Edwards Aquifer Authority

Annual Financial Report
December 31, 2018

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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 the Edwards Aquifer Authority (the EAA) as of and for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years 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 26, 2019

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, 2018, 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, 2018, 2017 and 2016, 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 seventh 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 revenue and agricultural permit holder fee revenue decreased $901,144 in 2018 primarily related to expiring nonagricultural permit holder of water right leases from agricultural users. Revenue remained relatively flat in 2017 from 2016, increasing $54,349, primarily related to an increase in agricultural use.

- The assets and deferred outflows of resources of the EAA exceeded liabilities and deferred inflows of resources as of December 31, 2018 by $47,490,371 (*net position*). Of this amount, $31,354,603 is reported as *restricted*, obligated to the EAHCP, with an *unrestricted* amount of $5,052,465 available to meet ongoing EAA general operating obligations. The remaining balance of $11,083,303 consists of the EAA's net investment in capital assets.

- EAA total net position decreased by $4,140,181, or 8% from 2017, of which an increase of $922,158 is related to EAA General Operations and a decrease of $5,062,339 is related to EAHCP.

- In 2018, the EAA paid $80,000 towards the principal portion of its General Improvement Revenue Note, issued in 2011. No new debt was issued during 2018. Note 5 to the financial statements provides details of the long-term debt obligation.

- As of December 31, 2018, accrued conservation rebates of $81,984 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, 2018, 2017 and 2016. 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, 2018, the EAA reports positive balances in all three categories of net position. Total net position as of December 31, 2018, was $47,490,371 of which $11,083,303 is represented by the EAA's net investment in capital assets (land, buildings, vehicles, software, hardware and equipment).

Total net position decreased $4,140,181 in 2018 and increased $1,619,255 from 2016 to 2017. The 2018 decrease is primarily related to EAHCP Refugia and ASR Leasing and Forbearance fee expense increases. The 2017 increase is related primarily to EAA General Operations final recording of legal settlement fees in 2016 and lower EAHCP expenditures in 2017. Unrestricted net position and net investment in capital assets increased $922,158 in 2018 and increased $715,292 in 2017.

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		
	2018	2017	2016
Assets:			
Current assets	$ 10,864,079	$ 9,934,613	$ 8,109,047
Restricted current assets—EAHCP	35,537,598	38,645,241	37,721,702
Capital assets, net	14,088,303	14,077,699	14,254,409
Long-term assets	78,152	103,937	-
Total assets	60,568,132	62,761,490	60,085,158
Deferred outflows of resources:			
Deferred outflow related to pension	1,312,404	2,291,011	2,719,868
Total assets and deferred outflows of resources	$ 61,880,536	$ 65,052,501	$ 62,805,026
Liabilities:			
Current liabilities	$ 9,615,205	$ 7,789,942	$ 6,969,863
Noncurrent liabilities	4,511,187	5,549,108	5,774,342
Total liabilities	14,126,392	13,339,050	12,744,205
Deferred inflows of resources:			
Deferred inflow related to pension	263,773	82,899	49,524
Net position:			
Net investment in capital assets	11,083,303	10,992,699	11,094,409
Restricted—Habitat Conservation Plan	31,354,603	36,416,942	35,512,979
Unrestricted	5,052,465	4,220,911	3,403,909
Total net position	47,490,371	51,630,552	50,011,297
Total liabilities, deferred inflows of resources and net position	$ 61,880,536	$ 65,052,501	$ 62,805,026

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		
	2018	2017	2016
Total operating revenues	$ 31,863,282	$ 32,927,023	$ 32,562,709
Total operating expenses	36,679,718	31,525,253	31,703,922
Operating income (loss)	(4,816,436)	1,401,770	858,787
Nonoperating revenue (expenses):			
Interest income	787,104	362,491	184,573
Interest expense	(114,993)	(117,876)	(120,696)
Gain (loss) on sale of capital assets	4,144	(27,130)	(4,638)
Total nonoperating revenues (expenses), net	676,255	217,485	59,239
Change in net position	(4,140,181)	1,619,255	918,026
Net position at beginning of year	51,630,552	50,011,297	49,093,271
Net position at end of year	$ 47,490,371	$ 51,630,552	$ 50,011,297

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 seventh 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 2018, the aquifer management fee rate for EAA General Operations was $42 per acre-foot and $42 per acre-foot for the EAHCP.

Overall, operating revenues decreased $1,063,741, or 3.2% from 2017 to 2018, and increased $364,314, or 1.1% from 2016 to 2017. The decrease in 2018 is primarily related to an increase in expiring nonagricultural permit holder water right leases. The increase in 2017 is primarily related to an abandoned well judgement settlement and a conservation grant from the Texas Water Development Board.

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 $15,524,731 (48.7%) in 2018 and $16,730,505 (50.8%) in 2017. The aquifer management fees charged to agricultural users, as set by the EAA Act, is $2 per acre-foot. Agricultural fee revenues represent $165,734 (0.5%) and $141,214 (0.4%), of the total aquifer management fees operating revenues for years 2018 and 2017, respectively. The aquifer management fee charged to nonagricultural permit holders for general operations increased to $44 per acre-foot in 2017 and decreased to $42 per acre-foot in 2018. These aquifer management fee rates resulted in a 7.2% decrease in 2018 and a 10.3% increase in 2017 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 $16,120,152 (50.6%) in 2018 and $15,789,828 (47.9%) in 2017. The program aquifer management fee charged to nonagricultural permit holders decreased to $40 per acre-foot in 2017 and increased to $42 per acre-foot in 2018. These program aquifer management fees rates resulted in a 2.1% reduction in 2018 revenues and an 8.7% reduction in 2017 revenues.

Net aquifer management fees and program aquifer management fees revenues, as a percentage of total operating revenues, remain relatively consistent each year at 99.3% in 2018 and 98.8% in 2017. Compromise and settlements revenues are for settlements paid by various entities for EAA rules violations or judgments and represents 0.1% in 2018 and 0.8% in 2017 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 0.3% in 2018 and 0.5% 2017.

