277.64
Debt Service-Principal -Leases / SBITA	708,346.24	708,346.24			708,346.24
Principal-Leases (Note 5)	-	-		(626,933.91)	(626,933.91)
Interest (Note 5, 8)	-	-		3,788.23	3,788.23
Capital Outlay (Note 2)	5,076,477.43	5,076,477.43	(5,076,477.43)		-
Amortization Expense (Note 2)	-	-	814,254.57		814,254.57
Depreciation Expense (Note 2)	-	-	1,563,218.05		1,563,218.05
Deletions Expense (Note 2)	-	-	99,603.53		99,603.53
Adjustments (Note 2)	-	-	(83,191.34)		(83,191.34)
Pollution Remediation Obligation (Note 5)	-	-		(275,955.26)	(275,955.26)
Total Expenditures	\$ 228,004,775.30	\$ 228,004,775.30	\$ (2,682,592.62)	\$ 12,985.64	\$ 225,335,168.32
Excess (deficiency) of revenues over expenditures	\$ (13,605,424.26)	\$ (13,605,424.26)	\$ 2,682,592.62	\$ (12,985.64)	\$ (10,935,817.28)
OTHER FINANCING SOURCES (USES)					
Cash Transfer In	\$ 8,643,630.66	\$ 8,643,630.66			\$ 8,643,630.66
Cash Transfer Out	(2,766,325.29)	(2,766,325.29)			(2,766,325.29)
Increase in Obligations - Leases	81,412.33	81,412.33			81,412.33
Sale of Capital Assets	97,821.43	97,821.43			97,821.43
Gain (Loss) on Sale of Capital Assets	-	-			-
Total Other Financing Sources (Uses)	\$ 6,056,539.13	\$ 6,056,539.13	\$ -	\$ -	\$ 6,056,539.13
Net Change in Fund Balances/Net Position	\$ (7,548,885.13)	\$ (7,548,885.13)	\$ 2,682,592.62	\$ (12,985.64)	\$ (4,879,278.15)
Fund Financial Statement - Fund Balances					
Fund Balances - September 1, 2022	\$ 99,015,023.89	\$ 99,015,023.89			\$ 99,015,023.89
Restatements	-	-			-
Fund Balances - September 1, 2022, as Restated	99,015,023.89	99,015,023.89			99,015,023.89
Appropriations Lapsed	-	-			-
Fund Balances - August 31, 2023	\$ 91,466,138.76	\$ 91,466,138.76	\$ 2,682,592.62	\$ (12,985.64)	\$ 94,135,745.74
Government-wide Statement - Net Assets					
Net Position/Net Change in Net Position		\$ 91,466,138.76	\$ 2,682,592.62	\$ (12,985.64)	\$ 94,135,745.74
Net Position, September 1, 2022					
Restatements			10,919,616.37	(13,580,708.20)	(2,661,091.83)
Net Position, September 1, 2022, as Restated					
Net Position, August 31, 2023		\$ 91,466,138.76	\$ 13,602,208.99	\$ (13,593,693.84)	\$ 91,474,653.91

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

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RAILROAD COMMISSION OF TEXAS (455)

Notes to the Financial Statements

RAILROAD COMMISSION OF TEXAS (455)

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies

Entity

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

The Commission was established in 1891 and operates under the state constitution and other enabling statutes. The operations of the Commission are conducted under the direction of three Commissioners who are elected by popular vote to serve overlapping six-year terms. The Commission is a regulatory agency with enforcement powers in areas dealing primarily with oil and natural gas, alternative fuels, gas utilities, pipeline safety, coal and uranium surface mining, critical infrastructure weather preparedness, 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) is used to account for all financial resources of the state except those required to be accounted for in another fund. This fund is also used to account for cash deposits from oil and gas operators in compliance with financial security requirements under the Natural Resources Code.

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.

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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.

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
- 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.

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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 life 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.

