

**Modesto Irrigation District  
Financing Authority  
(A Component Unit of  
Modesto Irrigation District)**

Financial Statements

December 31, 2020 and 2019

**Modesto Irrigation District Financing Authority**  
**(A Component Unit of Modesto Irrigation District)**

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December 31, 2020 and 2019

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## **Independent Auditors' Report**

To the Board of Directors of  
Modesto Irrigation District Financing Authority

We have audited the accompanying financial statements of Modesto Irrigation District Financing Authority (Authority), a component unit of Modesto Irrigation District, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

*Required Supplementary Information*

The Authority has omitted the 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. We note the significant financial events of the Authority are included in the Management's Discussion and Analysis of the Modesto Irrigation District's basic financial statements.

*Baker Tilly US, LLP*

Madison, Wisconsin  
April 30, 2021

**Modesto Irrigation District Financing Authority**  
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Balance Sheets

December 31, 2020 and 2019

(In Thousands)

	<u>2020</u>	<u>2019</u>
<b>Assets and Deferred Outflows</b>		
<b>Other Assets</b>		
Cash and investments, restricted	\$ 78,111	\$ 77,026
Interest receivable, restricted	183	239
Debt service installment receivable, less current portion	<u>273,795</u>	<u>326,022</u>
Total other assets	<u>352,089</u>	<u>403,287</u>
<b>Current Assets</b>		
Cash and investments, restricted	3,406	3,397
Interest receivable, unrestricted	294	293
Current portion of debt service installment receivable	<u>9,870</u>	<u>10,895</u>
Total current assets	<u>13,570</u>	<u>14,585</u>
<b>Deferred Outflows of Resources</b>		
Unamortized loss on refunding	1,739	2,082
Deferred cash flow hedges, unrealized loss on derivatives	<u>30,284</u>	<u>24,767</u>
Total deferred outflows of resources	<u>32,023</u>	<u>26,849</u>
Total assets and deferred outflows	<u>\$ 397,682</u>	<u>\$ 444,721</u>
<b>Liabilities and Net Position</b>		
<b>Noncurrent Liabilities</b>		
Long-term debt, net of current portion	\$ 329,330	\$ 377,855
Unamortized premium	24,821	28,253
Unamortized debt discount	(281)	(654)
Arbitrage liability	256	208
Derivative financial instruments	<u>30,284</u>	<u>24,767</u>
Total noncurrent liabilities	<u>384,410</u>	<u>430,429</u>
<b>Current Liabilities</b>		
Current portion of long-term debt	8,595	8,985
Interest payable	<u>4,677</u>	<u>5,307</u>
Total current liabilities	<u>13,272</u>	<u>14,292</u>
Total liabilities and net position	<u>\$ 397,682</u>	<u>\$ 444,721</u>

See notes to financial statements

**Modesto Irrigation District Financing Authority**  
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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2020 and 2019  
(In Thousands)

	<u>2020</u>	<u>2019</u>
<b>Nonoperating Revenues</b>		
Debt service contributions	\$ 13,811	\$ 13,097
Interest income	733	1,311
Other nonoperating revenue	<u>1,178</u>	<u>1,208</u>
Total nonoperating revenues	<u>15,722</u>	<u>15,616</u>
<b>Nonoperating Expenses</b>		
Interest expense	18,780	17,567
Amortization of debt discount	32	39
Amortization of premium	(3,433)	(2,339)
Amortization of loss on refunding	<u>343</u>	<u>349</u>
Total nonoperating expenses	<u>15,722</u>	<u>15,616</u>
Change in net position	-	-
<b>Net Position, Beginning</b>	<u>-</u>	<u>-</u>
<b>Net Position, Ending</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See notes to financial statements

**Modesto Irrigation District Financing Authority**  
**(A Component Unit of Modesto Irrigation District)**

Statements of Cash Flows  
 Years Ended December 31, 2020 and 2019  
 (In Thousands)

