



# **2018 Annual Financial Report**

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**For the Fiscal Year Ended August 31, 2018**

*State Office of Administrative Hearings*

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# State Office of Administrative Hearings



Lesli G. Ginn  
Chief Administrative Law Judge

September 27, 2018

Honorable Greg Abbott, Governor  
Honorable Glenn Hegar, Texas Comptroller  
Ursula Parks, Director, Legislative Budget Board  
Lisa Collier, First Assistant State Auditor

Ladies and Gentlemen:

We are pleased to submit the annual financial report of the State Office of Administrative Hearings 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 Texas Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) 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 Lisa Turner, Financial Analyst, at 512-305-9385.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kimberly Dudish".

Kimberly Dudish  
Chief Operating Officer

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## **I. COMBINED FINANCIAL STATEMENTS**

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**EXHIBIT I - COMBINED BALANCE SHEET/STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**August 31, 2018**

	Governmental Fund Types	
	GENERAL FUNDS (Fund 0001) U/F 0001	GOVERNMENTAL FUNDS TOTAL
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents:		
Legislative Appropriations	\$4,563,104.81	\$4,563,104.81
Receivables From:		\$0.00
Accounts Receivable	\$87,552.00	\$87,552.00
Total Current Assets	\$4,650,656.81	\$4,650,656.81
<b>Non-Current Assets:</b>		
Total Non-Current Assets	\$0.00	\$0.00
<b>TOTAL ASSETS</b>	<b>\$4,650,656.81</b>	<b>\$4,650,656.81</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Payables From:		
Payroll Payable	\$1,106,010.08	\$1,106,010.08
Due to Others	\$12,437.52	\$12,437.52
Total Current Liabilities	\$1,118,447.60	\$1,118,447.60
<b>Non-Current Liabilities:</b>		
Total Non-Current Liabilities	\$0.00	\$0.00
<b>TOTAL LIABILITIES</b>	<b>\$1,118,447.60</b>	<b>\$1,118,447.60</b>
<b>Fund Financial Statement</b>		
<b>FUND BALANCES</b>		
<b>Reserved For:</b>		
Nonspendable		-
Unassigned	\$3,532,209.21	\$3,532,209.21
Restricted	\$0.00	\$0.00
	<b>\$3,532,209.21</b>	<b>\$3,532,209.21</b>
<b>TOTAL FUND BALANCES</b>	<b>\$3,532,209.21</b>	<b>\$3,532,209.21</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$4,650,656.81</b>	<b>\$4,650,656.81</b>

**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

	Governmental Fund Types	
	GENERAL FUNDS (Fund 0001)	GOVERNMENTAL FUNDS
	U/F 0001	TOTAL
<b>REVENUES</b>		
Original Legislative Appropriation	\$7,141,646.00	\$7,141,646.00
Additional Appropriations	\$1,544,348.19	\$1,544,348.19
Licenses, Fees, and Permits	\$38,548.00	\$38,548.00
Sales of Goods and Services	\$5,806,527.95	\$5,806,527.95
Other	-	-
<b>TOTAL REVENUES</b>	<b>\$14,531,070.14</b>	<b>\$14,531,070.14</b>
<b>EXPENDITURES</b>		
Salaries and Wages	\$9,098,013.17	\$9,098,013.17
Payroll Related Costs	\$2,543,576.57	\$2,543,576.57
Professional Fees and Services	\$46,175.50	\$46,175.50
Travel	\$112,910.67	\$112,910.67
Materials and Supplies	\$930,031.94	\$930,031.94
Communication and Utilities	\$155,177.88	\$155,177.88
Repairs and Maintenance	\$89,745.08	\$89,745.08
Rentals and Leases	\$301,557.91	\$301,557.91
Printing and Reproduction	\$688.06	\$688.06
Other Expenditures	\$690,514.96	\$690,514.96
<b>TOTAL EXPENDITURES</b>	<b>\$13,968,391.74</b>	<b>\$13,968,391.74</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$562,678.40</b>	<b>\$562,678.40</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Operating Transfers In (Out)	-	-
Appropriations Lapsed	\$804,666.33	\$804,666.33
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$804,666.33</b>	<b>\$804,666.33</b>
<b>NET CHANGES IN FUND BALANCE/NET ASSETS</b>	<b>(\$241,987.93)</b>	<b>(\$241,987.93)</b>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>		
Fund Balances - Beginning	\$3,774,197.14	\$3,774,197.14
Adjustment to Fund Balances (Restatements) Note 14		\$0.00
Fund Balances as Restated	\$3,774,197.14	\$3,774,197.14
<b>FUND BALANCES, AUGUST 31, 2018</b>	<b>\$3,532,209.21</b>	<b>\$3,532,209.21</b>