The following information compares the components of operating revenues, for both program areas, for the years ended December 31, 2018, 2017 and 2016:

	2018	Percent of Total	2017	Percent of Total	2016	Percent of Total
Operating revenues:						
Aquifer management fees	$ 15,524,731	48.7%	$ 16,730,505	50.8%	$ 15,165,324	46.6%
Program aquifer management fees	16,120,152	50.6%	15,789,828	47.9%	17,300,660	53.1%
Enforcement settlements	42,807	0.1%	249,910	0.8%	59,010	0.2%
Other charges	175,592	0.6%	156,780	0.5%	37,715	0.1%
Total	$ 31,863,282	100.0%	$ 32,927,023	100.0%	$ 32,562,709	100.0%

OPERATING EXPENSES

Total EAA operating expenses increased $5,154,465 (16.4%) in 2018 and decreased $178,669 (0.6%) in 2017. 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

	2018	Percent of Total	2017	Percent of Total	2016	Percent of Total
Salaries and wages	$ 7,115,797	19.4%	$ 7,020,020	22.3%	$ 6,718,377	21.2%
Employee benefits	2,464,838	6.7%	2,598,876	8.2%	2,084,862	6.6%
Professional and technical services	24,297,898	66.3%	19,157,574	60.8%	20,256,687	63.9%
Property services	818,100	2.2%	691,175	2.2%	640,941	2.0%
Other services	701,974	1.9%	757,563	2.4%	672,634	2.1%
Supplies	421,700	1.2%	377,523	1.2%	370,064	1.2%
Depreciation	859,411	2.3%	922,522	2.9%	960,357	3.0%
Total	$ 36,679,718	100.0%	$ 31,525,253	100.0%	$ 31,703,922	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 $223,947 (3.4%) in 2018 and $293,656 (4.7%) in 2017 related to promotions, merit increases, filling of vacant positions and accrual updates related to compensated absences.

Employee benefits: Employee benefits decreased $123,987 (5.1%) in 2018 and increased $510,344 (26.4%) in 2017 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 increased $665,984 in 2018 (23.1%) and decreased $893,613 in 2017 (23.7%). The increase in 2018 is primarily related to legal services ($326,006), election expenses ($145,819) and various aquifer hydrologic budget studies ($176,157). 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).

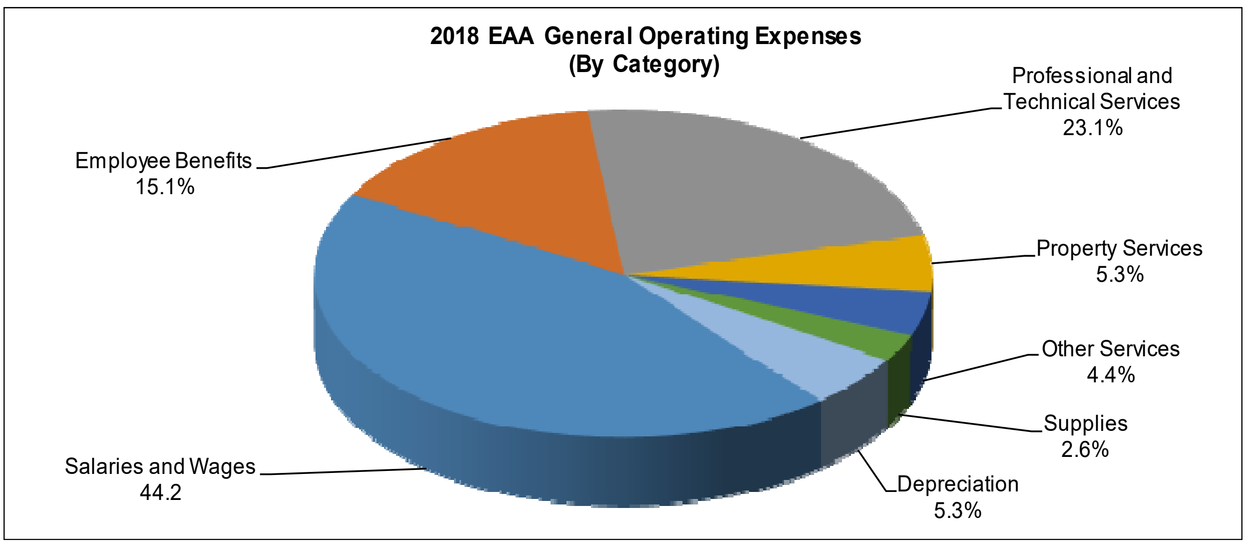
Property services, other services and supplies: Property services, other services and supplies had a combined total of $1,883,274 in 2018, representing a $102,079 (5.7%) increase. This increase primarily relates to increased vehicle, equipment and general facilities maintenance costs, computer and office supplies, printing and noncapital equipment purchases offset by a decrease in conservation grants. In 2017, these expenses were $1,781,195, representing a $140,815 (8.6%) 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% of this increase.

Depreciation expense: Depreciation expense decreased $64,746 (7.4%) in 2018. The decrease is related to various equipment becoming fully depreciated and the partial year deprecation of new equipment purchases during the year. In 2017, depreciation expense decreased $50,855 (5.5%). The decrease related to various equipment becoming fully depreciated and the partial year deprecation of new equipment purchases later in the year.

The following information, shown in table and graph form, summarizes EAA general operations operating expenses for the years ended December 31, 2018, 2017 and 2016:

EAA General Operations—Operating Expenses

	2018	Percent of Total	2017	Percent of Total	2016	Percent of Total
Salaries and wages	$ 6,775,139	44.2%	$ 6,551,192	45.1%	$ 6,257,536	43.0%
Employee benefits	2,320,236	15.1%	2,444,223	16.8%	1,933,879	13.3%
Professional and technical services	3,550,827	23.1%	2,884,843	19.8%	3,778,456	26.0%
Property services	815,741	5.3%	690,424	4.8%	640,151	4.4%
Other services	667,248	4.4%	726,311	5.0%	636,846	4.4%
Supplies	400,285	2.6%	364,460	2.5%	363,383	2.5%
Depreciation	812,324	5.3%	877,070	6.0%	927,925	6.4%
Total	$ 15,341,800	100.0%	$ 14,538,523	100.0%	$ 14,538,176	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 decreased $128,170 (27.3%) in 2018 and increase of $7,987 (1.7%) in 2017. The decrease in 2018 related to vacant positions during the year and the 2017 increase related to employee merit increases, filling of vacant positions and accrual updates related to compensated absences. The increase in 2017 was related to employee merit increases, filling of vacant positions and accrual updates related to compensated absences.

Employee benefits: Employee benefits decreased $10,051 (6.5%) in 2018 and increased $3,670 (2.4%) in 2017, primarily related 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.

Professional and technical services: Professional and technical services increased $4,474,340 (27.5%) in 2018. This increase was related to higher expenses in Springflow Protection measures such as ASR Leasing and Forbearance ($3,077,336) and VISPO ($92,011), increases in NFHTC Refugia expenses (1,913,980) and increases in other program administration consulting services ($175,102). Increases in 2018 were offset by decreases in ASR O&M expenses ($481,235), modeling/applied research expenses ($256,316) and San Marcos/Comal Springs, as work in these areas moved towards maintenance tasks ($46,538). Professional and technical services decreased $205,500 (1.2%) 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 ($1,441,424), 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 ($1,828,034). A multi-year contract commenced on January 1, 2017, for the implementation of a long-term Refugia program.

