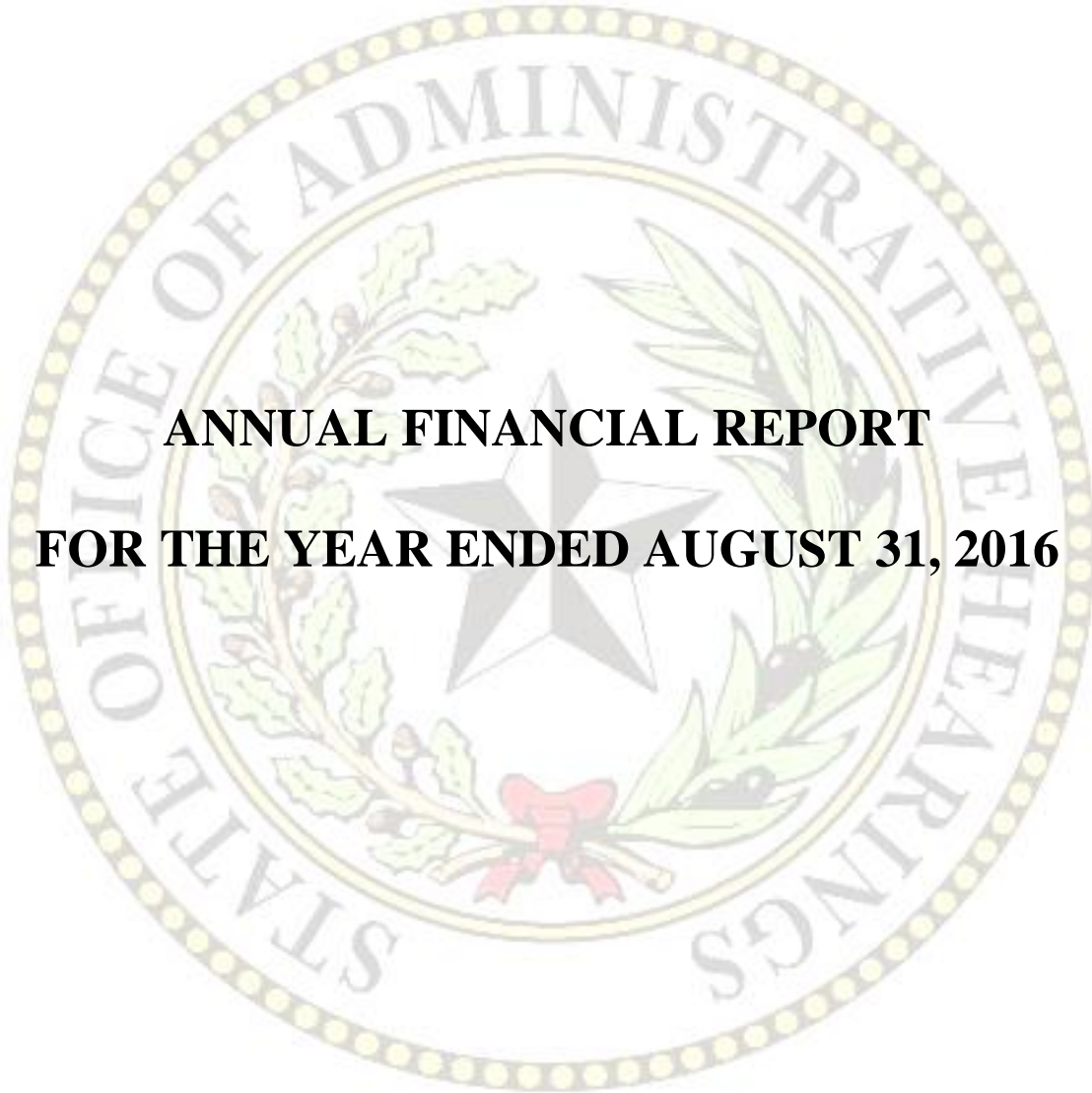


STATE OFFICE OF ADMINISTRATIVE HEARINGS

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016**



Lesli G. Ginn
Chief Administrative Law Judge

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State Office of Administrative Hearings



Lesli G. Ginn
Chief Administrative Law Judge

November 15, 2016

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, 2016, 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 Kim Dudish, Chief Financial Officer, at 512-463-8575.

