Edwards Aquifer Authority

Annual Financial Report
December 31, 2017

Contents

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Financial Section

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Independent Auditor's Report

To the Members of the Board of Directors
Edwards Aquifer Authority

We have audited the accompanying financial statements of the business-type activities of Edwards Aquifer Authority (the EAA), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the EAA's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the EAA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the EAA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the EAA as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of Changes in Net Pension Liability, Schedule of the EAA's Pension Contribution and Notes to Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the EAA's basic financial statements. The Schedules of Expenses—Budget and Actual (General Operations and Habitat Conservation Plan)—Non-GAAP Basis, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

San Antonio, Texas
March 27, 2018

This discussion and analysis serves as an introduction to the Edwards Aquifer Authority (the EAA) basic financial statements and provides an overview and analysis of financial activities for the year ended December 31, 2017, and identifies changes in its financial position for the year. The discussion and analysis provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements, including the notes to the financial statements, which follow this section.

Condensed financial data is presented for the three years ended December 31, 2017, 2016 and 2015, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

FINANCIAL HIGHLIGHTS

- The nonagricultural permit holder combined $84 per acre-foot aquifer management fee was maintained for a sixth consecutive year in primary support of the two programmatic areas of the EAA: EAA general operations and the Edwards Aquifer Habitat Conservation Plan (EAHCP).

- The agricultural permit holder rate of $2 per acre-foot remained unchanged, as set forth in the EAA Act.

- Nonagricultural and agricultural permit holder fee revenue remained relatively flat in 2017, increasing $54,349, primarily relating to an increase in agricultural use. A decrease in revenue in 2016 from 2015 of $486,869 related to decreased need to lease additional water rights from agricultural users to manage critical period reductions due to improved drought conditions and nonagricultural permit holders entering into EAHCP Aquifer Storage and Recovery (ASR) leases.

- The assets and deferred outflows of resources of the EAA exceeded liabilities and deferred inflows of resources as of December 31, 2017 by $51,630,552 (*net position*). Of this amount, $36,416,942 is reported as *restricted*, obligated to the EAHCP, with an *unrestricted* amount of $4,220,911 available to meet ongoing EAA general operating obligations. The remaining balance of $10,992,699 consists of the EAA's net investment in capital assets.

- EAA total net position increased by $1,619,255, or 3.2 percent from 2016, of which $715,292 is related to EAA General Operations and $903,963 is related to EAHCP.

- In 2017, the EAA paid $75,000 towards the principal portion of its General Improvement Revenue Note, issued in 2011. No additional debt was issued during 2017. Note 5 to the financial statements provides details of the long-term debt obligation.

- As of December 31, 2017, accrued conservation rebates of $82,467 are held pending payment to certain nonagricultural permit holders once outstanding compliance matters are resolved. In 2014, the EAA discontinued the aquifer management fee conservation rebate program. Under the rebate program, nonagricultural permit holders received a rebate of aquifer management fees paid for groundwater conserved in the previous year. The rebate was not applicable to the EAHCP program aquifer management fee.

USING THIS ANNUAL REPORT

Since all activities of the EAA are financed primarily by fees charged to external parties, the EAA is reported as an enterprise fund and considered a "business-type activity" in accordance with the requirements of GASB Statement No. 34. In addition, because the EAA is engaged only in business-type activities, it is required to present only the financial statements required for enterprise funds. Three financial statements are presented: the statements of net position; the statements of revenues, expenses and changes in net position and the statements of cash flows.

One of the most important questions asked about EAA finances is whether its financial position has improved as a result of the year's activities. The statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows present information that is useful in addressing this question and in assessing the financial health of the EAA.

Statements of Net Position

The statements of net position present EAA assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of December 31, 2017. These statements are prepared under the accrual basis of accounting in which revenues and assets are recognized when earned or acquired, and expenses and liabilities are recognized when incurred regardless of when cash is received or paid. The information presented is useful in determining the assets available for EAA operations, as well as how much the EAA owes to vendors, debt holders and other entities at the end of the year. Net position—the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources—can be a factor in assessing the financial position of the EAA. Over time, increases or decreases in net position are one indicator of whether the EAA's financial health is improving or deteriorating when considered with other factors, such as debt activity and investment in capital assets.

Assets and liabilities are classified based on liquidity and longevity. Current liabilities are generally those liabilities which are due within one year and current assets are those assets which are available to satisfy current liabilities. Noncurrent assets include only capital assets.

Deferred outflows or inflows of resources, related to pension obligations, are reflected in the statements of net position and adjusted each year in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Net position is presented in three major categories. Amounts presented as "net investment in capital assets" represent the EAA's investment in land, buildings and improvements, furniture and equipment and vehicles, net of accumulated depreciation and debt. Restricted net position reflects those assets in which constraints are placed by creditors (such as through debt covenants), grantors, contributors or laws and regulations of other governments; or by law through constitutional provisions or enabling legislation of the government itself. The EAA currently has restricted assets related to the EAHCP. Unrestricted net position is available for any lawful purpose. Further detail concerning assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position is presented in the statements of net position and the notes to basic financial statements.

Statements of Revenues, Expenses and Changes in Net Position

Changes in total net position, are based on the activity presented in the statements of revenues, expenses and changes in net position. Principal operating revenues of the EAA are generated from aquifer management fees and program aquifer management fees charged to EAA groundwater withdrawal permit holders. Operating expenses are incurred in administering the activities of the EAA and the EAHCP. The utilization of long-lived assets is also included in operating expenses as depreciation, which amortizes the cost of an asset over its expected useful life. All other activity is classified as nonoperating revenues and expenses. Total revenues, total expenses, operating income and the change in net position are all important factors when assessing the change in the EAA's financial position. Further detail is presented in the statements of revenues, expenses and changes in net position and notes to basic financial statements.

Statements of Cash Flows

The statements of cash flows provide information about the cash receipts and cash payments of the EAA during a period. The statements of cash flows also help users assess (1) the ability of the EAA to meet its obligations as they come due and (2) the need for external financing.

These statements present information related to cash inflows/outflows summarized by operating, capital and related financing and investing activities. For additional detail concerning these classifications see the statements of cash flows and notes to basic financial statements.

CONDENSED FINANCIAL INFORMATION

At the close of the year ended December 31, 2017, the EAA reports positive balances in all three categories of net position. Total net position as of December 31, 2017, was $51,630,552 of which $10,992,699 is represented by the EAA's net investment in capital assets (land, buildings and improvements, furniture and equipment and vehicles).

Total net position increased $1,619,255 from 2016 to 2017 and increased $918,026 from 2015 to 2016.

The following table compares total comparative condensed financial information on assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position:

	December 31, 2017	December 31, 2016	December 31, 2015 (As Restated)
Assets:			
Current assets	$ 9,934,613	$ 8,109,047	$ 11,487,752
Restricted current assets—EAHCP	38,645,241	37,721,702	37,429,967
Capital assets, net	14,077,699	14,254,409	14,107,369
Long-term assets	103,937	-	-
Total assets	62,761,490	60,085,158	63,025,088
Deferred outflows of resources:			
Deferred outflow related to pension	2,291,011	2,719,868	1,924,775
Total assets and deferred outflows of resources	$ 65,052,501	$ 62,805,026	$ 64,949,863
Liabilities:			
Current liabilities	$ 7,789,942	$ 6,969,863	$ 10,775,684
Noncurrent liabilities	5,549,108	5,774,342	5,080,908
Total liabilities	13,339,050	12,744,205	15,856,592
Deferred inflows of resources:			
Deferred inflow related to pension	82,899	49,524	-
Net position:			
Net investment in capital assets	10,992,699	11,094,409	10,872,369
Restricted—Habitat Conservation Plan	36,416,942	35,512,979	35,241,467
Unrestricted	4,220,911	3,403,909	2,979,435
Total net position	51,630,552	50,011,297	49,093,271
Total liabilities, deferred inflows of resources and net position	$ 65,052,501	$ 62,805,026	$ 64,949,863

The following table compares condensed financial information on revenues, expenses and changes in net position and related detailed presentation of the key factors influencing the current-year activity:

	Years Ended		
	December 31, 2017	December 31, 2016	December 31, 2015 (As Restated)
Total operating revenues	$ 32,927,023	$ 32,562,709	$ 33,178,110
Total operating expenses	31,525,253	31,703,922	33,401,606
Operating income (loss)	1,401,770	858,787	(223,496)
Nonoperating revenue (expenses):			
Interest income	362,491	184,573	107,969
Interest expense	(117,876)	(120,696)	(123,391)
Loss on sale of capital assets	(27,130)	(4,638)	(1,158)
Total nonoperating revenues (expenses), net	217,485	59,239	(16,580)
Change in net position	1,619,255	918,026	(240,076)
Net position at beginning of year	50,011,297	49,093,271	49,333,347
Net position at end of year	$ 51,630,552	$ 50,011,297	$ 49,093,271

RESTATEMENT

Total operating expenses presented in the tables above for 2015 have been restated to record the Voluntary Irrigation Suspension Program (VISPO) liabilities due at year-end.

OPERATING REVENUES

Operating revenues supported two programmatic areas: EAA General Operations and the EAHCP. The below operating revenue information is provided for each of the program areas independently. The overall combined per acre-foot fee of $84 for nonagricultural permit holders was maintained for a sixth consecutive year in primary support of these two programmatic areas. The combined rate, bifurcated based on budgetary needs, is set for each programmatic area in the annual budget adoption process. In 2017, the aquifer management fee rate for EAA General Operations was $44 per acre-foot and $40 per acre-foot for the EAHCP.

