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SFR-045/06
October 2006

Annual Financial Report

Fiscal Year Ending August 31, 2006

printed on
recycled paper

Financial Administration Division

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Annual Financial Report

Fiscal Year Ending August 31, 2006

Prepared by
Financial Administration Division

SFR-045/06
October 2006



Kathleen Hartnett White, *Chairman*
Larry R. Soward, *Commissioner*
Martin A. Hubert, *Commissioner*

Glenn Shankle, *Executive Director*

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by the
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Honorable Rick Perry, Governor
Honorable Carole Keeton Strayhorn, State Comptroller
John O'Brien, Deputy Director, Legislative Budget Board
John Keel, CPA, State Auditor

Lady and Gentlemen:

Attached is the Texas Commission on Environmental Quality's annual financial report for the period of September 1, 2005 thru August 31, 2006. This report is being submitted in compliance with Tex. Gov't Code Ann. §2101.011 and in accordance with the requirements of the Comptroller of Public Accounts.

Due to statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and 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 of 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.

If you have any questions, please contact Ms. Linda Flores, Chief Financial Officer, at 239-0290.

Sincerely,

Glenn Shankle
Executive Director

COMBINED FINANCIAL STATEMENTS

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-UNAUDITED-

EXHIBIT I
COMBINED BALANCE SHEET
Statement of Net Assets - Governmental Funds
August 31, 2006

	Governmental Fund Type	Capital Asset	Long Term Liabilities	Other	Statement of	Discrete
	General (Exh. A-1)	Adjustment	Adjustment	Adjustment	Net Assets	Governmental Component Units
Assets						
Current Assets:						
Cash in Bank	\$ 23,050.00	\$	\$	\$	\$ 23,050.00	\$
Cash in State Treasury	573,542,798.98				573,542,798.98	
Legislative Appropriations	5,883,900.28				5,883,900.28	253,551.77
Receivables From:						
Federal	157,172.00				157,172.00	
Interest						
A/R - Licenses, Fees, & Permits	1,988,338.90				1,988,338.90	
Interfund Receivable (Note 8)	27,416.09				27,416.09	
Due From Other Agencies (Note 8)	324,143,584.09				324,143,584.09	
Consumable Inventories	178,123.34				178,123.34	
Total Current Assets	905,944,383.68				905,944,383.68	253,551.77
Non - Current Assets:						
Capital Assets:						
Non - Depreciable						
Land and Land Improvements						
Depreciable						
Buildings and Building Improvements		4,544,105.74			4,544,105.74	
Less - Accumulated Depreciation		(1,681,704.78)			(1,681,704.78)	
Furniture and Equipment		59,208,661.99			59,208,661.99	
Less - Accumulated Depreciation		(41,231,933.55)			(41,231,933.55)	
Vehicles, Boats, & Aircraft		8,462,623.88			8,462,623.88	
Less - Accumulated Depreciation		(3,783,227.18)			(3,783,227.18)	
Other		817,368.23			817,368.23	
Less - Accumulated Depreciation		(632,343.01)			(632,343.01)	
Total Non Current Assets		25,703,551.32			25,703,551.32	
Total Assets	\$ 905,944,383.68	\$ 25,703,551.32	\$	\$	\$ 931,647,935.00	\$ 253,551.77

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

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (582)

	Governmental Fund Type General (Exh. A-1)	Capital Asset Adjustment	Long Term Liabilities Adjustment	Other Adjustment	Statement of Net Assets	Discrete Governmental Component Units
Liabilities						
Current Liabilities:						
Payables from:						
Accounts Payable	\$ 2,129,891.28	\$	\$	\$	\$ 2,129,891.28	\$ 795.21
Payroll Payable	14,340,550.81				14,340,550.81	
Contracts Retainage Payable	762,518.55				762,518.55	
Interfund Payable (Note 8)	27,416.09				27,416.09	32.30
Due to Other Agencies (Note 8)	451,135.65				451,135.65	
Employees Compensable Leave (Note 5)			7,716,468.14		7,716,468.14	
Total Current Liabilities	<u>17,711,512.38</u>		<u>7,716,468.14</u>		<u>25,427,980.52</u>	<u>827.51</u>
Non-Current Liabilities:						
Employees' Compensable Leave (Note 5)			5,615,152.28		5,615,152.28	
Total Non-Current Liabilities			<u>5,615,152.28</u>		<u>5,615,152.28</u>	
Total Liabilities	<u>17,711,512.38</u>		<u>13,331,620.42</u>		<u>31,043,132.80</u>	<u>827.51</u>
Fund Financial Statement						
Fund Balances:						
Reserved For:						
Encumbrances	324,034,161.69				324,034,161.69	239,390.08
Inventories	178,123.34				178,123.34	
Imprest Accounts	23,050.00				23,050.00	
Total Reserved	<u>324,235,335.03</u>				<u>324,235,335.03</u>	<u>239,390.08</u>
Unreserved:						
Undesignated	563,997,536.27				563,997,536.27	13,334.18
Total Fund Balances	<u>888,232,871.30</u>				<u>888,232,871.30</u>	<u>252,724.26</u>
Total Liabilities and Fund Balance	<u>\$ 905,944,383.68</u>	<u>\$</u>	<u>\$ 13,331,620.42</u>	<u>\$</u>	<u>\$ 919,276,004.10</u>	<u>\$ 253,551.77</u>

Government-Wide Statement of Net Assets

Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 25,703,551.32	\$	\$	\$	\$ 25,703,551.32	
Unrestricted			(13,331,620.42)		(13,331,620.42)	
Total Net Assets	<u>\$ 25,703,551.32</u>	<u>\$</u>	<u>(13,331,620.42)</u>	<u>\$</u>	<u>\$ 12,371,930.90</u>	

-UNAUDITED-

EXHIBIT II
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Statement of Activities - Governmental Funds
For the Year Ended August 31, 2006