Sincerely,

A handwritten signature in blue ink, appearing to read "L. Ginn".

Lesli G. Ginn
Chief Administrative Law Judge

COMBINED FINANCIAL STATEMENTS

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STATE OFFICE OF ADMINISTRATIVE HEARINGS (360)
EXHIBIT I - COMBINED BALANCE SHEET/STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
ALL FUND TYPES AND ACCOUNT GROUPS
August 31, 2016

	Governmental Fund Types	
	GENERAL FUNDS (Fund 0001) U/F 0001	GOVERNMENTAL FUNDS TOTAL
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash on Hand		-
Cash in Bank		-
Legislative Appropriations	3,635,029.93	3,635,029.93
Receivables From:		-
Accounts Receivable	135,158.69	135,158.69
Due from Other Agencies		-
Other Assets		-
Total Current Assets	3,770,188.62	3,770,188.62
Non-Current Assets:		
Total Non-Current Assets	-	-
TOTAL ASSETS	3,770,188.62	3,770,188.62
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Current Liabilities:		
Payables From:		
Payroll Payable	940,492.11	940,492.11
Due to Other Agencies	-	-
Total Current Liabilities	940,492.11	940,492.11
Non-Current Liabilities:		
Total Non-Current Liabilities	-	-
TOTAL LIABILITIES	940,492.11	940,492.11
Fund Financial Statement		
FUND BALANCES		
Reserved For:		
Nonspendable		-
Unassigned	687,930.33	687,930.33
Restricted		
	687,930.33	687,930.33
TOTAL FUND BALANCES	687,930.33	687,930.33
TOTAL LIABILITIES AND FUND BALANCES	1,628,422.44	1,628,422.44

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

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STATE OFFICE OF ADMINISTRATIVE HEARINGS (360)
EXHIBIT II - COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended August 31, 2016

	Governmental Fund Types		
	GENERAL FUNDS (Fund 0001) U/F 0001	SPECIAL REVENUE FUNDS (Fund 0006) U/F 0006	GOVERNMENTAL FUNDS TOTAL
REVENUES			
Original Legislative Appropriation	\$ 8,786,105.00		\$ 8,786,105.00
Additional Appropriations	2,154,962.00		2,154,962.00
Licenses, Fees, and Permits	76,325.94		76,325.94
Sales of Goods and Services	3,908,564.32		3,908,564.32
Other	-		-
TOTAL REVENUES	\$ 14,925,957.26	\$ -	\$ 14,925,957.26
EXPENDITURES			
Salaries and Wages	9,200,307.13	1,116.36	9,201,423.49
Payroll Related Costs	2,401,365.34	63,128.38	2,464,493.72
Professional Fees and Services	17,868.23	647.63	18,515.86
Travel	129,315.64	-	129,315.64
Materials and Supplies	137,087.93	9,331.88	146,419.81
Communication and Utilities	123,310.73	3,617.44	126,928.17
Repairs and Maintenance	89,931.27	4,851.06	94,782.33
Rentals and Leases	266,487.32	830.44	267,317.76
Printing and Reproduction	3,144.64	-	3,144.64
Other Expenditures	274,208.96	1,925.71	276,134.67
Capital Outlay	22,750.18	7,784.22	30,534.40
TOTAL EXPENDITURES	\$ 12,665,777.37	\$ 93,233.12	\$ 12,759,010.49
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,260,179.89	(93,233.12)	2,166,946.77
OTHER FINANCING SOURCES (USES)			
Operating Transfers In (Out)	-	93,233.12	93,233.12
Appropriations Lapsed	118,413.71	-	118,413.71
TOTAL OTHER FINANCING SOURCES (USES)	118,413.71	93,233.12	211,646.83
NET CHANGES IN FUND BALANCE/NET ASSETS	2,141,766.18	-	2,378,593.60
FUND FINANCIAL STATEMENT-FUND BALANCES			
Fund Balances - Beginning	687,930.33	-	687,930.33
Restatements			-
Fund Balances as Restated	687,930.33	-	687,930.33
FUND BALANCES, AUGUST 31, 2016	\$ 2,829,696.51	\$ -	\$ 3,066,523.93