The following table depicts 2018, 2017 and 2016 expenses for each of the programmatic areas.

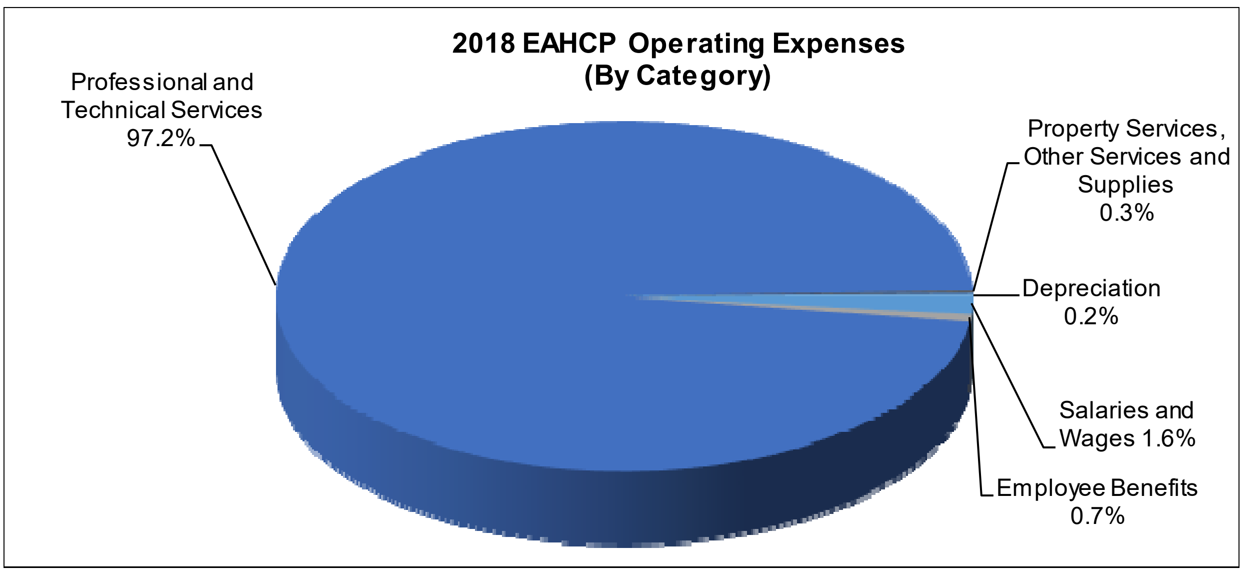
EAHCP—Professional and Technical Services

	2018	Percent of Total	2017	Percent of Total	2016	Percent of Total
Program administration	$ 466,039	2.2%	$ 290,938	1.8%	$ 366,675	2.2%
Springflow Protection	14,794,395	71.3%	12,106,282	74.4%	12,292,203	74.6%
San Marcos Springs	851,549	4.1%	877,509	5.4%	1,402,961	8.5%
Comal Springs	743,823	3.6%	764,401	4.7%	1,680,371	10.2%
Modeling and Research	95,652	0.5%	351,968	2.2%	682,421	4.2%
NHFTC Refugia	3,795,613	18.3%	1,881,633	11.5%	53,600	0.3%
Total	$ 20,747,071	100.0%	$ 16,272,731	100.0%	$ 16,478,231	100.0%

The following information, shown in table and graph form, summarizes EAHCP operating expenses for the years ended December 31, 2018, 2017 and 2016:

EAHCP—Operating Expenses

	2018	Percent of Total	2017	Percent of Total	2016	Percent of Total
Salaries and wages	$ 340,658	1.6%	$ 468,828	2.7%	$ 460,841	2.7%
Employee benefits	144,602	0.7%	154,653	0.9%	150,983	0.9%
Professional and technical services	20,747,071	97.2%	16,272,731	95.8%	16,478,231	96.0%
Property services	2,359	0.0%	751	0.0%	790	0.0%
Other services	34,726	0.2%	31,252	0.2%	35,788	0.2%
Supplies	21,415	0.1%	13,063	0.1%	6,681	0.0%
Depreciation	47,087	0.2%	45,452	0.3%	32,432	0.2%
Total	$ 21,337,918	100.0%	$ 16,986,730	100.0%	$ 17,165,746	100.0%



NONOPERATING REVENUES AND EXPENSES

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

Interest income: Interest income increased $424,613 (117.1%) in 2018 and $177,918 (96.4%) in 2017. Increases in 2018 are related to improved rates offered by Negotiable Order of Withdrawal (NOW) accounts and Securities/CDs. 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 2.47% and 1.14% for 2018 and 2017, respectively. The average yield on securities and certificates of deposit (CDs) was 2.49% and 1.41% for 2018 and 2017, respectively. In 2018, investments in CDs increased $4,032,202, or 52.1%. In 2017, investments in CDs increased $6,507,544, or 530.2%.

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 $114,993 and $117,876 for years 2018 and 2017, respectively.

Gain or loss on sale of capital assets: Gain on sale of capital assets totaled $4,144 in 2018 and loss on sale of capital assets totaled $27,130 in 2017. 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 $14,088,303 at December 31, 2018. The 2018 net increase is related to year two of a database development project and a rain gauge/telemetry network, various hardware/software additions and other water sampling/monitoring equipment. The 2017 net increase is related to a database development project and a rain gauge/telemetry network, various hardware/software additions and other water sampling/monitoring equipment.

	December 31		
	2018	2017	2016
Land	$ 2,210,901	$ 2,210,901	$ 2,210,901
Buildings and improvements	10,818,350	10,801,204	10,733,860
Furniture and equipment	7,355,966	6,807,420	6,686,602
Vehicles	613,726	610,533	569,722
Work in progress	131,611	93,221	-
Construction in progress	-	44,000	-
Development in progress	376,436	212,293	50,118
Total capital assets	21,506,990	20,779,572	20,251,203
Less accumulated depreciation	7,418,687	6,701,873	5,996,794
Total capital assets, net of accumulated depreciation	$ 14,088,303	$ 14,077,699	$ 14,254,409

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 2018 or 2017. The long-term debt balance at December 31, 2018, totaled $3,005,000 ($3,085,000 at December 31, 2017).

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.

