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Financial Statements:
Municipal Liquidity Facility LLC

A Limited Liability Company Consolidated by the Federal Reserve Bank of New York

For the year ended December 31, 2021,
and for the period May 1, 2020
to December 31, 2020
and Independent Auditors' Report

Municipal Liquidity Facility LLC

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Report of Independent Registered Public Accounting Firm

To the Managing Member of
Municipal Liquidity Facility LLC:

Opinion on the Financial Statements

We have audited the accompanying statements of financial condition of Municipal Liquidity Facility LLC (a Limited Liability Company consolidated by the Federal Reserve Bank of New York) (the “LLC”) as of December 31, 2021 and 2020, the related statements of operations, changes in members’ equity, and cash flows for the year ended December 31, 2021 and the period May 1, 2020 to December 31, 2020 and the related notes (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the LLC as of December 31, 2021 and 2020, and the results of its operations for the year ended December 31, 2021 and the period May 1, 2020 to December 31, 2020, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the LLC’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the LLC in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the LLC’s auditor since 2020.

New York, New York
March 10, 2022

Municipal Liquidity Facility LLC

Abbreviations

| | |
|--------------|---|
| ASC | Accounting Standards Codification |
| FASB | Financial Accounting Standards Board |
| FRBNY | Federal Reserve Bank of New York |
| GAAP | Accounting principles generally accepted in the United States of America |
| LLC | Limited liability company |
| MLF | Municipal Liquidity Facility LLC |

Municipal Liquidity Facility LLC

Statements of Financial Condition

As of December 31, 2021 and 2020

(Amounts in thousands)

| | | <u>2021</u> | <u>2020</u> |
|--|--------|---------------------|----------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | Note 3 | \$ 1,003 | \$ 80,996 |
| Restricted cash and cash equivalents | | | |
| Cash deposit | | 634,163 | 2,625,000 |
| Short-term investments in non-marketable securities | Note 3 | 3,593,750 | 14,881,776 |
| Short-term investments, at fair value (amortized cost of \$58,749 and \$6,178 as of December 31, 2021 and December 31, 2020, respectively) | Note 3 | 58,738 | 6,178 |
| Municipal notes, at amortized cost | Note 3 | 4,131,090 | 6,283,000 |
| Interest receivable | | 79,358 | 25,939 |
| Total assets | | <u>\$ 8,498,102</u> | <u>\$ 23,902,889</u> |
| <u>LIABILITIES AND MEMBERS' EQUITY</u> | | | |
| Liabilities: | | | |
| Loans payable to FRBNY | Note 5 | \$ 4,131,090 | \$ 6,361,420 |
| Interest payable | Note 5 | 4,430 | 920 |
| Origination fees deferred revenue | | 2,643 | 5,630 |
| Other liabilities | | 158 | 549 |
| Total liabilities | | <u>4,138,321</u> | <u>6,368,519</u> |
| Members' equity | Note 6 | <u>4,359,781</u> | <u>17,534,370</u> |
| Total liabilities and members' equity | | <u>\$ 8,498,102</u> | <u>\$ 23,902,889</u> |

The accompanying notes are an integral part of these financial statements.

Municipal Liquidity Facility LLC

Statements of Operations

For the year ended December 31, 2021 and the period May 1, 2020 to December 31, 2020
(Amounts in thousands)

| | | <u>For the year ended December 31, 2021</u> | <u>For the period May 1, 2020 to December 31, 2020</u> |
|---|--------|---|--|
| <u>INCOME</u> | | | |
| Interest income | Note 4 | \$ 108,575 | \$ 37,715 |
| Origination fees | | 2,986 | 928 |
| Unrealized (loss) on short-term investments | | (11) | - |
| Total operating income | | <u>111,550</u> | <u>38,643</u> |
| <u>EXPENSES</u> | | | |
| Loans interest expense | Note 5 | 5,171 | 1,019 |
| Professional fees | | 827 | 3,254 |
| Total operating expense | | <u>5,998</u> | <u>4,273</u> |
| Net operating income | Note 6 | <u>\$ 105,552</u> | <u>\$ 34,370</u> |

The accompanying notes are an integral part of these financial statements.