	<u>2020</u>	<u>2019</u>
<b>Cash Flows From Noncapital and Related Financing Activities</b>		
Principal payments on long-term debt	\$ (8,985)	\$ (12,445)
Payments on refunded debt	(274)	-
Interest paid	(19,361)	(16,466)
Debt service payments received from the District	28,926	28,911
Proceeds from debt issued	-	58,723
Advances to the District for the construction of capital assets	-	(28,629)
	<u>306</u>	<u>30,094</u>
Net cash flows provided by (used in) noncapital and related financing activities		
<b>Cash Flows From Investing Activities</b>		
Investments sold and matured	-	35,608
Interest received	788	1,251
	<u>788</u>	<u>36,859</u>
Net cash flows provided by investing activities		
Net change in cash and cash equivalents	1,094	66,953
<b>Cash and Cash Equivalents, Beginning</b>	<u>72,415</u>	<u>5,462</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 73,509</u>	<u>\$ 72,415</u>
<b>Reconciliation of Cash and Cash Equivalents to Balance Sheet Accounts</b>		
Current assets, cash and investments, restricted	\$ 3,406	\$ 3,397
Other assets, cash and investments, restricted	78,111	77,026
	<u>81,517</u>	<u>80,423</u>
Total cash and investments		
Less noncash equivalents	8,008	8,008
	<u>8,008</u>	<u>8,008</u>
Total cash and cash equivalents	<u>\$ 73,509</u>	<u>\$ 72,415</u>
<b>Supplemental Disclosure of Noncash Activities</b>		
Change in valuation of derivative financial instruments	<u>\$ 5,517</u>	<u>\$ (4,939)</u>
Write-off of loss on bond refunding	<u>\$ 342</u>	<u>\$ -</u>

# **Modesto Irrigation District Financing Authority**

## **(A Component Unit of Modesto Irrigation District)**

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Notes to Financial Statements  
December 31, 2020 and 2019  
(In Thousands)

### **1. Organization and Description of Business**

The Modesto Irrigation District Financing Authority (the Authority) was established in 1989 pursuant to a joint exercise of powers agreement between the Modesto Irrigation District (the District) and the City of Redding. The purpose of the Authority is to provide financing and contracting for capital improvements of the District. The District's Board of Directors is designated to serve in the same capacity for the Authority. The Authority is a component unit of the District. The Authority is exempt from payment of federal and state income taxes.

### **2. Summary of Significant Accounting Policies**

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Authority are described below.

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

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. The Authority's accounts are included as a blended component unit in the financial statements of the District.

Presentation 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 the reported amounts of assets, deferred outflows of resources, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Contributed Services**

The Assistant General Manager - Finance and the Controller of the District oversee the Authority's administrative, management, and accounting functions. Costs for these services are borne by the District and are not charged to the Authority.

#### **Cash and Cash Equivalents**

Cash equivalents include all money market funds and financial instruments with maturity dates of three months or less from the date of purchase.

#### **Investments**

Generally, all investments are carried at their fair value, except for guaranteed investment contracts (GICs), which are carried at cost. Fair values are based on methods and inputs as outlined in Note 3. Fair values may have changed significantly after year-end.



# **Modesto Irrigation District Financing Authority**

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### **Restricted Assets**

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. All current liabilities listed are payable from these restricted assets.

### **Debt Service Installment Receivable**

The District and the Authority have Installment Purchase Contracts whereby the District is obligated to pay to the Authority installment payments equal to the debt service requirements of the Authority's long-term debt. The debt service installment receivable represents the amount due from the District to meet the Authority's debt service requirements, which includes principal and accrued interest. The noncurrent portion is equal to the noncurrent portion of long-term debt less cash held by the trustee. The remaining balance is classified as current.

### **Deferred Outflow of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

### **Long-Term Debt**

Long-term debt and other obligations are reported as liabilities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest rate method. Gains or losses on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year-end for premiums and discounts is shown as an increase or decrease in the liability section of the balance sheet. The balance at year-end for the loss on refunding is shown as a deferred outflow of resources on the balance sheet.

