

**SALT VERDE FINANCIAL CORPORATION  
BOARD MEETING NOTICE AND AGENDA**

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**BOARD OF DIRECTORS MEETING  
Monday, August 23, 2021, No Sooner Than 10:00 AM**

**Salt Verde Financial Corporation meetings will be held via teleconference until further notice. The public may access these teleconference meetings by contacting the Corporate Secretary's Office at (602) 236-4398.**

Directors: David Rousseau, President; John Hoopes, Vice President; and Robert Arnett

Call to Order  
Roll Call

1. Request for Approval of the Minutes for the Meetings of April 13 and 21, 2021  
.....PRESIDENT DAVID ROUSSEAU
  
2. Fiscal Year 2021 Audit Findings by PricewaterhouseCoopers  
..... ASHLEY TROWBRIDGE,  
PricewaterhouseCoopers (PwC)
  
- Informational presentation of the Fiscal Year 2021 audit by PwC including audit findings, accounting and reporting matters, and required communications.
  
3. Update on Current Operations ..... BRIAN KOCH
  
- Informational presentation on operations and current counterparty credit ratings.
  
4. Financial Matters.....JEFFREY WRIGHT
  
- Informational presentation of the financial summary covering the year ended April 30, 2021.
  
5. Adjourn .....PRESIDENT DAVID ROUSSEAU

The Board may vote during the meeting to go into Executive Session, pursuant to A.R.S. §38-431.03(A)(3), for the purpose of discussion or consultation for legal advice with legal counsel to the Board on any of the matters listed on the agenda.

**NOTICE WILL BE SENT REGARDING THE NEXT  
SVFC MEETING**

08/17/2021



MINUTES  
BOARD OF DIRECTORS  
SALT VERDE FINANCIAL CORPORATION,  
an Arizona Nonprofit Corporation

**DRAFT**

April 13, 2021

A meeting of the Board of Directors of the Salt Verde Financial Corporation (SVFC), an Arizona nonprofit corporation organized under the Arizona Nonprofit Corporation Act, convened at 9:30 a.m. on Tuesday, April 13, 2021, via teleconference from the Geronimo Conference Room at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona. This meeting was conducted via teleconference in compliance with open meeting law guidelines.

Directors of SVFC present at roll call via teleconference were John R. Hoopes, Vice President of SVFC and SRP; and Randy J. Miller of SRP.

Director of SVFC absent at roll call was David Rousseau, President of SVFC and SRP.

Also present via teleconference were J. Rocky Shelton, Council Vice Chairman of SRP; Brian J. Koch, Treasurer of SVFC and Corporate Treasurer and Senior Director of Financial Services of SRP; John M. Felty, Secretary of SVFC and Corporate Secretary of SRP; Lora F. Hobaica, Assistant Secretary of SVFC and Assistant Corporate Secretary of SRP; Mmes. Melissa J. Burger and Sue Ann Perkinson of SRP; Messrs. W. Gary Hull, Aidan J. McSheffrey, Michael J. O'Connor, Jason I. Riggs, Dan S. Roach, and Jeffrey A. Wright of SRP; and Dan McGill and Ashley Trowbridge of PricewaterhouseCoopers LLP (PwC).

In compliance with A.R.S. §38-431.02, Merari Eastman of the SRP Corporate Secretary's Office had posted a notice and agenda of a meeting of the Board of Directors of SVFC at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona, at 9:00 a.m. on Friday, April 9, 2021.

Vice President and Director J.R. Hoopes served as Chairman. He called the meeting to order at 9:30 a.m. and acknowledged the existence of a quorum of the Board of Directors.

Approval of the Minutes

On a motion duly made by Vice President and Director J.R. Hoopes and seconded by Director R.J. Miller, the Board of Directors of the SVFC unanimously approved and adopted the minutes for the meeting of August 18, 2020, as presented.

Corporate Secretary J.M. Felty polled the SVFC Board Members via teleconference on Vice President and Director J.R. Hoopes' motion to approve the minutes for the meeting of August 18, 2020. The vote was recorded as follows:

YES:	Directors John R. Hoopes, Vice President; and Randy J. Miller	(2)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	Director David Rousseau, President	(1)

### Appointment of Officers for Fiscal Year 2022

Using a PowerPoint presentation, Vice President and Director J.R. Hoopes reminded the Members that the SVFC Bylaws (Article III, Section 3.2) provide that the Board of Directors, at each annual meeting, appoint the officers of the Corporation to serve for the ensuing year. He stated that the current officers of SVFC are David Rousseau, President; John R. Hoopes, Vice President; John M. Felty, Secretary; Lora F. Hobaica, Assistant Secretary; Brian J. Koch, Treasurer; and Dale R. Politi, Assistant Treasurer.

Vice President and Director J.R. Hoopes concluded by recommending that the SVFC Board of Directors appoint the individuals listed below to serve in their respective capacities in Fiscal Year 2022 (FY22).