Municipal Liquidity Facility LLC

Statements of Changes in Members' Equity

For the year ended December 31, 2021 and the period May 1, 2020 to December 31, 2020
(Amounts in thousands)

| | | Members' contributed equity | Undistributed net operating income | Total members' equity |
|------------------------------------|--------|--------------------------------|---------------------------------------|--------------------------|
| Member's equity, May 1, 2020 | | \$ - | \$ - | \$ - |
| Members' contributions | Note 6 | 17,500,000 | - | 17,500,000 |
| Undistributed net operating income | Note 6 | - | 34,370 | 34,370 |
| Member's equity, December 31, 2020 | | <u>\$ 17,500,000</u> | <u>\$ 34,370</u> | <u>\$ 17,534,370</u> |
| Members' (distributions) | Note 6 | (13,280,141) | - | (13,280,141) |
| Undistributed net operating income | Note 6 | - | 105,552 | 105,552 |
| Member's equity, December 31, 2021 | | <u>\$ 4,219,859</u> | <u>\$ 139,922</u> | <u>\$ 4,359,781</u> |

The accompanying notes are an integral part of these financial statements.

Municipal Liquidity Facility LLC

Statements of Cash Flows

For the year ended December 31, 2021 and the period May 1, 2020 to December 31, 2020
(Amounts in thousands)

| | | For the year ended December 31, 2021 | For the period May 1, 2020 to December 31, 2020 |
|--|--------|---|---|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | |
| Net operating income | Note 6 | \$ 105,552 | \$ 34,370 |
| Adjustment to reconcile net operating income to net cash provided by (used in) operating activities: | | | |
| Increase in interest receivable | | (53,419) | (25,939) |
| Increase in interest payable | | 3,510 | 920 |
| (Decrease) increase in origination fees deferred revenue | | (2,987) | 5,630 |
| (Decrease) increase in other liabilities | | (391) | 549 |
| Amortization of discounts on short-term investments | | (17) | - |
| Unrealized losses on short-term investments | | 11 | - |
| Cash provided by operating activities | | <u>52,259</u> | <u>15,530</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Payments for purchases of short-term investments | | (74,214) | (6,728) |
| Proceeds from maturities of short-term investments | | 21,660 | 550 |
| Payments for purchases of municipal notes | Note 3 | - | (6,558,000) |
| Proceeds from principal payments on municipal notes | Note 3 | <u>2,151,910</u> | <u>275,000</u> |
| Cash provided by (used in) investing activities | | <u>2,099,356</u> | <u>(6,289,178)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Proceeds from contributed capital | Note 6 | - | 17,500,000 |
| Repayment of contributed capital | Note 6 | (13,280,141) | - |
| Proceeds from loans payable to FRBNY | Note 5 | - | 6,558,000 |
| Repayment of loans payable to FRBNY | Note 5 | <u>(2,230,330)</u> | <u>(196,580)</u> |
| Cash (used in) provided by financing activities | | <u>(15,510,471)</u> | <u>23,861,420</u> |
| Net change in cash and cash equivalents, restricted cash and cash equivalents | | (13,358,856) | 17,587,772 |
| Beginning cash and cash equivalents, restricted cash and cash equivalents | | <u>17,587,772</u> | - |
| Ending cash and cash equivalents, restricted cash and cash equivalents | | <u>\$ 4,228,916</u> | <u>\$ 17,587,772</u> |
| <u>SUPPLEMENTAL CASH FLOW DISCLOSURE</u> | | | |
| Cash paid for interest | | <u>\$ 1,661</u> | <u>\$ 99</u> |

The accompanying notes are an integral part of these financial statements.

Municipal Liquidity Facility LLC

Notes to the Financial Statements

(1) ORGANIZATION, NATURE OF BUSINESS, AND FINANCING

In accordance with section 13(3) of the Federal Reserve Act and with prior approval from the Secretary of the Treasury, the Board of Governors of the Federal Reserve System authorized the Federal Reserve Bank of New York (“FRBNY”) to establish the Municipal Liquidity Facility (“Facility”) to help state and local governments better manage cash flow pressures they were facing as a result of the increase in state and local government expenditures related to the COVID-19 pandemic and the delay and decrease of certain tax and other revenues. The Facility supported lending to U.S. states, the District of Columbia, U.S. counties with a population of more than 500,000 residents, U.S. cities with a population of more than 250,000 residents, certain multi-state entities, and designated revenue bond issuers. The authorization to purchase eligible notes through the Facility expired on December 31, 2020.