### **Arbitrage Liability**

Interest earnings on tax-exempt bond funds are subject to arbitrage rules of the Internal Revenue Service (IRS) if interest earnings on the unspent tax-exempt funds are greater than the stated bond yield on the tax-exempt debt. As of December 31, 2020 and 2019, the Authority has recorded a liability of \$256 and \$208, respectively, for a potential arbitrage rebate to the IRS. Arbitrage rebates are due five years from the issuance date of the tax-exempt debt.

### **Classification of Revenues and Expenses**

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The Authority considers operating revenues and expenses in the statement of revenues and expenses and changes in net position to be those revenues and expenses that result from exchange transactions or other activities that are connected directly to the Authority's primary functions. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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**Effect of New Accounting Standards on Current Period Financial Statements**

GASB has approved GASB Statements No. 87, *Leases*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus 2020*, Statement No. 93, *Replacement of Interbank Offered Rates*, Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 96, *Subscription-Based Information Technology Arrangements* and Statement No. 97, *Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84 and a supersession of GASB Statement No. 32*. When they become effective, application of these standards may restate portions of these financial statements.

**3. Cash and Investments**

The Authority's investment policies are governed by the California Government Codes and its bond Indenture, which restricts the Authority's investment securities to obligations which are unconditionally guaranteed by the United States (US) Government or its agencies or instrumentalities; direct and general obligations of the State of California (State) or any local agency within the State; bankers' acceptances; commercial paper; certificates of deposit; time certificates of deposit; repurchase agreements; reverse repurchase agreements or securities lending agreements; medium-term corporate notes; shares of beneficial interest; mortgage pass-through securities; financial futures and financial option contracts; and deposits with the Local Agency Investment Fund (LAIF).

The Authority follows the District's investment policy. The District's investment policy includes restrictions for investments relating to maximum amounts invested as a percentage of total portfolio and with a single issuer, maximum maturities and minimum credit ratings.

Deposits in each local and area bank are insured by the FDIC in the amount of \$250 for time and savings accounts (including NOW accounts) and \$250 for demand deposit accounts (interest bearing and noninterest bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250 for the combined amount of all deposit accounts.

The Authority 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 valuation methods for recurring fair value measurements include broker information for money market mutual funds. Fair value measurements include Bloomberg pricing for similar assets for derivative financial instruments.

Investment Type	2020			
	Level 1	Level 2	Level 3	Total
Money market mutual funds	\$ 70,107	\$ -	\$ -	\$ 70,107
Derivative financial instruments	-	(30,284)	-	(30,284)
Total	\$ 70,107	\$ (30,284)	\$ -	\$ 39,823

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Investment Type	2019			Total
	Level 1	Level 2	Level 3	
Money market mutual funds	\$ 69,018	\$ -	\$ -	\$ 69,018
Derivative financial instruments	-	(24,767)	-	(24,767)
Total	\$ 69,018	\$ (24,767)	\$ -	\$ 44,251

**Custodial Credit Risk**

**Deposits**

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to the Authority.

As of December 31, 2020 and 2019, none of the Authority's bank balances are known to be individually exposed to custodial credit risk.

The District's investment policy does not address this risk.

**Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority had no investments exposed to custodial credit risk as of December 31, 2020 and 2019, respectively.

The District's investment policy addresses this risk. All securities owned by the District shall be held in safekeeping by a third-party custodian, acting as agent for the District under the terms of a custody agreement.

**Credit Risk**

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2020 and 2019, the Authority had the following investments that were not rated:

Investment agreement contracts  
 Money market mutual funds

The District's investment policy addresses this risk. The District limits investments to those allowed by Sections 53601 of the California Government code that address the risk allowable for each investment.

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**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

At December 31, 2020 and 2019, the Authority's investment portfolio was concentrated as follows:

Investment Type	Percentage of Portfolio	
	2020	2019
Guaranteed investment contracts:		
FSA capital management services	10.25 %	10.40 %

The District's investment policy addresses this risk and places limits on the amounts invested in specific types of investments.