	General Funds (Exh. A-2)	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Activities	Discrete Governmental Component Units
Revenues						
Legislative Appropriations:						
Original Appropriations	\$ 2,641,189.40	\$	\$	\$	\$ 2,641,189.40	\$ 330,000.00
Additional Appropriations	3,790,898.80				3,790,898.80	136.76
Federal Revenues	53,625,311.00				53,625,311.00	
Federal Pass-Through Revenues	8,968,793.07				8,968,793.07	
State Grant Pass Through	100,000.00					
Licenses, Fees and Permits	317,213,205.73				317,213,205.73	
Interest & Investment Income	4,728,342.97				4,728,342.97	
Settlement of Claims	17,298.27				17,298.27	
Sales of Goods and Services	242,726.73				242,726.73	
Other	1,089,879.91				1,089,879.91	
Total Revenues	392,417,645.88				392,417,645.88	330,136.76
Expenditures						
Salaries and Wages	140,774,620.92		1,011,234.51		141,785,855.43	1,590.00
Payroll Related Costs	36,693,244.91				36,693,244.91	136.76
Professional Fees and Services	49,958,989.44				49,958,989.44	169,703.86
Travel	2,056,140.28				2,056,140.28	15,928.11
Materials and Supplies	9,919,027.52				9,919,027.52	1,906.22
Communications and Utilities	2,204,744.42				2,204,744.42	
Repairs and Maintenance	4,506,768.90				4,506,768.90	2,112.00
Rentals and Leases	6,747,370.21				6,747,370.21	
Printing and Reproduction	575,618.60				575,618.60	
Claims and Judgements	6,295.75				6,295.75	
Federal Pass-Through Expenditures	2,091,599.65				2,091,599.65	
State Grant Pass-Through Expenditures	3,543,802.68				3,543,802.68	38,139.74
Intergovernmental Payments	27,289,069.37				27,289,069.37	14,688.19
Public Assistance Programs	11,369,278.77				11,369,278.77	
Other Operating Expenditures	131,369,583.24				131,369,583.24	39,563.89
Capital Outlay	6,354,866.12	(6,354,866.12)			0.00	
Depreciation Expense		5,550,526.21			5,550,526.21	
Total Expenditures	435,461,020.78	(804,339.91)	1,011,234.51		435,667,915.38	283,768.77
Excess (Deficit) of Revenues over Expenditures	(43,043,374.90)	804,339.91	(1,011,234.51)		(43,250,269.50)	46,367.99
Other Financing Sources (Uses)						
Transfers In (Note 8)	136,405,264.20				136,405,264.20	
Transfers Out (Note 8)	(8,466,014.49)				(8,466,014.49)	
Sale of Capital Assets	59,279.45				59,279.45	
Loss on Capital Assets		(514,229.48)			(514,229.48)	
Insurance Recoveries	3,631.01					
Legislative Transfers In (Note 8)	375,679.14				375,679.14	
Legislative Transfers Out (Note 8)	(4,588,416.21)				(4,588,416.21)	
Decrease in Net Assets Due to Interagency Transfer		(56,536.54)			(56,536.54)	
Total Other Financing Sources (Uses)	123,789,423.10	(570,766.02)			123,218,657.08	0.00
Net Change in Fund Balances/Net Assets	80,746,048.20	233,573.89	(1,011,234.51)		79,968,387.58	46,367.99
Fund Financial Statement - Fund Balance						
Fund Balance - Beginning	816,410,619.63				816,410,619.63	238,704.90
Restatements	(7,718,600.31)				(7,718,600.31)	
Fund Balance as Restated	808,692,019.32				808,692,019.32	238,704.90
Appropriations Lapsed	(1,205,196.22)				(1,205,196.22)	(32,348.63)
Fund Balances - August 31, 2006	\$ 888,232,871.30	\$	\$	\$	\$ 888,232,871.30	\$ 252,724.26
Government-wide Statement of Net Assets						
Net Change in Net Assets	\$ 233,573.89	\$ (1,011,234.51)	\$	\$	\$ (777,660.62)	
Net Assets-Beginning	25,469,977.43	(12,320,385.91)			13,149,591.52	
Net Assets, September 1, 2005, as Restated and Adjusted	25,469,977.43	(12,320,385.91)			13,149,591.52	
Net Assets-August 31, 2006	\$ 25,703,551.32	\$ (13,331,620.42)	\$	\$	\$ 12,371,930.90	

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EXHIBIT VI
COMBINED STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
August 31, 2006

	Agency Funds <u>(Exhibit J-1)</u>
Assets	
Current Assets:	
Cash in State Treasury	\$ 5,611.25
Other Assets	<u>1,782,771.25</u>
Total Current Assets	<u><u>1,788,382.50</u></u>
Total Assets	<u><u>1,788,382.50</u></u>
Liabilities	
Current Liabilities:	
Accounts Payable	0.00
Funds Held for Others	<u>1,788,382.50</u>
Total Current Liabilities	<u><u>1,788,382.50</u></u>
Total Liabilities	<u><u>1,788,382.50</u></u>
Net Assets	
Net Assets:	<u>0.00</u>
Total Net Assets	<u><u>\$ 0.00</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

-UNAUDITED-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity

The Texas Commission on Environmental Quality (TCEQ) is an agency of the State of Texas and its financial records comply with state statutes and regulations. The accompanying financial statements of the TCEQ have been prepared to conform to the "Reporting Requirements for Annual Financial Reports of State Agencies" as prescribed by the Comptroller of Public Accounts.

In accordance with Senate Bill 2, Acts of the 72nd Legislature First Called Session, Subchapter B, the state's environmental protection functions were consolidated within the TCEQ. The TCEQ operates as a regulatory agency to implement the provisions of the constitution and laws of the state with regard to promoting the judicious use and maximum conservation and protection of the quality of air, land, and both surface and ground water.

The Texas On-site Wastewater Treatment Research Council (Council) is a component unit of the TCEQ. The Council awards competitive grants and contracts to support applied research, demonstration projects, and information transfer regarding on-site wastewater treatment. The Council's financial information will be presented in the discrete - non-fiduciary method in columns separate from the TCEQ's information.

Due to the statewide requirements included in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and 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 of 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.

Fund Structure

The financial statements presented herein are organized on the basis of fund and account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. These accounts are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Governmental Fund Types & Government-wide Adjustment Fund Types

General Fund

The general fund is used to account for all financial resources of the state except those required to be accounted for in another fund.

General Revenue Fund (0001) - This fund accounts for legislative appropriations out of the State's General Revenue Account, and miscellaneous appropriated and unappropriated receipts. The Pollution Control Equipment Review Fee is also deposited to this fund.

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (582)

Low Level Radioactive Waste Fund (0088) - The passage of H.B. 1567 by the 78th Legislature provided for the licensing of a low-level radioactive waste disposal site in Texas and established procedures to accept and evaluate license applications. The bill allows a proposed disposal facility to accept compact waste (waste from Texas and Vermont or waste that has been approved for importation to this state by the Compact Commission) and to accept federal facility waste at a separate and adjacent facility under one TCEQ license.

Air Control Board Account (0102) - The Air Control Board Account is established in the State Treasury to receive federal revenue in connection with the Texas Clean Air Act and is used by the TCEQ to perform the mandates of that Act.

Used Oil Recycling Account (0146) - The Used Oil Recycling Account is established in the State Treasury. The account consists of fees collected from the sale of automotive oil by the State Comptroller who subsequently transfers the fees to the TCEQ pursuant to the provisions of Health and Safety Code, Chapter 371.

Clean Air Account (0151) - The Clean Air Account is established in the State Treasury to receive Clean Air Act fees. Monies in the account shall be used to safeguard the air resources of the state. Fees deposited to this fund include the Motor Vehicle Safety and Emissions Inspection Fee, the Air Inspection Fee, and the Air Permit Fee.

Water Resource Management Account (0153) - This account receives revenue from numerous water program fees, including the Consolidated Water Quality Fee, the Water Utility Regulatory Assessment Fee, the Public Health Service Fee, the Water Utility Bond Proceeds Fee, and the General Permit Fee. This account is used to support and administer the water quality and water utility programs performed by the TCEQ.

Watermaster Administration Account (0158) - This account derives revenue from assessments paid by the holders of water rights in the Lower Rio Grande river basin, the Concho river basin, and river basins in South Texas. Water rights assessments are based on the amount of budgeted operating expenditures of the Lower Rio Grande, Concho, and South Texas Watermaster Offices. The fund is used to pay the compensation and necessary expenses of the Watermaster Offices.

Texas Spill Response Account (0452) - This State Treasury account was established under Water Code Chapter 26. The account may be used only for cleanup activities related to discharges or spills of hazardous substances into surface waters of the State. The account consists of money appropriated by the Legislature and any fines, civil penalties or other reimbursements to the fund. The account balance may not exceed \$5 million, exclusive of fines and penalties.

TCEQ Occupational Licensing Account (0468) - This account is authorized to administer the State's licensing programs for waterworks and wastewater system operators, landscape irrigators, petroleum storage tank professionals, and others.

Waste Management Account (0549) - This account receives, along with fees imposed on industrial solid or hazardous waste generation, PST registration fees, the Voluntary Clean-Up Program Fee, and numerous other fees. This fund is used to pay for corrective actions and for the related administrative costs incurred by the TCEQ in carrying out the duties of the Water Code.

Hazardous & Solid Waste Remediation Fee Account (0550) - This account receives revenue from fees imposed on the sale of batteries, disposal of industrial solid or hazardous waste, and from interest on cash balances in this fund. This fund may be used for purposes of necessary removal and remedial action at sites which hazardous waste or hazardous substances have been disposed if funds from a liable party, third party or the federal government are insufficient.

