DEPOSITORS INSURANCE FUND

2019 Annual Report

Since 1934, no depositor has ever lost a penny in a bank insured by both the FDIC and DIF.

Depositors Insurance Fund Annual Report

Year ended October 31, 2019

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2019 Financial Statements

Deposit Insurance Fund

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ANNUAL MEETING

March 19, 2020; Sheraton Framingham Hotel, Framingham, Massachusetts; 10:30 a.m.

BANKERS' NOTE

All historical references to industry financial data in this report reflect only current DIF state chartered member banks' data.

DEPOSITORS INSURANCE FUND

The Depositors Insurance Fund (DIF) is a private, industry-sponsored insurance fund that insures all deposits above Federal Deposit Insurance Corporation (FDIC) limits at our member banks.

DIF Member Banks

Adams Community Bank
Athol Savings Bank
Avidia Bank
Bank of Canton
BankFive
BayCoast Bank
Bay State Savings Bank
Bridgewater Savings Bank
Bristol County Savings Bank
Cambridge Savings Bank
Cape Ann Savings Bank
Cape Cod 5
Clinton Savings Bank
Cornerstone Bank
Country Bank
Dedham Institution for Savings
Eagle Bank
East Boston Savings Bank
East Cambridge Savings Bank
Easthampton Savings Bank
Envision Bank
Florence Bank
Greenfield Savings Bank
Hingham Institution for Savings
Institution for Savings
Lee Bank
Lowell Five Bank
Main Street Bank
Marblehead Bank
Martha's Vineyard Bank
Middlesex Savings Bank
Monson Savings Bank
MountainOne Bank
Newburyport Bank
North Brookfield Savings Bank
North Easton Savings Bank
Pentucket Bank
PeoplesBank
The Provident Bank
Rollstone Bank and Trust
Salem Five Bank
The Savings Bank
Seamen's Bank
South Shore Bank
UniBank
Washington Savings Bank
Watertown Savings Bank
Webster Five
Winchester Savings Bank

As of December 31, 2019

Officers

Gilda M. Nogueira
Chairman

Charles P. O'Brien
Vice Chairman

David Elliott
President and Chief Executive Officer

Norman S. Seppala
Executive Vice President,
Chief Operating Officer and Treasurer

John J. D'Alessandro
Senior Vice President

Kara M. McNamara
Senior Vice President

Board of Directors

Donna L. Boulanger
President and Chief Executive Officer
North Brookfield Savings Bank

Peter G. Brown
President and Chief Executive Officer
Dedham Institution for Savings

Scott D. Cote
Chairman and Chief Executive Officer
Pentucket Bank

David G. Falwell
Retired Banking Executive

John F. Heaps, Jr.
President and Chief Executive Officer
Florence Bank

Robert S. Karam
Principal
Karam Financial Group

Margaret H. Kelly
Principal
Kelly Associates

James P. McDonough
President and Chief Executive Officer
Envision Bank

Patrick J. Murray, Jr.
President and Chief Executive Officer
Bristol County Savings Bank

Gilda M. Nogueira
President and Chief Executive Officer
East Cambridge Savings Bank

Charles P. O'Brien
President and Chief Executive Officer
Adams Community Bank

Mark R. O'Connell
President and Chief Executive Officer
Avidia Bank

As of December 31, 2019

Depositors Insurance Fund Highlights

As of October 31, 2019 and 2018

Deposit Insurance Fund	2019	2018
Annual Assessments	$ 3,209,099	$ 2,943,153
Funds Available	$ 397,961,992	$ 381,586,795
Insured Excess Deposits	$16,368,511,161	$15,920,366,939
Coverage Ratio[1]	2.43%	2.40%

Liquidity Fund	2019	2018
Fund balance	$ 6,192,187	$ 6,368,223

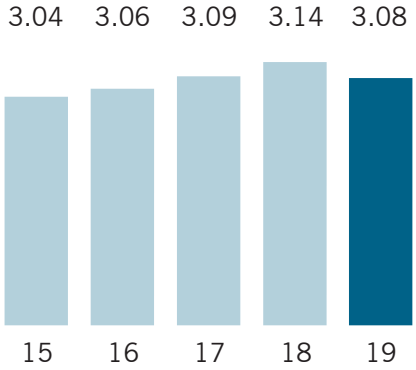
[1]*The Coverage Ratio is equal to the DIF's liquid assets available for the insurance of deposits (Funds Available) divided by its Insured Excess Deposits.*