**Exhibit VI - Combined Statement of Net Assets - Agency Funds**  
**August 31, 2018**

	<u>Agency Funds (Exhibit J-1)</u>	<u>Totals</u>
<b>ASSETS</b>		
Cash and Cash Equivalents:		
Cash in State Treasury	\$19,649.44	\$19,649.44
Total Current Assets	<u>\$19,649.44</u>	<u>\$19,649.44</u>
 Total Assets	 <u>\$19,649.44</u>	 <u>\$19,649.44</u>
<b>LIABILITIES</b>		
Funds Held for Others	\$19,649.44	\$19,649.44
Total Current Liabilities	<u>\$19,649.44</u>	<u>\$19,649.44</u>
 Total Liabilities	 <u>\$19,649.44</u>	 <u>\$19,649.44</u>

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## **II. NOTES TO THE FINANCIAL STATEMENTS**

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## **Note 1: Summary of Significant Accounting Policies**

### **I. Entity**

State Office of Administrative Hearings (SOAH) is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

SOAH was created by the Texas Legislature in 1991 to provide a neutral, independent forum for the resolution of disputes, primarily between state agencies or other governmental entities and individuals or entities regulated by them. SOAH is headed by the Chief Administrative Law Judge, who is appointed by the Governor for a two-year term with the advice and consent of the Senate. SOAH's mission is to serve as an independent, neutral forum for the State of Texas by providing a fair and efficient hearings process and opportunity for alternative dispute resolution proceedings. SOAH's key functions, powers, and duties are defined in the Texas Government Code Chapter 2003 (SOAH'S enabling statute) and Section 2001.058 (Administrative Procedure Act/Hearings Conducted by SOAH).

SOAH has no potential component units. Therefore, there will be no disclosures of component units.

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

Blended Component Units: No component units have been identified which should have been blended into an appropriated fund.

### **II. 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 & Government-wide Adjustment Fund Types**

##### **General Funds**

###### General Revenue Fund (0001)

The general revenue Fund fund is the principal operating fund used to account for most of the state's general activities. It accounts for all the financial resources except those accounted for in other funds.

### Special Revenue Fund

Special revenue funds are used to account for the proceeds of specific revenue sources (other than for private-purpose trusts or for major capital projects) that are legally restricted to use for specified purposes.

### Capital Asset Adjustment Fund Type

Capital Asset Adjustment fund type will be used to convert governmental fund types' capital assets from modified accrual to full accrual.

### Long-Term Liabilities Adjustment Fund Type

Long-Term Liabilities Adjustment fund type will be used to convert governmental fund types' debt from modified accrual to full accrual.

### Other Adjustments Fund Type

Other Adjustments fund type will be used to convert all other governmental fund types' activity from modified accrual to full accrual.

## **Fiduciary Fund Types**

### Agency Funds:

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

## **Basis of Accounting**

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

Governmental fund types that build the fund financial statements are accounted for using the modified accrual method basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end.