There being no other nominations, on a motion duly made by Vice President and Director J.R. Hoopes, seconded by Director S.H. Williams and carried, the Board adopted the following resolution:

### **RESOLUTION APPOINTING THE OFFICERS OF THE CORPORATION FOR FISCAL YEAR 2022**

**RESOLVED**, that the following persons are hereby appointed as Officers of Salt Verde Financial Corporation, to serve in their respective capacities in Fiscal Year 2022 and until their successors are appointed:

President	David Rousseau
Vice President	John R. Hoopes
Secretary	John M. Felty
Asst. Secretary	Lora F. Hobaica
Treasurer	Brian J. Koch
Asst. Treasurer	Dale R. Politi

**RESOLVED FURTHER**, that the Officers of the Corporation are hereby authorized, empowered and directed to execute such documents, instruments and other writings, and to do all such things on behalf of and in the name of the Corporation, as may be deemed appropriate, required or necessary to perform the duties incidental to their respective offices.

Corporate Secretary J.M. Felty polled the SVFC Board Members via teleconference on Vice President and Director J.R. Hoopes' motion to approve the appointment of officers for Fiscal Year 2022. The vote was recorded as follows:

YES:	Directors John R. Hoopes, Vice President; and Randy J. Miller	(2)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	Director David Rousseau, President	(1)

Copies of the PowerPoint slide used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

#### PricewaterhouseCoopers LLP Fiscal Year 2021 Audit

Using a PowerPoint presentation and referencing the material distributed, Dan McGill, Partner of PwC, described a planned approach for the FY21 year-end audit for SVFC and presented the audit plan, which includes the new Governmental Accounting Standards Board pronouncements, effective FY21. He discussed the scope of the audit, the audit responsibilities, and the approach used to identify the key business and fraud risks. Mr. D. McGill reviewed areas of audit emphasis including the fair value of derivatives, fraud in revenue recognition, and override of controls by Management. He concluded with an explanation of the audit approach by PwC to these areas of risks.

Jeffrey A. Wright, SRP Director of Financial Reporting, requested approval to retain PwC to serve as an independent public accountant for the FY21 year-end audit.

On a motion duly made by Vice President and Director J.R. Hoopes, seconded by Director R.J. Miller and carried, the Board approved the retention of PwC for the FY21 year-end audit.

Corporate Secretary J.M. Felty polled the SVFC Board Members via teleconference on Vice President and Director J.R. Hoopes' motion to approve the FY21 year-end audit. The vote was recorded as follows:

YES:	Directors John R. Hoopes, Vice President; and Randy J. Miller	(2)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	Director David Rousseau, President	(1)

Copies of the PowerPoint slides used in this presentation and materials distributed by PwC are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

Council Chairman Mark L. Farmer of SRP; and Mr. Mike Hummel of SRP entered the meeting during the presentation.

## Financial Matters

### Unaudited Financial Statements

Using a PowerPoint presentation, Mr. J.A. Wright provided a financial summary of the FY21 and the FY22 budgets, and he reviewed the unaudited financial statements of the Corporation for the nine-month period ended January 31, 2021.

### Fiscal Year 2022 Operating Budget

Continuing, Mr. J.A. Wright reviewed the key elements of the proposed Operating Budget of the Corporation for FY22, including the estimated income and expenses. He concluded by recommending that the SVFC Board of Directors approve the proposed Operating Budget for FY22, as presented.

Director R.J. Miller requested that the agenda item regarding the approval of the FY22 Operating Budget be postponed to a future meeting for further review of the budget.

Copies of the PowerPoint slides used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

Dan McGill and Ashley Trowbridge of PwC left the meeting.

### Status of Operations and Counterparty Credit Ratings

Using a PowerPoint presentation, Brian J. Koch, Treasurer of SVFC, updated the Board on the status of operations of SVFC and its credit rating. He said that in the mid 2000s, SRP sought to secure a long-term supply of natural gas for generation to provide fuel certainty and to keep prices stable for customers. Mr. B.J. Koch said that there was an opportunity to benefit from a tax-exempt status to procure discounted natural gas through a prepaid commodity transaction.

Mr. B.J. Koch provided an overview of the prepaid commodity structure, the results of the transaction, transaction participants, governance of SVFC, and risk mitigation. He reported that the inception to-date gas discount was \$136.6 million and that there had been no delivery issues. Mr. B.J. Koch provided a review of Moody's and Standard and Poor's current credit ratings of Citigroup Inc. (Citi) and the other counterparties involved.

Mr. B.J. Koch concluded with a review of the investment portfolio as of March 1, 2021 and a statement of investment policy compliance.

Copies of the PowerPoint slides used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

There being no further business to come before the Board, the meeting adjourned at 10:23 a.m.

John M. Felty  
Secretary





MINUTES  
BOARD OF DIRECTORS  
SALT VERDE FINANCIAL CORPORATION,  
an Arizona Nonprofit Corporation

**DRAFT**

April 21, 2021

A meeting of the Board of Directors of the Salt Verde Financial Corporation (SVFC), an Arizona nonprofit corporation organized under the Arizona Nonprofit Corporation Act, convened at 9:30 a.m. on Wednesday, April 21, 2021, via teleconference from the Geronimo Conference Room at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona. This meeting was conducted via teleconference in compliance with open meeting law guidelines.

Directors of SVFC present at roll call via teleconference were David Rousseau, President of SVFC and SRP; John R. Hoopes, Vice President of SVFC and SRP; and Randy J. Miller of SRP.

Also present via teleconference were Brian J. Koch, Treasurer of SVFC and Corporate Treasurer and Senior Director of Financial Services of SRP; John M. Felty, Secretary of SVFC and Corporate Secretary of SRP; Lora F. Hobaica, Assistant Secretary of SVFC and Assistant Corporate Secretary of SRP; Mmes. Melissa J. Burger and Sue Ann Perkinson of SRP; and Messrs. W. Gary Hull, M. Hummel, Aidan J. McSheffrey, Michael J. O'Connor, and Jeffrey A. Wright of SRP.

