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Petaluma Valley Groundwater Sustainability Agency

Independent Auditor's Reports and
Basic Financial Statements

Fiscal Year Ended June 30, 2024

Petaluma Valley Groundwater Sustainability Agency
Fiscal Year Ended June 30, 2024

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KOSMATKA DONNELLY & CO., LLP

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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, 2024, 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, 2024, 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.

Pisenti & Brinker LLP has joined practices with Kosmatka, Donnelly & Co., LLP (dba, KDP Certified Public Accountants, LLP). The former Pisenti & Brinker LLP Partners are now Partners of KDP Certified Public Accountants, LLP (KDP). KDP Certified Public accountants, LLP is a licensed CPA firm that provides attest services to its clients. Pisenti & Brinker Management LLC provides professional tax and business consulting services to its clients. Pisenti & Brinker Management, LLC and KDP Certified Public Accountants, LLP practice as an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable laws, regulations, and professional standards.

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 February 28, 2025 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.

Kosmatka, Donnelly & Co., LLP

Santa Rosa, California
February 28, 2025

Petaluma Valley Groundwater Sustainability Agency
Statement of Net Position
June 30, 2024

Assets		
Current assets:		
Cash and investments	$	681,277
Accounts receivable		1,134
Due from other governments		926,704
Total assets		1,609,115
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses		1,096,269
Total liabilities		1,096,269
Net position		
Unrestricted		512,846
Total net position	$	512,846

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

Petaluma Valley Groundwater Sustainability Agency
Statement of Revenues, Expenses and Changes in Net Position
Fiscal Year Ended June 30, 2024

Operating revenues	
Groundwater sustainability fees	$ 133,359
Total operating revenues	133,359
Operating expenses	
Services and supplies	1,488,636
Total operating expenses	1,488,636
Operating loss	(1,355,277)
Nonoperating revenues	
Intergovernmental revenue	1,006,319
Contributions	500,000
Investment earnings	37,454
Total nonoperating revenues	1,543,773
Change in net position	188,496
Net position, beginning of year	324,350
Net position, end of year	$ 512,846

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

Petaluma Valley Groundwater Sustainability Agency
Statement of Cash Flows
Fiscal Year Ended June 30, 2024

Cash flows from operating activities		
Receipts of groundwater sustainability fees	$	133,614
Payments to suppliers		(865,756)
Net cash used in operating activities		(732,142)
Cash flows from noncapital financing activities		
Intergovernmental receipts		79,615
Receipt of Contributions		500,000
Net cash provided by noncapital financing activities		579,615
Cash flows from investing activities		
Investment earnings		37,454
Net decrease in cash and cash equivalents		(115,073)
Cash and cash equivalents, beginning of the year		796,350
Cash and cash equivalents, end of the year	$	681,277
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(1,355,277)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Decrease in accounts receivable		255
Increase in accounts payable and accrued expenses		622,880
Net cash used in operating activities	$	(732,142)
Noncash investing, capital, and financing activities:		
Increase in due from other governments	$	926,704

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

Petaluma Valley Groundwater Sustainability Agency
Notes to the Basic Financial Statements
Fiscal Year Ended June 30, 2024

Note A. Summary of Significant Accounting Policies

Defining the Financial 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, including serving as Groundwater Sustainability Agency 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, 2024, West Yost Associates provided administrative and management services; Sonoma Water provided outreach, communication, and technical services; and Kronick Moskovitz Tiedemann & Girard provided legal counsel.

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.

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.

Note A. Summary of Significant Accounting Policies (continued)

Cash and Investments

In accordance with Governmental Accounting Standards Board (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 County Treasurer (the Treasurer) except for certain funds held with a financial institution. 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 in the County Treasury Investment Pool (the Treasury Pool).

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. Cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

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.

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 the related expenditures have been made.

Note A. Summary of Significant Accounting Policies (continued)

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

Investment Guidelines

The Investment Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool. 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 County's investment policy is available upon request from the Treasurer at 585 Fiscal Drive, Suite 100, Santa Rosa, California 95403.

Investment in the Treasury Pool

Cash and investments as of June 30, 2024 are classified in the accompanying statement of net position as follows:

Investment in the County Treasury Pool	$	646,255
Nonpooled cash		35,022
Total	$	681,277

Note B. Cash and Investments (continued)

Investment in the Treasury Pool (continued)

Funds are held in the Treasury Pool managed by the Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of 664 days as of June 30, 2024. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2024, are disclosed in the County's Annual Comprehensive Financial Report.

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 more sensitive its fair value is to changes in market interest rates. One of the ways that the Treasurer manages the Agency's exposure to interest rate risk is by purchasing a combination of short and long term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, 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, 2024 are disclosed in the County's Annual Comprehensive Financial Report.

Concentration of Credit Risk

The Agency maintains other cash in a financial institution insured up to $250,000 by the Federal Deposit Insurance Corporation ("FDIC"). At times, the cash balance may exceed the FDIC insurance coverage amount. Amounts in excess of the FDIC insurance coverage are collateralized.

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 of 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 which is valued using significant other observable inputs (Level 2). As of June 30, 2024, the Agency has a fair value measurement for its investments in the Treasury Pool of $646,255, which includes an unrealized loss fair value adjustment of $9,195.

Note C. Related Party Transactions

During the fiscal year ended June 30, 2024, Sonoma Water provided $372,913 in outreach, communication, and technical services.

During the fiscal year ended June 30, 2024, two member agencies provided $709,379 in engineering services.

The Agency received $500,000 from the County to subsidize the groundwater sustainability fee for groundwater users, excluding municipalities and major public water service providers, for fiscal year ended June 30, 2024.

Note D. Commitments

Future contractual expenditure commitments related to the qualified grant agreement were $681,521 as of June 30, 2024.

Note E. Risk Management

The Agency is exposed to various risks for which the Agency carries insurance with coverage for general liability, auto liability, crime and property. Primary insurance is provided by Golden State Risk Management Authority and excess insurance by Public Risk Innovation, Solutions, and Management. Total coverage limits are $350,000 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. Coverage limits for property are $25,000 per occurrence with a $1,000 deductible.

Note F. Future Governmental Accounting Standards

GASB has released the following standards which will be implemented in future financial statements:

GASB Statement No. 102 - Certain Risk Disclosures

The requirements of this Statement are effective for the fiscal year ending June 30, 2025. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

GASB Statement No. 103 - Financial Reporting Model Improvements

The requirements of this Statement are effective for the fiscal year ending June 30, 2026. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

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KOSMATKA DONNELLY & CO., LLP

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, 2024, and the related notes to the financial statements, which collectively comprise the GSA's basic financial statements, and have issued our report thereon dated February 28, 2025.

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.

Pisenti & Brinker LLP has joined practices with Kosmatka, Donnelly & Co., LLP (dba, KDP Certified Public Accountants, LLP). The former Pisenti & Brinker LLP Partners are now Partners of KDP Certified Public Accountants, LLP (KDP). KDP Certified Public accountants, LLP is a licensed CPA firm that provides attest services to its clients. Pisenti & Brinker Management LLC provides professional tax and business consulting services to its clients. Pisenti & Brinker Management, LLC and KDP Certified Public Accountants, LLP practice as an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable laws, regulations, and professional standards.

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 Internal Control over Financial Reporting (continued)

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.

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.

Kosmatka, Donnelly & Co., LLP

Santa Rosa, California
February 28, 2025