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Railroad Commission of Texas uses resources in the following order:

- When both restricted and unrestricted resources are available, use:
 1. Restricted resources
 2. Unrestricted resources (as they are needed)
- When only unrestricted resources are available for use in governmental funds, use:
 1. Committed resources
 2. Assigned resources
 3. Unassigned resources

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 through legislation passed into law 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 the constraints do not meet the requirements to be reported as restricted or 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 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.

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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 8/31/23
	Balance 9/1/22	Adjustments	Additions	Deletions	
GOVERNMENTAL ACTIVITIES					
Depreciable Assets					
Buildings and Building Improvements	313,458.40	-	-	-	313,458.40
Furniture and Equipment	1,998,319.24	-	183,564.80	(37,872.00)	2,144,012.04
Vehicles, Boats, and Aircraft	11,866,583.33	93,601.00	4,811,500.30	(371,490.60)	16,400,194.03
Total Depreciable Assets at Historical Cost	14,178,360.97	93,601.00	4,995,065.10	(409,362.60)	18,857,664.47
Less Accumulated Depreciation for:					
Buildings and Building Improvements	(182,708.07)	-	(8,471.88)	-	(191,179.95)
Furniture and Equipment	(1,690,680.55)	-	(86,095.89)	37,872.00	(1,738,904.44)
Vehicles, Boats, and Aircraft	(5,577,368.20)	(10,409.66)	(1,468,650.28)	271,887.07	(6,784,541.07)
Total Accumulated Depreciation	(7,450,756.82)	(10,409.66)	(1,563,218.05)	309,759.07	(8,714,625.46)
Depreciable Assets, Net	6,727,604.15	83,191.34	3,431,847.05	(99,603.53)	10,143,039.01
Intangible Capital Assets - Amortizable					
Computer Software	12,800,560.18	-	-	(52,000.00)	12,748,560.18
Right to Use Building Leases	4,880,319.38	-	81,412.33	-	4,961,731.71
Total Intangible Assets at Historical Cost	17,680,879.56	-	81,412.33	(52,000.00)	17,710,291.89
Less Accumulated Amortization for:					
Computer Software	(12,800,560.18)	-	-	52,000.00	(12,748,560.18)
Right to Use Building Leases	(688,307.16)	-	(814,254.57)	-	(1,502,561.73)
Total Accumulated Amortization	(13,488,867.34)	-	(814,254.57)	52,000.00	(14,251,121.91)
Amortizable Assets, Net	4,192,012.22	-	(732,842.24)	-	3,459,169.98
Governmental Activities Capital Assets, Net	10,919,616.37	83,191.34	2,699,004.81	(99,603.53)	13,602,208.99

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NOTE 3: Deposits, Investments & 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, 2023, the following changes occurred in liabilities.

Governmental Activities	Balance 09/01/22	Additions	Reductions	Balance 08/31/23	Amounts Due Within One Year	Amounts Due Thereafter
Claims and Judgments	\$ 12,502.46	\$ 773.99	\$ 12,502.46	\$ 773.99	\$ 773.99	\$ -
Right to Use Lease Obligations	4,175,374.58	81,422.11	708,356.02	3,548,440.67	634,826.46	2,913,614.21
Employees' Compensable Leave	7,627,447.36	6,974,158.82	6,050,343.77	8,551,262.41	4,776,744.51	3,774,517.90
Pollution Remediation Obligation	1,765,383.80	60,842,214.09	61,118,169.35	1,489,428.54	1,489,428.54	-
Total Governmental Activities	\$ 13,580,708.20	\$ 67,898,569.01	\$ 67,889,371.60	\$ 13,589,905.61	\$ 6,901,773.50	\$ 6,688,132.11

Claims & Judgments

The Attorney General's Claims Section assisted in settling four claims on Railroad Commission of Texas's behalf during FY 2023, without resort to litigation, arising from motor vehicle accidents involving Commission employees acting within the course and scope of their employment. As of FY 2023, there were a total of four claims from vehicle accidents.