In compliance with A.R.S. §38-431.02, Merari Eastman of the SRP Corporate Secretary's Office had posted a notice and agenda of a meeting of the Board of Directors of SVFC at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona, at 9:00 a.m. on Monday, April 19, 2021.

President and Director D. Rousseau served as Chairman. He called the meeting to order at 9:30 a.m. and acknowledged the existence of a quorum of the Board of Directors.

Postponed from the April 13, 2021 SVFC Meeting – Financial Matters

Fiscal Year 2022 Operating Budget

Jeffrey A. Wright, SRP Director of Financial Reporting, stated that the purpose of the agenda item was to request approval of the proposed Operating Budget for Fiscal Year 2022 (FY22), as previously presented on April 13, 2021. He concluded by recommending that the SVFC Board of Directors approve the proposed Operating Budget for FY22, as previously presented.

On a motion duly made by Vice President and Director J.R. Hoopes, seconded by R.J. Miller and carried, the Board granted approval, as recommended.

Corporate Secretary J.M. Felty polled the SVFC Board Members via teleconference on Vice President and Director J.R. Hoopes' motion to approve the FY22 Operating Budget. The vote was recorded as follows:

YES:	Directors David Rousseau, President; John R. Hoopes, Vice President; and Randy J. Miller	(3)
NO:	None	(0)
ABSTAINED:	None	(0)
ABSENT:	None	(0)

Copies of the PowerPoint slides used in this presentation are on file in the SRP Corporate Secretary's Office and, by reference, made a part of these minutes.

There being no further business to come before the Board, the meeting adjourned at 9:33 a.m.

John M. Felty  
Secretary



Tomorrow's audit, today

# Report to the Board of Directors

## FY2021 Audit Results

Salt Verde Financial Corporation



August 23, 2021



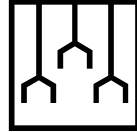
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# Highlights



## Status of the audit

- We are in the final stages of our audit of the financial statements.
- We expect to issue our unqualified opinion on August 23, 2021.



## Significant changes to audit plan

- We presented our planned audit approach, including our preliminary risk assessment, and related scoping considerations for 2021 to the Board of Directors on April 13, 2021. Throughout the audit, we continuously evaluated the appropriateness of our audit strategy. There were no significant changes to the planned audit approach.



## Audit findings

- No identified misstatements
- No identified control deficiencies

# Audit risks

**During our planning phase of the audit, we previously provided you with a preliminary list of areas of audit emphasis in response to identified risk. Below is the listing of areas of significant risk:**

- Management override of controls
- Fair value of derivatives may not be properly recorded
- Risk of fraud in revenue recognition

## Other required communications

Matter to report	No	Yes	Comments
Independence re-evaluation	✓		There were no independence matters that occurred or were identified subsequent to the date of our most recent independence communication to the Audit Committee on April 13, 2021. We are not aware of any relationships between our Firm (or any of the Firm's affiliates) and the Company or persons in financial reporting oversight roles at the Company that may reasonably be thought to bear on our independence.
Material uncertainties related to events and conditions (specifically going concern)	✓		There were no conditions and events that we identified that indicate that there is substantial doubt about the Company's ability to continue as a going concern.
Other information in documents containing audited/reviewed financial statements	✓		We did not identify any information that was materially inconsistent with the information in the financial statements.
Disagreements with management	✓		There were no disagreements with management.
Consultation with other accountants	✓		We are not aware of any consultations management has had with other accountants about significant accounting or auditing matters.
Difficulties encountered during the audit	✓		There were no significant difficulties encountered during the audit.
Other material written communications	✓		Appendix II (in the handout) includes a copy of other material written communications with management, including a draft of management's representation letter.
Fraud	✓		No irregularities, frauds or illegal acts involving senior management, or that would cause a material misstatement to the financial statements, have come to our attention as a result of our audit procedures.
Illegal acts	✓		We did not identify any potential illegal acts.

## Other required communications

Matter to report	No	Yes	Comments
Non-compliance with laws and regulations	✓		We did not identify any instances of non-compliance with laws and regulations.
Significant unusual transactions	✓		We did not identify any significant unusual transactions.
Alternative accounting treatments	✓		The basis of accounting is disclosed in Note 2 in the financial statements. These policies are consistent with those followed in previous years and we believe such policies are appropriate.
Other matters	✓		There were no other matters arising from the audit that are significant to the oversight of the company's financial reporting process.
Quality of the company's financial reporting	✓		<p>We have performed an evaluation of whether the presentation of the financial statements and the related disclosures are in conformity with the applicable financial reporting framework, including our consideration of the form, arrangement, and content of the financial statements (including the accompanying notes). We did not identify any instances of non conformity.</p> <p>We have evaluated management's anticipated application of accounting pronouncements that have been issued but are not yet effective and might have a significant effect on future financial reporting. We do not have any concerns as a result of our evaluation.</p> <p>We have evaluated the potential effect on the financial statements of significant exposures and risks, and uncertainties, such as pending litigation, that are disclosed in the financial statements. We did not identify any matters with a material potential effect.</p> <p>We have evaluated whether the difference between estimates best supported by the audit evidence and estimates included in the financial statements, which are individually reasonable, indicate a possible bias on the part of the company's management. We did not identify any areas of possible bias.</p>





Tomorrow's audit, today

# Report to the Board of Directors

## FY2021 Audit Results

Salt Verde Financial Corporation



August 23, 2021



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# Tomorrow's audit, today: your results

August 17, 2021

Dear Members of the Board of Directors of Salt Verde Financial Corporation:

We are pleased to submit our Report to the Board of Directors related to the results of our 2021 audit of Salt Verde Financial Corporation's (the "Company") financial statements. Our report includes an update on the status of our audit, a summary of the results of our audit work and other required communications.