Overall, operating revenues increased $364,314, or 1.1 percent from 2016 to 2017, decreased $615,401, or 1.9 percent from 2015 to 2016. The increase in 2017 is primarily related to an abandoned well judgment settlement and a conservation grant from the Texas Water Development Board. The decrease in 2016 is related to nonagricultural permit holders entering into EAHCP ASR leases and decreased leasing of additional water rights by nonagricultural users from agricultural users to manage critical period reductions due to improved drought conditions.

EAA General Operations

The aquifer management fees support the general operating activities of the EAA. Of the overall operating revenues, the aquifer management fees represent $16,730,505 (50.8 percent) in 2017 and $15,165,324 (46.6 percent) in 2016. The aquifer management fees charged to agricultural users, as set by the EAA Act, is $2 per acre-foot. Agricultural fee revenues represent $141,214 (0.4 percent) and $113,475 (0.3 percent), of the total aquifer management fees operating revenues for years 2017 and 2016, respectively. The same aquifer management fees were increased to $40 per acre-foot in 2016, and to $44 per acre-foot in 2017 in order to meet anticipated general operations obligations. These aquifer management fees rates yielded a 10.3 percent increase in 2017 revenues and a 6.5 percent increase in 2016 revenues.

EAHCP

Assessed for the first time in 2012, the EAHCP program aquifer management fees support EAHCP activities. It is assessed to nonagricultural permit holders. Of the overall operating revenues, the program aquifer management fees represent $15,789,828 (47.9 percent) in 2017 and $17,300,660 (53.1 percent) in 2016. The program aquifer management fees were reduced to $44 per acre-foot in 2016 and to $40 per acre-foot in 2017. These program aquifer management fees rates yielded an 8.7 percent reduction in 2017 revenues and a 7.6 percent reduction in 2016 revenues.

Net aquifer management fees and program aquifer management fees revenues, as a percentage of total operating revenues, remain relatively consistent each year at 98.8 percent in 2017 and 99.7 percent in 2016. Compromise and settlements revenues are for settlements paid by various entities for EAA rules violations or judgments and represents 0.8 percent in 2017 and 0.2 percent in 2016 of total operating revenues. Other charges come from such sources, as well registration fees, transfer application fees, well construction application fees, reimbursement for public information requests and conservation grant revenues representing 0.5 percent in 2017 and 0.1 percent 2016.

The following information compares the components of operating revenues, for both program areas, for the years ended December 31, 2017, 2016 and 2015:

	2017	Percent of Total	2016	Percent of Total	2015	Percent of Total
Operating revenues:						
Aquifer management fees	$ 16,730,505	50.8%	$ 15,165,324	46.6%	$ 14,234,872	42.9%
Program aquifer management fees	15,789,828	47.9%	17,300,660	53.1%	18,717,981	56.4%
Enforcement settlements	249,910	0.8%	59,010	0.2%	190,892	0.6%
Other charges	156,780	0.5%	37,715	0.1%	34,365	0.1%
Total	$ 32,927,023	100.0%	$ 32,562,709	100.0%	$ 33,178,110	100.0%

OPERATING EXPENSES

Total EAA operating expenses decreased $178,669 (0.6 percent) in 2017 and decreased $1,697,684 (5.1 percent) in 2016. These changes year-over-year are the result of several factors, as discussed below. Operating expenses are presented by the "natural classification" method, a format in which the expense is shown by type of expense rather than its functional or programmatic classification.

EAA General Operations and EAHCP Operating Expenses

	2017	Percent of Total	2016	Percent of Total	2015 (As Restated)	Percent of Total
Salaries and wages	$ 7,020,020	22.3%	$ 6,718,377	21.2%	$ 6,201,680	18.6%
Employee benefits	2,598,876	8.2%	2,084,862	6.6%	2,247,260	6.7%
Professional and technical services	19,157,574	60.8%	20,256,687	63.9%	22,529,763	67.4%
Property services	691,175	2.2%	640,941	2.0%	568,304	1.7%
Other services	757,563	2.4%	672,634	2.1%	535,817	1.6%
Supplies	377,523	1.2%	370,064	1.2%	422,797	1.3%
Depreciation	922,522	2.9%	960,357	3.0%	895,985	2.7%
Total	$ 31,525,253	100.0%	$ 31,703,922	100.0%	$ 33,401,606	100.0%

Consistent with the presentation of operating revenues, total operating expenses are broken down separately by programmatic area below for EAA General Operations and EAHCP.

EAA General Operations

Salaries and wages: Salaries and wages increased $293,656 (4.7 percent) in 2017 and $453,284 (7.8 percent) in 2016 related to promotions, merit increases, filling of vacant positions and accrual updates related to compensated absences.

Employee benefits: Employee benefits increased $510,344 (26.4 percent) in 2017 and decreased $159,451 (7.6 percent) in 2016 due primarily to the recording of the actuarially determined pension expense for each year and other entries related to pension expense in accordance with GASB Statement No. 68 and GASB Statement No. 71. Further detail concerning the change in contributions and continuation of GASB Statements is presented in the notes to basic financial statements. Other contributors to the increase in 2017 relate to increased employer-related taxes consistent with the increase in salaries and wages and accrual updates related to compensated absences.

Professional and technical services: Professional and technical services decreased $893,614 in 2017 (23.7 percent) and decreased $2,924,695 in 2016 (43.6 percent). The decrease in 2017 is primarily related to an expense reimbursement from the City of San Antonio for conservation easement monitoring ($175,000) and decreases in legal services and legal settlement expenses ($615,930). In 2016, a legal settlement was paid that included an accrued 2015 amount of $4,000,000 plus an additional $570,070. Other expenditures in 2016 included interlocal agreement obligations and additional hydrologic budget studies.

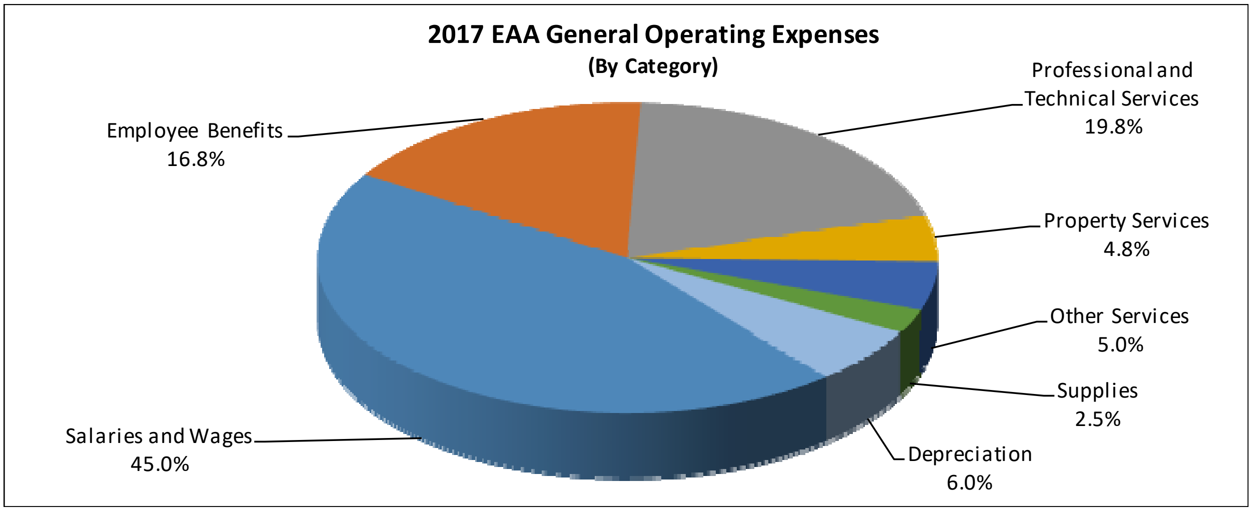
Property services, other services and supplies: Property services, other services and supplies had a combined total of $1,781,195 in 2017, representing a $140,815 (8.6 percent) increase. This increase primarily relates to conservation grants, increased vehicle maintenance costs, public/legal notice expenses for procurement and proposed rule changes and training costs for staff. Conservation grants, awarded to agricultural permit holders, accounted for approximately 66.8 percent of this increase. In 2016, these expenses were $1,640,380, representing a $141,563 (9.4 percent) increase. This increase primarily relates to conservation grants, increased printing costs associated with conservation awareness and training costs on various new software packages, which was offset by reduced public/legal notice expenses and meeting expenses. Conservation grants, awarded to agricultural permit holders, accounted for approximately 72.0 percent of this increase.

Depreciation expense: Depreciation expense decreased $50,855 (5.5 percent) in 2017. The decrease is related to various equipment becoming fully depreciated and the partial year deprecation of new equipment purchases later in the year. In 2016, depreciation expense increased $33,096 (3.7 percent). The increase relates to depreciation recorded for various water quality monitoring equipment, hardware and software purchases.

The following information, shown in table and graph form, summarizes EAA general operations operating expenses for the years ended December 31, 2017, 2016 and 2015:

EAA General Operations—Operating Expenses

	2017	Percent of Total	2016	Percent of Total	2015 (As Restated)	Percent of Total
Salaries and wages	$ 6,551,192	45.1%	$ 6,257,536	43.0%	$ 5,804,252	34.2%
Employee benefits	2,444,223	16.8%	1,933,879	13.3%	2,093,330	12.3%
Professional and technical services	2,884,842	19.8%	3,778,456	26.0%	6,703,151	39.4%
Property services	690,424	4.8%	640,151	4.4%	568,304	3.3%
Other services	726,311	5.0%	636,846	4.4%	513,176	3.0%
Supplies	364,460	2.5%	363,383	2.5%	417,337	2.5%
Depreciation	877,070	6.0%	927,925	6.4%	894,829	5.3%
Total	$ 14,538,522	100.0%	$ 14,538,176	100.0%	$ 16,994,379	100.0%



EAHCP

In 2013, the EAA began full implementation of the EAHCP. Several programs are functional parts of the EAHCP implementation, including program administration, Springflow Protection, San Marcos Springs, Comal Springs, modeling and research, and NFHTC Refugia. With the exception of program administration expenses, the vast majority of EAHCP expenditures are associated with contractual obligations and are categorized as "Professional and Technical Services."