- Claimant Liberty County Mutual Insurance Company c/o Simon Owusu-Ansah received \$12,502.46.
- Claimant Charles Muller received \$131,000.
- Claimant CSM in Trust for USAA General Indemnity received \$18,500.
- Claimant Geico County Mutual Insurance Company received \$617.58.

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The settlement of \$773.99 was accrued but unpaid as of August 31, 2023.

- Claimant Farmers Texas County Mutual Insurance Co.

Right to Use Lease Obligations

Railroad Commission is a lessee and is required to report lease liabilities that were not reported before the implementation of GASB 87. A lessee must recognize a lease liability and a lease asset at the start of the lease term. The notes to financial statements must include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

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 position. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The obligation is usually paid from the same funding source (s) from what the employee's salary or wage compensation was paid.

Pollution Remediation Obligations

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 1 active well plugging project as of August 31, 2023, with an estimated cost of \$158,964.37.

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 13 active site remediation projects as of August 31, 2023, with an estimated cost of \$884,818.36. Funding for these programs comes 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 three projects on-going as of August 31, 2023, with an estimated cost of \$445,645.81.

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RAILROAD COMMISSION OF TEXAS (455)

NOTE 6: Bonded Indebtedness

Not applicable.

NOTE 7: Derivative Instruments

Not applicable.

NOTE 8: Leases

Lease Liability

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

Fiscal 2023

Fund Type	Amount
General Fund	\$675,787.68

**Future Lease Payments
Year Ended August 31, 2033**

Primary Government				
Governmental Activities				
Year	Principal	Interest	Total Future Min. Lease Payments	
2024	\$ 634,826.46	\$ 40,961.22	\$ 675,787.68	
2025	589,017.73	34,282.27	623,300.00	
2026	579,963.92	27,736.32	607,700.24	
2027	578,735.85	21,164.54	599,900.39	
2028	382,532.16	14,916.40	397,448.56	
2029 - 2033	783,364.55	29,762.90	813,127.45	
Totals:	\$ 3,548,440.67	\$ 168,823.65	\$ 3,717,264.32	

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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 91st Legislature, the Commission is abolished September 1, 2029.

NOTE 14: Adjustments to Fund Balances and Net Position

Not applicable.

NOTE 15: Contingent Liabilities

The Commission is a party to various lawsuits that have generally arisen out of the regulation of various segments of the energy industry, claims made by former employees, and motor vehicle accidents involving Commission employees on official business. 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. The Commission is presently a defendant in one motor vehicle accident lawsuit and one civil action alleging trespass. While contingent liabilities in these suits are often debatable and not subject to reasonable estimation, they are statutorily capped by the Texas Tort Claims Act at \$250,000 per plaintiff.

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As of August 31, 2023, a certain lawsuit was pending against the State and Railroad Commission of Texas. The lawsuit, which may present contingent liabilities, is displayed below.

Claimant / Plaintiff	Defendant Name	Type of Litigation	Damages Sought	Probability Of Liability	Possible Loss
Ronald Ramos	RRC	Personal Injury Tort	Greater than or equal or \$250,000	More than 50%	Unknown, but present figures place probable loss at \$19,871.00

Description of Case

Plaintiff alleges damages in medical bills, pain, physical impairment, and lost earnings arising from collision involving agency vehicle.

Apart from the preliminary metrics for the case above, there are no other litigation risk metrics for monetary liability that are subject to reasonable estimation at this time.

NOTE 16: Subsequent Events

There are no subsequent events to report.

NOTE 17: Risk Management

The Commission is exposed to a variety of civil claims resulting from the performance of its duties. It is agency policy to periodically assess the proper combination of insurance and retention of risk to cover losses to which it may be exposed.

The Commission assumes substantially all risks with tort and liability claims due to the performance of its duties. Currently, there are five purchases of commercial insurance. The agency is not 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.

