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

Financial Statements

December 31, 2021 and 2020

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Independent Auditors' Report

To the Board of Directors of
Modesto Irrigation District Financing Authority

Opinion

We have audited the accompanying financial statements of the Modesto Irrigation District Financing Authority (Authority), a component unit of the Modesto Irrigation District, as of and for the years ended December 31, 2021 and 2020 and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

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, 2021 and 2020 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority 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 Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, 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 Authority'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 Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted 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 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.

Baker Tilly US, LLP

Madison, Wisconsin
April 29, 2022

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

Balance Sheets
December 31, 2021 and 2020
(In Thousands)

	2021	2020
Assets and Deferred Outflows		
Other Assets		
Cash and investments, restricted	$ 44,836	$ 78,111
Interest receivable, restricted	182	183
Debt service installment receivable, less current portion	294,935	273,795
Total other assets	339,953	352,089
Current Assets		
Cash and investments, restricted	3,403	3,406
Interest receivable, unrestricted	270	294
Current portion of debt service installment receivable	10,375	9,870
Total current assets	14,048	13,570
Deferred Outflows of Resources		
Unamortized loss on refunding	1,463	1,739
Deferred cash flow hedges, unrealized loss on derivatives	23,418	30,284
Total deferred outflows of resources	24,881	32,023
Total assets and deferred outflows	$ 378,882	$ 397,682
Liabilities and Net Position		
Noncurrent Liabilities		
Long-term debt, net of current portion	$ 320,090	$ 329,330
Unamortized premium	21,532	24,821
Unamortized debt discount	(265)	(281)
Arbitrage liability	330	256
Derivative financial instruments	23,418	30,284
Total noncurrent liabilities	365,105	384,410
Current Liabilities		
Current portion of long-term debt	9,240	8,595
Interest payable	4,537	4,677
Total current liabilities	13,777	13,272
Total liabilities and net position	$ 378,882	$ 397,682

See notes to financial statements

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020
(In Thousands)

	2021	2020
Nonoperating Revenues		
Debt service contributions	$ 12,609	$ 13,811
Interest income	369	733
Other nonoperating revenue	1,106	1,178
Total nonoperating revenues	14,084	15,722
Nonoperating Expenses		
Interest expense	17,081	18,780
Amortization of debt discount	16	32
Amortization of premium	(3,289)	(3,433)
Amortization of loss on refunding	276	343
Total nonoperating expenses	14,084	15,722
Change in net position	-	-
Net Position, Beginning	-	-
Net Position, Ending	$ -	$ -

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, 2021 and 2020
(In Thousands)

	2021	2020
Cash Flows From Noncapital and Related Financing Activities		
Principal payments on long-term debt	$ (8,595)	$ (8,985)
Payments on refunded debt	-	(274)
Interest paid	(17,143)	(19,361)
Debt service payments received from the District	25,738	28,926
Advances to the District for the construction of capital assets	(33,672)	-
Net cash flows provided by (used in) noncapital and related financing activities	(33,672)	306
Cash Flows From Investing Activities		
Interest received	394	788
Net cash flows provided by investing activities	394	788
Net change in cash and cash equivalents	(33,278)	1,094
Cash and Cash Equivalents, Beginning	73,509	72,415
Cash and Cash Equivalents, Ending	$ 40,231	$ 73,509
Reconciliation of Cash and Cash Equivalents to Balance Sheet Accounts		
Current assets, cash and investments, restricted	$ 3,403	$ 3,406
Other assets, cash and investments, restricted	44,836	78,111
Total cash and investments	48,239	81,517
Less noncash equivalents	8,008	8,008
Total cash and cash equivalents	$ 40,231	$ 73,509
Supplemental Disclosure of Noncash Activities		
Change in valuation of derivative financial instruments	$ 6,866	$ 5,517
Write-off of loss on bond refunding	$ -	$ 342
Proceeds of bond refunding placed with escrow agent	$ -	$ 39,930

See notes to financial statements

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.

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, 2021 and 2020, the Authority has recorded a liability of $330 and $256, 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.

(In Thousands)

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.

	2021			
Investment Type	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market mutual funds	$ 36,828	$ -	$ -	$ 36,828
Derivative financial instruments	-	(23,418)	-	(23,418)
Total	$ 36,828	$ (23,418)	$ -	$ 13,410

(In Thousands)

	2020			
Investment Type	**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

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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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.

