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Petaluma Valley Groundwater Sustainability Agency

Independent Auditor's Reports and
Basic Financial Statements

Fiscal Year Ended June 30, 2023

Petaluma Valley Groundwater Sustainability Agency
Fiscal Year Ended June 30, 2023

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Independent Auditor's Report

Board of Directors
Petaluma Valley Groundwater
Sustainability Agency

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Petaluma Valley Groundwater Sustainability Agency ("the GSA"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the GSA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the GSA, as of June 30, 2023, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the GSA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the GSA's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 GSA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the GSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

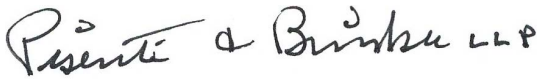
Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the financial statements is not affected by this missing information.

Independent Auditor's Report (continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024 on our consideration of the GSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the GSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the GSA's internal control over financial reporting and compliance.



Santa Rosa, California
March 28, 2024

Petaluma Valley Groundwater Sustainability Agency
Statement of Net Position
June 30, 2023

Assets:	
Current assets:	
Cash and investments	$ 796,350
Accounts receivable	1,389
Total assets	797,739
Liabilities:	
Current liabilities:	
Accounts payable	413,769
Accrued expense	59,620
Total liabilities	473,389
Net position:	
Restricted	136,000
Unrestricted	188,350
Total net position	$ 324,350

The notes to the basic financial statements are an integral part of this statement.

Petaluma Valley Groundwater Sustainability Agency
Statement of Revenues, Expenses and Changes in Net Position
Fiscal Year Ended June 30, 2023

Operating revenues:	
Groundwater sustainability fees	$ 415,714
Total operating revenues	415,714
Operating expenses:	
Services and supplies	959,602
Total operating expenses	959,602
Operating loss	(543,888)
Nonoperating revenues (expenses):	
Intergovernmental revenue	510,997
Net loss on investments	(3,695)
Total nonoperating revenues, net	507,302
Change in net position	(36,586)
Net position, beginning of year	360,936
Net position, end of year	$ 324,350

The notes to the basic financial statements are an integral part of this statement.

Petaluma Valley Groundwater Sustainability Agency
Statement of Cash Flows
Fiscal Year Ended June 30, 2023

Cash flows from operating activities		
Receipts of groundwater sustainability fees	$	415,714
Payments to suppliers		(719,266)
Net cash used in operating activities		(303,552)
Cash flows from noncapital financing activities		
Intergovernmental receipts		835,605
Cash flows from investing activities		
Investment loss on change in fair value of investment pool		(3,695)
Net increase in cash and cash equivalents		528,358
Cash and cash equivalents, beginning of the year		267,992
Cash and cash equivalents, end of the year	$	796,350
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(543,888)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Decrease in prepaid expense		2,165
Increase in accrued expense		59,620
Increase in accounts payable		178,551
Net cash used in operating activities	$	(303,552)
Noncash investing, capital, and financing activities:		
Decrease in grants receivable	$	(324,608)

The notes to the basic financial statements are an integral part of this statement.

Petaluma Valley Groundwater Sustainability Agency
Notes to the Basic Financial Statements
Fiscal Year Ended June 30, 2023

Note A. Summary of Significant Accounting Policies

Reporting Entity

The Petaluma Valley Groundwater Sustainability Agency (the Agency) was formed in June 2017 by a joint exercise of powers agreement among the Sonoma Resource Conservation District, the North Bay Water District, the City of Petaluma, the County of Sonoma (County), and the Sonoma County Water Agency (Sonoma Water). The Agency was formed to cooperatively carry out the requirements of the Sustainable Groundwater Management Act (SGMA), including serving as Groundwater Sustainability Agency (GSA) for the Petaluma Valley Groundwater Basin.

The Petaluma Valley Groundwater Basin was designated in the California Department of Water Resources (DWR) Bulletin No. 118 as a medium priority basin. For all medium and high priority basins, the SGMA requires the designation of a GSA for the purpose of achieving groundwater sustainability through the adoption and implementation of a Groundwater Sustainability Plan (GSP). In December 2021, the Agency Board of Directors adopted the GSP for the Petaluma Valley Groundwater Basin.

The Agency is governed by a Board of Directors, with one director from each of the five member agencies. In addition, the Agency has an advisory committee consisting of representatives from each member agency, and representatives from the local agricultural community, rural residential well owners, the local business community, environmental interests, and the community at large.

During the fiscal year ended June 30, 2023, West Yost Associates provided administrative and management services; Sonoma Water provided outreach, communication, and technical services; and the Collaboration and Consensus Program (College of Continuing Education, California State University, Sacramento) provided facilitation services.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting policies of the Agency conform to the accounting principles generally accepted in the United States of America as applicable to governmental units.