Salaries and wages: Salaries and wages increased $7,987 (1.7 percent) in in 2017 and $63,413 (16.0 percent) in 2016. The yearly increases related to employee merit increases, filling of vacant positions and accrual updates related to compensated absences.

Employee benefits: Employee benefits increased $3,670 (2.4 percent) in 2017 and decreased $2,947 (1.9 percent) in 2016, primarily related to the implementation of GASB Statement No. 68 (as discussed earlier in this document). Further detail concerning the change in contributions and continuation of GASB statements is presented in the notes to basic financial statements.

Professional and technical services: Professional and technical services decreased $205,500 (1.2 percent) in 2017. This decrease was related to lower expenses in Springflow Protection measures such as ASR Leasing/O&M expenses and Regional Municipal Water Conservation ($185,921), decreases in San Marcos/Comal Springs expenses as work in these areas moved toward maintenance tasks ($1,441,422), decreases in modeling/applied research expenses ($330,453), and decreases in other program administration consulting services ($75,737). Decreases in 2017 were offset by an increase in NFHTC Refugia expenses ($1,828,033). A multi-year contract commenced on January 1, 2017, for the implementation of a long-term Refugia program. Professional and technical services increased $651,619 (4.1 percent) in 2016. In 2016, $414,210, previously recorded in 2015 as noncapitalized expense, was reclassified to capitalized building and equipment for Refugia. Increases in ASR Leasing/O&M expenses ($3,194,035) and Regional Water Conservation Program ($4,555,848) offset the decrease in VISPO-related payments ($6,487,724). VISPO-standby payment expenses totaled $2,208,723 in 2016 and forbearance and standby payment expenses totaled $8,696,447 in 2015.

The following table depicts 2017, 2016 and 2015 expenses for each of the programmatic areas.

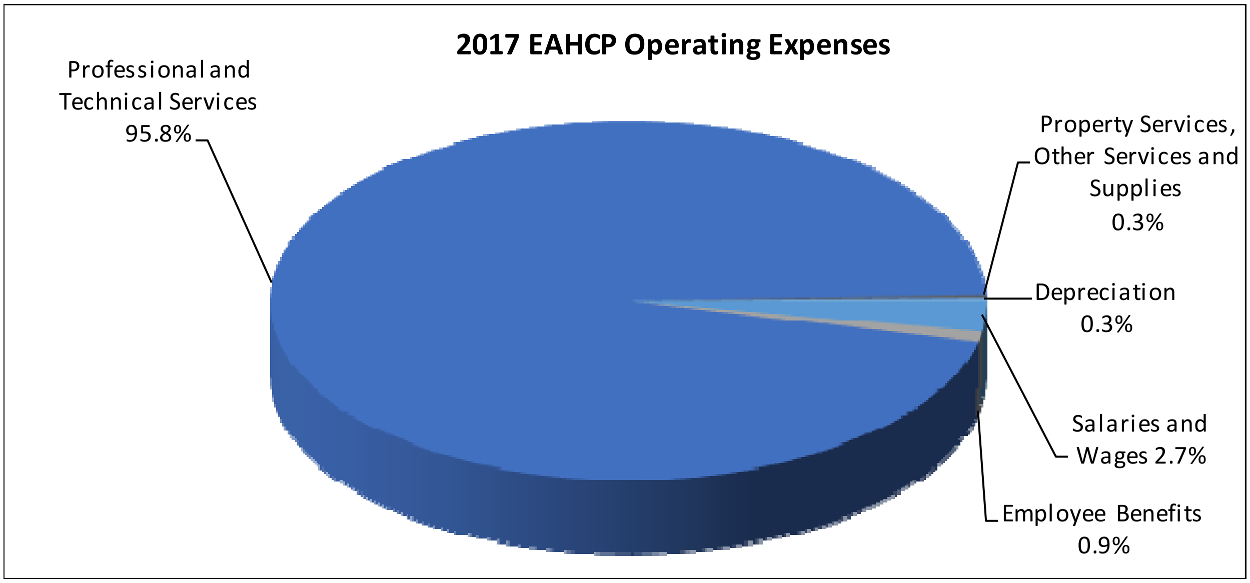
EAHCP—Professional and Technical Services

	2017	Percent of Total	2016	Percent of Total	2015 *(As Restated)*	Percent of Total
Program administration	$ 290,938	1.8%	$ 366,675	2.2%	$ 437,659	2.8%
Springflow Protection	12,106,282	74.4%	12,292,203	74.6%	11,030,043	69.7%
San Marcos Springs	877,509	5.4%	1,402,961	8.5%	1,577,158	10.0%
Comal Springs	764,401	4.7%	1,680,371	10.2%	1,268,972	8.0%
Modeling and Research	351,968	2.2%	682,421	4.1%	721,101	4.5%
NHFTC Refugia	1,881,633	11.5%	53,600	0.3%	791,679	5.0%
Total	$ 16,272,731	100.0%	$ 16,478,231	100.0%	$ 15,826,612	100.0%

The following information, shown in table and graph form, summarizes EAHCP operating expenses for the years ended December 31, 2017, 2016 and 2015:

EAHCP—Operating Expenses

	2017	Percent of Total	2016	Percent of Total	2015 (As Restated)	Percent of Total
Salaries and wages	$ 468,828	2.7%	$ 460,841	2.7%	$ 397,428	2.4%
Employee benefits	154,653	0.9%	150,983	0.9%	153,930	1.0%
Professional and technical services	16,272,731	95.8%	16,478,231	96.0%	15,826,612	96.5%
Property services	751	0.0%	790	0.0%	-	0.0%
Other services	31,252	0.2%	35,788	0.2%	22,641	0.1%
Supplies	13,063	0.1%	6,681	0.0%	5,460	0.0%
Depreciation	45,452	0.3%	32,432	0.2%	1,156	0.0%
Total	$ 16,986,730	100.0%	$ 17,165,746	100.0%	$ 16,407,227	100.0%



NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues and expenses: Nonoperating revenues and expenses are comprised of interest income and expense and loss on sale of capital assets.

Interest income: Interest income increased $177,918 (96.4 percent) in 2017 and $76,604 (70.9 percent) in 2016. Increases in 2017 and 2016 are related to the higher EAHCP cash balances carried in the Negotiable Order of Withdrawal (NOW) accounts and improved rates offered by those accounts. The NOW accounts provided greater returns than the traditional money market account (MMA) with the EAA depository institution. The average yield on NOW/MMA accounts was 1.14 percent and 0.52 percent for 2017 and 2016, respectively. The average yield on securities and certificates of deposit (CDs) was 1.41 percent and 0.86 percent for 2017 and 2016, respectively. In 2017, investments in CDs increased $6,507,544, or 530.2 percent.

Interest expense: Interest expense related to the 2011 issued *General Improvement Revenue Note, Series 2011*, decreased each year as payments were made to the principal balance of the note. Interest expense totaled $117,876 and $120,696 for years 2017 and 2016, respectively.

Loss on sale of capital assets: Loss on sale of capital assets totaled $27,130 and $4,638 in 2017 and 2016, respectively. This category includes disposal of obsolete equipment such as vehicles, computers, furniture and water flow meters

CAPITAL ASSETS

EAA investment in capital assets, net of accumulated depreciation, is $14,077,699 at December 31, 2017. The 2017 net increase is related to development in progress/construction in progress related to a database development project, fencing and a rain gauge/telemetry network, various hardware/software additions and other water sampling/monitoring equipment. The 2016 net increase is related to the addition of EAHCP Refugia buildings, various hardware/software additions and other water sampling/monitoring equipment.

	Years Ended		
	December 31, 2017	December 31, 2016	December 31, 2015
Land	$ 2,210,901	$ 2,210,901	$ 2,210,901
Buildings and improvements	10,801,204	10,733,860	10,302,454
Furniture and equipment	6,807,420	6,686,602	6,192,827
Vehicles	610,533	569,722	556,752
Work in progress	93,221	-	-
Construction in progress	44,000	-	-
Development in progress	212,293	50,118	-
Total capital assets	20,779,572	20,251,203	19,262,934
Less accumulated depreciation	6,701,873	5,996,794	5,155,565
Total capital assets, net of accumulated depreciation	$ 14,077,699	$ 14,254,409	$ 14,107,369

The EAA does not record the cost of capital assets as an expense at the time of acquisition of the asset, but rather shows the expense systematically over the expected life of the asset as depreciation expense. The amount shown in the accounting records for the value of the asset will decrease each year until the asset is fully depreciated or removed from service. As a result, the amount of capital assets reflected in the statements of net position may decrease from one year to another even though new assets have been acquired during the year. Capital assets subject to depreciation include buildings and improvements, furniture and equipment and vehicles. Land is not depreciated.

Additional information concerning the EAA capital assets can be found in Note 3.

LONG-TERM DEBT

In 2011, the EAA issued a $3,370,000 General Improvement Revenue Note. No debt has been issued in 2017 or 2016. The long-term debt balance at December 31, 2017 totaled $3,085,000 ($3,160,000 at December 31, 2016).

Additional information concerning the EAA long-term debt can be found in Note 5.