Municipal Liquidity Facility LLC (“MLF”) is a Delaware limited liability company (“LLC”) formed in connection with the implementation of the Facility on May 1, 2020. MLF has two members: FRBNY, which is MLF’s managing member, and the U.S. Department of the Treasury (“Treasury”), which is the preferred equity member. The managing member has the exclusive rights to manage MLF. The preferred equity member contributed capital to MLF using funds from the Exchange Stabilization Fund under section 4027 of the Coronavirus Aid, Relief, and Economic Security Act.

MLF’s LLC agreement was amended in November 2021 to include additional provisions for bi-annual distributions of capital to the Treasury each year until MLF is terminated. The distributions of capital are described in more detail in Note 6.

FRBNY also serves as the lender to MLF. FRBNY extended \$6.6 billion in loans to MLF, to enable MLF to purchase municipal notes from eligible issuers during the period May 26, 2020, to December 31, 2020. The loans made by FRBNY are with full recourse to MLF and secured by all assets of MLF. MLF records a liability in the Statements of Financial Condition when FRBNY funds the loans. Interest on the loans is paid on the maturity date or upon prepayment of the loans.

MLF was authorized to purchase eligible municipal notes which were tax anticipation notes, tax and revenue anticipation notes, bond anticipation notes, revenue anticipation notes, and other similar short-term notes issued by eligible issuers, provided that such notes matured no later than 36 months from the date of issuance. In each case, a note’s eligibility was subject to review by the Federal Reserve. Eligible issuers were states, cities, counties, multi-state entities, or designated revenue bond issuers. To use the MLF, each eligible issuer was required to pay an origination fee equal to 10 basis points of the principal amount of the eligible notes purchased by MLF.

All available cash receipts of MLF are used to pay its obligations as described in Note 6. Distributions of residual proceeds to the members will occur after all MLF loans from FRBNY are repaid in full. During the life of MLF, undistributed net residual income or loss is reported as “Undistributed net operating income” in the Statements of Changes in Members’ Equity. MLF invests cash receipts from origination fees and investment earnings in short-term assets in the following categories: Treasury securities, government money market funds, and dollar-denominated overnight deposits.

Various service providers for setup, legal, administrative, accounting, custodial, and compliance services were engaged to provide services for MLF. PFM Financial Advisors LLC provided short-term consulting services to help FRBNY design and set up MLF. BLX Group LLC provides administrative agent services to MLF. The Bank of New York Mellon provides administrative and custodial services to MLF. MLF does not have any employees and therefore does not bear any employee-related costs.

Municipal Liquidity Facility LLC

Notes to the Financial Statements

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (“GAAP”), which require the managing member to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. Significant items subject to such estimates and assumptions include the fair value of the investments. Actual results could differ from those estimates.

Significant accounts and accounting policies are explained below.

a. Cash and Cash Equivalents, Restricted Cash and Cash Equivalents

MLF defines investments in money market funds and other highly liquid investments with original maturities of three months or less, when acquired, as cash equivalents. Money market funds are carried at fair value based on quoted prices in active markets.

In accordance with the terms of the MLF Preferred Equity Investment Agreement, approximately 85 percent of the Treasury’s initial equity contribution was invested in overnight non-marketable securities issued by the Treasury to MLF. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 230-10 *Statement of Cash Flows*, these investments are reported as restricted cash and cash equivalents as there are contractual limitations and restrictions on the use of the funds and ability to withdraw the funds. The investments in overnight non-marketable Treasury securities are recorded at amortized cost and shown as “Restricted cash and cash equivalents: Short-term investments in non-marketable securities” in the Statements of Financial Condition. The remaining Treasury equity contribution in MLF is held in cash as a deposit at FRBNY, to support the liquidity needs of MLF and is reported as “Restricted cash and cash equivalents: Cash deposit” in the Statements of Financial Condition and is included in "Net change in cash and cash equivalents, restricted cash and cash equivalents" in the Statements of Cash Flows.

