



February 27, 2025

Finance/Administrative Committee and Board of Directors
Edwards Aquifer Authority
San Antonio, Texas

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Attention: Mr. Byron Miller, Chairman of the Finance/Administrative Committee

This letter is intended to communicate certain matters related to the planned scope and timing of our audit of Edwards Aquifer Authority's (the Authority) basic financial statements as of and for the year ended December 31, 2024.

Communication

Effective two-way communication between our firm and the Finance/Administrative Committee and Board of Directors is important to understanding matters related to the audit and developing a constructive working relationship.

Your insights may assist us in understanding the Authority and its environment, identifying appropriate sources of audit evidence and providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate to us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing and extent of audit procedures, your suspicion or detection of fraud, or any concerns you may have about the integrity or competence of senior management.

We will timely communicate to you any fraud involving senior management and other fraud that causes a material misstatement of the financial statements, instances of noncompliance with laws and regulations that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Additionally, we will communicate significant unusual transactions, matters that are difficult or contentious for which we consulted outside the engagement team, and circumstances that affect the form and content of the auditor's report. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing.

Shared Responsibilities: AICPA Independence

The American Institute of Certified Public Accountants (AICPA) regularly emphasizes that auditor independence is a joint responsibility and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with AICPA independence rules.

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For RSM to fulfill its professional responsibility to maintain and monitor independence, management, the Finance/Administrative Committee and Board of Directors and RSM each play an important role.

Our responsibilities

- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. RSM is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality management over compliance with independence rules and firm policies.

Your responsibilities

- Timely inform RSM, before the effective date of transactions or other business changes, of the following:
 - New affiliates, directors, or officers.
 - Change in the organizational structure impacting affiliates such as component units, subsidiaries, partnerships, related entities, investments, joint ventures or jointly governed organizations.
 - Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
 - Understand and conclude on the permissibility, prior to the Authority and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with RSM.
 - Not entering into relationships resulting in close family members of RSM covered persons, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the Authority.

Our Independence Policies and Procedures

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, our partners and professional employees are restricted in their ability to own a direct financial interest or a material indirect financial interest in a client or any affiliate of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with firm policy. In addition, our policies prohibit us from providing certain non-attest services and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

The Audit Planning Process

Our audit approach places a strong emphasis on obtaining an understanding of how your entity functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your operations. The development of a specific audit plan will begin by meeting with you and with management to obtain an understanding of your business objectives, strategies, risks and performance.

As part of obtaining an understanding of your organization and its environment, we will obtain an understanding of your system of internal control. We will use this understanding to identify risks of material misstatement, which will provide us with a basis for designing and implementing responses to the assessed risks of material misstatement. We will also obtain an understanding of the users of the financial statements in order to establish an overall materiality level for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error.

The Concept of Materiality in Planning and Executing the Audit

We apply the concept of materiality in both planning and performing the audit; evaluating the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements; and forming the opinion in our report. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. We establish performance materiality at an amount less than materiality for the financial statements as a whole to allow for the risk of misstatements that may not be detected by the audit. We use performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. We will accumulate misstatements identified during the audit, other than those that are clearly trivial. At the end of the audit, we will inform you of all individual uncorrected misstatements aggregated by us in connection with our evaluation of our audit test results.

Significant Risks of Material Misstatement

Our audit of the financial statements includes the performance of risk assessment procedures in order to identify risks of material misstatement, whether due to fraud or error. As part of these risk assessment procedures, we determine whether any risks identified are a significant risk. A significant risk is an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, or that is to be treated as a significant risk in accordance with auditing standards generally accepted in the United States of America.

As part of our initial risk assessment procedures, we identified the following risks as significant risks. Additional significant risks may be identified as we perform additional audit procedures.

Risk Name	Risk Description
Management override of controls	Management is in a unique position to perpetuate fraud because of management's ability to intentionally manipulate accounting records and prepare fraudulent financial statements by overriding controls.
Fraudulent revenue recognition	The risk that revenue is overstated to mislead the financial statement users.
Net pension liability	The risk that net pension liability and related deferred outflows and inflows are improperly valued due to complexity of pension data.

Our Approach to Understanding Your System of Internal Control

Our audit of the financial statements will include obtaining an understanding of internal control sufficient to plan the audit and determine the nature, timing and extent of audit procedures to be performed. A financial statement audit is not designed to provide assurance on internal control or identify significant deficiencies or material weaknesses. Our review and understanding of the Authority's internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.

Timing of the Audit

Preliminary audit work took place January 6, 2025, and we have scheduled field work for the week of March 3, 2025. Management's adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Edwards Aquifer Authority.

This communication is intended solely for the information and use of the Finance/Administrative Committee and Board of Directors and is not intended to be, and should not be, used by anyone other than this specified party.

RSM US LLP