ECONOMIC FACTORS AFFECTING THE FUTURE

The EAA plays a critical role in managing and protecting the Edwards Aquifer, which contributes to the continued economic viability of the entire region. As the primary source of water for all uses, the sustainability of the Edwards Aquifer is vital to continued economic growth for a significant portion of south central Texas.

CONTACTING THE EAA FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide EAA citizens, customers and creditors with a general overview of finances and to demonstrate accountability for the receipts it collects and the expenses it makes for the services provided. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Felix Marquez, Executive Director—Financial and Administrative Services at (210) 477-5104 or via email to fmarquez@edwardsaquifer.org.

Information is also available on the EAA website at www.edwardsaquifer.org.

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Basic Financial Statements

Edwards Aquifer Authority

Statements of Net Position
December 31, 2017 and 2016

	2017	2016
Current assets:		
Cash and cash equivalents	**$ 6,170,643**	$ 7,290,817
Investments	**3,367,500**	613,728
Restricted assets (Habitat Conservation Plan):		
Cash and cash equivalents	**34,146,427**	37,005,988
Investments	**4,367,500**	613,728
Program fees receivable, net	**131,314**	101,986
Aquifer management fees receivable, net	**254,717**	177,457
Property taxes receivable, net	**15,505**	15,880
Miscellaneous receivable	**101,718**	11,165
Note receivable	**24,530**	-
Total current assets	**48,579,854**	45,830,749
Noncurrent assets:		
Note receivable	**103,937**	-
Capital assets:		
Land	**2,210,901**	2,210,901
Buildings and improvements	**10,801,204**	10,733,860
Furniture and equipment	**6,807,420**	6,686,602
Vehicles	**610,533**	569,722
Construction in progress	**349,514**	50,118
Total capital assets	**20,779,572**	20,251,203
Less accumulated depreciation	**6,701,873**	5,996,794
Net capital assets	**14,077,699**	14,254,409
Total assets	**62,761,490**	60,085,158
Deferred outflows of resources—pension	**2,291,011**	2,719,868
Total assets and deferred outflows of resources	**$ 65,052,501**	$ 62,805,026

The accompanying notes are an integral part of these statements.

	2017	2016
Current liabilities:		
Accounts payable	**$ 3,959,530**	$ 2,935,405
VISPO liabilities (payable from restricted assets)	**2,228,299**	2,208,723
Other accrued liabilities	**200,694**	25,694
Interest payable	**38,665**	39,605
Accrued wages and payroll liabilities	**290,822**	271,571
Unearned revenue	**-**	241,013
Due to nonagricultural permittees	**82,467**	259,601
Compensated absences	**909,465**	913,251
Note payable	**80,000**	75,000
Total current liabilities	**7,789,942**	6,969,863
Noncurrent liabilities:		
Net pension liability	**2,544,108**	2,689,342
Note payable	**3,005,000**	3,085,000
Total noncurrent liabilities	**5,549,108**	5,774,342
Total liabilities	**13,339,050**	12,744,205
Deferred inflows of resources—pension	**82,899**	49,524
Total liabilities and deferred inflows of resources	**$ 13,421,949**	$ 12,793,729
Net position:		
Net investment in capital assets	**$ 10,992,699**	$ 11,094,409
Restricted—Habitat Conservation Plan	**36,416,942**	35,512,979
Unrestricted	**4,220,911**	3,403,909
Total net position	**$ 51,630,552**	$ 50,011,297

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Edwards Aquifer Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues:		
Aquifer management fees:		
Nonagricultural users (net of rebates)	**$ 16,589,291**	$ 15,051,849
Agricultural users	**141,214**	113,475
Program fees—Habitat Conservation Plan	**15,789,828**	17,300,660
Enforcement settlements	**249,910**	59,010
Other charges	**156,780**	37,715
Total operating revenues	**32,927,023**	32,562,709
Operating expenses:		
Salaries and wages	**7,020,020**	6,718,377
Employee benefits	**2,598,876**	2,084,862
Professional and technical services	**19,157,574**	20,256,687
Property services	**691,175**	640,941
Other services	**757,563**	672,634
Supplies	**377,523**	370,064
Depreciation	**922,522**	960,357
Total operating expenses	**31,525,253**	31,703,922
Operating income	**1,401,770**	858,787
Nonoperating revenues (expenses):		
Interest income	**362,491**	184,573
Interest expense	**(117,876)**	(120,696)
Loss on sale of capital assets	**(27,130)**	(4,638)
Total nonoperating revenues (expenses), net	**217,485**	59,239
Change in net position	**1,619,255**	918,026
Net position at beginning of year	**50,011,297**	49,093,271
Net position at end of year	**$ 51,630,552**	$ 50,011,297

The accompanying notes are an integral part of these statements.

Edwards Aquifer Authority

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from customers	$ 32,183,643	$ 32,418,634
Payments to suppliers	(19,765,134)	(25,739,868)
Payments to employees	(9,286,433)	(8,714,706)
Net cash provided by (used in) operating activities	3,132,076	(2,035,940)
Cash flows from capital and related financing activities:		
Payments on long-term note payable	(75,000)	(75,000)
Purchases of capital assets	(781,847)	(1,128,586)
Proceeds from sale of capital assets	8,905	16,551
Interest paid	(118,816)	(121,636)
Net cash used in capital and related financing activities	(966,758)	(1,308,671)
Cash flows from investing activities:		
Purchase of investments	(7,245,000)	(982,456)
Sale of investments	737,456	1,715,000
Interest received	362,491	184,573
Net cash provided by (used in) investing activities	(6,145,053)	917,117
Net decrease in cash and cash equivalents	(3,979,735)	(2,427,494)
Cash and cash equivalents at beginning of the year	44,296,805	46,724,299
Cash and cash equivalents at end of the year	$ 40,317,070	$ 44,296,805

(Continued)

Edwards Aquifer Authority

Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	**$ 1,401,770**	$ 858,787
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	**922,522**	960,357
Change in operating assets and liabilities:		
Program fees receivable—Habit Conservation Plan	**(29,328)**	(18,154)
Aquifer management fees receivable, net	**(77,260)**	(66,626)
Property taxes receivable, net	**375**	519
Miscellaneous receivables	**(90,553)**	11,193
Note receivable	**(128,467)**	-
Accounts payable	**1,024,125**	180,527
Accrued legal settlement	**-**	(4,000,000)
VISPO liabilities (payable from restricted assets)	**19,576**	20,223
Other accrued liabilities	**175,000**	(292)
Accrued wages and payroll liabilities	**19,251**	1,537
Unearned revenue	**(241,013)**	241,013
Due to nonagricultural permittees	**(177,134)**	(312,020)
Compensated absences	**(3,786)**	64,131
Net pension liability	**(145,234)**	768,434
Deferred outflows of resources—pension	**428,857**	(795,093)
Deferred inflows of resources—pension	**33,375**	49,524
Net cash provided by (used in) operating activities	**$ 3,132,076**	$ (2,035,940)

The accompanying notes are an integral part of these statements.

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Note 1. Summary of Significant Accounting Policies

Reporting entity: Edwards Aquifer Authority (the EAA) was created in 1993 by the Edwards Aquifer Authority Act (the Act) of the 73rd Legislature of the State of Texas to manage and protect the Edwards Aquifer. The EAA covers all of Uvalde, Medina and Bexar counties and portions of Atascosa, Comal, Guadalupe, Caldwell and Hays counties.

The EAA is governed by a 17-member Board of Directors (the Board). Fifteen voting members are elected from single member election districts and two nonvoting members are appointed. One nonvoting director is appointed by the Advisory Committee from the members of the committee, and the second is appointed by the commissioners' court of Medina or Uvalde County. The Board has the EAA adopt and enforce reasonable rules and orders to manage and protect the Edwards Aquifer. Therefore, the EAA is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and is not included in any other governmental reporting entity.

The Act also created the South Central Texas Water Advisory Committee (SCTWAC), which advises the EAA Board on downstream water rights and issues. Appointed SCTWAC members, like EAA directors, are not entitled to compensation by the EAA, but are entitled to reimbursement for actual and necessary expenses incurred to perform their duties.

Measurement focus, basis of accounting and financial statement presentation: All activities of the EAA are accounted for as a business-type activity within a single proprietary fund. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the EAA are management fees charged to users of the aquifer. The EAA also recognizes other fees such as transfer application, well construction and registration fees as operating revenues.

Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In 2012, the EAA established the Edwards Aquifer Habitat Conservation Plan (EAHCP) for the purpose of lawfully removing potentially endangered species and relocating them to an equally habitable environment in order to continue performing the task of regulating and pumping groundwater from the Edwards Aquifer. The EAA bills program fees to nonagriculture users of the aquifer to build a reserve for future program expenses. These fees will be recognized as operating revenue in the period billed and collected program fees will be restricted for use towards program expenses.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents: Cash and cash equivalents include cash on hand, demand deposits, money market funds and highly liquid investments with maturities of three months or less at the time of purchase.

Restricted cash and cash equivalents: Restricted cash and cash equivalents include money market funds restricted for use on specific program expenses. The EAA has restricted cash and equivalents for use on the EAHCP.

Restricted and unrestricted investments: Investments [nonparticipating certificates of deposit (CDs)] are reported at amortized cost.

Aquifer management fees receivable: Aquifer management fees receivable consist of fees due from agriculture and nonagriculture users of the aquifer. The related allowance for uncollectible accounts is evaluated by management on a periodic basis. As of December 31, 2017 and 2016, the allowance for doubtful accounts related to aquifer management fees receivable totaled $14,438 and $10,038, respectively.