b. Investments

Short-Term Investments

Debt securities with original maturities greater than three months, when acquired, are designated as trading securities under FASB ASC 320 *Investments - Debt and Equity Securities*. MLF’s short-term investments are composed of Treasury bills that mature within one year. Any securities held for these short-term investments are categorized as trading securities and are reported as “Short-term investments, at fair value” in the Statements of Financial Condition. Trading securities are recorded at fair value in accordance with FASB ASC 820 *Fair Value Measurements & Disclosures*. Interest income, which includes the accretion of discounts, is recorded when earned and is reported as "Interest income" in the Statements of Operations.

Fixed Income

Municipal notes held by MLF are designated as held-to-maturity under FASB ASC 320 *Investments - Debt and Equity Securities*. MLF has both the positive intent and the ability to hold the securities to maturity; therefore, the municipal notes are recorded at amortized cost.

Municipal Liquidity Facility LLC

Notes to the Financial Statements

c. Credit Impairment

MLF's municipal note investments are subject to review each reporting period to identify and evaluate investments that have indications of possible credit impairment in accordance with FASB ASC 320 *Investments - Debt and Equity Securities*. Impairment is evaluated using numerous factors including collectability, liquidity and credit support, collateral, and the financial condition and near-term prospects of the issuer. If, after analyzing the above factors, FRBNY determines that an investment is impaired and that the impairment is other-than-temporary, the amortized cost of the individual security is written down to estimated fair value and a realized loss is recorded. To determine whether impairment is other-than-temporary, FRBNY considers whether it is probable that MLF will be unable to collect substantially all of the contractual interest and principal payments on the investment on the maturity date of the municipal note. As of December 31, 2021 and 2020, there were no municipal notes for which FRBNY considered impairment to be other-than-temporary.

d. Interest Income

MLF recognizes interest income on municipal notes on an effective interest basis, based on the contractual rate of the municipal note. Interest income recognition ceases when the municipal notes mature or are repaid by the eligible issuer. Interest income on short-term investments in non-marketable securities is recorded when earned and is received daily based on an overnight rate established by the Treasury's Bureau of Fiscal Service.

e. Origination Fees

Eligible issuers pay an origination fee equal to 10 basis points of the principal amount of the eligible notes purchased by MLF. In accordance with ASC 310-20, *Receivables - Nonrefundable Fees and Other Costs*, the origination fees are deferred and amortized over the term of the note. The origination fees are amortized using the effective interest method and are reported as "Origination fees deferred revenue" in the Statements of Financial Condition and as "Origination fees" in the Statements of Operations.

f. Professional Fees

Professional fees consist primarily of fees charged by MLF's attorneys, consultants, investment manager, administrative agent, custodian, and independent auditors. Professional fees are reported as "Professional fees" in the Statements of Operations.

g. Taxes

MLF was formed by FRBNY and the Treasury. It is not subject to an entity level income tax. Accordingly, no provision for income taxes is made in the financial statements.

h. Fair Value Measurements

Certain assets of MLF are measured at fair value in accordance with FASB ASC 820 *Fair Value Measurement & Disclosures*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 *Fair Value Measurement & Disclosures* establishes a three-level fair value hierarchy that distinguishes between assumptions developed using market data obtained from independent sources (observable inputs) and FRBNY's assumptions developed using the best information available in the

Municipal Liquidity Facility LLC

Notes to the Financial Statements

circumstances (unobservable inputs). The three levels established by FASB ASC 820 *Fair Value Measurement & Disclosures* are described as follows:

- Level 1 – Valuation is based on quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is based on model-based techniques that use significant inputs and assumptions not observable in the market. These unobservable inputs and assumptions reflect FRBNY's estimates of inputs and assumptions that market participants would use in pricing the assets and liabilities. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques.

The inputs or methodologies used for valuing the financial instruments are not necessarily an indication of the risk associated with investing in those financial instruments.

i. Recently Issued Accounting Standards

The following items represent recent GAAP accounting standards.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update revises the methodology for assessing expected credit losses and requires consideration of reasonable and supportable information to inform credit loss estimates. Although earlier adoption is permitted, this update is effective for MLF for the year ending December 31, 2023. MLF is continuing to evaluate the effect of this guidance on MLF's financial statements.

