

**Sonoma Valley Groundwater  
Sustainability Agency**

Independent Auditor's Reports and  
Basic Financial Statements

For the Fiscal Year Ended June 30, 2022

**Sonoma Valley Groundwater Sustainability Agency  
For the Fiscal Year Ended June 30, 2022**

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## Independent Auditor's Report

Board of Directors  
Sonoma Valley Groundwater  
Sustainability Agency  
Santa Rosa, California

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the Sonoma Valley Groundwater Sustainability Agency ("the GSA"), as of and for the year ended June 30, 2022, 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, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *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.

## **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 opinions. 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.

**Independent Auditor's Report (continued)**

***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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2023, on our consideration of the GSA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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.

*Perenti & Brinku LLP*

Santa Rosa, California  
March 27, 2023

**Sonoma Valley Groundwater Sustainability Agency**  
**Statement of Net Position**  
**June 30, 2022**

**Assets:**

Current assets:

Cash and investments	\$	155,521
Accounts receivable		296,265
Prepaid expense		<u>2,237</u>
Total current assets		<u>454,023</u>
Total assets		<u>454,023</u>

**Liabilities:**

Current liabilities:

Accounts payable		<u>221,120</u>
Total liabilities		<u>221,120</u>

**Net position:**

Unrestricted		<u>232,903</u>
Total net position	\$	<u><u>232,903</u></u>

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

**Sonoma Valley Groundwater Sustainability Agency  
Statement of Revenues, Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2022**

<b>Operating revenues:</b>	
In-kind member fees	\$ 125,000
Member fees	115,000
Total operating revenues	240,000
 <b>Operating expenses:</b>	
Services and supplies	506,802
In-kind services	125,000
Total operating expenses	631,802
Operating loss	(391,802)
 <b>Nonoperating revenues (expenses):</b>	
Intergovernmental revenue	376,627
Investment loss	(6,635)
Total nonoperating revenue, net	369,992
Change in net position	(21,810)
Net position, beginning of year	254,713
<b>Net position, end of year</b>	<b>\$ 232,903</b>

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

**Sonoma Valley Groundwater Sustainability Agency  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2022**

<b>Cash flows from operating activities</b>	
Receipts from member agencies	\$ 114,998
Payments to suppliers	<u>(621,447)</u>
Net cash used by operating activities	<u>(506,449)</u>
<b>Cash flows from noncapital financing activities</b>	
Intergovernmental receipts	<u>478,588</u>
<b>Cash flows from investing activities</b>	
Investment loss on change in fair value of investment pool	<u>(6,635)</u>
Net decrease in cash and cash equivalents	(34,496)
Cash and cash equivalents, beginning of the year	<u>190,017</u>
Cash and cash equivalents, end of the year	<u><u>\$ 155,521</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (391,802)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Increase in prepaid expense	(1,918)
Decrease in accounts payable	<u>(112,729)</u>
Net cash used by operating activities	<u><u>\$ (506,449)</u></u>
<b>Non-cash investing, capital, and financing activities:</b>	
Decrease in grants receivable	\$ 101,959

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



**Sonoma Valley Groundwater Sustainability Agency**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**Note A. Summary of Significant Accounting Policies**

*Reporting Entity*

The Sonoma 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 Sonoma, Valley of the Moon Water District, the County of Sonoma, 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 Sonoma Valley Groundwater Basin.

The Sonoma Valley Groundwater Basin was originally designated in the California Department of Water Resources (DWR) Bulletin No. 118 as a medium priority basin. However, in 2019, the basin was reprioritized as high priority. 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). The SGMA requires the formation of GSAs by June 30, 2017, and the adoption of GSPs by January 31, 2022. In December 2021, the GSA Board of Directors adopted the GSP for the Sonoma Valley Groundwater Basin. The GSA submitted the GSP to DWR in January 2022.

The Agency is governed by a Board of Directors, with one Director from each of the six 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. Through June 30, 2022, the Agency's activities were funded by member fees. A funding study conducted in FY 2021-22 resulted in the Board of Directors adopting a groundwater sustainability fee in July 2022, to be imposed on all groundwater users in the basin, which will fund activities in FY 2022-23 and into the future.

During the fiscal year ended June 30, 2022, Sonoma Water provided grant application, grant management, outreach, communication, administrative and technical services; Parker Groundwater provided facilitation services; and Sonoma Ecology Center provided seepage monitoring services. In May 2022, the GSA Board approved a contract with West Yost Associates to provide administrative and grant management services beginning July 1, 2022. Sonoma Water will continue to provide outreach, communication and technical services.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The financial statements are reported using economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities (whether current or noncurrent) associated with Agency operations 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 the cash flows.