Basic Financial Statements

Edwards Aquifer Authority

Statements of Net Position
December 31, 2018 and 2017

	2018	2017
Current assets:		
Cash and cash equivalents	**$ 4,818,813**	$ 6,170,643
Investments	**5,633,601**	3,367,500
Restricted assets (Habitat Conservation Plan):		
Cash and cash equivalents	**29,269,880**	34,146,427
Investments	**6,133,601**	4,367,500
Program fees receivable, net	**134,117**	131,314
Aquifer management fees receivable, net	**269,416**	254,717
Property taxes receivable, net	**370**	15,505
Miscellaneous receivable	**116,094**	101,718
Note receivable	**25,785**	24,530
Total current assets	**46,401,677**	48,579,854
Noncurrent assets:		
Note receivable	**78,152**	103,937
Capital assets, net	**14,088,303**	14,077,699
Total noncurrent assets	**14,166,455**	14,181,636
Total assets	**60,568,132**	62,761,490
Deferred outflows of resources—pension	**1,312,404**	2,291,011
Total assets and deferred outflows of resources	**$ 61,880,536**	$ 65,052,501

The accompanying notes are an integral part of these statements.

	2018	2017
Current liabilities:		
Accounts payable	**$ 3,748,599**	$ 3,959,530
VISPO liabilities (payable from restricted assets)	**2,320,309**	2,228,299
ASR liabilities (payable from restricted assets)	**1,862,686**	-
Accrued liabilities	**636,560**	612,648
Compensated absences	**962,051**	909,465
Note payable	**85,000**	80,000
Total current liabilities	**9,615,205**	7,789,942
Noncurrent liabilities:		
Net pension liability	**1,591,187**	2,544,108
Note payable	**2,920,000**	3,005,000
Total noncurrent liabilities	**4,511,187**	5,549,108
Total liabilities	**14,126,392**	13,339,050
Deferred inflows of resources—pension	**263,773**	82,899
Total liabilities and deferred inflows of resources	**$ 14,390,165**	$ 13,421,949
Net position:		
Net investment in capital assets	**$ 11,083,303**	$ 10,992,699
Restricted—Habitat Conservation Plan	**31,354,603**	36,416,942
Unrestricted	**5,052,465**	4,220,911
Total net position	**$ 47,490,371**	$ 51,630,552

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Edwards Aquifer Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating revenues:		
Aquifer management fees:		
Nonagricultural users (net of rebates)	**$ 15,358,997**	$ 16,589,291
Agricultural users	**165,734**	141,214
Program fees—Habitat Conservation Plan	**16,120,152**	15,789,828
Enforcement settlements	**42,807**	249,910
Other charges	**175,592**	156,780
Total operating revenues	**31,863,282**	32,927,023
Operating expenses:		
Salaries and wages	**7,115,797**	7,020,020
Employee benefits	**2,464,838**	2,598,876
Professional and technical services	**24,297,898**	19,157,574
Property services	**818,100**	691,175
Other services	**701,974**	757,563
Supplies	**421,700**	377,523
Depreciation	**859,411**	922,522
Total operating expenses	**36,679,718**	31,525,253
Operating income (loss)	**(4,816,436)**	1,401,770
Nonoperating revenues (expenses):		
Interest income	**787,104**	362,491
Interest expense	**(114,993)**	(117,876)
Gain (loss) on sale of capital assets	**4,144**	(27,130)
Total nonoperating revenues (expenses), net	**676,255**	217,485
Change in net position	**(4,140,181)**	1,619,255
Net position at beginning of year	**51,630,552**	50,011,297
Net position at end of year	**$ 47,490,371**	$ 51,630,552

The accompanying notes are an integral part of these statements.

Edwards Aquifer Authority

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from customers	**$ 31,846,742**	$ 32,312,110
Payments to suppliers	**(24,522,546)**	(19,765,134)
Payments to employees	**(9,271,141)**	(9,286,433)
Net cash provided by (used in) operating activities	**(1,946,945)**	3,260,543
Cash flows from capital and related financing activities:		
Payments on long-term note payable	**(80,000)**	(75,000)
Purchases of capital assets	**(875,496)**	(781,847)
Proceeds from sale of capital assets	**9,625**	8,905
Interest paid	**(114,993)**	(118,816)
Net cash used in capital and related financing activities	**(1,060,864)**	(966,758)
Cash flows from investing activities:		
Purchase of investments	**(9,522,202)**	(7,245,000)
Sale of investments	**5,490,000**	737,456
Interest received	**787,104**	362,491
Collections on notes receivable	**24,530**	-
Issuance of notes receivable	**-**	(128,467)
Net cash used in investing activities	**(3,220,568)**	(6,273,520)
Net decrease in cash and cash equivalents	**(6,228,377)**	(3,979,735)
Cash and cash equivalents at beginning of the year	**40,317,070**	44,296,805
Cash and cash equivalents at end of the year	**$ 34,088,693**	$ 40,317,070
Reconciliation to statement of net position:		
Cash and cash equivalents	**$ 4,818,813**	$ 6,170,643
Restricted—cash and cash equivalents (Habitat Conservation Plan)	**29,269,880**	34,146,427
	$ 34,088,693	$ 40,317,070

(Continued)

Edwards Aquifer Authority

Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	**$ (4,816,436)**	$ 1,401,770
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	**859,411**	922,522
Change in operating assets and liabilities:		
Program fees receivable, net—Habit Conservation Plan	**(2,803)**	(29,328)
Aquifer management fees receivable, net	**(14,699)**	(77,260)
Property taxes receivable, net	**15,135**	375
Miscellaneous receivables	**(14,376)**	(90,553)
Deferred outflows of resources—pension	**978,607**	428,857
Accounts payable	**(210,931)**	1,024,125
VISPO liabilities (payable from restricted assets)	**92,010**	19,576
ASR liabilities (payable from restricted assets)	**1,862,686**	-
Accrued liabilities	**23,912**	(223,896)
Compensated absences	**52,586**	(3,786)
Net pension liability	**(952,921)**	(145,234)
Deferred inflows of resources—pension	**180,874**	33,375
Net cash provided by (used in) operating activities	**$ (1,946,945)**	$ 3,260,543

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.

Blended component unit: The Edwards Aquifer Conservancy (EAC), formed on June 23, 2014, is a nonprofit, supporting organization set up exclusively for the benefit of the EAA. As a supporting organization, it is intended that the EAC be operated, supervised and controlled by the EAA as a Type I supporting organization in accordance with Internal Revenue Code §509(a)(3)(B)(i). Board members of the EAC are appointed by the Board of the EAA in accordance with Treasury Regulation §1.509(a)-4(g); any director may be re-appointed to serve consecutive terms on the EAC Board. Funds raised by the EAC enhance the resources available for all aquifer users in areas such as public education, professional training aimed at collaborative measures for securing the EAA's water quality, community science initiatives and as a resource/partner providing community support for aquifer protection initiatives (such as hazardous materials collection in rural areas). As of and for the year ended December 31, 2018, EAC's total assets and net position were $133,303 ($-0- at December 31, 2017), total revenues were $135,929 ($-0- for the year ended December 31, 2017) and total expenses were $2,626 ($-0- for the year ended December 31, 2017). Although the EAC is a legally separate entity, it is, in substance, part of the EAA's operation; therefore, it is reported as a blended component unit in the EAA's financial statements.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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 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 accordance 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.