Five insurance policies have been purchased through SORM:

- Automobile Insurance (9/1/2022 – 10/1/2022). Premium \$1,695.00.
- Automobile Insurance (10/1/2022 – 10/1/2023). Premium \$23,971.23.
- Drone Insurance for two new drones (10/1/22 – 10/1/2023). Premium \$1,022.00.
- Drone Insurance Policy (Effective 12/20/2022 – 12/20/2023). Premium \$31,746.00.

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- Cyber Liability Insurance Policy (Effective 1/15/2022 – 1/15/2023). Premium: \$62,955.00.
- Volunteer Insurance Policy (Effective 7/1/2023 – 7/1/2024). Premium: \$366.36.

The agency’s liabilities are reported when it is both probable that a loss has occurred, and the amount of that loss can be reasonably estimated. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. There were no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years. Changes in the balances of the Commission’s claims liabilities during fiscal years 2022 and 2023 were:

	Beginning Balance	Increases	Decreases	Ending Balance
2022	\$0.00	\$ 70,909.34	\$ 58,406.88	\$12,502.46
2023	\$12,502.46	\$ 163,394.03	\$ 175,122.50	\$773.99

NOTE 18: Management Discussion and Analysis

The revenue in the Oil and Gas Regulation Cleanup (OGRC) fund is generated from the Texas oil and gas industry. The Texas oil and gas industry experienced significant volatility in oil prices during FY 2023. The price of West Texas Intermediate (WTI) crude oil averaged at \$78.30 per barrel during the year. The Commission continues to monitor the prices of oil and gas as they have a significant impact on the permitting revenue.

The Commission’s licensing and permitting revenue increased by \$1.4 million from the prior fiscal year primarily due to the increase in oil and gas well drilling permits, and related surcharges, violations and oil and gas production regulatory fees.

Agency-wide salaries and wages grew by 15% as the agency filled 130 FTEs newly authorized by the 87th Legislature for Critical Infrastructure Weather Preparedness (Senate Bill 3). Professional Fees and Services expenditures were increased by \$13.8 million which were primarily from House Bill 2 (87th Legislature) and Senate Bill 30 (88th Legislature - Supplemental Appropriations Bill). Other Expenditures were increased by \$21.5 million due to the Federal Infrastructure Grant – DOI Initial Grant Well Plugging.

NOTE 19: The Financial Reporting Entity

Not applicable.

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NOTE 20: Stewardship, Compliance and Accountability

As of October 1, 2023, 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 24: Disaggregation of Receivable and Payable Balances

Not applicable.

NOTE 25: Termination Benefits

Railroad Commission of Texas had voluntary and involuntary terminations in fiscal year 2023. The Commission did not provide any termination benefits to employees beyond the COBRA program which is administered by ERS.

NOTE 26: Segment Information

Not applicable.

NOTE 27: Service Concession Arrangements

Not applicable.

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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 2023.
0454	0454	Restricted	Federally Appropriated	Federal funds, restrictions are externally imposed by federal government agencies.
0827	0827	Committed	Natural Resources Code Sec. 121.003	State funds, restrictions are established in the Texas Natural Resources Code.
5041	5041	Restricted	Federal CFDA 66.433, 81.086, 15.668, 66.817, 20.700, 15,250 and 15.018.	Federal funds, restrictions are externally imposed by federal government agencies.
5155	5155	Committed	Natural Resources Code Sec. 81.068	State funds, restrictions are established in the Texas Natural Resources Code.