The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Basis conversion fund types convert modified accrued basis to full accrued basis of accounting. This includes capital assets, accumulated depreciation, unpaid employee compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, and long-term claims and judgments and full accrual revenues and expenses. The activity will be recognized in these fund types.

### **III. Budgets and Budgetary Accounting**

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

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

### **IV. Assets, Liabilities, and Fund Balances/Net Assets**

#### **Assets**

##### Cash & Cash Equivalents

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

##### Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year should be capitalized. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

##### Accounts Receivable

Other receivables include year-end revenue accruals not included in any other receivable category. This account can appear in governmental and proprietary fund types.

#### **Liabilities**

##### Accounts Payable

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

Other Payables: Other payables are the accrual at year-end of expenditure transactions not included in any other payable descriptions. Other payables may be included in either the governmental or proprietary fund types.

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 the covered employee.

#### **Fund Balance / Net Assets**

The difference between fund assets and liabilities is 'Net Assets' on the government-wide, proprietary and fiduciary fund statements, and the 'Fund Balance' is the difference between fund assets and liabilities on the governmental fund statements.

## **Fund Balance Components**

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.

Unassigned Fund is the residual classification for the general fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

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

## Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2018, is presented below :

GOVERNMENTAL ACTIVITIES	Balance 9/1/2017	Adjustments	Completed CIP	Inc- Int'agy Trans	Dec- Int'agy Trans	Additions	Deletions	Balance 8/31/2018
<b>Depreciable Assets</b>								
Furniture and Equipment	332,389.96	(6,249.78)				0.00	(27,632.85)	298,507.33
Total Depreciable Assets at Historical Costs	<u>332,389.96</u>	<u>(6,249.78)</u>				<u>0.00</u>	<u>(27,632.85)</u>	<u>298,507.33</u>
Less Accumulated Depreciation for:								
Furniture and Equipment	(219,555.09)					(29,007.89)	26,019.65	(222,543.33)
Total Accumulated Depreciation	<u>(219,555.09)</u>					<u>(29,007.89)</u>	<u>26,019.65</u>	<u>(222,543.33)</u>
<b>Amortizable Assets - Intangible</b>								
Computer Software	13,447.93							13,447.93
Total Depreciable Assets at Historical Costs	<u>13,447.93</u>							<u>13,447.93</u>
Less Accumulated Amortization for:								
Computer Software	(13,447.93)							(13,447.93)
Total Accumulated Amortization	<u>(13,447.93)</u>							<u>(13,447.93)</u>
Governmental Activities Capital Assets, Net	<u>\$112,834.87</u>	<u>\$(6,249.78)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(29,007.89)</u>	<u>\$(1,613.20)</u>	<u>\$ 75,964.00</u>

**Note 5: Long-Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ending August 31, 2018, the following changes occurred in liabilities.

<b>Governmental Activities</b>	<b>Balance 9/1/2017</b>	<b>Additions*</b>	<b>Reductions</b>	<b>Balance 8/31/2018</b>	<b>Amounts Due Within One Year</b>	<b>Amounts Due Thereafter</b>
Compensable Leave	\$882,097.34	\$850,928.34	\$953,783.89	\$779,241.79	\$504,622.17	\$274,619.59
Total Governmental Activities	\$882,097.34	\$850,928.34	\$953,783.89	\$779,241.79	\$504,622.17	\$274,619.59

\*The additions column includes salary adjustments at 9/1/2017.

**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 and compensatory leave balances are recognized as expenditures in the period paid or taken in governmental fund types.

**Note 8: Operating Leases**

Included in the financial statements for fiscal year ending August 31, 2018 are expenditures of rent paid or due under operating lease obligations.