This report has been prepared in advance of our meeting and prior to the completion of our procedures. Other matters of interest to the Board of Directors may arise, which we will bring to your attention at our meeting.

We look forward to presenting this report, addressing your questions and discussing any other matters of interest. Please feel free to contact me at (310) 872-8226 or [daniel.r.mcgill@pwc.com](mailto:daniel.r.mcgill@pwc.com) with any questions you may have.

Very truly yours,



Engagement Partner

*PricewaterhouseCoopers LLP, 1850 North Central Avenue, Suite 700, Phoenix, AZ 85004-4563  
T: (602) 364 8000 F: (602) 364 8001*

Delivering exceptional quality

Through our unique combination  
of people and technology

## Rooted in our core values



Make a difference



Reimagine the possible



Act with integrity



Work together



Care



# What's inside

**Highlights**

**Audit results**

**Other required communications**

## **Appendices**

Appendix I – Draft Audit Report

Appendix II – Draft Management Representation Letter

This report and the information that it contains is intended solely for the information and use of the Audit Committee of the Board of Directors or management, if appropriate, and should not be used by anyone other than these specified parties.



# Audit objectives

## Our primary objectives are to:

- Perform an audit in accordance with auditing standards generally accepted in the United States of America to obtain reasonable assurance the Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and are free from material misstatement whether caused by error or fraud, and
- Render an opinion on the financial statements as of April 30, 2021 and for the year then ending
- Our audit does not relieve management of its responsibilities with regard to the financial statements.
- An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.



## Our audit deliverables

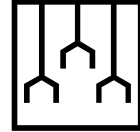
- Audit report on the financial statements

# Highlights



## Status of the audit

- We are in the final stages of our audit of the financial statements.
- We expect to issue our unqualified opinion on August 23, 2021.
- Draft audit report is included in Appendix I
- Draft management representation letter is included in Appendix II



## Significant changes to audit plan

- We presented our planned audit approach, including our preliminary risk assessment, and related scoping considerations for 2021 to the Board of Directors on April 13, 2021. Throughout the audit, we continuously evaluated the appropriateness of our audit strategy. There were no significant changes to the planned audit approach.



## Audit findings

- No identified misstatements
- No identified control deficiencies



# Audit results

# Audit risks and results

Significant Risks – Risk of management override of controls

## Balance and/or income statement impact at April 30, 2021

Pervasive

### Audit response

- We inquired with management and others regarding their knowledge of fraud or suspected fraud and the fraud risk assessment process
- We incorporated an element of unpredictability in the selection of nature, timing and extent of audit procedures
- We tested manual journal entries meeting certain criteria
- We planned to review the business purpose of significant unusual transactions, of which there were none in FY21
- We evaluated and corroborated management's key judgments, assumptions and estimates as seen in the following slides
- We obtained and reviewed significant contracts entered into or modified during the year and assessed for appropriate accounting, of which there were none in FY21
- As of the date of this report, the engagement team has not identified any material exceptions or control deficiencies.



# Audit risks and results

Significant Risks – Risk of fraud in revenue recognition (Accuracy Assertion)

## Income statement impact at April 30, 2021

Total revenue \$70.1M (\$9.9M Gas Sales, \$60.2M Commodity Swap)

## Audit response

- We obtained and reviewed significant contracts entered into or modified during the year and assessed for appropriate accounting. None were identified in FY21
- We performed subsequent cash vouching by tracing the total revenue amount from the customer invoice to the bank statement. We also agreed the volumes and price per unit to the invoices. All selections were agreed to the underlying contracts which were confirmed with the appropriate parties in FY21.
- As of the date of this report, the engagement team has not identified any material exceptions or control deficiencies.

# Audit risks and results

Significant Risk – Fair value of derivatives may not be properly recorded (Valuation assertion)

## Balance sheet and/or income statement impact at April 30, 2021

Derivative Asset \$1.0B, Derivative Liability \$1.1BM

## Description of estimate

Valuation of Derivative Instruments accounting estimate – Management’s judgement in determining valuation of derivative instruments

## Significant assumptions

The significant assumptions underlying the estimate are the calculated discount rate and the future gas curve (for the gas swap and offsetting prepaid gas instrument) and the spread between taxable and tax-exempt entity interest rates (for the supply agreement instrument).

## Management’s process for developing estimates

Management uses several data sources to calculate the fair value of derivative investments. Management obtains the future gas curve and Bloomberg screenshot for Citigroup CDS rates from the ERM department. The forward interest rates for tax-exempt and the taxable entities are obtained from the treasury department. The risk free rates are pulled from the US treasury department website. The forward curves are San Juan obtained from Allegro and Wood Mackenzie. The inputs are used within models to calculate the fair value of the derivative instruments.