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, 2018 and 2017, the allowance for doubtful accounts related to aquifer management fees receivable totaled $21,999 and $14,438, 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, 2018 and 2017, the allowance for doubtful accounts related to program fees receivable—Habitat Conservation Plan totaled $14,878 and $6,911, 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, 2018 and 2017, the allowance for doubtful accounts related to property taxes receivable totaled $18,795 and $23,340, respectively.

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%. Principal and interest are due and payable in monthly installments beginning June 1, 2017, and continue through May 1, 2024. At December 31, 2018, the outstanding balance on the note totaled $103,937 ($128,467 in 2017).

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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, 2018 and 2017, accrued personal leave payable totaled $599,615 and $567,433, 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, 2018 and 2017, the accrued sick leave payable totaled $362,436 and $342,032, respectively. It is in the EAA's experience that the majority of the outstanding amount of accrued personal and sick leave is used by its employees within the same 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.

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 the 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 deferred charge for pension consists of differences between the expected and actual experience, changes of assumptions and contributions made subsequent to measurement date.

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 consists of differences between expected and actual experience and net difference between projected and actual earnings.

Reclassifications: Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation. There is no impact on total net position.

Future GASB implementations: GASB Statement No. 83, *Certain Asset Retirement Obligations,* issued December 2016, will be effective for the EAA beginning with its fiscal year ending December 31, 2019. Under GASB Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. This statement identifies the circumstances that trigger the recognition of these transactions. This statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. This statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability and other relevant information.

GASB Statement No. 84, *Fiduciary Activities*, issued February 2017, will be effective for the EAA beginning with its fiscal year ending December 31, 2019. The objective of GASB Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria is included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

Note 1. Summary of Significant Accounting Policies (Continued)

GASB Statement No. 87, *Leases,* issued June 2017, will be effective for the EAA beginning with its fiscal year ending December 31, 2020, with earlier adoption encouraged. GASB Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the EAA must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. This statement provides exceptions from the single approach for short-term leases, financial purchases, leases of assets that are investments and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, nonlease components embedded in lease contracts (such as service agreements) and leases with related parties.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, issued March 2018, will be effective for the EAA beginning with its fiscal year ending December 31, 2019. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Note 2. Deposits and Investments

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

	December 31	
	2018	2017
Petty cash	$ 1,002	$ 845
Money market and checking account	34,087,691	40,316,225
CDs	11,767,202	7,735,000
Total cash and investments	$ 45,855,895	$ 48,052,070

Cash deposits: At December 31, 2018, the carrying amount of the EAA cash on hand and deposits, including CDs, totaled $45,855,895 ($48,052,070 at December 31, 2017) and the bank balance totaled $45,998,328 ($48,048,516 at December 31, 2017). All deposits are insured by federal depository insurance and/or collateralized with securities held in the 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.

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.

Note 2. Deposits and Investments (Continued)

The 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, 2018, was as follows:

	Balance at December 31, 2017	Additions	Retirements	Transfers/ Reclassify	Balance at December 31, 2018
Capital assets not being depreciated:					
Land	$ 2,210,901	$ -	$ -	$ -	$ 2,210,901
Construction in progress	349,514	272,643	-	(114,110)	508,047
	2,560,415	272,643	-	(114,110)	2,718,948
Capital assets being depreciated:					
Buildings and improvements	10,801,204	17,146	-	-	10,818,350
Furniture and equipment	6,807,420	516,024	(81,588)	114,110	7,355,966
Vehicles	610,533	69,683	(66,490)	-	613,726
	18,219,157	602,853	(148,078)	114,110	18,788,042
Accumulated depreciation:					
Buildings and improvements	(1,921,349)	(233,798)	-	-	(2,155,147)
Furniture and equipment	(4,344,302)	(580,328)	76,106	-	(4,848,524)
Vehicles	(436,222)	(45,285)	66,491	-	(415,016)
	(6,701,873)	(859,411)	142,597	-	(7,418,687)
Total capital assets being depreciated, net	11,517,284	(256,558)	(5,481)	114,110	11,369,355
Capital assets, net	$ 14,077,699	$ 16,085	$ (5,481)	$ -	$ 14,088,303

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

	Balance at December 31, 2016	Additions	Retirements	Transfers/ Reclassify	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 4. Accounts Payable

The accounts payable balance is comprised of the following:

	December 31 2018	December 31 2017
Healthcare reimbursement accounts	$ 304,597	$ 305,836
Travel reimbursements	12,055	4,573
Trade payables	3,431,947	3,649,121
Total accounts payable	$ 3,748,599	$ 3,959,530

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 $3,005,000, is due in varying installments through September 1, 2031, and bears an interest rate of 3.76% with interest paid semiannually. The principal and interest on this note are payable as defined:

	Principal	Interest	Total
Years ending December 31:			
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	240,000	91,556	331,556
2024-2028	1,345,000	313,270	1,658,270
2029-2031	930,000	59,032	989,032
	$ 3,005,000	$ 890,305	$ 3,895,305

A summary of changes in long-term debt at December 31, 2018, is as follows:

	Balance at December 31, 2017	Additions	Reductions	Balance at December 31, 2018	Due Within One Year
Business-type activities:					
Note payable:					
Revenue note	$ 3,085,000	$ -	$ (80,000)	$ 3,005,000	$ 85,000
Net pension liability	2,544,108	2,377,675	(3,330,596)	1,591,187	-
Total business-type activities long-term liabilities	$ 5,629,108	$ 2,377,675	$ (3,410,596)	$ 4,596,187	$ 85,000

Note 5. Long-Term Debt (Continued)

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

Note 6. Retirement Plans

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% equal to the 7% contribution payable to the employee. The matching employer contribution adopted by the governing body of the EAA was 180% 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.

Note 6. Retirement Plans (Continued)

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 9.31%.

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%, 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 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.

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, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to, but not yet receiving benefits	51
Active employees	92
Total	164

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 2018 and 2017, the contribution rate for the plan members was 7.00% of gross pay. The EAA pays a matching portion to the pension plan totaling 9.31% of gross pay for 2018 (9.13% for 2017), which totaled $642,663 for 2018 ($634,609 for 2017).