Industry Highlights

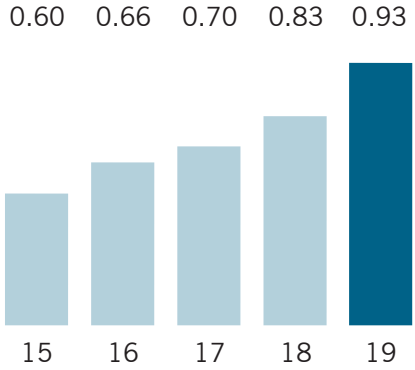
(In thousands, calendar year)	2019	2018
Balance Sheet		
Assets:		
Securities	$ 9,700,920	$ 9,448,022
Loans (net)	55,932,601	52,789,890
Other	6,002,117	5,556,613
Total Assets	$71,635,638	$67,794,525
Liabilities:		
Deposits	$57,057,162	$53,901,943
Borrowed Funds	5,716,656	6,019,424
Other	847,512	678,449
Total Liabilities	63,621,330	60,599,816
Equity Capital	8,014,308	7,194,709
Total Liabilities and Equity Capital	$71,635,638	$67,794,525
Income Statement		
Total Interest Income	$ 2,747,512	$ 2,454,502
Total Interest Expense	(716,321)	(514,266)
Net Interest Income	2,031,191	1,940,236
Provision for Loan & Lease Losses	(46,663)	(53,652)
Gains on Sales of Loans	67,689	33,408
Gains on Sales of Securities	48,446	69,402
Other Noninterest Income	334,914	308,394
Total Noninterest Expense	(1,715,201)	(1,607,725)
Income before Taxes	720,376	690,063
Income Taxes	(154,550)	(149,798)
Unrealized Gains (Losses) on Equity Sec., Net Taxes	82,587	(2,752)
Net Income	$ 648,413	$ 537,513

Industry Highlights

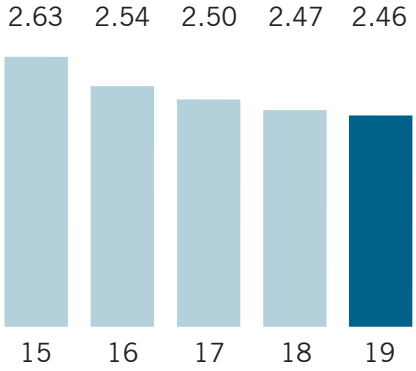
Net Interest Margin



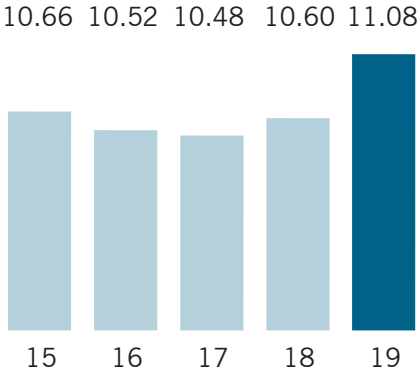
Return on Average Assets



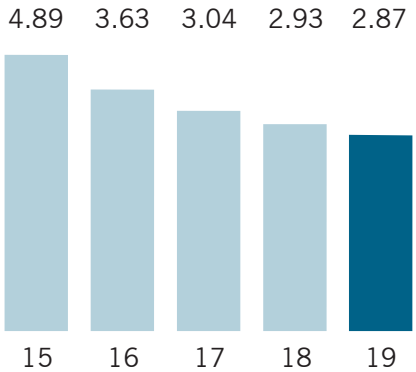
Operating Expense as % of Average Total Assets



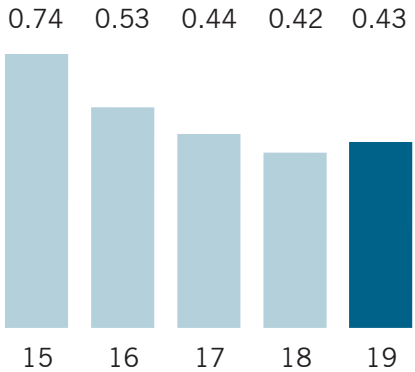
Tier 1 Leverage Capital Ratio



Nonperforming Assets as % of Equity Capital & Allowance



Nonperforming Assets as % of Total Loans & OREO



Letter from the President

It gives me great pleasure to report that after many years of discussion and planning, the historic merger of the Cooperative Central Bank into the Depositors Insurance Fund was completed in March of 2020. With the ongoing consolidation in the banking industry, the combined resources of these two entities will enhance the already strong system of excess deposit insurance in Massachusetts-chartered savings and co-operative banks. Both firms have an unblemished history of protecting depositors in their member banks and can lay claim to the fact that no depositor has ever lost a cent in a member bank of the Depositors Insurance Fund or Cooperative Central Bank.