Petroleum Storage Tank Remediation Account (0655) - This account receives fees assessed on the bulk delivery of petroleum products. The account may be used to pay expenses associated with the program.

Solid Waste Disposal Fees Account (5000) - This account receives half the fees assessed on municipal solid waste disposal in the state as well as fees on the transport and use of sludge. Revenues deposited to this account are allocated to local and regional solid waste projects.

Voluntary Environmental Lab Accreditation Account (5065) - This account was created by H.B. 2912, 77th Leg. R.S. to fund the creation of a voluntary environmental lab accreditation program. Revenue deposited to this account is generated by lab accreditation fees.

Texas Emission Reduction Plan Account (5071) - This account receives revenue from surcharges on motor vehicle titles, sales of on- and off-road diesel vehicles, and commercial vehicle registration and inspection. The funds may be used only to implement and administer programs established under the plan.

Dry Cleaning Facility Release Account (5093) - This account was created by H.B. 1366, 78th Leg. R.S. to receive revenues from fees on dry cleaning establishments and on the purchase of dry cleaning solvents. The revenues will fund the clean up of releases of dry cleaning solvents into the soil or water of the state.

Operating Permit Fees Account (5094) - This account was created by H.B. 1481, 78th Leg. R.S. to receive revenue generated by the Air Emissions Fee to cover the costs of developing and administering the federal permit programs under Title IV or V of the federal Clean Air Act.

Suspense Type Activities Account (0900) - This account provides a temporary depository for money held in suspense pending final disposition. Items held in the fund are cleared to the various other funds or refunded to the payer.

Capital Assets Adjustment Fund Type

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

Other Adjustments Fund Type

Other Adjustments fund type will be used to convert all other governmental fund types activities 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 held in a custodial capacity for the benefit of other agencies or individuals.

Component Units

The Texas On-site Wastewater Treatment Research Council (Council) is a component unit of the TCEQ. The Council awards competitive grants and contracts to support applied research, demonstration projects, and information transfer regarding on-site wastewater treatment. The Council is a component unit due to its fiscal dependency on the TCEQ. The Council's fiscal operations (revenues, budget, expenditures, and administration) are maintained by TCEQ. The On-Site Wastewater Treatment Research Council Fee is collected for the Council's operations. The Council's financial information is presented in the discrete - component unit column separate from the TCEQ's information.

Basis of Accounting

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts and 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 basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become 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. For federal contracts and grants, revenues have been accrued to the extent earned by eligible expenditures within each fiscal year. Annual water use assessments in the Watermaster Administration Fund, which are generally paid in advance, have been deferred upon receipt and recognized as revenue in the fiscal year to which the assessments pertain. 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 method 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. The activity will be recognized in these new 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). The Commissioners adopt an annual operating budget and policies consistent with these appropriations. Encumbrance accounting is utilized for budgetary control purposes. An encumbrance is defined as an outstanding purchase order or other commitment for goods or services. It reserves a part of the applicable appropriation for future expenditure. At year-end, outstanding encumbrances are reported as a "reservation of fund balance", because they are not yet considered expenditures or liabilities. Unencumbered and unexpended funds are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

Assets, Liabilities and Fund Balances

Assets

Cash and Cash Equivalents

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

Receivables

Receivables represent revenue from licenses, fees, permits, and federal funds that has been earned but not received. This account is presented net of Allowance for Bad Debts.

Inventories and Prepaid Items

This account includes supplies and postage on hand. Supplies for governmental funds are accounted for using the consumption method of accounting. The cost of these items is recognized as expenditure when items are consumed. Postage on hand is treated in a similar manner. Consumable inventories are presented in the current assets section of the balance sheet at cost, with offsetting balances being shown as a reservation of fund balance. These assets do not constitute "available spendable resources".

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 purchased, at appraised fair value as of the date of acquisition. Depreciation is reported on all "exhaustible" assets. Assets are depreciated over the estimated useful life of the 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. This includes retainage balances for contracts.

Payables - Other

Includes the accrual at year-end of expenditure transactions not included in any of the other payable descriptions.

Employees' Compensable Leave

This represents 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 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. The Fund Balance is the difference between fund assets and liabilities on the governmental fund statements.

Reservations of Fund Balance

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to specific future uses and not available for other expenditures.

Reserved for Encumbrances

This represents commitments of the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Reserved for Consumable Inventories

This represents the amount of supplies and postage held to be used in the next fiscal year.

Unreserved-Undesignated

This represents unappropriated balances at year-end.

Interfund Activities 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 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 into the reimbursed fund.

Accrual of Operating Transfers, Reimbursements, and Residual Equity Transfers are shown as Due To and Due From or Interfund Receivable/Payable instead of accounts receivable or accounts payable.

NOTE 2: CAPITAL ASSETS

A summary of changes in Capital Assets for the year ended August 31, 2006, is presented below:

PRIMARY GOVERNMENT								
	Balance 09/01/2005	Adjust/ Restate	Reclass. Completed CIP	Reclass. Increase Inter- Agency Transaction	Reclass. Decrease Inter-Agency Transaction	Additions	Deletions	Balance 08/31/2006
Governmental Activities								
Non-Depreciable Assets								
Total Non-Depreciable Assets	\$	\$	\$	\$	\$	\$	\$	\$
Depreciable Assets								
Buildings and Building Improvements	\$4,544,105.74							\$4,544,105.74
Furniture and Equipment	56,151,420.08				(47,267.70)	4,656,131.58	(1,551,621.97)	59,208,661.99
Vehicles, Boats, & Aircraft	7,445,515.55				(17,087.00)	1,658,519.00	(624,323.67)	8,462,623.88
Other Assets	813,102.66	(35,949.97)				40,215.54		817,368.23
Total Depreciable Assets at Historical Costs	68,954,144.03	(35,949.97) (Note 2)			(64,354.70)	6,354,866.12	(2,175,945.64)	73,032,759.84
Less Accumulated Depreciation for								
Buildings and Building Improvements	(1,537,810.62)					(143,894.16)		(1,681,704.78)
Furniture and Equipment	(37,668,947.94)	(963.50) (Note 3)			38,067.70	(4,966,095.84)	1,366,006.03	(41,231,933.55)
Vehicles, Boats, & Aircraft	(3,639,633.58)				6,663.93	(445,967.66)	295,710.13	(3,783,227.18)
Other Capital Assets	(637,774.46)					5,431.45		(632,343.01)
Total Accumulated Depreciation	(43,484,166.60)				44,731.63	(5,550,526.21)	1,661,716.16	(47,329,208.52)
Depreciable Assets, Net	25,469,977.43				(19,623.07)	804,339.91	(514,229.48)	25,703,551.32
Governmental Activities Capital Assets, Net	\$ 25,469,977.43	\$ (36,913.47)			\$ (19,623.07)	\$ 804,339.91	\$ (514,229.48)	\$ 25,703,551.32

NOTE 2: CAPITAL ASSETS (continued)

Note 1:

Revenue received from the sale of surplus property has been transferred to Unappropriated General Revenue in accordance with HB 7, Sec. 20 and is shown on Exhibit II.

Note 2:

The amount shown as an adjustment/restatement (\$ 35,949.95) should be reflected in the table above as “disposal of books” as a deletion. The agency is deleting old library books that the agency no longer has in inventory. However, per the Comptroller’s Office, the SPA System does not provide for presenting current period disposals. Therefore the deletion must show as an adjustment on this schedule.

Note 3:

The restatement of \$963.50 to beginning balances was necessary to tie the CAAB Report 201s to the actual USAS beginning balances. The Comptroller’s Office can not change the CAAB reports to reflect the proper USAS balances therefore the adjustment must be made here. USAS balances are considered to be correct.