Note 6. Retirement Plans (Continued)

Net pension liability: The EAA's net pension liability was measured as of December 31, 2017, 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, 2017, were based on the results of an actuarial experience study for the period from January 1, 2013, through December 31, 2016, except where required to be different by GASB Statement No. 68.

The total pension liability at December 31, 2017, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75% (3.0% at December 31, 2016)
Salary increases	4.9% average over career including inflation
Investment rate of return	8.0% (gross of administrative expenses)
COLA	None

Mortality rates were based on the following.

Depositing members: For December 31, 2017, 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014. For December 31, 2016, 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% of the MP-2014 Ultimate scale after that.

Service retirees, beneficiaries and nondepositing members: For December 31, 2017, 130% of the RP-2014 Health Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. For December 31, 2016, the RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.

Disabled retirees: For December 31, 2017, 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. For December 31, 2016, the RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

Note 6. Retirement Plans (Continued)

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 2018 information for a 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 2017.

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	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (3)	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities—Developed	MSCI World Ex USA (net) Index	11.00%	4.55%
International Equities—Emerging	MSCI EM Standard (net) Index	8.00%	5.55%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distress Securities Index (4)	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index plus 33% S&P Global REIT (net) Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (5)	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. Fund of Funds Composite Index	18.00%	4.10%
		100.00%	

(1) Target asset allocation adopted at the April 2018 TCDRS board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.95%, per Cliffwater's 2018 capital market assumptions.

(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%. 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.

Note 6. Retirement Plans (Continued)

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, 2017:

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	$ 17,535,614	$ 14,991,506	$ 2,544,108
Changes for the year:			
Service cost	747,169	-	747,169
Interest on total pension liability (1)	1,465,077	-	1,465,077
Effect of economic/demographic (gains) or losses (2)	28,640	-	28,640
Effect of assumptions changes or inputs	124,877	-	124,877
Refund of contributions	(17,649)	(17,649)	-
Benefit payments	(380,946)	(380,946)	-
Administrative expenses	-	(11,912)	11,912
Member contributions	-	486,557	(486,557)
Net investment income	-	2,199,859	(2,199,859)
Employer contributions	-	634,609	(634,609)
Other (3)	-	9,571	(9,571)
Balances at end of year	$ 19,502,782	$ 17,911,595	$ 1,591,187

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

(2) No plan changes valued.

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

Note 6. Retirement Plans (Continued)

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

	1.0% Decrease	Current Discount Rate	1.0% Increase
	7.1%	8.1%	9.1%
Total pension liability	$ 22,139,385	$ 19,502,782	$ 17,281,950
Fiduciary net position	17,911,595	17,911,595	17,911,595
Net pension liability	$ 4,227,790	$ 1,591,187	$ (629,645)

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, 2017 Through December 31, 2017
Service cost	$ 747,169
Interest on total pension liability (1)	1,465,077
Administrative expenses	11,912
Member contributions	(486,557)
Expected investment return, net of investment expenses	(1,242,913)
Recognition of deferred inflows/outflows of resources:	
Recognition of economic/demographic gains or losses	224,583
Recognition of assumption changes or inputs	42,502
Recognition of investment gains or losses	97,021
Other (2)	(9,571)
Pension expense	$ 849,223

(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, 2018, 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	$ 64,338	$ 500,608
Changes of assumptions	-	169,133
Net difference between projected and actual earnings	199,435	-
Contributions made subsequent to measurement date	-	642,663
	$ 263,773	$ 1,312,404

The $642,663 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 ending December 31, 2019.

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:	
2018	$ 364,107
2019	329,659
2020	(138,925)
2021	(174,459)
2022	25,586
Thereafter	-
	$ 405,968

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, 2018, the EAA reported payables to TCDRS of $50,578 ($50,627 for 2017) for legally required employer contributions and $38,029 ($38,816 for 2017) 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.

Note 7. Operating Leases (Continued)

The leases range from five 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, 2018 and 2017, totaled $5,394,357 and $4,196,596, respectively.

Future minimum payments on leases at December 31, 2018, are as follows:

Years ending December 31:	
2019	$ 2,588,056
2020	2,484,002
2021	2,293,293
2022	2,051,909
2023	2,040,641
2024-2027	7,255,746
	$ 18,713,647

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, 2018 and 2017, $23,207,934 and $23,887,851, respectively, were earned from one customer. These revenues account for approximately 73% of the total EAA operating revenues for each of the years ended December 31, 2018 and 2017.

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 $283 and $135 for the years ended December 31, 2018 and 2017, 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. Expenses under the contract for each of the years ended December 31, 2018 and 2017, totaled $4,507,750. Subject to SAWS performance in the future, EAA's future commitments is $5,108,150 through the end of the contract term in 2020.

Long-Term 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 workplan 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. Expenses under the contract for the years ended December 31, 2018 and 2017, totaled $3,795,613 and $1,881,338, respectively, with future commitments (subject to USFWS's future performance) of $13,199,316 through the end of the contract term in 2028.

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 5- to 10-year periods. The EAA has options to terminate the Agreement if it is determined 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 1 through 5 are based on $172.50 per acre-foot per annum and, for years 6 through 10, are based on $210.60 per acre-foot per annum. The Forbearance Year payment for 5-year agreements, effective prior to January 1, 2019, begins at $150 per acre foot with a 1.5% increase, compounded annually, per year, and 5-year agreements effective January 1, 2019 and later are based on $160 per acre-foot per annum. The EAA did not pay any Forbearance Year payments in 2018 or 2017.

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 1 through 5 are based on $57.50 per acre-foot per annum and, for years 6 through 10, are based on $70.20 per acre-foot per annum. For 5-year agreements effective before January 1, 2019, the Standby Fee payment begins at $50 per acre-foot per annum with a 1.5% increase, compounded annually, per year and at $54 per acre-foot per annum if effective January 1, 2019, or later. At December 31, 2018 and 2017, the Standby Fee payments owed to participants totaled $2,320,309 and $2,228,299, respectively.

Springflow Protection—ASR Forbearance Program: In 2018, the EAA implemented a springflow protection forbearance program in support of the Aquifer Storage and Recovery (ASR) Program of the EAHCP (Springflow Protection Program, or Program). The Program is governed by the Springflow Protection Program Forbearance 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 8, 9 and 10-year Agreements. The EAA has options to terminate the Agreement if it is determined that the Program 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 a payment of $100 per acre-foot per annum irrespective of whether the year is a Forbearance or Non-Forbearance Year. At December 31, 2018, the payments owed to participants was $1,862,686.