In October 2020, the FASB issued ASU 2020-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. This update clarifies that an entity reevaluate the premium on its callable debt securities for each reporting period. This update is effective for MLF for the year ending December 31, 2021 and did not have a material effect on MLF's financial statements.

Municipal Liquidity Facility LLC

Notes to the Financial Statements

(3) FACILITY ASSETS

At December 31, 2021 and 2020, the maturity distribution of MLF holdings, which are recorded at fair value for cash equivalents and short-term investments, and amortized cost for short-term investments in non-marketable securities and municipal notes in the Statements of Financial Condition, are as follows (in thousands):

| | 2021 | | | | Total |
|---|---------------------|--------------------|-------------------|------------------------|---------------------|
| | Within 15 days | 16 days to 90 days | 91 days to 1 year | Over 1 year to 5 years | |
| Cash equivalents ¹ | \$ 1,003 | \$ - | \$ - | \$ - | \$ 1,003 |
| Short-term investments in non-marketable securities | 3,593,750 | - | - | - | 3,593,750 |
| Short-term investments | - | - | 58,738 | - | 58,738 |
| Municipal notes | - | 482,090 | - | 3,649,000 | 4,131,090 |
| Total | \$ 3,594,753 | \$ 482,090 | \$ 58,738 | \$ 3,649,000 | \$ 7,784,581 |

| | 2020 | | | | Total |
|---|----------------------|--------------------|-------------------|------------------------|----------------------|
| | Within 15 days | 16 days to 90 days | 91 days to 1 year | Over 1 year to 5 years | |
| Cash equivalents ¹ | \$ 80,996 | \$ - | \$ - | \$ - | \$ 80,996 |
| Short-term investments in non-marketable securities | 14,881,776 | - | - | - | 14,881,776 |
| Short-term investments | - | - | 6,178 | - | 6,178 |
| Municipal notes | - | - | 925,000 | 5,358,000 | 6,283,000 |
| Total | \$ 14,962,772 | \$ - | \$ 931,178 | \$ 5,358,000 | \$ 21,251,950 |

¹Cash equivalents are a component of “Cash and cash equivalents” reported in the Statements of Financial Condition.

MLF’s cash equivalents and short-term investments are valued on the basis of the last available bid prices or current market quotations provided by pricing services. To determine the value of a particular investment, pricing services may use information on transactions in such investments, quotations from dealers, pricing metrics, market transactions in comparable investments, relationships observed in the market between investments, and calculated yield measures based on valuation methodologies commonly employed in the market for such investments.

The following table presents the financial instruments recorded at fair value as of December 31, 2021 and 2020 by the FASB ASC 820 *Fair Value Measurements & Disclosures* hierarchy (in thousands):

| | 2021 | | | Total ¹ |
|--|-----------------|------------------|-------------|--------------------|
| | Level 1 | Level 2 | Level 3 | |
| Cash equivalents ² | \$ 1,003 | \$ - | \$ - | \$ 1,003 |
| Short-term investments | - | 58,738 | - | 58,738 |
| Total investments at fair value | \$ 1,003 | \$ 58,738 | \$ - | \$ 59,741 |

Municipal Liquidity Facility LLC

Notes to the Financial Statements

| | 2020 | | | |
|---------------------------------|-----------|----------|---------|--------------------|
| | Level 1 | Level 2 | Level 3 | Total ¹ |
| Cash equivalents ² | \$ 80,996 | \$ - | \$ - | \$ 80,996 |
| Short-term investments | - | 6,178 | - | 6,178 |
| Total investments at fair value | \$ 80,996 | \$ 6,178 | \$ - | \$ 87,174 |

¹There were no transfers between Levels during the year ended December 31, 2021.

²Cash equivalents are a component of "Cash and cash equivalents" reported in the Statements of Financial Condition.

The fair value of MLF's holdings is subject to both market and credit risk, arising from movements in variables such as interest rates and credit spreads and the credit quality of holdings. Based on evaluations performed as of December 31, 2021 and 2020, there are no credit impairments of MLF's holdings.