**Interest Rate Risk**

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment.

Though the District has restrictions as to the maturities of some of the investments, it does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increases in interest rates. As of December 31, 2020 and 2019, \$70,107 and \$69,018 of the Authority's total portfolio balance is subject to interest rate risk, respectively. At December 31, 2020 and 2019, the entire balance had a maturity of one year or less.

**4. Restricted Assets**

**Restricted Accounts**

Certain proceeds of the Authority's debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited. The following accounts are reported as restricted assets:

**Redemption** - Used to segregate resources accumulated for debt service payments over the next twelve months.

**Reserve** - Used to report resources set aside to make up potential future deficiencies in the redemption account.

**Project** - Used to report debt proceeds restricted for use in construction.

	Carrying Value	
	2020	2019
Restricted accounts:		
Project Fund	\$ 50,620	\$ 50,367
Reserve Fund	27,491	26,659
Redemption Fund	3,406	3,397
Total restricted accounts	\$ 81,517	\$ 80,423

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**5. Long-Term Debt**

**Long-Term Debt**

The following Bonds have been issued:

<b>Date</b>	<b>Issue</b>	<b>Final Maturity</b>	<b>Interest Rate</b>	<b>Original Amount</b>	<b>Outstanding Amount December 31, 2020</b>
6/26/07	2007F Domestic Water Revenue Bonds	9/1/37	Index Rate	\$ 93,190	\$ 93,190
6/23/10	2010A Electric System Revenue BAB Bonds	10/1/40	4.78-7.20	60,325	48,095
6/23/10	2010B Electric System Revenue Bonds	10/1/32	5.00	39,930	-
8/14/13	2013G Domestic Water Refunding Revenue Bonds	09/1/22	4.75-5.13	43,270	11,310
7/15/15	2015A Electric System Revenue Bonds	10/1/40	4.00-5.00	67,690	67,690
7/15/15	2015B Electric System Revenue Bonds	10/1/36	2.00-5.00	30,190	25,650
7/16/19	2019A Electric System Revenue bonds	10/1/39	5.00	47,355	47,355
7/16/19	2019B Electric System Revenue Refunding Bonds	10/1/31	5.00	48,495	44,635

The Domestic Water Revenue Bonds are collateralized by a pledge of payments made by the City of Modesto (the City) relating to the District's water service to the City under the Amended and Restated Treatment and Delivery Agreement (ARTDA). The Authority also maintains a surety bond for the benefit of Domestic Water Bond Holders in an amount equal to the maximum annual debt service on the Bonds. The District provides wholesale urban water service to the City in connection with the ARTDA. The District supplies treated water from a domestic surface water treatment plant (Domestic Water Plant) to the City for use within its water system, and the City pays for all costs associated with the Domestic Water Plant. In accordance with provisions of the ARTDA, the costs paid by the City include the District's debt service obligations on the debt issued to finance the construction and costs incurred by the District to operate the Domestic Water Plant.

The net revenue of the District's electric system is pledged for repayment of the 2010 Series A and B Revenue Bonds, the 2015 Series A and B Revenue Bonds and the 2019 Series A and B Revenue Bonds.

The Authority is in compliance with required bond covenants.

**Long-Term Debt Repayment**

Revenue Bonds debt service requirements to maturity follows:

	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Subsidy</b>	<b>Total</b>
Years ending December 31:				
2021	\$ 8,595	\$ 17,143	\$ (1,125)	\$ 24,613
2022	9,240	16,692	(1,073)	24,859
2023	10,485	16,230	(1,073)	25,642
2024	21,970	15,754	(1,073)	36,651
2025	18,805	14,651	(1,073)	32,383
2026-2030	76,720	61,757	(5,367)	133,110
2031-2035	89,675	42,638	(5,021)	127,292
2036-2040	102,435	15,542	(2,214)	115,763
Total requirements	\$ 337,925	\$ 200,407	\$ (18,019)	\$ 520,313

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Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions were effective March 1, 2013 for qualified bonds, including the District's 2010A Series Bonds. The Authority received a reduced interest subsidy payment during 2020 and 2019 due to budget sequestration by the federal government. In 2020 and 2019, the Authority recognized \$1,178 and \$1,208, respectively, in revenues for its Build America Bonds, as a component of other nonoperating revenue in the statements of revenues, expenses and changes in net position. Federal subsidies for these bonds will be reduced by 5.9 percent through the end of the federal fiscal year (September 30, 2020) or convening U.S. Congressional action, at which time the sequestration rate is subject to change.