NOTE 3: DEPOSITS, INVESTMENTS, & REPURCHASE AGREEMENTS

Deposits of Cash in Bank

The carrying amount of \$23,050 for Cash in Bank is presented below.

The bank balance of the Commission on Environmental Quality has been classified according to the following risk categories:

- Category 1 - Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the governmental entity's name.
- Category 3 - Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the governmental entity's name).

Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
\$23,050.00			\$23,050.00	\$23,050.00
Consisting of Demand Deposits				\$23,050.00
Total Deposits Carrying Amounts				\$23,050.00

NOTE 4: SHORT TERM DEBT

Not applicable

NOTE 5: SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the year ended August 31, 2006, the following changes occurred in liabilities.

Governmental Activities	Balance 9/01/05	Additions	Reductions	Balance 8/31/06	Amounts Due Within One Year
Compensable Leave	\$12,320,385.91	\$18,007,668.22	\$ 16,996,433.71	\$13,331,620.42	\$7,716,468.14

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 vacation 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.

NOTE 6: CAPITAL LEASES

Not Applicable

NOTE 7: OPERATING LEASE OBLIGATIONS

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

Year Ending August 31,	Amount
2007	\$ 4,649,916.65
2008	4,208,695.37
2009	4,103,715.09
2010	3,785,439.72
2011	3,447,214.20
2012 - 2016	15,047,035.08
Total Minimum Future Lease Payments	\$ 35,242,016.11

NOTE 8: INTERFUND BALANCES/ACTIVITY

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

- Interfund Receivables or Interfund Payables
- Due From Other Agencies or Due To Other Agencies
- Transfers In or Transfers Out
- Legislative Transfers In or Legislative Transfers Out

The agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statement.

Current Portion	Current Interfund Receivable	Current Interfund Payable
Water Resource Management Account (0153) Agency 582 Fund 0549		\$ 4,928.29
Waste Management Account (0549) Agency 582 Fund 0153 Agency 582 Fund 5094 Agency 582 Fund 0550	\$ 4,928.29 10,069.87	12,417.93
Hazardous & Solid Waste Remediation Fee Account (0550) Agency 582 Fund 0549	12,417.93	
Operating Permit Fee Account (5094) Agency 582 Fund 0549		10,069.87
Total Interfund Receivable/Payable	\$ 27,416.09	\$27,416.09

	Due From Other Agencies	Due To Other Agencies	Source
General Revenue (0001) Agency 721, Fund 7999 Agency 747, Fund 7999 Agency 755, Fund 7999 Agency 757, Fund 7999		\$ 69,539.18 9,518.71 18,887.31 15,000.00	Federal & State Pass Through Federal & State Pass Through Federal & State Pass Through Federal & State Pass Through
Clean Air Account (0151) Agency 556, Fund 0151 Agency 405, Fund 0151 Agency 721, Fund 7999 Agency 907, Fund 0225	\$ 14,307.13	85,427.63 6,160.91 8,603.31	Shared Cash Transfer Shared Cash Transfer Federal & State Pass Through Federal & State Pass Through
Water Resource Management Account (0153) Agency 580, fund 0951	1,101,208.73		Federal & State Pass Through
Waste Management Account (0549) Agency 721, Fund 7999 Agency 747, Fund 7999 Agency 907, Fund 0225	31,413.86	9,306.71 4,724.18	Federal & State Pass Through Federal & State Pass Through

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (582)

Texas Emission Reduction Plan Account (5071) Agency 902, Fund 5071 Agency 721, Fund 7999	322,996,654.37	223,967.71	Shared Cash Transfer Federal & State Pass Through
Total Due From/To Other Agencies (Exh I)	\$ 324,143,584.09	\$ 451,135.65	

	Transfers In	Transfers Out
General Revenue (0001) Agency 902, Fund 0999	\$ (715.80)	\$ 63,452.49
Clean Air Account (0151) Agency 582, Fund 5071 Agency 556, Fund 0151	500,000.00	500,000.00
Waste Management Account (0549) Agency 582, Fund 6550 Agency 902, Fund 0001	7,385,406.00	17,156.00
Petroleum Storage Tank Remediation Account (0655) Agency 582, Fund 5480		7,385,406.00
Texas Emission Reduction Plan Account (5071) Agency 582, Fund 1510 Agency 902, Fund 5071	128,520,574.00	500,000.00
Total Transfers	\$136,405,264.20	\$ 8,466,014.49

	Legislative Transfers In	Legislative Transfers Out
General Revenue, Fund 0001 Agency 579, Fund 0001 Agency 583, Fund 0001 Agency 596, Fund 0001 Agency 598, Fund 0001 Agency 599, Fund 0001 Agency 902, Fund 0001	\$ 121,302.00 47,834.00 27,708.00 18,641.00 109,782.00 50,412.14	\$ 4,588,416.21
Total Legislative Transfers	\$ 375,679.14	\$ 4,588,416.21

NOTE 9: CONTINGENT LIABILITIES

As a prime contractor with various federal granting agencies, the TCEQ is contingently liable to refund any disallowed costs to the granting agencies. Based on prior experience, management believes such disallowances, if any, will be immaterial.

The TCEQ is involved in several lawsuits that could result in possible material liabilities. However, while adverse rulings regarding any of these claims are reasonably possible, it is management's opinion the possibility of adverse rulings is unlikely.

NOTE 10: CONTINUANCE SUBJECT TO REVIEW

Under the Texas Sunset Act, the Agency will be abolished effective September 1, 2012, unless continued in existence by the 82nd Legislature as provided by the Act. If abolished, the agency may continue until September 1, 2013, to close out its operations.

NOTE 11: RISK FINANCING AND RELATED INSURANCE

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

The TCEQ assumes substantially all risks associated with tort claims and liability claims due to the performance of its duties. Currently there is no purchase of commercial insurance. The agency is not involved in any risk pools with other governmental entities.

The TCEQ'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. As of August 31, 2006, the TCEQ had no liabilities meeting the accrual criteria.

NOTE 12: SEGMENT INFORMATION

Not Applicable

NOTE 13: BONDED INDEBTEDNESS

Not Applicable

NOTE 14: SUBSEQUENT EVENTS

In September 2005, the TCEQ incurred \$330,000 in expenses related to Hurricane Katrina. As of the date of this report, these expenses have not been reimbursed by FEMA. The amount of the claim is not material to the TCEQ overall fund balances, and is not sum certain in the actual amount we may receive. Therefore, the amount due has not been accrued as a receivable from FEMA. Note disclosure is only appropriate for the statewide CAFR. The expenses associated were for facilities and equipment repair, field investigations, damage surveys, disaster recovery, travel and supplies for strike teams.

NOTE 15: RELATED PARTIES

Not Applicable

NOTE 16: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Not Applicable

NOTE 17: THE FINANCIAL REPORTING ENTITY AND JOINT VENTURES

The Financial Reporting Entity

As required by generally accepted accounting principles, the financial statements present TCEQ and its component units. The component unit discussed in this note are included in TCEQ’s reporting entity because of the fiscal dependency of the component unit with TCEQ.

Individual Component Unit Disclosures

The Texas On-site Wastewater Treatment Research Council (Council) is a discretely presented component unit of the TCEQ. The Council awards competitive grants and contracts to support applied research, demonstration projects, and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the State of Texas. The Council’s statutory authority is found in Chapter 367 of the Texas Health and Safety Code and its rules are in TAC, Ch. 286, Title 31.

The Council is a component unit due to its fiscal dependency on the TCEQ. The Council’s fiscal operations (revenues, budget, expenditures, and administration) are maintained by TCEQ. The Council’s financial information is presented in a separate column in the combined financial statements to emphasize that they are legally separate from TCEQ.