The following table presents the amortized cost, unrealized gains (losses), and fair value of MLF's holdings as of December 31, 2021, which are reported at fair value in the Statements of Financial Condition (in thousands). Amortized cost is provided as supplemental information.

| | 2021 | | | |
|------------------------|----------------|--|---|------------|
| | Amortized cost | Cumulative unrealized gains ¹ | Cumulative unrealized losses ¹ | Fair value |
| Short-term investments | \$ 58,749 | \$ - | \$ (11) | \$ 58,738 |

¹ Cumulative unrealized gains (losses) are reported in the Statements of Operations.

There is no material difference between cost and fair value for cash equivalents as of December 31, 2021 and 2020, and for short-term investments as of December 31, 2020.

The following table presents the amortized cost, cumulative unrealized gains (losses), and fair value of MLF's municipal note holdings as of December 31, 2021 and 2020, which are reported at amortized cost in the Statements of Financial Condition (in thousands). Fair value is provided as supplemental information.

| | 2021 | | | |
|-----------------|----------------|--|---|--------------|
| | Amortized cost | Cumulative unrealized gains ¹ | Cumulative unrealized losses ¹ | Fair value |
| Municipal notes | \$ 4,131,090 | \$ 83,103 | \$ - | \$ 4,214,193 |

| | 2020 | | | |
|-----------------|----------------|-------------------------------|--------------------------------|--------------|
| | Amortized cost | Unrealized gains ¹ | Unrealized losses ¹ | Fair value |
| Municipal notes | \$ 6,283,000 | \$ 144,400 | \$ (2,794) | \$ 6,424,606 |

¹ Because municipal notes are recorded at amortized cost, the changes in cumulative unrealized gains (losses) and unrealized gains (losses) are not reported in the Statements of Operations.

Due to the short-term nature of short-term investments in non-marketable securities, there is no material difference between cost and fair value as of December 31, 2021 and 2020.

(4) RISK PROFILE

As of December 31, 2021, MLF's portfolio consisted primarily of cash equivalents, short-term investments, short-term investments in non-marketable securities, and municipal notes. MLF's investments contain

Municipal Liquidity Facility LLC

Notes to the Financial Statements

varying levels of credit, interest rate, general market, and concentration risk. The following is a description of the significant holdings as of December 31, 2021 and the associated risk for each holding.

Cash equivalents and short-term investments

As of December 31, 2021, cash equivalents are composed of approximately \$3.6 billion of short-term investments in non-marketable securities and approximately \$1 million of government money market funds investments. Interest income earned on the portion of the preferred equity contributions invested in non-marketable securities totaled approximately \$1 million and is reported as a component of “Interest income” in the Statements of Operations. Short-term investments were composed of approximately \$59 million of Treasury bills. The Treasury bills are subject to interest rate risk.

Municipal notes investments

Credit-related risk on municipal securities arises from losses due to an inability of a particular issuer to repay its debt. The MLF holds municipal securities issued by a state and by a transportation authority. Primary factors affecting a state’s ability to repay its debt include the general economic condition of the state, which impacts key tax revenues, the state’s own financial condition and the level of political and financial support from the federal government. Primary factors affecting a transportation authority’s ability to service its debt include the general economic condition of the service area, ridership levels, the authority’s own financial condition, and level of political and financial support from the city, state and/or federal government.

MLF’s portfolio is subject to changes in general municipal market conditions. Certain notes may be repayable from proceeds of future bond issuances, or take-out bonds, and lack of market access would greatly increase risk of non-payment. In addition, deteriorating market conditions may make it more costly, or not possible, for issuers to raise liquidity or fund necessary capital projects.

MLF’s portfolio is highly concentrated, consisting of two issuers in different sectors, with the first issuer making up approximately 20% and the second issuer making up approximately 80% of the portfolio weights.