Forbearance Years are determined by the Ten-year Rolling Average of the Estimated Annual Recharge to the Aquifer determined from the annual USGS report on the Estimated Annual Recharge to the Aquifer. In a Forbearance Year, the permit holder agrees to forbear from making withdrawals of groundwater from the Aquifer in accordance with the Agreement. The EAA did not pay any Forbearance Year payments in 2018.

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Required Supplementary Information

Edwards Aquifer Authority

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

	2018	2017	2016	2015
Total pension liability (asset):				
Service cost	**$ 747,169**	$ 706,738	$ 602,028	$ 489,730
Interest on total pension liability	**1,465,077**	1,306,506	1,194,041	962,577
Effect of plan changes	**-**	-	(176,742)	508,666
Effect of assumption of changes or inputs	**124,877**	-	130,138	-
Effect of economic/demographic (gains) or losses	**28,640**	(51,936)	(59,429)	1,430,223
Benefit payments/refunds of contributions	**(398,595)**	(409,843)	(342,992)	(290,907)
Net change in total pension liability	**1,967,168**	1,551,465	1,347,045	3,100,290
Total pension liability at beginning of year	**17,535,614**	15,984,149	14,637,104	11,536,814
Total pension liability at end of year (a)	**$ 19,502,782**	$ 17,535,614	$ 15,984,149	$ 14,637,104
Fiduciary net position:				
Employer contributions	**$ 634,609**	$ 633,744	$ 595,130	$ 347,051
Member contributions	**486,557**	457,341	425,093	234,099
Investment income, net of investment expenses	**2,199,859**	986,342	(85,302)	791,075
Benefit payments/refunds of contributions	**(398,595)**	(409,843)	(342,992)	(290,907)
Administrative expenses	**(11,912)**	(10,725)	(9,384)	(9,392)
Other	**9,571**	39,840	(3,934)	10,094
Net change in fiduciary net position	**2,920,089**	1,696,699	578,611	1,082,020
Fiduciary net position at beginning of year	**14,991,506**	13,294,807	12,716,196	11,634,176
Fiduciary net position at end of year (b)	**$ 17,911,595**	$ 14,991,506	$ 13,294,807	$ 12,716,196
Net pension liability (asset) at end of year = (a)-(b)	**$ 1,591,187**	$ 2,544,108	$ 2,689,342	$ 1,920,908
Fiduciary net position as a percentage of total pension liability	**91.84%**	85.49%	83.17%	86.88%
Covered payroll	**$ 6,950,814**	$ 6,533,445	$ 6,072,752	$ 5,852,465
Net pension liability as a percentage of covered payroll	**22.89%**	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 four years are presented. The full trend information will be accumulated over the next six 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)	Covered Payroll (2)	Actual Contribution as a Percent of Covered Payroll
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	-	6,950,814	9.1%
2018	642,663	642,663	-	6,956,375	9.2%

(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:	13.3 years (based on contribution rate calculated in December 31, 2017 valuation)
Asset Valuation Method:	5-year smoothed market
Inflation:	2.75%
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:	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions:	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*:	2015: Employer contributions reflect that the member contribution rate was increased to 7%. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.

*Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to Schedule.

Other Information

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (General Operations)—Non-GAAP Basis
Year Ended December 31, 2018

	Budgeted Amounts			Variance With
	Original	Final	Actual Amounts	Final Budget
Salaries and wages:				
Salaries and wages	$ 7,405,306	$ 7,405,306	$ 5,675,688	$ 1,729,618
Overtime	18,000	18,000	8,299	9,701
Compensated absences	-	-	1,091,152	(1,091,152)
	7,423,306	7,423,306	6,775,139	648,167
Employee benefits:				
Allowances	38,700	38,700	39,175	(475)
Insurance	856,772	856,772	548,128	308,644
Medical allowance reimbursement	227,500	227,500	426,247	(198,747)
Pension expense and retirement contributions	678,496	678,496	794,053	(115,557)
Taxes	593,510	593,510	490,109	103,401
Tuition reimbursement	30,000	30,000	22,524	7,476
	2,424,978	2,424,978	2,320,236	104,742
Professional and technical services:				
Contractual professional services	3,646,479	3,559,850	2,499,713	1,060,137
Legal services	750,000	1,050,000	1,028,633	21,367
Pre-employment services	3,500	11,200	10,065	1,135
Records services	6,700	7,050	6,619	431
Temporary services	7,000	7,550	5,797	1,753
	4,413,679	4,635,650	3,550,827	1,084,823
Property services:				
Equipment maintenance	382,235	433,768	332,902	100,866
Equipment rental	58,868	44,496	28,721	15,775
Event sponsorships	93,000	88,000	62,094	25,906
Facilities maintenance	381,000	431,000	227,519	203,481
Facilities rental	44,402	25,359	21,359	4,000
Noncapital furniture and equipment	104,000	89,827	75,508	14,319
Pest control	2,100	2,100	1,884	216
Security and fire	15,000	20,930	20,553	377
Vehicle maintenance	22,000	35,300	34,816	484
Waste disposal	3,000	4,300	4,123	177
Water and sewage	8,500	6,373	6,262	111
	1,114,105	1,181,453	815,741	365,712

(Continued)

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (General Operations)—Non-GAAP Basis (Continued)
Year Ended December 31, 2018

	Budgeted Amounts			Variance With
	Original	Final	Actual Amounts	Final Budget
Other services:				
Bad-debt expense	$ -	$ -	$ 22,306	$ (22,306)
Conferences, seminars and training	159,900	112,524	75,981	36,543
Conservation grants	200,000	205,918	205,918	-
Fees, licenses and permits	1,015	2,990	1,247	1,743
Meeting expenses	142,950	149,725	99,914	49,811
Printing	51,000	48,500	32,749	15,751
Property and casualty	101,213	101,213	96,027	5,186
Public and legal notices	153,200	107,882	42,764	65,118
Telecommunication services	96,540	101,940	84,171	17,769
Travel and lodging	15,000	15,000	6,171	8,829
	920,818	845,692	667,248	178,444
Supplies:				
Clothing	10,000	10,450	9,216	1,234
Computer supplies	51,000	54,924	49,432	5,492
Electrical services	78,950	93,950	91,061	2,889
Event materials and supplies	-	4,425	4,063	362
Field supplies	72,400	77,400	44,700	32,700
Fuel	50,000	28,252	27,548	704
Kitchen and janitorial	34,000	28,500	26,561	1,939
Memberships	30,960	35,110	28,979	6,131
Office supplies	40,100	40,450	34,565	5,885
Postage	20,000	19,059	19,059	-
Promotional supplies	61,000	62,320	59,804	2,516
Subscriptions and publications	20,018	19,572	5,297	14,275
	468,428	474,412	400,285	74,127
Depreciation	-	-	812,324	(812,324)
Total operating expenditures	16,765,314	16,985,491	15,341,800	1,643,691
Nonoperating expenditures:				
Interest expense—debt	114,994	114,994	114,993	1
Capital expenditures and note principal*	708,607	1,080,953	790,908	290,045
Total expenditures, capital expenditures and note principal	$ 17,588,915	$ 18,181,438	$ 16,247,701	$ 1,933,737