NOTE 18: RESTATEMENT OF FUND BALANCES/NET ASSETS

During FY 2006 an adjustment was made that required a restatement of the beginning balance for net assets as shown below: An adjustment was made to the fund balances in the general revenue fund and the TCEQ Operating Fund. The TCEQ operating fund is created by rider authorizing the TCEQ to transfer appropriations to a single account for the purpose of processing the agency payroll. A monthly cost allocation is done to clear the operating account and to post the payroll expenditures to the proper fund. Since the inception of the operating fund, the agency has reported an interfund receivable and interfund payable that is created during the cost allocation process. The appropriation transfers to fund the operating fund are not reported as assets to the General Revenue fund. After discussion with the Comptroller’s Office and per the Reporting Requirements for General Revenue Reporting, it appears that the cost allocation accruals should not be reported. All appropriation transfers are reversed at year end and the cost allocation accrual should be posted to the fund. This change in the accounting and reporting procedures for the operating fund results in a restatement to fund balance as shown below.

	General Funds
Net Assets - Beginning August 31, 2006	\$ 816,410,619.63
Restatements:	(7,718,600.31)
Net Assets - Beginning August 31, 2006 As Restated	\$ 808,692,019.32

NOTE 19: EMPLOYEES RETIREMENT PLANS

Not Applicable

NOTE 20: DEFERRED COMPENSATION

Not Applicable

NOTE 21: DONOR-RESTRICTED ENDOWMENTS

Not Applicable

NOTE 22: MANAGEMENT DISCUSSION AND ANALYSIS

The agency's overall fund balance increased by \$71 million from FY 2005 to FY 2006. Over four-fifths of the increase is due to the Clean Air Fund (0151) and Texas Emissions Reduction Plan Fund (5071).

The Clean Air Account's (0151) increase of approximately \$25 million stems mostly from the difference between the amount collected to support the Low-Income Vehicle Repair Assistance Program (LIRAP) through the On-Board Diagnostic (OBD) emissions test fee (approximately \$27 million) and the \$4 million appropriated to administer the program.

The Texas Emissions Reduction Plan (Account 5071) contributes approximately \$45 million of the total increase. Revenue collections exceeded grant payments as the program continued to search for suitable projects aimed at reducing emissions of NOx in non-attainment areas and affected counties. Account 5071 is administered by the Comptroller and as a result the agency does not report the cash in the state treasury for this account.

The Petroleum Storage Tank Account's (0655) fund balance increased to \$180.8 million as of August 31, 2006 due to a small increase in revenue, a slight decrease in expenditures, and a reduction in the amount transferred to the Waste Management Account (0549) for administration. After August 31, 2007, the fee assessment that provides the revenue for Fund 0655 will no longer be collected. The Reimbursement Program will end leaving the State Lead program to continue responsibility for all existing and new sites.

NOTE 23: POST EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Not Applicable

NOTE 24: SPECIAL OR EXTRAORDINARY ITEMS

Not Applicable

NOTE 25: DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES

Not Applicable

NOTE 26: TERMINATION BENEFITS

Not Applicable

COMBINING FINANCIAL STATEMENTS

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-UNAUDITED-

**EXHIBIT A-1
COMBINING BALANCE SHEET
All General and Consolidated Funds
August 31, 2006**

	Consolidated Funds							
	General Revenue Account (0001)	Low Level Radioactive Waste Account (0088)	Air Control Board Account (0102)	Used Oil Recycling Account (0146)	Clean Air Account (0151)	Water Resource Management Account (0153)	Watermaster Administration Account (0158)	Texas Spill Response Account (0452)
Assets								
Current Assets:								
Cash in Bank	\$ 23,050.00							
Cash in State Treasury		13,232,516.51	2,867,382.89	6,905,891.70	114,189,841.05	46,357,842.52	1,284,070.92	118,584.14
Legislative Appropriations	5,883,900.28							
Receivables:								
Federal	82,300.77				22,905.48	28,530.75		
Interest								
Accounts Receivable					105.00	14,211.50	147.09	
Interfund Receivable (Note 8)								
Due From Other Agencies (Note 8)					14,307.13	1,101,208.73		
Consumable Inventories	178,123.34							
Total Current Assets	<u>6,167,374.39</u>	<u>13,232,516.51</u>	<u>2,867,382.89</u>	<u>6,905,891.70</u>	<u>114,227,158.66</u>	<u>47,501,793.50</u>	<u>1,284,218.01</u>	<u>118,584.14</u>
Liabilities								
Current Liabilities								
Payables:								
Accounts Payable	374,328.88		6,879.31	769.01	379,768.99	563,991.38	879.61	
Payroll Payable	271,558.95	60,530.31	304,794.66	62,354.45	2,352,821.22	3,758,785.57	77,867.17	
Contracts Retainage Payable					62,252.10	63,973.33		
Interfund Payable (Note 8)						4,928.29		
Due to Other Agencies (Note 8)	112,945.20				100,191.85			
Total Current Liabilities	<u>758,833.03</u>	<u>60,530.31</u>	<u>311,673.97</u>	<u>63,123.46</u>	<u>2,895,034.16</u>	<u>4,391,678.57</u>	<u>78,746.78</u>	
Fund Balances								
Reserved for:								
Encumbrances	5,207,368.02	118,481.32	360,237.95	110,188.01	23,243,473.52	6,621,092.31	15,627.47	
Inventories	178,123.34							
Imprest Accounts	23,050.00							
Total Reserved	<u>5,408,541.36</u>	<u>118,481.32</u>	<u>360,237.95</u>	<u>110,188.01</u>	<u>23,243,473.52</u>	<u>6,621,092.31</u>	<u>15,627.47</u>	
Unreserved:								
Undesignated	0.00	13,053,504.88	2,195,470.97	6,732,580.23	88,088,650.98	36,489,022.62	1,189,843.76	118,584.14
Total Fund Balance	<u>5,408,541.36</u>	<u>13,171,986.20</u>	<u>2,555,708.92</u>	<u>6,842,768.24</u>	<u>111,332,124.50</u>	<u>43,110,114.93</u>	<u>1,205,471.23</u>	<u>118,584.14</u>
Total Liabilities and Fund Balances	<u>\$ 6,167,374.39</u>	<u>\$ 13,232,516.51</u>	<u>\$ 2,867,382.89</u>	<u>\$ 6,905,891.70</u>	<u>\$ 114,227,158.66</u>	<u>\$ 47,501,793.50</u>	<u>\$ 1,284,218.01</u>	<u>\$ 118,584.14</u>

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (582)