## Audit response

- We obtained an understanding of management’s process for valuing derivative instruments
- We utilized our PwC commodity derivative specialists to review the inputs from pricing agencies and forward price curves, and the appropriateness of the methodology used to value the derivative instruments.
- As of the date of this report, the engagement team has not identified any material exceptions or control deficiencies.



# Other required communications

## Other required communications

Matter to report	No	Yes	Comments
Independence re-evaluation	✓		There were no independence matters that occurred or were identified subsequent to the date of our most recent independence communication to the Audit Committee on April 13, 2021. We are not aware of any relationships between our Firm (or any of the Firm's affiliates) and the Company or persons in financial reporting oversight roles at the Company that may reasonably be thought to bear on our independence.
Material uncertainties related to events and conditions (specifically going concern)	✓		There were no conditions and events that we identified that indicate that there is substantial doubt about the Company's ability to continue as a going concern.
Other information in documents containing audited/reviewed financial statements	✓		We did not identify any information that was materially inconsistent with the information in the financial statements.
Disagreements with management	✓		There were no disagreements with management.
Consultation with other accountants	✓		We are not aware of any consultations management has had with other accountants about significant accounting or auditing matters.
Difficulties encountered during the audit	✓		There were no significant difficulties encountered during the audit.
Other material written communications	✓		Appendix II includes a copy of other material written communications with management, including a draft of management's representation letter.
Fraud	✓		No irregularities, frauds or illegal acts involving senior management, or that would cause a material misstatement to the financial statements, have come to our attention as a result of our audit procedures.
Illegal acts	✓		We did not identify any potential illegal acts.

## Other required communications

Matter to report	No	Yes	Comments
Non-compliance with laws and regulations	✓		We did not identify any instances of non-compliance with laws and regulations.
Significant unusual transactions	✓		We did not identify any significant unusual transactions.
Alternative accounting treatments	✓		The basis of accounting is disclosed in Note 2 in the financial statements. These policies are consistent with those followed in previous years and we believe such policies are appropriate.
Other matters	✓		There were no other matters arising from the audit that are significant to the oversight of the company's financial reporting process.
Quality of the company's financial reporting	✓		<p>We have performed an evaluation of whether the presentation of the financial statements and the related disclosures are in conformity with the applicable financial reporting framework, including our consideration of the form, arrangement, and content of the financial statements (including the accompanying notes). We did not identify any instances of non conformity.</p> <p>We have evaluated management's anticipated application of accounting pronouncements that have been issued but are not yet effective and might have a significant effect on future financial reporting. We do not have any concerns as a result of our evaluation.</p> <p>We have evaluated the potential effect on the financial statements of significant exposures and risks, and uncertainties, such as pending litigation, that are disclosed in the financial statements. We did not identify any matters with a material potential effect.</p> <p>We have evaluated whether the difference between estimates best supported by the audit evidence and estimates included in the financial statements, which are individually reasonable, indicate a possible bias on the part of the company's management. We did not identify any areas of possible bias.</p>

For more information

# Appendix





# Appendix contents

## Appendices

- Appendix I – Draft Audit Report
- Appendix II – Draft Management Representation Letter



# SVFC Audit Report Draft – Appendix I





## Report of Independent Auditors

To the Board of Directors  
of Salt Verde Financial Corporation

We have audited the accompanying financial statements of Salt Verde Financial Corporation ("SVFC"), which comprise the statements of net position as of April 30, 2021 and 2020, the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility 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; 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the 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 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 our 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, we consider internal control relevant to SVFC'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 SVFC'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 Salt Verde Financial Corporation as of April 30, 2021 and 2020, and the 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 Matter***

The accompanying management's discussion and analysis on pages 1 through 7 is required by accounting principles generally accepted in the United States of America 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 audits 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.

*PricewaterhouseCoopers LLP*

August 23, 2021

DRAFT



# SVFC Management Rep Letter draft – Appendix II



Delivering water and power™

August 23, 2021

PricewaterhouseCoopers LLP  
Attn: Dan McGill  
1850 N Central Ave., Suite 700  
Phoenix, AZ 85004

We are providing this letter in connection with your audits of the financial statements of Salt Verde Financial Corporation (the "Company") as of April 30, 2021 and April 30, 2020 and for the years then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America. We acknowledge and confirm that we have fulfilled our responsibility, as set out in our engagement letter of April 20, 2021, for the preparation and fair presentation in the financial statements of financial position, results of operations, and of cash flows in conformity with generally accepted accounting principles, including the appropriate selection and application of accounting policies.

Certain representations in this letter are described as being limited to those matters that are material. Materiality is entity specific. The omission or misstatement of an item in a financial report is material, regardless of size, if in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item. Materiality used for purposes of these representations is \$2,000,000.

We confirm, to the best of our knowledge and belief, as of August 23, 2021, the date of your report, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and include all disclosures necessary for such fair presentation and disclosures otherwise required to be included therein by the laws and regulations to which the Company is subject. We have prepared the Company's financial statements on the basis that the Company is able to continue as a going concern. There are no conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued.
2. We have made available to you:
  - a. All financial records and related data.
  - b. Unconditional access to persons within the entity from whom you have requested audit evidence.