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Combining Financial Statements – 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, 2023

	General Revenue	Consolidated Accounts					Total
	General Revenue	Land Reclamation	Anthropogenic Carbon Dioxide	Unappropriated General Revenue	Federal	Oil and Gas Regulation and Cleanup	
	Fund (0001) U/F (0001)	Fund (0454) U/F (0454)	Fund (0827) U/F (0827)	EFF (1000) U/F (1000)	Fund (5041) U/F (5041)	Fund (5155) U/F (5155)	
ASSETS							
Current Assets:							
Cash and Cash Equivalents							
Cash in State Treasury	\$ 102,396,018.28	\$ 412,815.02	\$ 208,993.31	\$ -	\$ 9,165,697.11	\$ 74,315,341.08	\$ 186,498,864.80
Legislative Appropriations	36,511,821.74	-	-	-	-	-	36,511,821.74
Federal Receivables	-	-	-	467,016.40	3,419,611.83	786,239.38	4,672,867.61
Total Current Assets	<u>\$ 138,907,840.02</u>	<u>\$ 412,815.02</u>	<u>\$ 208,993.31</u>	<u>\$ 467,016.40</u>	<u>\$ 12,585,308.94</u>	<u>\$ 75,101,580.46</u>	<u>\$ 227,683,554.15</u>
Total Assets	<u>\$ 138,907,840.02</u>	<u>\$ 412,815.02</u>	<u>\$ 208,993.31</u>	<u>\$ 467,016.40</u>	<u>\$ 12,585,308.94</u>	<u>\$ 75,101,580.46</u>	<u>\$ 227,683,554.15</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Current Liabilities:							
Payables from:							
Accounts	\$ 12,590,984.08	\$ -	\$ -	\$ -	\$ 2,846,889.87	\$ 8,718,133.93	\$ 24,156,007.88
Payroll	5,717,563.15	-	-	-	287,822.72	2,070,257.90	8,075,643.77
Unearned Revenues	84,052.50	-	-	-	-	-	84,052.50
Claims and Judgments	-	-	-	-	-	-	-
Funds Held For Others	-	-	-	-	-	-	-
Total Current Liabilities	<u>\$ 18,392,599.73</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,134,712.59</u>	<u>\$ 10,788,391.83</u>	<u>\$ 32,315,704.15</u>
Non-Current Liabilities:							
Other Non-Current Liabilities	103,901,711.24	-	-	-	-	-	103,901,711.24
Total Non-Current Liabilities	<u>\$ 103,901,711.24</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,901,711.24</u>
Total Liabilities	<u>\$ 122,294,310.97</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,134,712.59</u>	<u>\$ 10,788,391.83</u>	<u>\$ 136,217,415.39</u>
Fund Balances (Deficits):							
Restricted	\$ -	\$ 412,815.02	\$ -	\$ 467,016.40	\$ 9,631,862.11	\$ -	\$ 10,511,693.53
Committed	-	-	208,993.31	-	-	64,313,188.63	64,522,181.94
Assigned	-	-	-	-	-	-	-
Unassigned	16,613,529.05	-	-	-	(181,265.76)	-	16,432,263.29
Total Fund Balances	<u>\$ 16,613,529.05</u>	<u>\$ 412,815.02</u>	<u>\$ 208,993.31</u>	<u>\$ 467,016.40</u>	<u>\$ 9,450,596.35</u>	<u>\$ 64,313,188.63</u>	<u>\$ 91,466,138.76</u>
Total Liabilities and Fund Balances	<u>\$ 138,907,840.02</u>	<u>\$ 412,815.02</u>	<u>\$ 208,993.31</u>	<u>\$ 467,016.40</u>	<u>\$ 12,585,308.94</u>	<u>\$ 75,101,580.46</u>	<u>\$ 227,683,554.15</u>

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

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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, 2023