Consolidated Funds

TCEQ Occupational Licensing Account (0468)	Waste Management Account (0549)	Hazardous & Solid Waste Remediation Fee Account (0550)	Petroleum Storage Tank Remediation Account (0655)	Solid Waste Disposal Fee Account (5000)	Environmental Testing Accreditation Account (5065)	Texas Emissions Reduction Account (5071)	Dry Cleaning Facility Release Account (5093)	Operating Permit Fees Account (5094)	Suspense Type Activities Account (0900)	Total
\$ 5,456,356.32	\$ 43,911,422.90	\$ 74,004,177.97	\$ 180,934,255.07	\$ 54,020,037.94	\$ 371,821.15		\$ 16,240,930.07	\$ 13,517,216.01	\$ 130,451.82	\$ 23,050.00
										573,542,798.98
										5,883,900.28
260.00	23,175.00									157,172.00
										0.00
70.00	860,760.17			860,141.93			252,903.21			1,988,338.90
	14,998.16	12,417.93								27,416.09
	31,413.86					322,996,654.37				324,143,584.09
										178,123.34
<u>5,456,686.32</u>	<u>44,841,770.09</u>	<u>74,016,595.90</u>	<u>180,934,255.07</u>	<u>54,880,179.87</u>	<u>371,821.15</u>	<u>322,996,654.37</u>	<u>16,493,833.28</u>	<u>13,517,216.01</u>	<u>130,451.82</u>	<u>905,944,383.68</u>
12,759.09	426,801.92	240,443.10	41,037.16		(8,233.88)	349.80		90,116.91		2,129,891.28
131,976.89	3,580,957.42	1,244,142.36			10,522.58	82,560.05	58,171.89	2,343,507.29		14,340,550.81
15,311.70	127,373.83	173,569.84	135,289.16	152,998.83			20,257.25	11,492.51		762,518.55
	12,417.93							10,069.87		27,416.09
	14,030.89					223,967.71				451,135.65
<u>160,047.68</u>	<u>4,161,581.99</u>	<u>1,658,155.30</u>	<u>176,326.32</u>	<u>152,998.83</u>	<u>2,288.70</u>	<u>306,877.56</u>	<u>78,429.14</u>	<u>2,455,186.58</u>		<u>17,711,512.38</u>
1,413,574.83	2,648,512.68	9,393,965.80	32,455,694.66	1,024,177.91	0.00	238,206,429.68	1,970,636.19	1,244,701.34		324,034,161.69
										178,123.34
										23,050.00
<u>1,413,574.83</u>	<u>2,648,512.68</u>	<u>9,393,965.80</u>	<u>32,455,694.66</u>	<u>1,024,177.91</u>	<u>0.00</u>	<u>238,206,429.68</u>	<u>1,970,636.19</u>	<u>1,244,701.34</u>		<u>324,235,335.03</u>
3,883,063.81	38,031,675.42	62,964,474.80	148,302,234.09	53,703,003.13	369,532.45	84,483,347.13	14,444,767.95	9,817,328.09	130,451.82	563,997,536.27
5,296,638.64	40,680,188.10	72,358,440.60	180,757,928.75	54,727,181.04	369,532.45	322,689,776.81	16,415,404.14	11,062,029.43	130,451.82	888,232,871.30
<u>5,456,686.32</u>	<u>44,841,770.09</u>	<u>74,016,595.90</u>	<u>180,934,255.07</u>	<u>54,880,179.87</u>	<u>371,821.15</u>	<u>322,996,654.37</u>	<u>16,493,833.28</u>	<u>13,517,216.01</u>	<u>130,451.82</u>	<u>905,944,383.68</u>

EXHIBIT A-2
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
All General and Consolidated Funds
For the Year Ended August 31, 2006

	General Revenue Account (0001)	Low Level Radioactive Waste Account (0088)	Air Control Board Account (0102)	Used Oil Recycling Account (0146)	Clean Air Account (0151)	Water Resource Management Account (0153)	Watermaster Administration Account (0158)	Texas Spill Response Account (0452)
Revenues								
Legislative Appropriations :								
Original Appropriations	\$ 2,641,189.40	\$						
Additional Appropriations	3,790,898.80							
Federal Revenues	17,350,701.34		5,800,688.00		5,649,833.00	10,503,812.00		
Federal Pass-Through					84,731.53	7,747,044.24		
State Grant Pass Through						100,000.00		
Licenses, Fees and Permits	1,022,476.28	924,720.61		1,359,594.30	81,208,023.13	38,376,238.24	1,201,124.57	
Interest & Investment Income		538,324.37			729,442.85			
Settlement of Claims								
Sales of Goods and Services	48,547.40				54,179.33	140,000.00		
Other Revenues	337,814.12		169.90		4,170.26	1,042.34		
Total Revenues	25,191,627.34	1,463,044.98	5,800,857.90	1,359,594.30	87,730,380.10	56,868,136.82	1,201,124.57	
Expenditures								
Salaries and Wages	2,965,500.91	708,103.33	2,875,978.19	609,403.42	23,221,734.85	36,352,483.55	729,209.28	
Payroll Related Costs	3,782,914.92	44,107.58	557,907.73	153,931.35	7,223,748.72	8,263,382.15	119,697.60	
Professional Fees and Services	7,277,999.21	199,023.69	452,326.89	2,058.11	11,598,691.13	9,751,515.83	567.30	
Travel	163,720.33	8,491.40	58,786.23		354,841.03	579,002.52	31,682.68	
Materials and Supplies	1,369,691.88	6,213.15	107,098.07	33,558.59	3,478,973.59	1,479,282.94	49,118.93	
Communications and Utilities	281,384.29		23,204.31	113,742.74	675,253.23	405,863.71	17,041.69	
Repairs and Maintenance	115,053.27		43,616.70	6,391.92	1,221,261.57	1,211,112.84	11,098.48	
Rentals and Leases	312,652.11		38,858.99	4,166.87	3,317,087.27	974,690.62	58,759.38	
Printing and Reproduction	92,569.42	21.41	733.07		164,931.41	12,064.15	260.54	
Claims and Judgements	1,693.14				2,619.51	1,133.07		
Federal Pass-Through Expenditures	1,408,108.58		400,000.00		76,869.58			
State Grant Pass-Through Expenditures	448,310.36				9,826.57			
Intergovernmental Payments	2,745,356.86		1,074,245.43		6,511,550.76	5,042,984.00		
Public Assistance Programs	401,868.99							
Other Operating Expenditures	1,065,812.76	10,539.14	119,375.54	50,719.77	2,109,236.77	1,987,924.30	11,247.97	
Capital Outlay	786,407.86				2,785,624.38	954,922.88	94,138.00	
Total Expenditures	23,219,044.89	976,499.70	5,752,131.15	973,972.77	62,752,250.37	67,016,362.56	1,122,821.85	
Excess (Deficit) of Revenues over Expenditures	1,972,582.45	486,545.28	48,726.75	385,621.53	24,978,129.73	(10,148,225.74)	78,302.72	
Other Financing Sources (Uses)								
Operating Transfers In (Note 8)	(715.80)				500,000.00			
Operating Transfers Out (Note 8)	(63,452.49)				(500,000.00)			
Insurance Recoveries	33.21				1,236.00	650.00	1,711.80	
Sale of Capital Assets	59,279.45							
Legislative Transfers In (Note 8)	375,679.14							
Legislative Transfers Out (Note 8)	(4,588,416.21)							
Total Other Financing Sources (Uses)	(4,217,592.70)	0.00	0.00	0.00	1,236.00	650.00	1,711.80	0.00
Excess (Deficit) of Revenues and other Sources Over Expenditures and Other Uses	(2,245,010.25)	486,545.28	48,726.75	385,621.53	24,979,365.73	(10,147,575.74)	80,014.52	0.00
Fund Balance - Beginning	16,577,348.14	12,685,440.92	2,506,982.17	6,457,146.71	86,352,758.77	53,257,690.67	1,125,456.71	118,584.14
Restatements	(7,718,600.31)							
Fund Balance As Restated	8,858,747.83	12,685,440.92	2,506,982.17	6,457,146.71	86,352,758.77	53,257,690.67	1,125,456.71	118,584.14
Appropriations Lapsed	(1,205,196.22)							
Fund Balance - Ending	\$ 5,408,541.36	\$ 13,171,986.20	\$ 2,555,708.92	\$ 6,842,768.24	\$ 111,332,124.50	\$ 43,110,114.93	\$ 1,205,471.23	\$ 118,584.14

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (582)