- c. All minutes of the meetings of the Board of Directors. For meetings not approved in final form, PwC was made aware by management and the Board of all substantive actions planned for the meeting. The most recent meeting held was on August 23, 2021.
3. We have appropriately reconciled our books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g., sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements, as necessary. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an income statement account and vice versa.
4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
5. There are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the financial statements.
6. We acknowledge and confirm that we have fulfilled our responsibility, as set out in our engagement letter of April 20, 2021, 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 and we have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware.
7. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
8. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud and we have no knowledge of any fraud or suspected fraud affecting the Company involving:
  - a. Management,
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, analysts, regulators, short sellers, or others.

(As to items 7, 8 and 9, we understand the term “fraud” to mean those matters described in AICPA AU-C 240.)
10. There have been no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
11. The Company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

12. We have disclosed to you the identity of all the Company's related parties and all the related party relationships and transactions of which we are aware.
13. There are no side agreements or other arrangements (either written or oral) that have not been disclosed to you.
14. The following, if material, have been properly recorded or disclosed in the financial statements:
  - a. Relationships and transactions with related parties, as described in Governmental Accounting Standards Board Statement (GASBS) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements* (GASBS 62) including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the Company is contingently liable.
  - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASBS 62. (Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.)
15. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.
16. The Company has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
17. All liabilities of the Company of which we are aware are included in the financial statements at the balance sheet dates. There are no other liabilities or gain or loss contingencies that are required to be recognized or disclosed by GASBS 62, and no unasserted claims or assessments that our legal counsel has advised us are probable of assertion and required to be disclosed in accordance with that Topic.
18. We are responsible for all significant estimates and judgments affecting the financial statements. The methods, underlying data, and significant assumptions used in developing accounting estimates and the related disclosures are reasonable and appropriate to achieve recognition, measurement, or disclosure in the financial statements in accordance with accounting principles generally accepted in the United States of America. The methods used in developing accounting estimates have been consistently applied in the periods presented and the data used in developing accounting estimates is accurate and complete. Accounting estimates and judgments appropriately reflect management's intent and ability to carry out specific courses of action, where relevant. There have been no subsequent events that would require the adjustment of any significant estimates and related disclosures.

19. We acknowledge our responsibility for the presentation of the management's discussion and analysis in accordance with GASBS No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASBS 34). We believe such information, including its form and content, is fairly presented in accordance with GASBS 34. The methods of measurement or presentation have not changed from those used in the prior period. We have informed you about any significant assumptions or interpretations underlying the measurement or presentation of the information.
20. The Company has adopted GASBS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Governmental entities are given the option whether or not to apply all FASB statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Company has elected to not implement FASB Statements and Interpretations issued after November 30, 1989. Such election is properly disclosed in the financial statements.
21. We completed the process of evaluating the impact that will result from the adoption of GASB issues Statement No. 87, *Leases*. Such impact is disclosed in Note 2.
22. All cash and deposit accounts and all other properties and assets of the Company are included in the financial statements. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, collateral posted or similar arrangements have been properly disclosed in the financial statements.
23. We consistently applied our policy regarding classification of cash and cash equivalents, which are short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that there is insignificant risk of changes in value due to interest rate or other credit risk changes.
24. All borrowings and financial obligations of the Company have been disclosed to you and are properly recorded and disclosed in the financial statements.
25. The Company has appropriately classified as current and non-current its Senior and Subordinated Gas Revenue Bonds in the Company's classified balance sheet in accordance with the appropriate authoritative guidance.
26. The Company has not violated any covenants of its Senior and Subordinated Gas Revenue Bonds during any of the periods presented, and we disclosed to you all covenants and information related to how we determined compliance with the covenants.
27. The tax-exempt bonds issued by the Company have retained their tax-exempt status.
28. We evaluated all contracts and financial instruments to determine whether they meet the definition of a derivative under GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASBS 53).
29. We evaluated financial instruments and other contracts to determine whether the hybrid instrument contains embedded derivative instruments and have separated the embedded derivative from the host contract and accounted for it separately at fair value in

accordance with GASBS 53, if the following criteria in accordance with GAAP have been met: (i) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the host contract, (ii) the hybrid instrument that includes the embedded and host contracts is not remeasured at fair value in accordance with GAAP and (iii) a separate instrument with the same terms as the embedded derivative instrument, would, under GAAP, be a derivative instrument.

30. We are responsible for all significant estimates and judgments affecting derivative financial instruments and commodity derivatives valuation. The methods, underlying data, and significant assumptions used in derivative financial instruments and commodity derivatives valuation and related disclosures are consistent with what a market participant would use, and are reasonable and appropriate to achieve recognition, measurement or disclosure in the financial statements, in accordance with GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The methods used in valuation have been consistently applied in the periods presented and the data used in valuation is accurate and complete. Accounting estimates and judgments appropriately reflect management's intent and ability to carry out specific courses of action, where relevant. There have been no subsequent events that would require the adjustment of any valuations and related disclosures.
31. We disclosed in the financial statements each significant concentration of credit risk arising from all financial instruments.
32. Components of net position (restricted, and unrestricted) are properly classified.
33. The financial statements disclose all matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including all significant conditions and events and management's plans. There have been no events that indicate a termination event (as defined by the Agreement for Purchase and Sale of Natural Gas between the Company and Citigroup Energy, Inc.) has or is likely to occur. In addition, all obligations under the operable documents, including gas deliveries, are being satisfied. Accordingly, the Company's financial statements are prepared on a going-concern basis. We made available to you all relevant information on the Company's ability to continue as a going concern that could affect the financial statements. There have been no subsequent events which would indicate a termination event is likely to occur.
34. We have accounted for our investments in accordance with the requirements of GASBS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with this guidance, we have concluded that investments held are "nonparticipating" contracts and, as such, the investments are recorded at cost. Furthermore, we have considered whether the fair value of the investments has been significantly affected by the impairment of the credit standing of the issuer or other facts. The posting of collateral by MBIA Inc. and AIG Matched Funding Corp. (AIGM FC) to support the investments precluded the need to record any impairment as of April 30, 2021.
35. We are responsible for and have estimated the implied benefit we received as a result of the re-assignment of our investment agreement from AIGM FC to American General Life Insurance Company of Delaware (AGD) and reserved this amount as arbitrage rebate liability in accordance with GASBS 34.