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

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State Office of Administrative Hearings (360)

Exhibit VI - Combined Statement of Net Assets - Agency Funds

August 31, 2016

	Agency Funds (Exhibit J-1)	Totals
ASSETS		
Cash and Cash Equivalents:		
Cash in State Treasury	\$ 60,810.54	\$ 60,810.54
Total Current Assets	60,810.54	60,810.54
Total Assets	\$ 60,810.54	\$ 60,810.54
LIABILITIES		
Funds Held for Others	\$ 60,810.54	60,810.54
Total Current Liabilities	60,810.54	60,810.54
Total Liabilities	\$ 60,810.54	\$ 60,810.54

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

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State Office of Administrative Hearings (360)

Note 1: Summary of Significant Accounting Policies

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.

Fund Structure

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

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State Office of Administrative Hearings (360)

Governmental Fund Types & Government-wide Adjustment Fund Types

General Fund: The general 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

Fiduciary funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used.

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

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

UNAUDITED

State Office of Administrative Hearings (360)

the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual 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.

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.

Assets, Liabilities, and Fund Equity

Assets

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

Restricted Assets: Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include proceeds of enterprise fund general obligation and revenue bonds and revenues set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

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. “Inexhaustible” assets such as works of art and historical treasures are not depreciated. Road and highway infrastructure is reported on the modified basis. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

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

Other Receivables: 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. Liabilities are reported separately as either current or non-current in the statement of net assets.

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: 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 (1) not in spendable form or (2) 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 (1) the Texas Legislature or (2) 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.

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.

Restricted Net Assets: Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets: Unrestricted net assets consist of net assets 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 Transactions and Balances

The agency has the following types of transactions among funds:

Transfers: Legally required transfers that are reported when incurred as 'Transfers In' by the recipient fund and as 'Transfer Out' by the disbursing fund.

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State Office of Administrative Hearings (360)

Note 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2016, is presented below:

	Balance 9/1/2015	Adj	Reclassifications Completed CIP	Inc- Int'agy Trans	Dec- Int'agy Trans	Additions	Deletions	Balance 8/31/2016
GOVERNMENTAL ACTIVITIES								
Depreciable Assets								
Furniture and Equipment	274,687.66					30,534.40	(18,721.50)	286,500.56
Other Capital Assets	-							-
Total Depreciable Assets at Historical								
Costs	<u>274,687.66</u>					<u>30,534.40</u>	<u>(18,721.50)</u>	<u>286,500.56</u>
Less Accumulated Depreciation for:								
Furniture and Equipment	(217,604.92)					(22,405.28)	18,721.50	(221,288.70)
Other Capital Assets	-							-
Total Accumulated Depreciation	<u>(217,604.92)</u>					<u>(22,405.28)</u>	<u>18,721.50</u>	<u>(221,288.70)</u>
Amortizable Assets - Intangible								
Computer Software	13,447.93							13,447.93
Other Intangible Capital Assets	-							-
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)
Other Intangible Capital Assets	-							-
Total Accumulated Amortization	<u>(13,447.93)</u>							<u>(13,447.93)</u>
Governmental Activities Capital Assets, Net	<u>\$ 57,082.74</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,129.12</u>	<u>\$ -</u>	<u>\$ 65,211.86</u>

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State Office of Administrative Hearings (360)

Note 5: Long Term Liabilities

Changes in Long-Term Liabilities

During the year ended August 31, 2016, the following changes occurred in liabilities.