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

Budget amendments:	
EAA—budget amendment February 13, 2018	$ 97,582
EAA—budget amendment March 13, 2018	90,600
EAA—budget amendment July 10, 2018	49,700
EAA—budget amendment July 10, 2018	104,641
EAA—budget amendment November 13, 2018	250,000

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (Habitat Conservation Plan)—Non-GAAP Basis
Year Ended December 31, 2018

	Budgeted Amounts			Variance With
	Original	Final	Actual Amounts	Final Budget
Program administration:				
Salaries and wages:				
Salaries and wages	$ 530,503	$ 530,503	$ 311,027	$ 219,476
Compensated absences	-	-	29,631	(29,631)
	530,503	530,503	340,658	189,845
Employee benefits:				
Allowances	4,200	4,200	2,850	1,350
Insurance	65,685	65,685	30,458	35,227
Medical allowance reimbursement	17,500	17,500	24,488	(6,988)
Pension expense and retirement contributions	49,390	49,390	58,275	(8,885)
Taxes	42,473	42,473	28,531	13,942
	179,248	179,248	144,602	34,646
Professional and technical services:				
Contractual professional services	437,484	432,884	466,039	(33,155)
	437,484	432,884	466,039	(33,155)
Property services:				
Noncapital furniture and equipment	1,515	3,515	2,359	1,156
	1,515	3,515	2,359	1,156
Other services:				
Bad-debt expense	-	-	7,967	(7,967)
Conferences, seminars and training	2,500	3,500	2,858	642
Meeting expenses	20,000	19,000	17,853	1,147
Printing	2,000	2,000	998	1,002
Travel and lodging	3,000	500	370	130
	27,500	25,000	30,046	(5,046)
Supplies:				
Memberships	500	1,000	1,000	-
Office supplies	3,000	4,000	1,783	2,217
	3,500	5,000	2,783	2,217
Total—program administration	1,179,750	1,176,150	986,487	189,663
Springflow Protection:				
Professional and technical services:				
SAWS ASR Leasing	5,615,975	5,615,975	7,282,989	(1,667,014)
SAWS ASR O&M	1,366,700	1,366,700	683,347	683,353
Regional municipal water conservation	4,507,750	4,507,750	4,507,750	-
VISPO	2,284,100	2,284,100	2,320,309	(36,209)
Total—Springflow Protection	13,774,525	13,774,525	14,794,395	(1,019,870)

(Continued)

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (Habitat Conservation Plan)—Non-GAAP Basis (Continued)
Year Ended December 31, 2018

	Budgeted Amounts			Variance With
	Original	Final	Actual Amounts	Final Budget
San Marcos Springs:				
Professional and technical services:				
Biological monitoring	$ 204,137	$ 194,137	$ 194,137	$ -
Household hazardous waste management	30,000	30,000	29,999	1
LID/BMP management	430,000	430,000	150,394	279,606
Litter control/floating vegetation	50,000	50,000	13,865	36,135
Management—key public rec. areas	56,000	56,000	56,000	-
Nonnative animal species control	26,747	26,747	26,747	-
Nonnative plant species control	110,836	110,836	110,139	697
Restoration—riparian zones	20,000	20,000	20,000	-
Texas wild rice enhancement and restoration	128,000	128,000	128,000	-
Water quality monitoring	142,650	142,650	122,268	20,382
	1,198,370	1,188,370	851,549	336,821
Other services:				
Telecommunication services	2,160	2,160	2,160	-
	2,160	2,160	2,160	-
Supplies:				
Field supplies	8,100	10,100	8,415	1,685
	8,100	10,100	8,415	1,685
Total—San Marcos Springs	1,208,630	1,200,630	862,124	338,506
Comal Springs:				
Professional and technical services:				
Aquatic vegetation restoration	50,000	50,000	49,987	13
Biological monitoring	204,138	214,138	214,102	36
Decaying vegetation removal	15,000	15,000	14,999	1
Gill parasite control	30,000	30,000	29,969	31
Household hazardous waste program	30,000	30,000	30,000	-
LID/BMP management	125,000	125,000	23,979	101,021
Litter control/floating vegetation	30,000	30,000	22,134	7,866
Nonnative animal species control	55,000	55,000	52,989	2,011
Old channel restoration	100,000	100,000	99,991	9
Restoration—riparian zones	50,000	50,000	50,000	-
Riparian improvements—riffle beetle	35,000	35,000	33,405	1,595
Water quality monitoring	142,650	142,650	122,268	20,382
	866,788	876,788	743,823	132,965
Other services:				
Telecommunication services	2,700	2,700	2,520	180
	2,700	2,700	2,520	180
Supplies:				
Field supplies	9,800	12,800	10,217	2,583
	9,800	12,800	10,217	2,583
Total—Comal Springs	879,288	892,288	756,560	135,728

(Continued)

Edwards Aquifer Authority

Schedule of Expenses—Budget and Actual (Habitat Conservation Plan)—Non-GAAP Basis (Continued)
Year Ended December 31, 2018

	Budgeted Amounts			Variance With
	Original	Final	Actual Amounts	Final Budget
Modeling and research:				
Professional and technical services:				
Applied environmental research	$ 445,000	$ 445,000	$ 95,652	$ 349,348
Total—Modeling and Research	445,000	445,000	95,652	349,348
Refugia:				
Professional and technical services:				
NFHTC Refugia	1,519,634	5,043,261	3,795,613	1,247,648
Other services:				
Property and casualty	4,200	-	-	-
Total—NFHTC Refugia	1,523,834	5,043,261	3,795,613	1,247,648
Depreciation	-	-	47,087	(47,087)
Total expenditures	19,011,027	22,531,854	21,337,918	1,193,936
Capital expenditures*:				
HCP—Program Administration	-	3,600	3,600	-
San Marcos Springs	10,000	8,000	-	8,000
Comal Springs	26,000	23,000	12,910	10,090
Modeling and Research	5,000	5,000	-	5,000
	41,000	39,600	16,510	23,090
Total expenditures and capital expenditures	$ 19,052,027	$ 22,571,454	$ 21,354,428	$ 1,217,026

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

Budget amendments:

EAHCP—Budget amendment on March 13, 2018	$ 3,519,427