**Sonoma Valley Groundwater Sustainability Agency**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**Note A. Summary of Significant Accounting Policies** (continued)

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

The Agency's enterprise fund financial statements report business-type activities financed in whole or in part by member fees. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges such as member fees.

Operating revenues and expenses are distinguished from non-operating items in the statement of revenues, expenses and changes in net position. Operating revenues, such as member fees, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as investment earnings and grant revenues, result from non-exchange transactions or ancillary activities. Operating expenses for enterprise funds include services and supplies. All expenses not falling within these categories are reported as non-operating expenses.

*Cash and Investments*

For purpose of the statement of cash flows, the Agency has defined cash equivalents to include investments within the County of Sonoma Treasury Pool (Treasury Pool) that are not restricted as to use. The Agency applies the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

*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) - This component of net position consists of net position with externally imposed limits on its use.

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.

**Sonoma Valley Groundwater Sustainability Agency**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**Note A. Summary of Significant Accounting Policies** (continued)

*Member Fees and In-Kind Member Fees*

Funding for the operation of the Agency is through member fees. Member fees are paid in cash, in-kind services in-lieu of cash, or a combination of both.

The Agency follows standards relating to in-kind services received as member fees consistent with FASB ASC Topic 958 Not-for-Profit Entities. These accounting standards require recording the value of in-kind services that create or enhance non-financial assets or require specialized skills as both revenue and expense in the period in which the services are performed.

*Intergovernmental Revenue*

Intergovernmental revenue consists of a grant from the State of California. Revenue is recognized based on the terms of the grant agreement.

*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 Sonoma County Treasurer (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.

The amount invested in the Treasury Pool at June 30, 2022 is as follows:

Amortized cost: \$163,570

Fair value: \$155,521

The Agency's fair value of the cash investment with the Treasurer is \$8,049 less than the amortized cost of those investments.

**Sonoma Valley Groundwater Sustainability Agency**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**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 County investment policy is available upon request from the Treasurer at 585 Fiscal Drive, Suite 100, Santa Rosa, California 95403-2871.

*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.

As of June 30, 2022, approximately 30% of the securities in the Treasury pool had maturities of one year or less. Of the remainder, only less than 1% had a maturity of more than five years.

*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).

*Concentration of Credit Risk*

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2021-2022 Sonoma County Annual Comprehensive Financial Report.

**Sonoma Valley Groundwater Sustainability Agency  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2022**

**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 fair value measurement for its investment in the Sonoma County Treasury Pool of \$155,521 which is valued using significant other observable inputs (Level 2).

**Note C. Accounts Receivable**

As of June 30, 2022, the Agency has \$296,265 in accounts receivable related to grant funding. The Agency has not recorded an allowance for uncollectible receivables as it deems all receivables as fully collectible.

**Note D. Member Fees and In-Kind Member Fees**

Member fees for the year ending June 30, 2022 were recorded as follows:

<b>Member</b>	<b>Cash Member Fees</b>	<b>In-Kind Member Fees</b>	<b>Total</b>
Sonoma Water	\$ -	\$ 125,000	\$ 125,000
County of Sonoma	45,000	-	45,000
City of Sonoma	25,000	-	25,000
Valley of the Moon Water District	25,000	-	25,000
Sonoma Resource Conservation District	10,000	-	10,000
North Bay Water District	10,000	-	10,000
<b>Total</b>	<b>\$ 115,000</b>	<b>\$ 125,000</b>	<b>\$ 240,000</b>

Cash member fees are fees received in cash during the year ended June 30, 2022. In-kind member fees are member fees in the form of professional and operational services.

**Note E. 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 for auto liability and general liability with \$0 deductible. Coverage limits for crime are \$25,000 with a \$2,500 deductible.

**Sonoma Valley Groundwater Sustainability Agency**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2022**

**Note F.      Related Party Transactions**

During the fiscal year ended June 30, 2022, member agencies provided \$454,758 in professional services, partially in the form of in-kind services provided in lieu of cash. Sonoma Water provided \$125,000 in grant application, outreach, administrative and technical services. Of the total professional services, \$148,206 was owed as of June 30, 2022.



**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  
Sonoma Valley Groundwater  
Sustainability Agency  
Santa Rosa, California

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 Sonoma Valley Groundwater Sustainability Agency ("the GSA"), as of and for the year ended June 30, 2022, 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 27, 2023.

**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.

**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)**

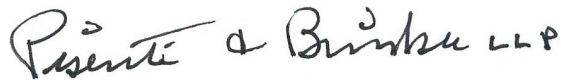
**Independent Auditor's Report (continued)**

**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.



Santa Rosa, California  
March 27, 2023