Governmental Activities	Balance 9/01/15	Additions	Reductions	Balance 8/31/16	Amounts Due Within 1 Year	Amounts Due Thereafter
Compensable Leave	\$828,761.43	\$876,376.84	\$823,482.73	\$881,655.54	\$553,387.32	\$328,268.22
Total Governmental Activities	\$828,761.43	\$876,376.84	\$823,482.73	\$881,655.54	\$553,387.32	\$328,268.22

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. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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State Office of Administrative Hearings (360)

Note 8: Leases

OPERATING LEASES

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

Fund Type	Amount
General Revenue Fund	\$243,018.52

During FY 2016 future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are as follows:

	Minimum Lease Payment
Year Ending August 31, 2017	\$251,441.28
Year Ending August 31, 2018	\$236,722.84
Year Ending August 31, 2019	\$194,314.38
Year Ending August 31, 2020	\$112,628.66
Year Ending August 31, 2021	\$63,905.16
Total Minimum Future Lease Rental Payments	\$859,012.32

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State Office of Administrative Hearings (360)

Note 12: Interfund Activities and Transactions

As explained in Note 1 on “Interfund Activities and Balances,” there can be numerous transactions between funds and agencies. At year-end, amounts to be received or paid are reported as:

- Due From Other Agencies or Due to Other Agencies
- Transfers In or Transfers Out
- Legislative Transfers In or Legislative Transfers Out

Individual balances and activity at August 31, 2016 as follows:

Operating Transfers	Due From Other Agencies	
Agency 601, Fund 0006	\$93,233.12	Intrafund Transfer

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State Office of Administrative Hearings (360)

Note 13: Continuance Subject to Review

Under the Texas Sunset Act, Texas Government Code Chapter 325, 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 12th year after 2027).

COMBINING FINANCIAL STATEMENTS

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State Office of Administrative Hearings (360)

Exhibit J-1 - Combining Statement of Changes in Assets and Liabilities - Agency Funds

August 31, 2016

	Beginning Balance September 1, 2015	Additions	Deductions	Ending Balance August 31, 2016
<u>Child Support Deductions (0807)</u>				
ASSETS				
Cash in State Treasury	1,523.12	17,659.76	18,373.36	809.52
Total Assets	<u>\$ 1,523.12</u>	<u>\$ 17,659.76</u>	<u>\$ 18,373.36</u>	<u>\$ 809.52</u>
LIABILITIES				
Funds Held for Others	1,523.12	36,033.12	36,746.72	809.52
Total Liabilities	<u>\$ 1,523.12</u>	<u>\$ 36,033.12</u>	<u>\$ 36,746.72</u>	<u>\$ 809.52</u>
<u>Departmental Suspense (0900)</u>				
ASSETS				
Cash in State Treasury	39,001.02	101,001.02	80,001.02	60,001.02
Total Assets	<u>\$ 39,001.02</u>	<u>\$ 101,001.02</u>	<u>\$ 80,001.02</u>	<u>\$ 60,001.02</u>
LIABILITIES				
Funds Held for Others	39,001.02	109,839.18	88,839.18	60,001.02
Total Liabilities	<u>\$ 39,001.02</u>	<u>\$ 109,839.18</u>	<u>\$ 88,839.18</u>	<u>\$ 60,001.02</u>
<u>TOTAL</u>				
ASSETS				
Cash in State Treasury	40,524.14	118,660.78	98,374.38	60,810.54
Total Assets	<u>\$ 40,524.14</u>	<u>\$ 118,660.78</u>	<u>\$ 98,374.38</u>	<u>\$ 60,810.54</u>
LIABILITIES				
Funds Held for Others	40,524.14	145,872.30	125,585.90	60,810.54
Total Liabilities	<u>\$ 40,524.14</u>	<u>\$ 145,872.30</u>	<u>\$ 125,585.90</u>	<u>\$ 60,810.54</u>

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