Program fees receivable—Habitat Conservation Plan: Program fees receivable consist of fees due from nonagriculture users of the aquifer for the purpose of funding the EAHCP and related program expenses. The related allowance for uncollectible accounts is evaluated by management on a periodic basis. As of December 31, 2017 and 2016, the allowance for doubtful accounts related to program fees receivable—Habitat Conservation Plan totaled $6,911 and $5,195, respectively.

Property taxes receivable: Effective July 28, 1996, legislation abolished any taxing power of the EAA. However, the EAA does collect delinquent taxes owed to the EAA predecessor agency, the Edwards Underground Water District. Delinquent taxes receivable have been reported in the financial statements, net of the allowance for uncollectible taxes. As of December 31, 2017 and 2016, the allowance for doubtful accounts related to property taxes receivable totaled $23,340.

Note receivable: The EAA entered into an agreement pursuant to a settlement in the principal amount of $494,680, with an annual interest rate of 5 percent. Principal and interest are due and payable in monthly installments beginning June 1, 2017, and continue through May 1, 2024. At December 31, 2017, the outstanding balance on the note totaled $128,467.

Capital assets: Capital assets having a unit cost equal to or greater than $1,000 are recorded at cost, if purchased or constructed, or, if donated, at acquisition value at the date of donation.

Normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but are charged as an operating expense as incurred. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Note 1. Summary of Significant Accounting Policies (Continued)

When assets are retired or otherwise disposed, the related costs are removed. Buildings, improvements, furniture and equipment and vehicles of the EAA are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings and improvements	20-50 years
Furniture and equipment	5-20 years
Vehicles	8-10 years

Compensated absences: It is the EAA's policy to permit employees to accumulate earned, but unused personal and sick leave benefits. Personal leave is accrued when incurred and reported as a liability. Employees may accumulate 10 to 15 hours a month of personal leave depending on their length of employment, and up to 320 hours of unused personal leave may be carried over from one year to the next. Upon termination, employees are paid for unused personal leave. As of December 31, 2017 and 2016, accrued personal leave payable totaled $567,433 and $556,884, respectively. Accumulated sick leave is payable upon termination when certain conditions are met. Based on the employees who had satisfied these conditions as of December 31, 2017 and 2016, the accrued sick leave payable totaled $342,032 and $356,367, respectively. It is the EAA's experience that the majority of the outstanding amount of accrued personal and sick leave is used by its employees within the year after accrual; therefore, the entire balance is classified as a current liability. For financial statement purposes, both accrued personal leave and accrued sick leave are reported as compensated absences.

Due to nonagricultural permittees: Amounts include rebates from prior years that have not been paid or applied against the aquifer management fees. Effective January 1, 2014, the rebate program has been discontinued. Total amount paid during 2017 totaled $177,134. Amounts are expected to be paid in year 2018.

Unearned revenue: Unearned revenue represents aquifer management fees and program fees paid by users in the current year that is related to revenue of the subsequent year.

Annual budget: The original budget is adopted by the Board in November of each year, and any amendments made during the year are approved by the Board.

Net position: Net position represents the difference between assets plus deferred outflows of resources less liabilities less deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the EAA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Restricted and unrestricted resources: It is EAA's policy to use restricted resources first when an allowable restricted expense is made for purposes for which both restricted and unrestricted resources are available.

Note 1. Summary of Significant Accounting Policies (Continued)

Retirement plan—pension: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the EAA's participation in the Texas County and District Retirement System (TCDRS), an Agent Plan, and additions to/deductions from TCDRS's fiduciary net position have been determined on the same basis as they are reported by TCDRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred outflows of resources/deferred inflows of resources: In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses) until then. The EAA has one item that qualifies for reporting in this category. The deferred charge for pension consists of contributions made after the measurement date of December 31, 2016, but during the EAA's current reporting period, differences between the expected and actual experience, changes of assumptions and net difference between projected and actual earnings.

In addition to liabilities, the statements of net position will sometime report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applied to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred charge for pension includes differences between expected and actual experience.

Note 2. Deposits and Investments

Cash and investments classified in the accompanying financial statements are as follows:

	December 31	
	2017	2016
Petty cash	$ 845	$ 821
Money market and checking account	40,316,225	44,295,984
CDs	7,735,000	1,227,456
Total cash and investments	$ 48,052,070	$ 45,524,261

Cash deposits: At December 31, 2017, the carrying amount of the EAA cash on hand and deposits, including CDs, totaled $48,052,070 ($45,524,261 at December 31, 2016) and the bank balance totaled $48,048,516 ($45,170,474 at December 31, 2016). All deposits are insured by federal depository insurance and/or collateralized with securities held in EAA's name.

Investments: The EAA is required by Government Code Chapter 2256, the Public Funds Investment Act (the Act), to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities and (9) bid solicitation preferences for CDs.

Note 2. Deposits and Investments (Continued)

The Act determines the types of investments which are allowable for the EAA. These include, with certain restrictions, (1) obligations of the Treasury, certain United States agencies and the state of Texas; (2) CDs; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptances; (7) mutual funds; (8) investment pools; (9) guaranteed investment contracts and (10) common trust funds.

EAA does not have any investments subject to interest rate risk, credit risk or concentration of credit risk.

Note 3. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
Capital assets not being depreciated:				
Land	$ 2,210,901	$ -	$ -	$ 2,210,901
Construction in progress	50,118	299,396	-	349,514
	2,261,019	299,396	-	2,560,415
Capital assets being depreciated:				
Buildings and improvements	10,733,860	67,344	-	10,801,204
Furniture and equipment	6,686,602	359,417	(238,599)	6,807,420
Vehicles	569,722	55,690	(14,879)	610,533
	17,990,184	482,451	(253,478)	18,219,157
Accumulated depreciation:				
Buildings and improvements	(1,689,504)	(231,845)	-	(1,921,349)
Furniture and equipment	(3,908,338)	(644,883)	208,919	(4,344,302)
Vehicles	(398,952)	(45,794)	8,524	(436,222)
	(5,996,794)	(922,522)	217,443	(6,701,873)
Total capital assets being depreciated, net	11,993,390	(440,071)	(36,035)	11,517,284
Capital assets, net	$ 14,254,409	$ (140,675)	$ (36,035)	$ 14,077,699

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance at December 31, 2015	Additions	Retirements	Transfers	Balance at December 31, 2016
Capital assets not being depreciated:					
Land	$ 2,210,901	$ -	$ -	$ -	$ 2,210,901
Construction in progress	-	632,094	-	(581,976)	50,118
	2,210,901	632,094	-	(581,976)	2,261,019
Capital assets being depreciated:					
Buildings and improvements	10,302,454	-	(11,273)	442,679	10,733,860
Furniture and equipment	6,192,827	465,285	(110,807)	139,297	6,686,602
Vehicles	556,752	31,207	(18,237)	-	569,722
	17,052,033	496,492	(140,317)	581,976	17,990,184
Accumulated depreciation:					
Buildings and improvements	(1,463,017)	(226,487)	-	-	(1,689,504)
Furniture and equipment	(3,325,410)	(683,819)	100,891	-	(3,908,338)
Vehicles	(367,138)	(50,051)	18,237	-	(398,952)
	(5,155,565)	(960,357)	119,128	-	(5,996,794)
Total capital assets being depreciated, net	11,896,468	(463,865)	(21,189)	581,976	11,993,390
Capital assets, net	$ 14,107,369	$ 168,229	$ (21,189)	$ -	$ 14,254,409

Note 4. Accounts Payable

The accounts payable balance is comprised of the following:

	December 31 2017	December 31 2016
Healthcare reimbursement accounts	$ 305,836	$ 283,530
Travel reimbursements	4,573	728
Trade payables	3,649,121	2,651,147
Total accounts payable	$ 3,959,530	$ 2,935,405

Note 5. Long-Term Debt

In 2011, the EAA issued a General Improvement Revenue Note, Series 2011. The issuance was for $3,370,000 for the purpose of providing funds to renovate, expand and equip the EAA's administrative headquarters. The note has an outstanding balance of $3,085,000, is due in varying installments through September 1, 2031, and bears an interest rate of 3.76 percent with interest paid semiannually. The principal and interest on this note are payable as defined:

	Principal	Interest	Total
Years ending December 31:			
2018	$ 80,000	$ 114,993	$ 194,993
2019	85,000	111,923	196,923
2020	85,000	108,727	193,727
2021	90,000	105,468	195,468
2022	230,000	100,329	330,329
2023-2027	1,295,000	362,589	1,657,589
2028-2031	1,220,000	101,269	1,321,269
	$ 3,085,000	$ 1,005,298	$ 4,090,298

A summary of changes in long-term debt at December 31, 2017, is as follows:

	Balance at December 31, 2016	Additions	Reductions	Balance at December 31, 2017	Due Within One Year
Business-type activities:					
Note payable:					
Revenue note	$ 3,160,000	$ -	$ (75,000)	$ 3,085,000	$ 80,000
Net pension liability	2,689,342	2,023,969	(2,169,203)	2,544,108	-
Total business-type activities long-term liabilities	$ 5,849,342	$ 2,023,969	$ (2,244,203)	$ 5,629,108	$ 80,000

A summary of changes in long-term debt at December 31, 2016, is as follows:

	Balance at December 31, 2015	Additions	Reductions	Balance at December 31, 2016	Due Within One Year
Business-type activities:					
Note payable:					
Revenue note	$ 3,235,000	$ -	$ (75,000)	$ 3,160,000	$ 75,000
Net pension liability	1,920,908	2,024,828	(1,256,394)	2,689,342	-
Total business-type activities long-term liabilities	$ 5,155,908	$ 2,024,828	$ (1,331,394)	$ 5,849,342	$ 75,000

Note 6. Retirement Plans

Texas County and District Retirement System (TCDRS): The EAA provides retirement, disability and death benefits for all its full-time employees through a nontraditional defined benefit pension plan in the statewide TCDRS. The board of trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 701 nontraditional defined benefit pension plans. TCDRS, in the aggregate, issues a Comprehensive Annual Financial Report (CAFR) on a calendar basis. The TCDRS CAFR can be downloaded at http://www.tcdrs.org.