TCEQ Occupational Licensing Account (0468)	Waste Management Account (0549)	Hazardous & Solid Waste Remediation Fee Account (0550)	Petroleum Storage Tank Remediation Account (0655)	Solid Waste Disposal Fee Account (5000)	Environmental Testing Accreditation Account (5065)	Texas Emissions Reduction Account (5071)	Dry Cleaning Facility Release Account (5093)	Operating Permit Fees Account (5094)	Suspense Type Activities Account (0900)	Totals
										\$ 2,641,189.40
										3,790,898.80
1,257,231.00	9,499,146.66 275,169.40	2,740,426.00 737,212.62	823,473.00 124,635.28							53,625,311.00
										8,968,793.07
										100,000.00
1,742,252.56	34,718,553.00	21,925,264.08 2,920,032.43 17,298.27	74,124,376.55	18,756,327.56	218,043.65		7,059,543.48 540,543.32	34,565,139.08	11,528.64	317,213,205.73
										4,728,342.97
										17,298.27
										242,726.73
125.00	6,920.53	686,435.14	35,543.82			4,483.89	4,530.00	8,644.91		1,089,879.91
<u>2,999,608.56</u>	<u>44,499,789.59</u>	<u>29,026,668.54</u>	<u>75,108,028.65</u>	<u>18,756,327.56</u>	<u>218,043.65</u>	<u>4,483.89</u>	<u>7,604,616.80</u>	<u>34,573,783.99</u>	<u>11,528.64</u>	<u>392,417,645.88</u>
										140,774,620.92
1,259,173.70	35,556,318.75	12,468,646.75			91,364.12	780,367.86	564,477.63	22,591,858.58		36,693,244.91
473,325.71	6,453,218.96	5,009,935.98			12,048.84	98,093.49	182,383.36	4,318,548.52		49,958,989.44
1,020,042.62	4,624,481.78	7,494,965.36	5,496,260.28			1,545.00	540,172.56	1,499,339.68		2,056,140.28
15,278.75	559,709.11	180,731.82				6,718.97	6,080.64	91,096.80		9,919,027.52
22,094.22	2,530,335.10	384,596.32			(743.99)	6,530.91	12,362.83	439,914.98		2,204,744.42
3,403.06	228,862.28	65,148.00				671.17		390,169.94		4,506,768.90
42,229.37	1,402,010.07	133,262.46				9,594.60	2,725.00	308,412.62		6,747,370.21
3,147.45	930,648.12	32,986.14				213.37		1,074,159.89		575,618.60
14.50	65,883.77	88,868.12				9,420.44		140,851.77		6,295.75
	850.03									2,091,599.65
	1,500.00	205,121.49								3,543,802.68
	72,385.72	500,000.00				2,513,280.03				27,289,069.37
				11,531,788.52				383,143.80		11,369,278.77
				782,047.04						131,369,583.24
147,156.06	1,568,220.01	1,461,941.58	52,259,808.99	49,639.16	530.31	68,969,249.39	32,186.26	1,525,995.23		6,354,866.12
38,641.51	1,153,044.43	392,094.31				28.22		149,964.53		435,461,020.78
<u>3,024,506.95</u>	<u>55,147,468.13</u>	<u>28,418,298.33</u>	<u>57,756,069.27</u>	<u>12,363,474.72</u>	<u>103,199.28</u>	<u>82,581,076.19</u>	<u>1,340,388.28</u>	<u>32,913,456.34</u>	<u>0.00</u>	<u>(43,043,374.90)</u>
<u>(24,898.39)</u>	<u>(10,647,678.54)</u>	<u>608,370.21</u>	<u>17,351,959.38</u>	<u>6,392,852.84</u>	<u>114,844.37</u>	<u>(82,576,592.30)</u>	<u>6,264,228.52</u>	<u>1,660,327.65</u>	<u>11,528.64</u>	
	7,385,406.00 (17,156.00)		(7,385,406.00)			128,520,574.00 (500,000.00)				136,405,264.20 (8,466,014.49)
										3,631.01
										59,279.45
										375,679.14
										(4,588,416.21)
0.00	7,368,250.00	0.00	(7,385,406.00)	0.00	0.00	128,020,574.00	0.00	0.00	0.00	123,789,423.10
(24,898.39)	(3,279,428.54)	608,370.21	9,966,553.38	6,392,852.84	114,844.37	45,443,981.70	6,264,228.52	1,660,327.65	11,528.64	80,746,048.20
5,321,537.03	43,959,616.64	71,750,070.39	170,791,375.37	48,334,328.20	254,688.08	277,245,795.11	10,151,175.62	9,401,701.78	118,923.18	816,410,619.63 (7,718,600.31)
<u>5,321,537.03</u>	<u>43,959,616.64</u>	<u>71,750,070.39</u>	<u>170,791,375.37</u>	<u>48,334,328.20</u>	<u>254,688.08</u>	<u>277,245,795.11</u>	<u>10,151,175.62</u>	<u>9,401,701.78</u>	<u>118,923.18</u>	<u>808,692,019.32</u> <u>(1,205,196.22)</u>
<u>\$ 5,296,638.64</u>	<u>\$ 40,680,188.10</u>	<u>\$ 72,358,440.60</u>	<u>\$ 180,757,928.75</u>	<u>\$ 54,727,181.04</u>	<u>\$ 369,532.45</u>	<u>\$ 322,689,776.81</u>	<u>\$ 16,415,404.14</u>	<u>\$ 11,062,029.43</u>	<u>\$ 130,451.82</u>	<u>\$ 888,232,871.30</u>

-UNAUDITED-

EXHIBIT J-1
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
All Agency Funds
August 31, 2006

	<u>Beginning Balances September 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balances August 31, 2006</u>
Employees' Savings Bond Fund (0901)				
Assets:				
Cash in State Treasury	\$ 7,201.25	\$ 65,236.25	\$ (66,826.25)	\$ 5,611.25
Liabilities:				
Accounts Payable		65,600.00	(65,600.00)	0.00
Funds Held for Others	7,201.25	66,826.25	(65,236.25)	5,611.25
Total	<u>7,201.25</u>	<u>132,426.25</u>	<u>(130,836.25)</u>	<u>5,611.25</u>
Securities Held In Trust (0999)				
Assets:				
Other Assets	<u>1,531,035.42</u>	<u>251,735.83</u>		<u>1,782,771.25</u>
Liabilities:				
Funds Held For Others	<u>1,531,035.42</u>	<u>251,735.83</u>	<u>0.00</u>	<u>1,782,771.25</u>
Total - All Agency Funds				
Assets:				
Cash in State Treasury	7,201.25	65,236.25	(66,826.25)	5,611.25
Other Assets	<u>1,531,035.42</u>	<u>251,735.83</u>	<u>0.00</u>	<u>1,782,771.25</u>
Total Assets	<u>1,538,236.67</u>	<u>316,972.08</u>	<u>(66,826.25)</u>	<u>1,788,382.50</u>
Liabilities:				
Accounts Payable	0.00	65,600.00	(65,600.00)	0.00
Funds Held For Others	<u>1,538,236.67</u>	<u>318,562.08</u>	<u>(65,236.25)</u>	<u>1,788,382.50</u>
Total Liabilities	<u>\$ 1,538,236.67</u>	<u>\$ 384,162.08</u>	<u>\$ (130,836.25)</u>	<u>\$ 1,788,382.50</u>

(Exhibit VI)

SCHEDULES

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TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (582)
 -UNAUDITED-