	General Revenue	Consolidated Accounts					Total
	General Revenue	Land Reclamation	Anthropogenic Carbon Dioxide	Unappropriated General Revenue	Federal	Oil and Gas Regulation and Cleanup	
	Fund (0001) U/F (0001)	Fund (0454) U/F (0454)	Fund (0827) U/F (0827)	EFF (1000) U/F (1000)	Fund (5041) U/F (5041)	Fund (5155) U/F (5155)	
REVENUES							
Legislative Appropriations:							
Original Appropriations	\$ 75,245,448.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,245,448.00
Additional Appropriations	14,599,844.10	-	-	-	-	-	14,599,844.10
Federal Revenue (Fed Sch 1A)	-	-	-	\$ 2,823,982.97	28,345,095.86	8,937,291.73	40,106,370.56
Federal Pass Through Revenue (Fed Sch 1A)	-	-	-	-	-	-	-
State Grant Pass Through Revenue (Sch 1B)	-	-	-	-	-	-	-
Licenses, Fees and Permits	1,594,842.96	-	70,000.00	-	-	78,597,430.45	80,262,273.41
Interest, Dividend & Other Income	-	-	5,359.86	-	-	-	5,359.86
Settlement of Claims	1,372.02	-	-	-	-	-	1,372.02
Sales of Goods and Services	8,880.28	-	-	-	-	4,169,802.81	4,178,683.09
Total Revenues	\$ 91,450,387.36	\$ -	\$ 75,359.86	\$ 2,823,982.97	\$ 28,345,095.86	\$ 91,704,524.99	\$ 214,399,351.04
EXPENDITURES							
Salaries and Wages	\$ 52,830,705.14	\$ -	\$ -	\$ -	\$ 2,477,691.48	\$ 15,316,616.24	\$ 70,625,012.86
Payroll Related Costs	15,218,410.19	-	-	-	723,574.18	8,841,809.30	24,783,793.67
Professional Fees and Services	28,778,203.85	-	-	-	2,199,645.95	18,911,351.88	49,889,201.68
Travel	515,546.83	-	-	-	38,797.77	640,004.24	1,194,348.84
Materials and Supplies	2,945,459.90	-	-	-	115,223.12	2,298,698.28	5,359,381.30
Communication and Utilities	740,314.58	-	-	-	15,328.09	568,139.04	1,323,781.71
Repairs and Maintenance	1,127,257.05	-	-	-	15,024.32	321,455.91	1,463,737.28
Rentals and Leases	785,277.99	-	-	-	3,690.50	40,044.36	829,012.85
Printing and Reproduction	180,709.30	-	-	-	31,347.85	448,726.61	660,783.76
Claims and Judgments	13,120.04	-	-	-	-	149,500.00	162,620.04
Other Expenditures	1,044,788.32	-	-	-	22,731,023.44	42,152,465.88	65,928,277.64
Debt Service-Principal -Leases / SBITA	31,324.22	-	-	-	-	677,022.02	708,346.24
Capital Outlay	3,168,004.25	-	-	-	651,356.88	1,257,116.30	5,076,477.43
Total Expenditures	\$ 107,379,121.66	\$ -	\$ -	\$ -	\$ 29,002,703.58	\$ 91,622,950.06	\$ 228,004,775.30
Excess (Deficiency) of Revenues over Expenditures	\$ (15,928,734.30)	\$ -	\$ 75,359.86	\$ 2,823,982.97	\$ (657,607.72)	\$ 81,574.93	\$ (13,605,424.26)
OTHER FINANCING SOURCES (USES)							
Cash Transfer In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,643,630.66	\$ 8,643,630.66
Cash Transfer Out	(73,481.56)	-	-	(2,692,843.73)	-	-	(2,766,325.29)
Increase in Obligations - Leases	-	-	-	-	-	81,412.33	81,412.33
Sale of Capital Assets	97,821.43	-	-	-	-	-	97,821.43
Total Other Financing Sources (Uses)	\$ 24,339.87	\$ -	\$ -	\$ (2,692,843.73)	\$ -	\$ 8,725,042.99	\$ 6,056,539.13
Net Change in Fund Balances	\$ (15,904,394.43)	\$ -	\$ 75,359.86	\$ 131,139.24	\$ (657,607.72)	\$ 8,806,617.92	\$ (7,548,885.13)
Fund Financial Statement - Fund Balances							
Fund Balances, September 1, 2022	\$ 32,517,923.48	\$ 412,815.02	\$ 133,633.45	\$ 335,877.16	\$ 10,108,204.07	\$ 55,506,570.71	\$ 99,015,023.89
Restatements	-	-	-	-	-	-	-
Fund Balances, September 1, 2022, as Restated	\$ 32,517,923.48	\$ 412,815.02	\$ 133,633.45	\$ 335,877.16	\$ 10,108,204.07	\$ 55,506,570.71	\$ 99,015,023.89
Appropriations Lapsed	-	-	-	-	-	-	-
Fund Balances, August 31, 2023	\$ 16,613,529.05	\$ 412,815.02	\$ 208,993.31	\$ 467,016.40	\$ 9,450,596.35	\$ 64,313,188.63	\$ 91,466,138.76