To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

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**David Rousseau**  
**President and Director**

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**Brian Koch**  
**Treasurer**

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**Sue Ann Perkinson**  
**Senior Director & Controller**  
**Salt River Project, on behalf of Salt Verde Financial Corporation**

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**Jeff Wright**  
**Director, Financial Reporting**  
**Salt River Project, on behalf of Salt Verde Financial Corporation**



# **Salt Verde Financial Corporation**

## **Status of Operations**

Brian J. Koch  
August 23, 2021

# Salt Verde Financial Corporation

## Operations Update

- FY22 Gas Discount = \$ 8.6 million
- Inception to Date Savings through July 2021:
  - Gas Discount \$ 101.4 million
  - Interest Earnings\* \$ 40.6 million
  - Total Savings \$ 142.0 million
- No delivery issues
- Current credit ratings:

Senior Debt		Subordinate Debt	
Moody's	S&P	Moody's	S&P
A3	BBB+	Ba3	BBB+

\*Excluding collateral

# Salt Verde Financial Corporation

## Counterparty Ratings – July 2021

Counterparties Monitored in Pre-Pay Gas Transaction							
Counterparty	Role	Current Rating		Trigger Rating		Notches to Reach Trigger	
		S&P	Moody's	S&P	Moody's	S&P	Moody's
<i>Salt Verde Financial Corp.'s Primary Exposure</i>							
Citigroup Inc.	Guarantor for CEI	BBB+	A3	BBB+	Baa1	Trigger Reached	1
<i>Other Entities Involved in Transaction</i>							
Citigroup Energy Inc.	Gas Supplier	Not Rated		N/A			
Royal Bank of Canada	Commodity Swap Provider	AA-	Aa2	A-	A3	3	4
MBIA Insurance Corp. (MBIA Inc's Guarantor)	Investment Agreement Provider (Debt Reserve)	NR	Caa1	A+	A1	Trigger Reached	Trigger Reached
	Surety Bond Provider	NR	Caa1	N/A			
National Public Finance Guarantee Corp.	Reinsurance Provider for MBIA Insurance Corp.	NR	Baa2	N/A			
American General Life Insurance Co.	Investment Agreement Provider (Debt Service)	A+	A2	A+	A1	Trigger Reached	Trigger Reached
		A+	A2	BBB+	Baa1	3	2
U.S. Bank NA	Bond Trustee	AA-	A1	N/A			

# Salt Verde Financial Corporation

## Citi Collateral

- Received \$197.6 million on May 10, 2016
  - Balance recalculated/adjusted as needed
  - Balance July 2021 was \$165.4 million
- Invested in 2 Money Market Funds & 1 Deposit Account
  - First American Government Money Market Fund
  - Goldman Sachs Government Money Market Fund
  - US Bank Deposit Account
- FY22 interest earned through June: \$7.8 thousand
- FY22 interest paid to Citi through June: \$19.0 thousand