At December 31, 2021 and 2020 the ratings breakdown of MLF holdings, which are recorded at fair value for cash equivalents and short-term investments, and amortized cost for short-term investments in non-marketable securities and municipal notes was as follows (in thousands):

| | 2021 | | | |
|---|---------------------|------------------------------------|------------------------|---------------------|
| | BBB+ to BBB- | Government/ agency ¹ | Not rated ² | Total |
| Cash equivalents ³ | \$ - | \$ 1,003 | \$ - | \$ 1,003 |
| Short-term investments in non-marketable securities | - | 3,593,750 | - | 3,593,750 |
| Short-term investments | - | 58,738 | - | 58,738 |
| Municipal notes | 1,223,810 | - | 2,907,280 | 4,131,090 |
| Total | <u>\$ 1,223,810</u> | <u>\$ 3,653,491</u> | <u>\$ 2,907,280</u> | <u>\$ 7,784,581</u> |

Municipal Liquidity Facility LLC

Notes to the Financial Statements

| | 2020 | | | |
|---|---------------------|------------------------------------|------------------------|----------------------|
| | BBB+ to BBB- | Government/ agency ¹ | Not rated ² | Total |
| Cash equivalents ³ | \$ - | \$ 80,996 | \$ - | \$ 80,996 |
| Short-term investments in non-marketable securities | - | 14,881,776 | - | 14,881,776 |
| Short-term investments | - | 6,178 | - | 6,178 |
| Municipal notes | 3,375,720 | - | 2,907,280 | 6,283,000 |
| Total | <u>\$ 3,375,720</u> | <u>\$ 14,968,950</u> | <u>\$ 2,907,280</u> | <u>\$ 21,251,950</u> |

¹ Government agency includes securities and securities whose underlying cash and investments are guaranteed or issued by the U.S. government.

² Not rated categorization includes municipal notes with private ratings.

³ Cash equivalents are composed of money market funds with underlying investments of cash and securities issued or guaranteed by the U.S. government. Cash equivalents are a component of “Cash and cash equivalents” reported in the Statements of Financial Condition.

Note: Lowest of all ratings is used for the purpose of this table if rated by two or more nationally recognized statistical rating organizations.

(5) LOANS PAYABLE TO THE FEDERAL RESERVE BANK OF NEW YORK

FRBNY has extended loans to MLF and the loan proceeds financed MLF’s purchase of municipal notes. In addition to loans for the purchase of eligible notes, MLF is permitted to borrow from FRBNY for temporary liquidity needs, but the need to borrow has not occurred.

The assets of MLF are used to secure the loans from FRBNY. These assets include the equity that the Treasury has contributed to MLF to function as credit protection for FRBNY’s loans to MLF.

Each loan made by FRBNY to MLF bears interest, accrued daily, at a rate per annum equal to the interest rate on reserve balances in effect on such day. Effective July 29, 2021, the Board of Governors replaced the interest rate on excess reserves and the interest rate on required reserves with a single rate, the interest rate on reserve balances. Repayment of the principal and interest on the loans is made from proceeds of prepayments or payments on maturity of the purchased eligible assets.

MLF’s loans payable to FRBNY are reported as “Loans payable to FRBNY” in the Statements of Financial Condition. The related interest payable is reported as “Interest payable” in the Statements of Financial Condition; the amount of interest expense during the period is reported as “Loans interest expense” in the Statements of Operations.

Loans payable to FRBNY as of December 31, 2021 and 2020 are as follows (in thousands):

| Loan type | 2021 | | | |
|-----------|---------------------------|------------------|---------------|-------------------|
| | Loans payable to FRBNY | Interest payable | Interest rate | Maturity date |
| Funding | \$ 450,720 | \$ 608 | 0.10% | August 1, 2023 |
| Funding | 3,680,370 | 3,822 | 0.10% | December 15, 2023 |
| Total | <u>\$ 4,131,090</u> | <u>\$ 4,430</u> | | |

Municipal Liquidity Facility LLC

Notes to the Financial Statements

| 2020 | | | | |
|-----------|---------------------|------------------|---------------|-------------------|
| Loan type | Loans payable to | | Interest rate | Maturity date |
| | FRBNY | Interest payable | | |
| Funding | \$ 1,003,420 | \$ 575 | 0.10% | June 7, 2021 |
| Funding | 450,720 | 157 | 0.10% | August 1, 2023 |
| Funding | 4,907,280 | 188 | 0.10% | December 15, 2023 |
| Total | <u>\$ 6,361,420</u> | <u>\$ 920</u> | | |