(In Thousands)

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, 2021 and 2020, the Authority's investment portfolio was concentrated as follows:

Investment Type	Percentage of Portfolio 2021	Percentage of Portfolio 2020
Guaranteed investment contracts:		
FSA capital management services	17.86 %	10.25 %

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, 2021 and 2020, $36,828 and $70,107 of the Authority's total portfolio balance is subject to interest rate risk, respectively. At December 31, 2021 and 2020, 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 2021	Carrying Value 2020
Restricted accounts:		
Project Fund	$ 18,004	$ 50,620
Reserve Fund	26,832	27,491
Redemption Fund	3,403	3,406
Total restricted accounts	$ 48,239	$ 81,517

(In Thousands)

5. Long-Term Debt

The following Bonds have been issued:

Date	Issue	Final Maturity	Interest Rate	Original Amount	Outstanding Amount December 31, 2021
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	45,385
8/14/13	2013G Domestic Water Refunding Revenue Bonds	09/1/22	4.75-5.13	43,270	5,795
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	25,280
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 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:

	Principal	Interest	Interest Rate Subsidy	Total
Years ending December 31:				
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	13,930	13,741	(1,073)	26,598
2027-2031	80,380	58,080	(5,367)	133,093
2032-2036	96,050	38,249	(4,663)	129,636
2037-2040	78,470	9,867	(1,498)	86,839
Total requirements	$ 329,330	$ 183,264	$ (16,893)	$ 495,701

(In Thousands)

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 2021 and 2020 due to budget sequestration by the federal government. In 2021 and 2020, the Authority recognized $1,106 and $1,178, 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 5.7% through the end of the federal fiscal year September 30, 2030 or convening U.S. Congressional action, at which time the sequestration rate is subject to change.

The Authority's outstanding debt obligations of $329,330 and $337,925 in December 31, 2021 and 2020, 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% to refund $39,930 of the Authority’s Series 2010B Revenue Bonds with an average interest rate of 5.00%. 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, 2021 and 2020 are as follows:

	Balance, January 1, 2021	Additions	Reductions	Balance, December 31, 2021	Due Within One Year
Domestic Water Revenue Bonds	$ 104,500	$ -	$ 5,515	$ 98,985	$ 5,795
Electric System Revenue Bonds	233,425		3,080	230,345	3,445
Unamortized premium	24,821	-	3,289	21,532	-
Unamortized debt discount	(281)	-	(16)	(265)	-
Arbitrage liability	256	74	-	330	-
Derivative financial instruments	30,284	-	6,866	23,418	-
Total	$ 393,005	$ 74	$ 18,734	$ 374,345	$ 9,240

	Balance, January 1, 2020	Additions	Reductions	Balance, December 31, 2020	Due Within One Year
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	-
Total	$ 439,414	$ 5,565	$ 51,974	$ 393,005	$ 8,595

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, 2021 (amounts in thousands; gains shown as positive amounts, losses as negative).

	2021 Change in Fair Value		Fair Value, End of 2021		Notional
	Classification	Amount	Classification	Amount	(Thousands)
Effective Cash Flow Hedges					
Interest rate derivatives:					
Pay-fixed swaps, interest rate	Deferred outflow	$ 6,866	Derivative	$ (23,418)	$ 93,190

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
	Classification	Amount	Classification	Amount	(Thousands)
Effective Cash Flow Hedges					
Interest rate derivatives:					
Pay-fixed swaps, interest rate	Deferred inflow	$ 5,517	Derivative	$ (30,284)	$ 93,190

(In Thousands)

Objective and Terms of Hedging Derivative Instruments

The objectives and terms of the Authority's hedging derivative instrument that was outstanding at December 31, 2021 and 2020 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% of LIBOR plus a spread. With the interest rate swaps, the Authority pays the counterparty a fixed rate and receives 67% 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.

(In Thousands)

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, 2021 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, 2021, all of the Authority's variable-rate debt is effectively hedged.

	Principal	Interest	Net Payment on Derivatives	Total
Years ending December 31:				
2022	$ -	$ 706	$ 3,417	$ 4,123
2023	4,275	698	3,378	8,351
2024	4,455	667	3,220	8,342
2025	4,650	635	3,055	8,340
2026	4,885	601	2,883	8,369
2027-2031	27,955	2,418	11,531	41,904
2032-2036	35,100	1,225	5,837	42,162
2037	11,870	69	327	12,266
Total	$ 93,190	$ 7,019	$ 33,648	$ 133,857