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RAILROAD COMMISSION OF TEXAS (455)

State and Federal Pass-Through Schedules

**Agency 455 - Railroad Commission of Texas
Schedule 1A
For the Fiscal Year Ended August 31, 2023**

*****Certified*****

Federal Grantor/ Pass-through Grantor/ Program Title	ALN Number	NSE Name/ Identifying Number	Agy/ Univ No	Pass-through From		Direct Program Amount	Total PT From and Direct Prog. Amount	Agy/ Univ No.	Pass-through To		Expenditures Amount	Total PT To and Expenditures Amount
				Agencies or Universities Amount	Non-State Entities Amount				Agencies or Universities Amount	Non-State Entities Amount		
Environmental Protection Agency												
<u>Direct Programs:</u>												
Multipurpose Grants to States and Tribes	66.204					39,057.00	39,057.00				39,057.00	39,057.00
State Underground Water Source Protection	66.433					930,880.00	930,880.00				930,880.00	930,880.00
State and Tribal Response Program Grants	66.817					267,629.55	267,629.55				267,629.55	267,629.55
Totals - Environmental Protection Agency				0.00	0.00	1,237,566.55	1,237,566.55		0.00	0.00	1,237,566.55	1,237,566.55
U.S. Department of the Interior												
<u>Direct Programs:</u>												
Energy Community Revitalization Program (ECRP)	15.018					25,000,000.00	25,000,000.00				25,000,000.00	25,000,000.00
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250					2,775,898.36	2,775,898.36				2,775,898.36	2,775,898.36
Abandoned Mine Land Reclamation (AMLR)	15.252					1,690,445.57	1,690,445.57				1,690,445.57	1,690,445.57
Natural Resource Stewardship	15.944					1,878,507.52	1,878,507.52				1,878,507.52	1,878,507.52
Totals - U.S. Department of the Interior				0.00	0.00	31,344,851.45	31,344,851.45		0.00	0.00	31,344,851.45	31,344,851.45
U.S. Department of Transportation												
<u>Direct Programs:</u>												
Pipeline Safety Program State Base Grant	20.700					7,430,800.00	7,430,800.00				7,430,800.00	7,430,800.00
State Damage Prevention Program Grants	20.720					93,152.56	93,152.56				93,152.56	93,152.56
Totals - U.S. Department of Transportation				0.00	0.00	7,523,952.56	7,523,952.56		0.00	0.00	7,523,952.56	7,523,952.56
Total Expenditures of Federal Awards				0.00	0.00	40,106,370.56	40,106,370.56		0.00	0.00	40,106,370.56	40,106,370.56

RAILROAD COMMISSION OF TEXAS (455)

SCHEDULE 1A

Schedule of Expenditures of Federal Awards — Notes

For the Fiscal Year Ended August 31, 2023

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)	\$ 40,106,370.56
Governmental Funds - Federal Pass-Through Revenues (Exhibit II)	<u>-</u>
Total Pass Through and Expenditures per Federal Schedule	<u><u>\$ 40,106,370.56</u></u>

RAILROAD COMMISSION OF TEXAS (455)

SCHEDULE 1B

Schedule of State Grant Pass Throughs From/To State Agencies

For the Fiscal Year Ended August 31, 2023

None