SCHEDULE 1A
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended August 31, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through From		State Agency or University Amount
		Agency/ University Number	Identifying Number	
Department of Defense				
Direct Programs:				
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113			
Total Department of Defense				<u>0.00</u>
Environmental Protection Agency				
Direct Programs:				
Air Pollution Control Program Support	66.001			
Surveys, Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034			
Pass-Through To:				
University of Texas@Austin	66.034			
Water Pollution Control State and Interstate Program Support	66.419			
Pass-Through To:				
University of Texas @Austin	66.419			
Water Quality Management Planning	66.454			
National Estuary Program	66.456			
Pass-Through To:				
Texas A&M-Galveston	66.456			
University of Texas@ Austin	66.456			
Nonpoint Source Implementation Grants	66.460			
Pass-Through To:				
Tarleton State University	66.460			
University of Texas @ Austin	66.460			
Texas State University- International Institute	66.460			
Railroad Commission of Texas	66.460			
Texas Cooperative Extension	66.460			
Capitalization Grants for Clean Water State Revolving Funds	66.468	580		7,746,817.98
PDW Operator Certification	66.471			
Water Protection Grants to the States	66.474			
Environmental Protection Consolidated Research	66.500			
Performance Partnership Grants	66.605			
Pass-Through To:				
Texas Cooperative Extension Office	66.605			
Lamar University	66.605			
University of Texas- Pan American	66.605			
University of Texas- San Antonio	66.605			
Sam Houston State University	66.605			
Texas A&M University- International	66.605			
West Texas A&M University	66.605			
Stephen F. Austin University	66.605			
Texas State University- International Institute	66.605			
University of Texas @ Brownsville	66.605			
Texas Department of Transportation	66.605			
University of North Texas	66.605			
University of Texas @ Austin	66.605			
University of Texas@ Dallas	66.605			
Surveys, Studies, Investigations and Special Purpose Grants	66.606			
Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator	66.610			
Pollution Prevention Grants Program	66.708			
SuperFund State, Political Subdivision, and Indian Tribe Specific Cooperative Agreements	66.802			
Pass-Through To:				
University of Texas@ Dallas	66.802			
Leaking Underground Storage Tank Trust Fund	66.805			
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809			
State and Tribal Response Program Grants	66.817			
International Financial Assistance Projects Sponsored by the Office of International Affairs	66.931			
Total Environmental Protection Agency				<u>7,746,817.98</u>
Department of Energy				
Pass-Through From:				
Pantex Nuclear Weapons Facility Subgrant	81.092	907		353,926.18
Total Department of Energy				<u>353,926.18</u>
Department of Homeland Security				
Direct Programs:				
Community Assistance Program-State Support Services Element (CAP-SSSE)	97.023			
Public Assistance Grants	97.036	405		868,048.91
National Dam Safety Program	97.041			
Total Department of Homeland Security				<u>868,048.91</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u><u>8,968,793.07</u></u>

Note 1 - Reconciliation

Per Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Governmental Fund Types (Exh II):	
Federal Revenues (Exh II)	53,625,311.00
Federal Pass-Through Revenues (Exh II)	8,968,793.07
Total	<u>62,594,104.07</u>

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (582)

Non-State Entities Amount	Direct Program Amount	Total Pass Through From & Direct Program	Pass-Through To			Expenditures Amount	Total Pass Through To & Expenditures
			Agency/ University Number	State Agency or University Amount	Non-State Entities Amount		
	674,607.00	674,607.00				674,607.00	674,607.00
0.00	674,607.00	674,607.00		0.00	0.00	674,607.00	674,607.00
	9,700.00	9,700.00				9,700.00	9,700.00
	2,516,459.00	2,516,459.00				2,439,589.42	2,439,589.42
	4,451,174.00	4,451,174.00	721	76,869.58		4,427,146.22	4,427,146.22
	581,384.00	581,384.00	721	24,027.78	290,045.56	291,338.44	581,384.00
	588,457.00	588,457.00			75,132.88	466,517.98	541,650.86
	3,936,505.00	3,936,505.00	718	32,341.53		3,112,991.14	3,112,991.14
			721	14,464.61			14,464.61
			713	42,280.94			42,280.94
			721	4,093.32			4,093.32
			754	248,703.41			248,703.41
			455	532,675.08			532,675.08
		7,746,817.98	555	(4,238.89)			(4,238.89)
	1,300,750.00	1,300,750.00				7,746,817.98	7,746,817.98
	460,850.00	460,850.00				1,300,750.00	1,300,750.00
	2,218,261.00	2,218,261.00				460,850.00	460,850.00
	30,414,364.00	30,414,364.00			138,909.72	2,218,261.00	2,218,261.00
						29,359,113.57	29,498,023.29
			555	8,586.50			8,586.50
			734	9,964.00			9,964.00
			736	12,622.00			12,622.00
			743	13,286.00			13,286.00
			753	12,622.00			12,622.00
			761	11,957.00			11,957.00
			757	9,964.00			9,964.00
			755	12,622.00			12,622.00
			754	11,957.00			11,957.00
			747	10,629.00			10,629.00
			601	400,000.00			400,000.00
			752	11,293.00			11,293.00
			721	377,552.21			377,552.21
			738	13,286.00			13,286.00
	51,090.00	51,090.00				51,090.00	51,090.00
	89,343.00	89,343.00				89,343.00	89,343.00
	107,086.00	107,086.00				107,086.00	107,086.00
	1,573,762.00	1,573,762.00				1,369,720.42	1,369,720.42
			738	204,041.58			204,041.58
	2,590,222.00	2,590,222.00				2,590,222.00	2,590,222.00
	1,079,311.00	1,079,311.00				1,079,311.00	1,079,311.00
	311,635.00	311,635.00				311,635.00	311,635.00
	14,131.00	14,131.00				14,131.00	14,131.00
0.00	52,294,484.00	60,041,301.98		2,091,599.65	504,088.16	57,445,614.17	60,041,301.98
		353,926.18				353,926.18	353,926.18
0.00	0.00	353,926.18		0.00	0.00	353,926.18	353,926.18
	253,991.00	253,991.00				253,991.00	253,991.00
		868,048.91				868,048.91	868,048.91
	402,229.00	402,229.00				402,229.00	402,229.00
0.00	656,220.00	1,524,268.91		0.00	0.00	1,524,268.91	1,524,268.91
0.00	53,625,311.00	62,594,104.07		2,091,599.65	504,088.16	59,998,416.26	62,594,104.07

-UNAUDITED-

**SCHEDULE OF STATE GRANT PASS THROUGH FROM/TO STATE AGENCIES
For the Fiscal Year Ended August 31, 2006**

General Funds

Pass Through From:

Texas Water Development Board (Agency # 580)	100,000.00	
Total State Pass Throughs to Other Agencies		<u><u>\$100,000.00</u></u>

Pass Through To:

Texas Railroad Commission (Agency # 455)	\$ 2,000,000.00	
Texas Cooperative Extension (Agency # 555)	(244.06)	
Texas Engineering Experiment Station (Agency # 712)	53,322.79	
Texas A & M University at Galveston (Agency # 718)	11,587.80	
University of Texas at Austin (Agency # 721)	518,170.20	
University of Texas at San Antonio (Agency # 743)	6,714.00	
University of Texas at Brownsville (Agency # 747)	5,371.00	
University of North Texas (Agency # 752)	5,707.00	
Sam Houston State University (Agency # 753)	6,378.00	
Texas State University (Agency # 754)	35,785.57	
Stephen F. Austin State University (Agency # 755)	42,512.96	
West Texas A & M University (Agency # 757)	5,036.00	
Parks & Wildlife Department (Agency # 802)	297,633.70	
Lamar University (Agency # 734)	37,024.21	
University of Texas- Pan American (Agency #736)	6,378.00	
University of Texas - Dallas (Agency # 738)	6,382.51	
Texas A & M University International (Agency # 761)	6,043.00	
Department of State Health Services (Agency # 537)	500,000.00	
Total State Pass Throughs to Other Agencies		<u><u>\$3,543,802.68</u></u> (Exh II)

Discrete Component Unit

Pass Through To:

Texas Tech University (Agency #733)	\$ 38,139.74	
		<u><u>\$38,139.74</u></u> (Exh II)