The Authority's outstanding debt obligations of \$337,925 and \$386,840 in December 31, 2020 and 2019, respectively, contain event of default and remedies provisions that in the event of default, outstanding amounts become immediately due and payable. The Authority has evaluated the event of default and remedies provisions and in the opinion of Management, the likelihood is remote that these provisions will have a significant effect on the Authority's financial position or results of operations.

**Current Refunding**

On August 6, 2020, the Modesto Irrigation District issued bonds in the amount of \$34,920 with an average interest rate of 4.46 percent to refund \$39,930 of the Authority's Series 2010B Revenue Bonds with an average interest rate of 5.00 percent. The net proceeds were used to prepay the outstanding debt service requirements on the Authority's bonds.

The cash flow requirements on the Authority's bonds prior to the current refunding were \$55,874 with refunding receipts of \$281 from 2020 through 2032. The cash flow requirements on the District's bonds are \$46,499 with refunding receipts of \$3,749 from 2020 through 2032. The current refunding resulted in an economic gain of \$12,138 for the Modesto Irrigation District.

**Long-Term Obligation Summary**

Long-term obligation activity for the years ended December 31, 2020 and 2019 are as follows:

	<b>Balance, January 1, 2020</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance, December 31, 2020</b>	<b>Due Within One Year</b>
Domestic Water Revenue Bonds	\$ 109,760	\$ -	\$ 5,260	\$ 104,500	\$ 5,515
Electric System Revenue Bonds	277,080		43,655	233,425	3,080
Unamortized premium	28,253	-	3,432	24,821	-
Unamortized debt discount	(654)	-	(373)	(281)	-
Arbitrage liability	208	48	-	256	-
Derivative financial instruments	24,767	5,517	-	30,284	-
<b>Total</b>	<b>\$ 439,414</b>	<b>\$ 5,565</b>	<b>\$ 51,974</b>	<b>\$ 393,005</b>	<b>\$ 8,595</b>

**Modesto Irrigation District Financing Authority**  
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(In Thousands)

	Balance, January 1, 2019	Additions	Reductions	Balance, December 31, 2019	Due Within One Year
Domestic Water Revenue					
Bonds	\$ 114,765	\$ -	\$ 5,005	\$ 109,760	\$ 5,260
Electric System Revenue					
Bonds	188,670	95,850	7,440	277,080	3,725
Unamortized premium	7,950	22,642	2,339	28,253	-
Unamortized debt discount	(693)	-	(39)	(654)	-
Arbitrage liability	141	67	-	208	-
Derivative financial instruments	19,828	4,939	-	24,767	-
	<u>\$ 330,661</u>	<u>\$ 123,498</u>	<u>\$ 14,745</u>	<u>\$ 439,414</u>	<u>\$ 8,985</u>

**6. Derivative Instruments**

**Summary of Notional Amounts and Fair Values**

The Authority also enters into contracts to hedge its exposure to fluctuating interest rates. These contracts are evaluated pursuant to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to determine whether they meet the definition of derivative instruments, and, if so, whether they effectively hedge the expected cash flows associated with interest rate exposures.

The Authority applies hedge accounting for derivatives that are deemed effective hedges. Under hedge accounting, the increase (decrease) in the fair value of a hedge is reported as a deferred cash flow hedge - unrealized gain (loss) on derivatives on the balance sheet. For the reporting period, all of the Authority's derivatives meet the effectiveness tests.