The Agency uses a proprietary (enterprise) fund to account for its activities. An enterprise fund may be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are required for any activity whose principal external revenue sources meet any of the following criteria: (1) issued debt is backed solely by fees and charges, (2) the cost of providing services for any activity (including capital costs such as depreciation or debt service) must be legally recovered through fees or charges, or (3) if the government's policy is to establish activity fees or charges designed to recover the cost of providing services.

Note A. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The Agency's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the Agency are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Investments

The Agency's cash and investments are pooled with the Sonoma County Treasurer (the Treasurer). The Treasurer also acts as a disbursing agent for the Agency. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the Agency based on its respective average daily balance for that quarter in the Treasury Investment Pool (the Treasury Pool), an external investment pool.

In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and External Investment Pools*" and GASB Statement No. 72, "*Fair Value Measurement and Application*", investments are stated at fair value in the statement of net position and the corresponding changes in the fair value of investments are recognized in the year in which the change occurred. The Agency follows the practice of pooling cash and investments of all funds with the Treasurer. The fair value of investments is determined annually. Interest earned on pooled investments is allocated quarterly to the appropriate funds based on their respective average daily balance for that quarter.

For purposes of the statement of cash flows, the Agency considers all pooled cash and investments as cash and cash equivalents because the Treasury Pool is used as a demand deposit account.

Net Position Components

Net position consists of the following three components:

Net investment in capital assets (if any) - This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Note A. Summary of Significant Accounting Policies (continued)

Net Position Components (continued)

Restricted net position (if any) – Net position is reported as restricted when there are limitations imposed on its use, either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted net position - This component of net position consists of all net position that does not meet the definition of net investment in capital assets or restricted net position.

Intergovernmental Revenue

Intergovernmental revenue consists of a grant from the State of California. Revenue is recognized based on the terms of the grant agreement and revenue has been recognized at the time of the time related expenditures have been made.

Groundwater Sustainability Fees

The groundwater sustainability fees are based on actual and estimated groundwater extraction for each parcel within the Petaluma Valley Groundwater Basin. The groundwater sustainability fees are billed with the property taxes levied by the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Revenue from groundwater sustainability fees is recognized in the year for which the fees are levied. The right to collect the groundwater sustainability fees is similar to property taxes, therefore, management has not recorded an allowance for uncollectible receivables as it deems all receivables as fully collectible.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note B. Cash and Investments

The Agency follows the practice of pooling cash and investments with the Treasurer, who acts as a disbursing agent for the Agency. Interest earned on investments pooled with the Treasurer is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Investment Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's prorated share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis.

Note B. Cash and Investments (continued)

Investment Guidelines

The Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Sonoma County investment policy is available upon request from the Treasurer at 585 Fiscal Drive, Suite 100, Santa Rosa, California 95403.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of government investment pools (such as the Treasury Pool).

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization. It is the County's policy to purchase investments meeting rating requirements established by the California Government Code. The credit ratings of investments held and other information regarding the Treasury Pool for the fiscal year ended June 30, 2023, are disclosed in the County's Annual Comprehensive Financial Report.

Note B. Cash and Investments (continued)

Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value to the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Agency has a recurring fair value measurement for its investment in the Treasury Pool of $759,134 as of June 30, 2023, which is valued using significant other observable inputs (Level 2).

Note C. Related Party Transactions

During the fiscal year ended June 30, 2023, Sonoma Water provided $629,001 in outreach, communication, and technical services.

During the fiscal year ended June 30, 2023, the Agency received $272,000 from the County to subsidize the groundwater sustainability fee for non-municipal groundwater users for fiscal years 2022-23 and 2023-24. The contribution from the County is included in the groundwater sustainability fees. The portion of the contribution related to fiscal year 2023-2024 is reported as restricted net position.

Note D. Risk Management

The Agency is exposed to various risks for which the Agency carries insurance with coverage for general liability, auto liability, and crime. Primary insurance is provided by Golden State Risk Management Authority and excess insurance by Public Risk Innovation, Solutions, and Management. Total coverage limits are $250,000 per occurrence for auto liability and general liability with $0 deductible. Coverage limits for crime are $25,000 per occurrence with a $2,500 deductible.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Petaluma Valley Groundwater
Sustainability Agency

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Petaluma Valley Groundwater Sustainability Agency ("the GSA"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the GSA's basic financial statements, and have issued our report thereon dated March 28, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the GSA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the GSA's internal control. Accordingly, we do not express an opinion on the effectiveness of the GSA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the GSA's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (continued)

Independent Auditor's Report (continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the GSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the GSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the GSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pisenti & Brinker LLP

Santa Rosa, California
March 28, 2024