The plan provisions are adopted and may be amended by the EAA Board, within the options available in the Texas state statutes governing TCDRS (the TCDRS Act). Members can retire at ages 60 and above with eight or more years of service, with 20 years of service regardless of age or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum and who are not eligible to retire are not entitled to any amounts contributed by their employer.

Benefits provided: Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act, so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding policy: The EAA has chosen a fixed rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employees and the EAA based on the covered payroll of the employees. Under the TCDRS Act, the regular contribution rate for the EAA's employees is a fixed percent equal to the 7 percent contribution payable to the employee. The matching employer contribution adopted by the governing body of the EAA was 180 percent of the required employee contribution. This regular contribution rate of the EAA is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the EAA at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment of the EAA to contribute the same amount as the employees. The employee contribution rate and the EAA contribution rate may be changed by the governing body of the EAA within the options available in the TCDRS Act.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the employer to contribute a fixed supplemental contribution rate determined by the TCDRS's actuary above the regular rate. During the year, the EAA contributed a total rate of 9.5 percent.

Plan benefits: Effective the date of participation, the EAA provides retirement, disability and death benefits. Based on the aforementioned funding policy, the employee's savings, by law, grow at a rate of 7 percent, compounded annually at retirement, the employee's account balance is combined with the EAA's matching and converted into a lifetime monthly benefit. Employees receive a month of service time for each month that they make a deposit into their account. The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes the related employer matching contributions, at age 60 or older.

The EAA adopted an eight year/Age 60 Retirement Eligibility described in Section 844.207 of the TCDRS Act, under which: (a) any TCDRS member who has eight or more years of service credit with the EAA and other subdivisions that have adopted the provisions of Sections 844.207 or 844.210, is a vested member and shall have the right to retire and receive a service retirement annuity after attaining age 60.

Note 6. Retirement Plans (Continued)

Any TCDRS member who is a vested member may terminate employment with all participating subdivisions prior to attaining age 60 and remain eligible to retire and receive a service retirement annuity after attaining age 60 provided his or her membership is not terminated other than by retirement. Any TCDRS member who is a vested member under Section 844.207(d) may retire and receive a disability retirement annuity if he or she is certified as disabled, as defined by the Plan.

Any TCDRS member who has four or more years of service credit with the EAA and other subdivisions is eligible for purpose of the Survivor Annuity Death Benefit.

Retirees elect to receive their lifetime benefit by choosing one of seven actuarially equivalent payment options. Prior service gives employees monetary credit for time worked for an eligible organization before it joined the system. Buybacks allow current employees to re-establish a closed TCDRS account from previous service with an employer. Partial lump-sum payments at retirement allow employees to withdraw part of their TCDRS account balance as a lump sum at retirement with a reduced monthly benefit. In addition, the EAA may choose to adopt a cost-of-living adjustment (COLA) for its retirees. This adjusts retiree benefits to restore purchasing power lost due to the effects of inflation.

Employees covered by benefit terms: At December 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	19
Inactive employees entitled to, but not yet receiving benefits	46
Active employees	89
Total	154

Contributions: The contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The EAA contribution rate is based on the TCDRS funding policy adopted by the TCDRS board of trustees and must conform with the TCDRS Act. Plan members and the EAA are required to contribute at a rate set by statute. The contribution requirements of plan members and the EAA are established and may be amended. For 2017 and 2016, the contribution rate for the plan members was 7.00 percent of gross pay. The EAA pays a matching portion to the pension plan totaling 9.50 percent of gross pay for 2017 (9.70 percent for 2016), which totaled $634,609 for 2017 ($633,744 for 2016).

Net pension liability: The EAA's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The actuarial assumptions that determined the total pension liability as of December 31, 2016, were based on the results of an actuarial experience study for the period from January 1, 2009, through December 31, 2012, except where required to be different by GASB Statement No. 68.

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	4.9% average over career including inflation
Investment rate of return	8.1%
COLA	None

Note 6. Retirement Plans (Continued)

Mortality rates were based on the following:

Depositing members—The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110 percent of the MP-2014 Ultimate scale after that.

Service retirees, beneficiaries and nondepositing members—The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110 percent of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.

Disabled retirees—RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110 percent of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

Long-term expected rate of return on assets: The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant. The numbers shown are based on January 2017 information for a seven- to 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected Minus Inflation) (2)
U.S. Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (3)	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities—Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities—Emerging	MSCI EM Standard (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomber Barclays U.S. Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distress Securities Index (4)	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index plus 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (5)	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. Fund of Funds Composite Index	20.00%	3.85%
		100.00%	

(1) Target asset allocation adopted at the April 2017 TCDRS board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 2.0 percent per Cliffwater's 2017 capital market assumptions.

Note 6. Retirement Plans (Continued)

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount rate: The discount rate used to measure the total pension liability was 8.1 percent. In order to determine the discount rate to be used by the employer, the TCDRS used an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

TCDRS has a funding policy where the unfunded actuarial accrued liability shall be amortized as a level percent of pay over 20-year closed layered periods. Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Change in net pension liability: Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position, as a percentage of total pension liability, is projected to increase from its current level in future years. Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments, the municipal bond rate does not apply.

The following represents a schedule of changes in the net pension liability based on the measurement date of December 31, 2016:

Changes in Net Pension Liability

	Increase (Decrease)		
Changes in Net Pension Liability	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at beginning of year	$ 15,984,149	$ 13,294,807	$ 2,689,342
Changes for the year:			
Service cost	706,738	-	706,738
Interest on total pension liability (1)	1,306,506	-	1,306,506
Effect of economic/demographic (gains) or losses	(51,936)	-	(51,936)
Refund of contributions	(29,473)	(29,473)	-
Benefit payments	(380,370)	(380,370)	-
Administrative expenses	-	(10,725)	10,725
Member contributions	-	457,341	(457,341)
Net investment income	-	986,342	(986,342)
Employer contributions	-	633,744	(633,744)
Other (2)	-	39,840	(39,840)
Balances at end of year	$ 17,535,614	$ 14,991,506	$ 2,544,108

Note 6. Retirement Plans (Continued)

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

Sensitivity analysis: The following presents the net pension liability of the EAA, calculated using the discount rate of 8.1 percent, as well as what the EAA's net pension liability would be if it were calculated using a discount rate that is 1.0 percentage point lower (7.1 percent) or 1.0 percentage point higher (9.1 percent) than the current rate:

	1.0% Decrease 7.1%	Current Discount Rate 8.1%	1.0% Increase 9.1%
Total pension liability	$ 19,874,168	$ 17,535,614	$ 15,581,462
Fiduciary net position	14,991,506	14,991,506	14,991,506
Net pension liability	$ 4,882,662	$ 2,544,108	$ 589,956

Pension plan fiduciary net position: Detail information about the pension plan's fiduciary net position is available in the separately issued TCDRS report.

Pension expense: The EAA recognized the following pension-related expense (income):

Pension Expense (Income)	January 1, 2016 Through December 31, 2016
Service cost	$ 706,738
Interest on total pension liability (1)	1,306,506
Administrative expenses	10,725
Member contributions	(457,341)
Expected investment return, net of investment expenses	(1,105,090)
Recognition of deferred inflows/outflows of resources:	
Recognition of economic/demographic gains or losses	219,810
Recognition of assumption changes or inputs	21,690
Recognition of investment gains or losses	288,410
Other (2)	(39,840)
Pension expense	$ 951,608

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

Note 6. Retirement Plans (Continued)

Deferred inflows and outflows of resources related to pensions: At December 31, 2017, the deferred outflows and inflows of resources related to pensions are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 82,899	$ 715,112
Changes of assumptions	-	86,759
Net difference between projected and actual earnings	-	854,531
Contributions made subsequent to measurement date	-	634,609
	$ 82,899	$ 2,291,011

The $634,609 reported as deferred outflows of resources related to pensions resulting from the EAA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

Amounts reported as deferred outflows and inflows related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Years ending December 31:	
2017	$ 529,909
2018	529,909
2019	495,463
2020	26,878
2021	(8,656)
	$ 1,573,503

Deferred inflows and outflows of resources related to differences between expected and actual plan experience and changes in assumptions are amortized over the average remaining service life for all active, inactive and retired members. Deferred outflows related to the difference between expected and actual investment returns are amortized over a five-year period.

Payables to the pension plan: At December 31, 2017, the EAA reported payables to TCDRS of $50,627 ($53,180 for 2016) for legally required employer contributions and $38,816 ($38,377 for 2016) for legally required employee contributions, which had been withheld from employee wages, but not yet remitted to TCDRS.

Note 7. Operating Leases

The EAA leases groundwater rights from various permit holders in support of the EAHCP ASR Leasing Program. During each lease year, the EAA withdraws the leased water and delivers the water to the San Antonio Water System (SAWS) ASR facility for storage with the intention of minimizing the impacts of a future extended drought. The EAA may terminate the leases by July 1 of any year during the term of the lease, in which case the lease would terminate on December 31 of that same year.

The leases range from one to 15 years in term length. Lease expense is reflected in the professional and technical services line item in the statements of revenues, expenses and changes in net position. The lease expense for the years ended December 31, 2017 and 2016, totaled $4,196,596 and $4,223,645, respectively.