# Salt Verde Financial Corporation

## Investment Review

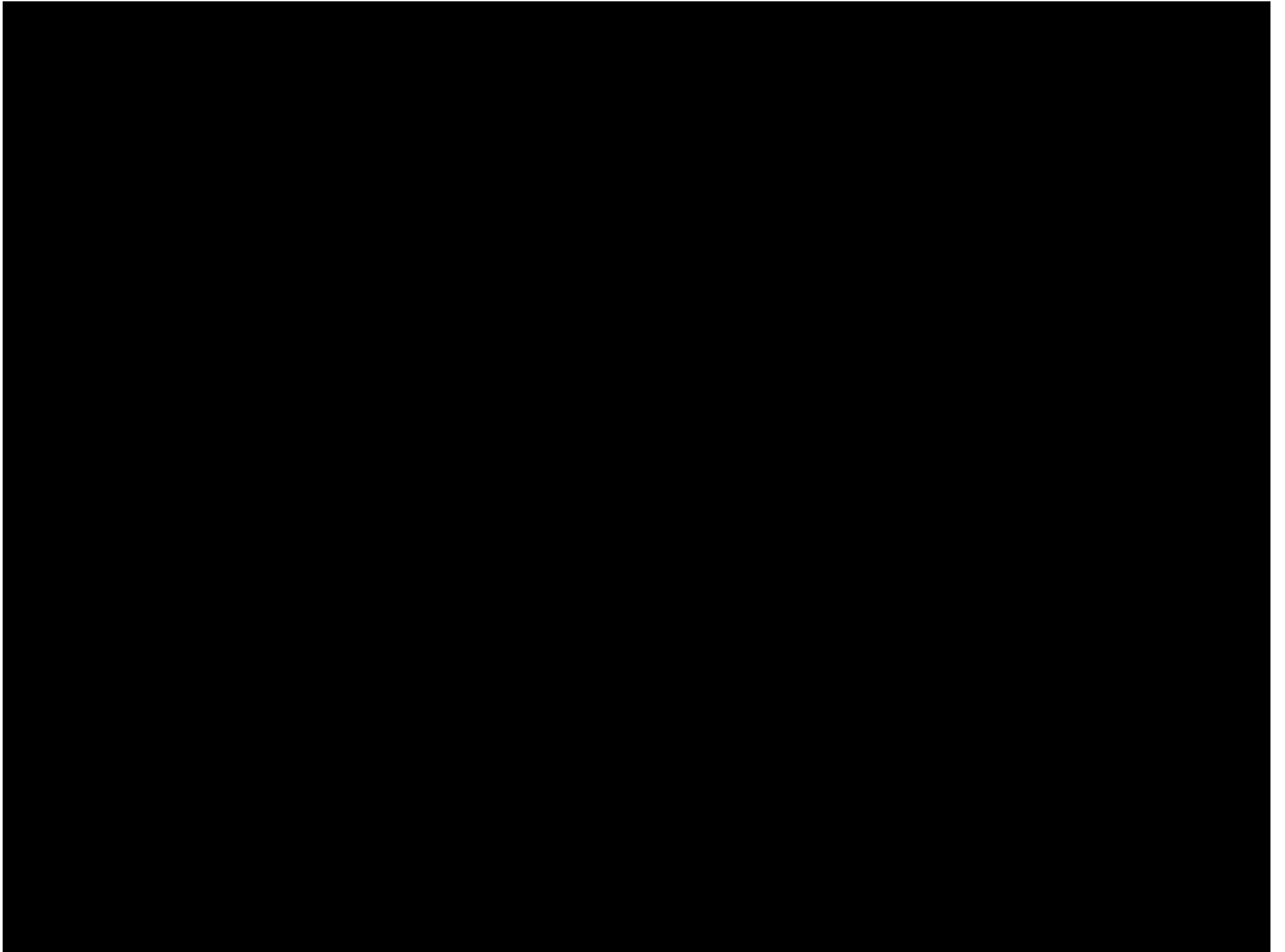
- Investment Portfolio as July 1, 2021:
  - Collateral Account \$165.4 million
  - Operating Bank Account \$ 7.4 million
- Collateral Invested in 2 Money Market Funds & 1 Deposit Account
  - First American Gov't MMF \$67.9 million
  - Goldman Sachs Gov't MMF \$79.8 million
  - US Bank Deposit Account \$17.7 million
- MMF Weighted Average Maturity 41 – 48 days
- MMF Annualized Yield 0.03%
- Deposit Account Annualized Yield 0.01%

# Salt Verde Financial Corporation

## Investment Review

- Investment Policy Statement of Compliance
  - The Investment Portfolio meets all of the credit, liquidity, maximum limits, security type, maximum maturity, prudence, controls, custody and safety objectives the Policy requires.





# **Salt Verde Financial Corporation**

## **Year-End Financial Update**

Jeff Wright

August 23, 2021

# Salt Verde Financial Corporation

## Financial Update

(Amounts in thousands)	<u>FY 2021</u> <u>Actual</u>	<u>FY 2021</u> <u>Budget</u>	<u>Variance</u>
<b><u>Income</u></b>			
Gas Revenues	\$ 70,098	\$ 70,098	\$ -
Investment Income	2,958	3,032	(74)
Investment Income on Collateral	114	2,464	(2,350)
Gain on Derivatives	223,458	-	223,458
Total Income	<u>296,628</u>	<u>75,594</u>	<u>(221,034)</u>
<b><u>Expenses</u></b>			
Bond Interest	57,546	57,546	-
Amortization of Prepaid Gas	35,721	35,721	-
Transfers to SRP	2,780	3,092	(312)
Interest Expense on Collateral	148	2,595	(2,447)
Other	98	113	(15)
Total Expenses	<u>96,293</u>	<u>99,067</u>	<u>2,774</u>
<b>Net Income (Loss)</b>	<u>\$ 200,335</u>	<u>\$ (23,473)</u>	<u>\$ 223,808</u>

# Salt Verde Financial Corporation

## Financial Update

(Amounts in thousands)	<u>April 30, 2021</u>	<u>April 30, 2020</u>	<u>Variance</u>
<b><u>Assets</u></b>			
Current Assets	\$ 100,475	\$ 99,936	\$ 539
Current portion of derivative asset	49,623	58,327	(8,704)
Derivative asset, net of current portion	963,382	1,101,498	(138,116)
Collateral Assets	165,358	185,769	(20,411)
Other Assets	571,542	607,263	(35,721)
Total Assets	<u>\$1,850,380</u>	<u>\$2,052,793</u>	<u>\$(202,413)</u>
<b><u>Liabilities &amp; Equity</u></b>			
Current Liabilities	\$ 39,337	\$ 35,829	\$ 3,508
Current portion of derivative liability	58,199	77,865	(19,666)
Collateral Liability	165,358	185,769	(20,411)
Long Term Liabilities	1,109,866	1,125,433	(15,567)
Derivative liability, net of current portion	1,022,296	1,372,908	(350,612)
Equity	(544,676)	(745,011)	200,335
Total Liabilities & Equity	<u>\$1,850,380</u>	<u>\$2,052,793</u>	<u>\$(202,413)</u>

