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Audited Annual Financial Statements: Municipal Liquidity Facility LLC

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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 period from May 1, 2020
to December 31, 2020
and Independent Auditors’ Report

Municipal Liquidity Facility LLC

Contents

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 statement 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, 2020, the related statements of operations, changes in members' equity, and cash flows for the period from 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, 2020, and the results of its operations for the period from 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 audit. 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 audit 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 audit 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 audit 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 audit provided a reasonable basis for our opinion.

KPMG LLP

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

New York, New York
March 17, 2021

KPMG LLP, a Delaware limited liability partnership and a member firm of
the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

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**

Statement of Financial Condition

As of December 31, 2020
(Amounts in thousands)

			2020
ASSETS			
Cash and cash equivalents	Note 3	$	80,996
Restricted cash and cash equivalents			
Cash deposit			2,625,000
Short-term investments in non-marketable securities	Note 3		14,881,776
Short-term investments, at fair value (amortized cost of $6,178 as of December 31, 2020)	Note 3		6,178
Municipal notes, at amortized cost	Note 3		6,283,000
Interest receivable			25,939
Total assets		$	23,902,889
LIABILITIES AND MEMBERS' EQUITY			
Liabilities:			
Loans payable to FRBNY	Note 5	$	6,361,420
Interest payable	Note 5		920
Origination fees deferred revenue			5,630
Other liabilities			549
Total liabilities			6,368,519
Members' equity	Note 6		17,534,370
Total liabilities and members' equity		$	23,902,889

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

Statement of Operations

For the period May 1, 2020 to December 31, 2020
(Amounts in thousands)

		2020
INCOME		
Interest income	Note 4	$ 37,715
Origination fees		928
Total operating income		38,643
EXPENSES		
Loans interest expense	Note 5	1,019
Professional fees		3,254
Total operating expense		4,273
Net operating income	Note 7	$ 34,370

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

Statement of Changes in Members' Equity

For the period May 1, 2020 to December 31, 2020
(Amounts in thousands)

		Members' contributed equity	Undistributed net operating income	Total members' equity
Members' equity, May 1, 2020		$ -	$ -	$ -
Members' contributions	Note 6	17,500,000	-	17,500,000
Net operating income	Note 7	-	34,370	34,370
Members' equity, December 31, 2020		$ 17,500,000	$ 34,370	$ 17,534,370

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

Municipal Liquidity Facility LLC

Statement of Cash Flows

For the period May 1, 2020 to December 31, 2020
(Amounts in thousands)

		2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net operating income	Note 7	$ 34,370
Adjustment to reconcile net operating income to net cash provided by (used in) operating activities:		
Increase in interest receivable		(25,939)
Increase in interest payable		920
Increase in origination fees deferred revenue		5,630
Increase in other liabilities		549
Cash provided by operating activities		15,530
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchases of short-term investments		(6,728)
Proceeds from maturities of short-term investments		550
Payments for purchases of municipal notes	Note 3	(6,558,000)
Proceeds from principal payments on municipal notes	Note 3	275,000
Cash used in investing activities		(6,289,178)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributed capital	Note 6	17,500,000
Proceeds from loans payable to FRBNY	Note 5	6,558,000
Repayment of loans payable to FRBNY	Note 5	(196,580)
Cash provided by financing activities		23,861,420
Net change in cash and cash equivalents, restricted cash and cash equivalents		17,587,772
Beginning cash and cash equivalents, restricted cash and cash equivalents		-
Ending cash and cash equivalents, restricted cash and cash equivalents		$ 17,587,772
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid for interest		$ 99

The accompanying notes are an integral part of these 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.

FRBNY also serves as the lender to MLF. FRBNY extended $6.6 billion in loans to MLF, so that MLF could 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 Statement 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 purchases eligible municipal notes which are 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 mature no later than 36 months from the date of issuance. In each case, a note's eligibility is subject to review by the Federal Reserve. Eligible issuers are states, cities, counties, multi-state entities, or designated revenue bond issuers.

To use the MLF, each eligible issuer is 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 7. Distributions of residual proceeds to the members will occur after all MLF loans are repaid in full. During the life of MLF, undistributed net residual income or loss is reported as "Undistributed net operating income" in the Statement 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 to 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.