<u>Fund Type</u>	<u>Amount</u>
General Revenue Fund	\$279,571.79

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

<u>Year End August 31</u>	<u>Amount</u>
2019	\$313,135.26
2020	\$314,939.24
2021	\$293,750.74
2022	\$295,177.84
2023	\$297,736.68
Total Future Minimum Lease Payments	<b>\$1,514,739.76</b>

**Note 13: Continuance Subject to Review**

The *Texas Sunset Act* requires that all state agencies be reviewed every 12 years to determine whether they provide essential services to the citizens of Texas and should continue operations.

Under the *Texas Sunset Act*, Texas Government Code Chapter 325, the State Office of Administrative Hearings (SOAH) is subject to review, but not subject to being abolished under the Act. SOAH was reviewed in 2015 and is scheduled for review again in 2027 (and every 12<sup>th</sup> year after 2027).



**Note 14: Adjustments to Fund Balances and Net Assets**

During Fiscal Year 18, an adjustment was made that required the restatement of fund balances or net position. The restatement was as follows:

<b>Balance of General Fixed Assets</b>	<b>9/1/2017</b>
Beginning Balance	\$332,389.96
Restatement	(6,249.78)
Ending Balance As Restated	<b>\$326,140.18</b>

The adjustment of \$6,249.78 is due to a CAPPS to SPA reporting process that increased the cost of Network Equipment Cabinet asset that had been recorded in SPA as of 8/31/2017. The cost was corrected after the reporting deadline passed for simplified reporting agencies; therefore an adjustment is required.

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### **III. COMBINING FINANCIAL STATEMENTS**

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**Exhibit J-1 - Combining Statement of Changes in Assets and Liabilities - Agency Funds**  
**August 31, 2018**

	Beginning Balance <u>September 1, 2017</u>	Additions	Deductions	Ending Balance <u>August 31, 2018</u>
<b><u>Child Support Deductions (0807)</u></b>				
<b>ASSETS</b>				
Cash in State Treasury	\$809.52	\$10,523.76	\$10,523.76	\$809.52
Total Assets	<u>\$809.52</u>	<u>\$10,523.76</u>	<u>\$10,523.76</u>	<u>\$809.52</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$809.52	\$20,238.00	\$20,238.00	\$809.52
Total Liabilities	<u>\$809.52</u>	<u>\$20,238.00</u>	<u>\$20,238.00</u>	<u>\$809.52</u>
<b><u>Departmental Suspense (0900)</u></b>				
<b>ASSETS</b>				
Cash in State Treasury	\$29,022.08	\$59,022.08	\$74,544.16	\$13,500.00
Total Assets	<u>\$29,022.08</u>	<u>\$59,022.08</u>	<u>\$74,544.16</u>	<u>\$13,500.00</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$29,022.08	\$59,022.08	\$74,544.16	\$13,500.00
Total Liabilities	<u>\$29,022.08</u>	<u>\$59,022.08</u>	<u>\$74,544.16</u>	<u>\$13,500.00</u>
<b><u>Direct Deposit Correction (0980)</u></b>				
<b>ASSETS</b>				
Cash in State Treasury	\$0.00	\$11,490.84	\$6,150.92	\$5,339.92
Total Assets	<u>\$0.00</u>	<u>\$11,490.84</u>	<u>\$6,150.92</u>	<u>\$5,339.92</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$0.00	\$11,490.84	\$6,150.92	\$5,339.92
Total Liabilities	<u>\$0.00</u>	<u>\$11,490.84</u>	<u>\$6,150.92</u>	<u>\$5,339.92</u>
<b><u>TOTAL</u></b>				
<b>ASSETS</b>				
Cash in State Treasury	\$29,831.60	\$81,036.68	\$16,674.68	\$19,649.44
Total Assets	<u>\$29,831.60</u>	<u>\$81,036.68</u>	<u>\$16,674.68</u>	<u>\$19,649.44</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$29,831.60	\$90,750.92	\$100,933.08	\$19,649.44
Total Liabilities	<u>\$29,831.60</u>	<u>\$90,750.92</u>	<u>\$100,933.08</u>	<u>\$19,649.44</u>