Note 7. Operating Leases (Continued)

Future minimum payments on leases at December 31, 2017, are as follows:

Years ending December 31:		
2018	$	5,394,357
2019		2,588,056
2020		2,484,002
2021		2,293,293
2022		2,051,909
2023-2027		9,296,387
	$	24,108,004

Note 8. Risk Management

The EAA is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees; health insurance and natural disasters. The EAA purchased commercial insurance to cover risks associated with potential claims. There were no significant reductions in coverage in the past year, and there were no settlements exceeding insurance coverage during the past three years.

The EAA contracts with the Texas Municipal League (TML) to provide workers' compensation insurance. This multiple-employer account provides for a combination of modified self-insurance and stop-loss coverage. Contributions are set annually by TML. Liability by the EAA is generally limited to the contributed amounts.

Note 9. Major Customer

Of the EAA aquifer management fees and EAHCP program fees revenues for the years ended December 31, 2017 and 2016, $23,887,851 and $24,038,505, respectively, were received from one customer. These revenues account for approximately 73 percent and 74 percent of the total EAA operating revenues for the years ended December 31, 2017 and 2016, respectively.

Note 10. Related-Party Transactions

The EAA is responsible for reimbursing the SCTWAC members for actual and necessary expenses incurred while performing their duties on behalf of the EAA. Accordingly, the EAA reimbursed SCTWAC members $135 and $106 for the years ended December 31, 2017 and 2016, respectively.

Note 11. Litigation and Contingencies

Certain contingencies may exist as of the date of the financial statements are issued, which may result in a loss to the EAA, but which will only be resolved when one or more future events occur or fail to occur. The EAA's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the EAA or unasserted claims that may result in such proceedings, the EAA's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought herein.

Note 12. Commitments

Regional Water Conservation Program: On January 1, 2016, the EAA entered into an interlocal cooperation contract with SAWS to achieve various goals of the Regional Water Conservation Program of the EAHCP by implementing various conservation measures. SAWS, in exchange for the transfer of conserved water into the EAA Groundwater Trust and implementing stated conservation measures in the agreement, receives payment for those activities. The EAA's commitment on this agreement is as follows:

Years ending December 31:		
2018	$	4,507,750
2019		4,507,750
2020		600,400
	$	9,615,900

Refugia Program: Effective January 1, 2017, the EAA and the U.S. Fish and Wildlife Service (USFWS) entered into an agreement for the Implementation of a Refugia Program under the Edwards Aquifer Habitat Conservation Plan (Refugia Contract). The Refugia Contract, in an amount not to exceed $18,876,267, extends through March 31, 2028. In accordance with the Refugia Contract, an annual work plan is provided by the USFWS, and approved by the EAA, for the services to be performed under the Refugia Contract each year. Payment to USFWS is based on performance of completion of tasks. As of December 31, 2017, expenses in the amount of $1,881,633 have been recognized under this contract, with future commitments as follows:

Years ending December 31:		
2018	$	5,043,261
2019		1,156,284
2020		1,151,682
2021		1,178,357
2022		1,198,462
2023-2028		7,266,883
	$	16,994,929

VISPO Program: In 2013, the EAA implemented the EAHCP Voluntary Irrigation Suspension Program Option (VISPO). The program is governed by the VISPO Agreement (the Agreement) signed on a voluntary basis by permit holders, whereby permit holders will be compensated to forbear exercising their right under permits issued by the EAA to make withdrawals from the aquifer during times of certain droughts, as defined within the Agreement. The EAA currently has signed Agreements ranging from five- to 10-year periods. The EAA has options to terminate the Agreement if it is determined that the VISPO be discontinued as a conservation measure by the Implementing Committee of the EAHCP under Subsection 7.12.4.f. of the Funding and Management Agreement, at its sole discretion, one of them being by providing advance written notice of termination to the permit holder by July 1 of any year during the term of the Agreement, in which case the Agreement terminates on December 31 of the same year in which the notice is timely given.

In accordance with the Agreement, permit holders receive two types of payments, Standby Fees and Forbearance Years payment.

Note 12. Commitments (Continued)

Forbearance Years payment is subject to well level at Well J-17, as defined in the Agreement on October 1 of each year. However, the permit holder may opt out of a Forbearance Year payment if the well level on the following January 1 increases (to a level defined within the Agreement) and the permit holder gives written notice to the EAA by January 15. The Forbearance Year payment for 10-year agreements for years one through five are based on $172.50 per acre-foot per annum and, for years six through 10, are based on $210.60 per acre-foot per annum. The Forbearance Year payment for five-year agreements begins at $150 per acre foot with a 1.5 percent increase, compounded annually, per year. The EAA did not pay any Forbearance Year payments in 2017 or 2016.

Assuming the Agreement is not terminated by July 1, as defined above, the Standby Fee payments are due and payable as of year-end with payments made by no later than March 1 of the following year, regardless of whether or not the permit holder is required to suspend water withdrawals that year (i.e., regardless of the well level at Well J-17). For 10-year agreements, the Standby Fee payment for years one through five are based on $57.50 per acre-foot per annum and, for years six through 10, are based on $70.20 per acre-foot per annum. For five-year agreements, the Standby Fee payment begins at $50 per acre-foot per annum with a 1.5 percent increase, compounded annually, per year. At December 31, 2017 and 2016, the Standby Fee payments owed to participants was $2,228,299 and $2,208,723, respectively.

General contract commitments: At December 31, 2017, the EAA has approximately $397,500 in contract commitments related to the reclaimed water project (City of San Marcos) and construction of the Comal Springs conservation center (New Braunfels Utilities).

Required Supplementary Information

Edwards Aquifer Authority

Schedules of Changes in Net Pension Liability
Years Ended December 31, 2017 and 2016

	2017	2016	2015
Total pension liability (asset):			
Service cost	**$ 706,738**	$ 602,028	$ 489,730
Interest on total pension liability	**1,306,506**	1,194,041	962,577
Effect of plan changes	**-**	(176,742)	508,666
Effect of assumption of changes or inputs	**-**	130,138	-
Effect of economic/demographic (gains) or losses	**(51,936)**	(59,429)	1,430,223
Benefit payments/refunds of contributions	**(409,843)**	(342,992)	(290,907)
Net change in total pension liability	**1,551,465**	1,347,045	3,100,290
Total pension liability at beginning of year	**15,984,149**	14,637,104	11,536,814
Total pension liability at end of year (a)	**$ 17,535,614**	$ 15,984,149	$ 14,637,104
Fiduciary net position:			
Employer contributions	**$ 633,744**	$ 595,130	$ 347,051
Member contributions	**457,341**	425,093	234,099
Investment income, net of investment expenses	**986,342**	(85,302)	791,075
Benefit payments/refunds of contributions	**(409,843)**	(342,992)	(290,907)
Administrative expenses	**(10,725)**	(9,384)	(9,392)
Other	**39,840**	(3,934)	10,094
Net change in fiduciary net position	**1,696,699**	578,611	1,082,020
Fiduciary net position at beginning of year	**13,294,807**	12,716,196	11,634,176
Fiduciary net position at end of year (b)	**$ 14,991,506**	$ 13,294,807	$ 12,716,196
Net pension liability (asset) at end of year = (a)-(b)	**$ 2,544,108**	$ 2,689,342	$ 1,920,908
Fiduciary net position as a percentage of total pension liability	**85.49%**	83.17%	86.88%
Pensionable covered payroll	**$ 6,533,445**	$ 6,072,752	$ 5,852,465
Net pension liability as a percentage of covered payroll	**38.94%**	44.29%	32.82%

GASB Statement No. 68 requires this schedule to be presented for a 10-year period. The EAA adopted GASB Statement No. 68 in 2015; therefore, only three years are presented. The full trend information will be accumulated over the next seven years.

See notes to required supplementary information.

Edwards Aquifer Authority

Schedule of the EAA's Pension Contribution
Years Ended December 31,

Years Ending December 31	Actuarially Determined Contribution (1)	Actual Employer Contribution (1)	Contribution Deficiency (Excess)	Pensionable Covered Payroll (2)	Actual Contribution as a Percent of Covered Payroll
2008	$ 162,711	$ 162,711	$ -	$ 3,949,298	4.1%
2009	202,678	202,678	-	4,757,709	4.3%
2010	262,793	262,793	-	4,939,718	5.3%
2011	270,728	270,728	-	5,176,445	5.2%
2012	310,339	310,339	-	5,425,513	5.7%
2013	334,563	334,563	-	5,660,961	5.9%
2014	347,051	347,051	-	5,852,465	5.9%
2015	595,130	595,130	-	6,072,752	9.8%
2016	633,744	633,744	-	6,533,445	9.7%
2017	634,609	634,609	-	6,693,555	9.5%

(1) TCDRS calculates actuarially determined contributions on a calendar-year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal-year basis.

(2) Payroll is calculated based on contributions, as reported to TCDRS.

See notes to required supplementary information.

Following are the key assumptions and methods used in the required supplementary information schedules:

Valuation Date:	Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method:	Entry age
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Method:	13.9 years (based on contribution rate calculated in December 31, 2016 valuation)
Asset Valuation Method:	5-year smoothed market
Inflation:	3.0%
Salary Increases:	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return:	8.0%, net of investment expenses, including inflation
Retirement Age:	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality:	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110.0% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule:	Effective with the 2015 calendar year, employer contributions reflect that a 2% flat COLA was adopted.
	2016: No changes in plan provisions.

*Only changes effective 2015 and later are shown in the notes to required supplementary information.