(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 are shown as "Restricted cash and cash equivalents: Short-term investments in non-marketable securities" in the Statement 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 Statement of Financial Condition and is included in "Net change in cash and cash equivalents, restricted cash and cash equivalents" in the Statement 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 Statement 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 Statement 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.

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, 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 note matures or is 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 Services.

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 Statement of Financial Condition and as "Origination fees" in the Statement 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 Statement 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 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, Re*ceivables – 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. MLF is continuing to evaluate the effect of this guidance on MLF's financial statements.

(3) Facility Assets

At December 31, 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 Statement of Financial Condition, are as follows (in thousands):

	Within 15 days	16 days to 90 days	91 days to 1 year	Over 1 year to 5 years	Total
Cash equivalents	$ 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

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, 2020 by the FASB ASC 820 *Fair Value Measurements & Disclosures* hierarchy (in thousands):

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

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 the holdings. Based on evaluations performed as of December 31, 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 municipal note holdings at December 31, 2020, which are reported at amortized cost in the Statement of Financial Condition (in thousands). Fair value is provided as supplemental information.

	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 change in unrealized gains and losses, net is not reported in the Statement of Operations.

Due to the short-term nature of cash equivalents, short-term investments, and short-term investments in non-marketable securities there is no material difference between cost and fair value.

(4) Risk Profile

As of December 31, 2020, MLF's portfolio consisted primarily of cash equivalents, short-term investments in non-marketable securities, and municipal notes. MLF's investments contain varying levels of credit, interest rate, general market, and concentration risk. The following is a description of the significant holdings at December 31, 2020 and the associated risk for each holding.

Cash equivalents and short-term investments

As of December 31, 2020, cash equivalents were composed of approximately $14.9 billion of short-term investments in non-marketable securities and approximately $81 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 $7 million and is reported as a component of "Interest income" in the Statement of Operations. Short-term investments were composed of approximately $6 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. 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, each making up roughly half of the portfolio weight.

At December 31, 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):

	BBB+ to BBB-	Government/ agency	Not rated[1]	Total
Cash equivalents	$ -	$ 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	$ 3,375,720	$ 14,968,950	$ 2,907,280	$ 21,251,950

[1] Not rated categorization includes municipal notes with private ratings.
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 may borrow from FRBNY for temporary liquidity needs.

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 excess reserves in effect on the day the loan was made. 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 Statement of Financial Condition. The related interest payable is reported as "Interest payable" in the Statement of Financial Condition; the amount of interest expense during the period is reported as "Loans interest expense" in the Statement of Operations.

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

Loan type	Loans payable to FRBNY	Interest payable	Interest rate	Maturity date
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	$ 6,361,420	$ 920		

(6) Equity Contributions

As of December 31, 2020, 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 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, and are reported as “Members’ contributions” in the Statement of Changes in Members’ Equity.

(7) Distribution of Proceeds

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.

At the conclusion of the Facility, when the credit agreement has been terminated and all obligations of MLF 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 any investment earnings accrued on those amounts, and 2) 90 percent of the remaining net assets to the preferred equity member and 10 percent of the remaining net assets to the managing member.

The following table presents the allocation of undistributed net operating income to equity members as of December 31, 2020 (in thousands):

	Managing member	Preferred equity member	Total undistributed net operating income
Net operating income	$ 2,759	$ 31,611	$ 34,370

(8) 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, 2020, MLF did not have any claims under these indemnities and the risk of loss was deemed remote.

(9) Subsequent Events

MLF ceased purchasing eligible assets on December 31, 2020. As a result, MLF returned a portion of the Treasury's equity investment in MLF. The return of these funds occurred on January 5, 2021. This interim distribution reduced the Treasury's preferred equity to approximately the maximum risk to FRBNY. The following table presents on a pro forma basis the effect of the interim distribution of capital on members' equity (in thousands):

	Members' contributed equity
Members' contributions, December 31, 2020	$ 17,500,000
Return of Treasury equity investment	(11,223,776)
Members' contributions, as adjusted	$ 6,276,224

Subsequent events were evaluated through March 17, 2021, which is the date that these financial statements were available to be issued.