For interest rate derivatives, the Authority subscribes to a financial information service that it uses to verify fair value estimates obtained from its counterparties.

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of December 31, 2020 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2020 Change in Fair Value		Fair Value, End of 2020		Notional (Thousands)
	Classification	Amount	Classification	Amount	
<b>Effective Cash Flow Hedges</b>					
Interest rate derivatives:					
Pay-fixed swaps, interest rate	Deferred inflow	\$ 5,517	Derivative	\$ (30,284)	\$ 93,190

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of December 31, 2019 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2019 Change in Fair Value		Fair Value, End of 2019		Notional (Thousands)
	Classification	Amount	Classification	Amount	
<b>Effective Cash Flow Hedges</b>					
Interest rate derivatives:					
Pay-fixed swaps, interest rate	Deferred outflow	\$ (4,939)	Derivative	\$ (24,767)	\$ 93,190

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**Objective and Terms of Hedging Derivative Instruments**

The objectives and terms of the Authority's hedging derivative instrument that was outstanding at December 31, 2020 and 2019 is summarized in the next table. The table is aggregated by the credit ratings (using the Standard & Poor's scale) of the District's counterparties. For counterparties having multiple ratings, the rating indicating the greatest degree of risk is used.

The interest rate swaps are designed to synthetically fix the cash flows associated with variable rate bonds. The interest rate that the Authority pays on the 2007F Bonds is 67 percent of LIBOR plus a spread. With the interest rate swaps, the Authority pays the counterparty a fixed rate and receives 67 percent of LIBOR. Netting out the LIBOR-based payments, the Authority's effective interest rate is the sum of the fixed rate paid to the swap counterparty and the spread.

Type	Objective	Notional (Thousands)	Effective Date	Maturity Date	Terms	Counterparty Rating
Pay-fixed swaps, interest rate	Hedge cash flows on the 2007F Bonds	\$ 93,190	June 2007	September 2037	Pay 4.378 - 4.440% received 67% LIBOR	A-

**Risks of Derivative Instruments**

**Credit Risk**

Credit risk is the risk of loss due to a counterparty defaulting on its obligations. The Authority seeks to minimize credit risk by transacting with creditworthy counterparties. Interest rate swap counterparties are evaluated at the time of transaction execution.

**Termination Risk**

Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default, and mergers in which the successor entity does not meet credit criteria. One aspect of termination risk is that the Authority would lose the hedging benefit of a derivative that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination the mark-to-market value of the derivative was a liability to the Authority, the Authority could be required to pay that amount to the counterparty. Termination risk is associated with the Authority's derivative up to the fair value amount.

**Hedged Debt**

Net cash flows for the Authority's synthetic fixed-rate debt are shown below. These amounts assume that the interest rates of the bonds and the reference rates of the hedging derivative instruments remain at December 31, 2020 levels. These rates will vary and, as they do, interest payments on the variable-rate bonds and net receipts/payments on the interest rate swaps will vary. The table shows only the Authority's effectively hedged synthetic fixed-rate debt, which is a subset of the Authority's total debt. As of December 31, 2020, all of the Authority's variable-rate debt is effectively hedged.



**Modesto Irrigation District Financing Authority**  
**(A Component Unit of Modesto Irrigation District)**

Notes to Financial Statements  
 December 31, 2020 and 2019  
 (In Thousands)

	<u>Principal</u>	<u>Interest</u>	<u>Net Payment on Derivatives</u>	<u>Total</u>
Years ending December 31:				
2021	\$ -	\$ 724	\$ 3,399	\$ 4,123
2022	-	724	3,399	4,123
2023	4,275	716	3,360	8,351
2024	4,455	684	3,203	8,342
2025	4,650	651	3,039	8,340
2026-2030	26,740	2,689	12,455	41,884
2031-2035	33,535	1,524	7,044	42,103
2036-2037	19,535	209	968	20,712
	<u>\$ 93,190</u>	<u>\$ 7,921</u>	<u>\$ 36,867</u>	<u>\$ 137,978</u>
Total				