Other Information

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (General Operations)—Non-GAAP Basis
Year Ended December 31, 2017

	Budgeted Amounts			Variance With
	Original	Final	Actual Amounts	Final Budget
Salaries and Wages				
Salaries and wages	$ 7,015,281	$ 7,015,281	$ 6,539,028	$ 476,253
Overtime	18,000	18,000	13,664	4,336
Compensated absences	-	-	(1,500)	1,500
	7,033,281	7,033,281	6,551,192	482,089
Employee Benefits				
Allowances	35,700	35,700	37,500	(1,800)
Insurance	816,977	816,977	522,419	294,558
Medical allowance reimbursement	227,500	227,500	489,596	(262,096)
Pension expense and retirement contributions	632,982	632,982	884,581	(251,599)
Taxes	562,860	562,860	482,448	80,412
Tuition reimbursement	25,000	27,700	27,679	21
	2,301,019	2,303,719	2,444,223	(140,504)
Professional and Technical Services				
Contractual professional services	3,152,500	3,071,987	2,165,137	906,850
Legal services	750,000	750,000	702,628	47,372
Pre-employment services	3,500	6,000	3,944	2,056
Records services	6,500	11,500	7,639	3,861
Temporary services	7,000	6,800	5,497	1,303
	3,919,500	3,846,287	2,884,845	961,442
Property Services				
Equipment maintenance	315,500	294,444	278,260	16,184
Equipment rental	56,368	53,913	35,832	18,081
Event sponsorships	70,000	75,000	60,651	14,349
Facilities maintenance	381,000	291,104	197,284	93,820
Facilities rental	32,202	25,244	19,705	5,539
Noncapital furniture and equipment	87,500	76,400	40,009	36,391
Pest control	2,100	2,100	1,920	180
Security and fire	15,000	15,000	3,684	11,316
Vehicle maintenance	22,000	48,700	43,794	4,906
Waste disposal	2,700	3,200	3,129	71
Water and sewage	8,500	8,500	6,157	2,343
	992,870	893,605	690,425	203,180

(Continued)

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (General Operations)—Non-GAAP Basis (Continued)
Year Ended December 31, 2017

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance With Final Budget
Other Services				
Bad-debt expense	$ -	$ -	$ 4,399	$ (4,399)
Conferences, seminars and training	138,000	115,599	60,619	54,980
Conservation grants	200,000	300,000	294,082	5,918
Fees, licenses and permits	1,015	1,015	1,003	12
Meeting expenses	139,750	153,218	101,268	51,950
Printing	57,750	39,450	21,386	18,064
Property and casualty	96,750	96,750	89,443	7,307
Public and legal notices	153,200	145,700	69,108	76,592
Telecommunication services	90,000	90,900	81,059	9,841
Travel and lodging	10,000	10,376	3,943	6,433
	886,465	953,008	726,310	226,698
Supplies				
Clothing	10,000	10,000	4,342	5,658
Computer supplies	51,000	37,942	33,678	4,264
Electrical services	78,950	95,950	89,959	5,991
Field supplies	76,000	76,400	44,559	31,841
Fuel	50,000	25,000	21,840	3,160
Kitchen and janitorial	35,000	35,000	21,476	13,524
Memberships	30,210	30,394	26,861	3,533
Office supplies	45,100	41,400	26,264	15,136
Postage	20,000	20,100	19,615	485
Promotional supplies	71,000	71,000	65,655	5,345
Subscriptions and publications	26,118	25,498	10,212	15,286
	493,378	468,684	364,461	104,223
Depreciation	-	-	877,070	(877,070)
Total Operating Expenditures	15,626,513	15,498,584	14,538,526	960,058
Nonoperating Expenditures				
Interest expense—debt	117,876	117,876	117,876	-
Capital Expenditures and Note Principal*	679,500	1,049,530	730,420	319,110
Total Expenditures, Capital Expenditures and Note Principal	$ 16,423,889	$ 16,665,990	$ 15,386,822	$ 1,279,168

*Capital expenditures are reflected in the statements of net position basic financial statements.

Budget Amendments:

EAA—budget amendment September 12, 2017	$ 107,500
EAA—budget amendment October 10, 2017	134,600

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (Habitat Conservation Plan)—Non-GAAP Basis
Year Ended December 31, 2017

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance With Final Budget
Program Administration				
Salaries and wages:				
Salaries and wages	$ 511,093	$ 511,093	$ 470,995	$ 40,098
Overtime	-	-	119	(119)
Compensated absences	-	-	(2,286)	2,286
	511,093	511,093	468,828	42,265
Employee benefits:				
Allowances	4,200	4,200	4,200	-
Insurance	62,695	62,695	42,007	20,688
Medical allowance reimbursement	17,500	17,500	7,425	10,075
Pension expense and retirement contributions	46,663	46,663	65,203	(18,540)
Taxes	40,989	40,989	35,818	5,171
	172,047	172,047	154,653	17,394
Professional and technical services:				
Contractual professional services	464,095	455,195	290,938	164,257
	464,095	455,195	290,938	164,257
Property services:				
Noncapital furniture and equipment	1,515	1,515	751	764
	1,515	1,515	751	764
Other services:				
Bad-debt expense	-	-	1,715	(1,715)
Conferences, seminars and training	2,500	11,400	6,670	4,730
Meeting expenses	20,000	20,000	18,339	1,661
Printing	2,000	2,000	282	1,718
Travel and lodging	3,000	3,000	1,042	1,958
	27,500	36,400	28,048	8,352
Supplies:				
Memberships	500	500	-	500
Office supplies	3,000	3,000	928	2,072
	3,500	3,500	928	2,572
Total—Program Administration	1,179,750	1,179,750	944,146	235,604
Springflow Protection				
Professional and technical services:				
SAWS ASR Leasing	4,701,680	4,701,680	4,205,651	496,029
SAWS ASR O&M	798,320	1,298,320	1,164,582	133,738
Regional municipal water conservation	4,533,175	4,533,175	4,507,750	25,425
VISPO	2,208,000	2,209,000	2,228,299	(19,299)
Total—Springflow Protection	12,241,175	12,742,175	12,106,282	635,893

(Continued)

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (Habitat Conservation Plan)—Non-GAAP Basis (Continued)
Year Ended December 31, 2017

	Budgeted Amounts			Variance With
	Original	Final	Actual Amounts	Final Budget
San Marcos Springs				
Professional and technical services:				
Bank stabilization and permanent access	$ 20,000	$ 20,000	$ 19,480	$ 520
Biological monitoring	204,138	204,138	204,136	2
Household hazardous waste management	30,000	30,000	30,000	-
Lid/bmp management	150,000	239,500	139,480	100,020
Litter control/floating vegetation	51,298	51,298	51,178	120
Management—key public rec. areas	56,000	56,000	53,242	2,758
Nonnative animal species control	27,959	27,123	27,097	26
Nonnative plant species control	150,000	150,836	150,621	215
Restoration—riparian zones	55,743	55,743	55,683	60
Texas wild rice enhancement and restoration	100,000	100,000	93,620	6,380
Water quality monitoring	72,850	72,850	52,972	19,878
	917,988	1,007,488	877,509	129,979
Other services:				
Telecommunication services	3,375	1,875	1,332	543
	3,375	1,875	1,332	543
Supplies:				
Field supplies	3,500	7,500	6,962	538
	3,500	7,500	6,962	538
Total—San Marcos Springs	924,863	1,016,863	885,803	131,060
Comal Springs				
Professional and technical services:				
Aquatic vegetation restoration	100,000	100,000	99,967	33
Biological monitoring	204,137	204,137	204,137	-
Decaying vegetation removal	15,000	15,000	14,949	51
Flow split management	44,150	44,150	33,752	10,398
Gill parasite control	30,000	30,000	29,985	15
Household hazardous waste program	30,000	30,000	30,000	-
Litter control/floating vegetation	10,000	10,000	9,990	10
Management—key public rec. areas	30,000	30,000	25,704	4,296
Nonnative animal species control	55,000	55,000	52,945	2,055
Old channel restoration	135,000	135,000	135,000	-
Restoration—riparian zones	50,000	50,000	50,000	-
Riparian improvements—riffle beetle	25,000	25,000	25,000	-
Water quality monitoring	72,850	72,850	52,972	19,878
	801,137	801,137	764,401	36,736
Other services:				
Telecommunication services	3,375	2,375	1,872	503
	3,375	2,375	1,872	503
Supplies:				
Field supplies	3,500	6,000	5,173	827
	3,500	6,000	5,173	827
Total—Comal Springs	808,012	809,512	771,446	38,066

(Continued)

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (Habitat Conservation Plan)—Non-GAAP Basis (Continued)
Year Ended December 31, 2017

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance With Final Budget
Modeling and Research				
Professional and technical services:				
Applied environmental research	$ 450,000	$ 448,050	$ 351,968	$ 96,082
Ecological modeling	-	30,000	-	30,000
Total—Modeling and Research	450,000	478,050	351,968	126,082
Refugia				
Professional and technical services:				
NFHTC Refugia	1,674,597	6,074,176	1,881,633	4,192,543
Other Services:				
Property and casualty	4,000	4,000	-	4,000
Total—NFHTC Refugia	1,678,597	6,078,176	1,881,633	4,196,543
Depreciation	-	-	45,452	(45,452)
Total Expenditures	17,282,397	22,304,526	16,986,730	5,317,796
Capital Expenditures*				
San Marcos Springs	18,000	16,000	13,599	2,401
Comal Springs	12,000	10,000	6,292	3,708
Modeling and Research	-	1,950	1,916	34
	30,000	27,950	21,807	6,143
Total Expenditures and Capital Expenditures	$ 17,312,397	$ 22,332,476	$ 17,008,537	$ 5,323,939

*Capital expenditures are reflected in the statements of net position basic financial statements.

Budget Amendments	
EAHCP—Budget amendment on March 14, 2017	$ 4,429,579
EAHCP—Budget amendment on July 11, 2017	590,500