(6) CONTRIBUTIONS AND DISTRIBUTIONS

The following table presents contributions and distributions of capital and current year undistributed net operating income for the year ended December 31, 2021 and for the period May 1, 2020 to December 31, 2020 (in thousands), which are reported as “Members’ contributions” or “Members’ (distributions)” and “Undistributed net operating income,” respectively, in the Statements of Changes in Members’ Equity:

| | Managing Member | Preferred equity member | Total members |
|---|------------------|----------------------------|----------------------|
| Members' equity, May 1, 2020 | \$ - | \$ - | \$ - |
| Capital contribution | - | 17,500,000 | 17,500,000 |
| Current year undistributed net operating income | 2,759 | 31,611 | 34,370 |
| Members' equity, December 31, 2020 | <u>\$ 2,759</u> | <u>\$ 17,531,611</u> | <u>\$ 17,534,370</u> |
| Capital (distribution) | - | (13,280,141) | (13,280,141) |
| Current year undistributed net operating income | 10,427 | 95,125 | 105,552 |
| Members' equity, December 31, 2021 | <u>\$ 13,186</u> | <u>\$ 4,346,595</u> | <u>\$ 4,359,781</u> |

The following table presents cumulative capital contributions and undistributed net operating income as of December 31, 2021 and 2020 (in thousands):

| | Managing Member | Preferred equity member | Total members |
|---|------------------|----------------------------|---------------------|
| Cumulative capital contributions | \$ - | \$ 4,219,859 | \$ 4,219,859 |
| Cumulative undistributed net operating income | 13,186 | 126,736 | 139,922 |
| Members' equity, December 31, 2021 | <u>\$ 13,186</u> | <u>\$ 4,346,595</u> | <u>\$ 4,359,781</u> |

| | Managing Member | Preferred equity member | Total members |
|---|-----------------|----------------------------|----------------------|
| Cumulative capital contributions | \$ - | \$ 17,500,000 | \$ 17,500,000 |
| Cumulative undistributed net operating income | 2,759 | 31,611 | 34,370 |
| Members' equity, December 31, 2020 | <u>\$ 2,759</u> | <u>\$ 17,531,611</u> | <u>\$ 17,534,370</u> |

Municipal Liquidity Facility LLC

Notes to the Financial Statements

a. Contributions and Distributions of Capital

The preferred equity member contributed \$17.5 billion in capital as credit protection to MLF for loans needed to fund purchases of municipal notes or operations of MLF, and the managing member was deemed to have contributed \$10 in capital.

Preferred equity member contributions, less distributions, are held in cash deposits and non-marketable securities, as mutually agreed upon by the managing member and the preferred equity member and consented to by FRBNY. On January 5, 2021 and November 19, 2021, MLF returned \$11.2 billion and \$2.1 billion, respectively, of the preferred equity member's capital contribution.

b. Undistributed and Distributed Net Operating Income

Amounts available for distribution, due to interest, fees, payments on investments, and other receipts of income are applied on the dates and in the order of priority set forth in the credit agreement between MLF and FRBNY.

Prior to the conclusion of the facility, when all obligations of MLF are repaid, the remaining net assets will be allocated and distributed in accordance with the limited liability company agreement of MLF. That agreement contemplates the distribution upon MLF's liquidation, 1) to Treasury of the preferred equity account balance, inclusive of all investment earnings on non-marketable securities, and 2) 90 percent of the remaining net assets to the Treasury, as the preferred equity member and 10 percent of the remaining net assets to FRBNY as the managing member.

(7) COMMITMENTS AND CONTINGENCIES

MLF agreed to pay the reasonable out-of-pocket costs and expenses of certain service providers incurred in connection with their duties. MLF also generally agreed to indemnify its service providers for certain losses, expenses, and other liabilities under the agreements it has with those service providers, subject to customary exceptions such as for losses caused by the service providers' misconduct. These indemnity obligations survive termination of those agreements. As of December 31, 2021, MLF did not have any prior claims or losses pursuant to these agreements. The risk of loss was deemed remote.

(8) SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2021.

Subsequent events were evaluated through March 10, 2022, which is the date that these financial statements were available to be issued.