The Massachusetts savings bank industry profited from the continued growth of the Bay State's economy earning $648 million in 2019. Return on average total assets (ROA) was 93 basis points, a 19-year high. The increase in ROA stemmed from unrealized gains on equity securities as well as gains on sales of loans. Operating expenses as a percentage of average total assets continued to improve ending the year at 2.46 percent, its lowest level since 2003.

The industry's net interest margin declined 6 basis points to 3.08 percent as the increase in the cost of funding earning assets exceeded the growth in the yield on earning assets. Despite the decline from year-end 2018, the margin remains near its 10-year average of 3.12 percent.

Asset quality remains strong with nonperforming assets as a percentage of total loans and OREO ending the year at 43 basis points. Nonperforming assets as a percentage of equity capital and allowance declined 6 basis points to 2.87 percent.

The industry's tier 1 leverage capital ratio stood at 11.08 percent at year-end, up 48 basis points from 2018 as capital increased by nearly $800 million. Importantly, all of our member banks are classified by regulators as Well Capitalized institutions.

At October 31, 2019, the Deposit Insurance Fund held $398 million in gross funds available for insurance of deposits. All investments held by the Fund were U.S. Treasury or agency obligations, or fully guaranteed as to principal and interest by the U.S. government.

At fiscal year-end, the Deposit Insurance Fund insured $16.4 billion in excess deposits in member banks, up from $15.9 billion a year earlier. The coverage ratio at fiscal year-end was 2.43 percent. Net income for the Deposit Insurance Fund was $6.7 million up $1.7 million from last year.

The DIF continues to support member banks' efforts to educate customers about the benefits of full deposit insurance. In 2019, the DIF reimbursed more than $49,000 to member banks under this program.

The stock market shook off concerns over global growth and trade tensions between the US and China to rally from losses in 2018. All major indices experienced strong gains in 2019 with the NASDAQ Composite Index up 35 percent and the broader S&P 500 Index rising 29 percent. The Dow Jones Industrial Average rose 22 percent and ended the decade up 170 percent, its fourth-best 10-year performance in the last 100 years.

Following a string of rate increases dating back to 2015, the Federal Reserve reversed course in 2019 and cut interest rates three times during the year. The cuts, totaling 75 basis points, were in response to simmering trade tensions and slowing global growth. Accommodative monetary policy prevailed beyond the U.S. as well with both the European Central Bank and China initiating quantitative easing and other stimulus programs.

The nation's Gross Domestic Product (GDP) expanded 2.3 percent in 2019, a decline from 2.9 percent in 2018. The growth rate reached 3.1 percent in the first quarter before settling on more modest growth in the 2 percent range for the remainder of the year.

Unemployment remained at a 50-year low with the nation's jobless rate falling to 3.5 percent at year-end from 3.9 percent a year earlier. Nonfarm payrolls expanded by 2.1 million marking a record 10 years of job gains, the most in 80 years of record keeping.

Closer to home, the Commonwealth's jobless rate fell to 2.8 percent as of December 2019, down from 3.1 percent a year earlier. The state added 44,800 new jobs during the year, including 23,900 education and health services positions, 7,800 leisure and hospitality posts and 4,500 high-paying professional, scientific and business service jobs.

The median price of a single-family home in Massachusetts rose 3.3 percent to $413,254 in 2019 as inventory remained historically low. Single family home sales numbered 56,343, up 0.3 percent from last year. Condo sales, also facing inventory constraints, declined by 0.6 percent while the median sale price rose 3.2 percent to $390,000.

Two directors will be leaving the DIF board in March: James P. McDonough and Patrick J. Murray, Jr.

During his four years on the board Jim served on the Audit, Compensation, Executive and Nominating Committees. Through the years I have relied on Jim's experience and I wish him well in future endeavors.

Pat served six years on the board and was a member of the Executive, Investment, and Long-Range Planning Committees and was Chairman of the Audit Committee. I thank Pat for his service to the DIF, and particularly for his guidance to me over the past six years.

In conclusion, I would like to thank the entire DIF Board of Directors and our staff for their dedicated service over the past year. I would also like to thank those Chairpersons that I have had the pleasure of working with; Gerard H. Brandi, James B. Keegan, Robert F. Verdonck, Ronald D. Dean, Arthur R. Connelly, A. James Lavoie, William G. Gothorpe, E. Dennis Kelly, Jr., Charles P. O'Brien, Norman S. Seppala, John F. Heaps, Jr., Steven E. Lowell and Gilda M. Nogueria. Their leadership and guidance were invaluable to me during my 26-year tenure at the DIF.

David Elliott
President and Chief Executive Officer

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Deposit Insurance Fund

Liquidity Fund

To the Board of Directors of the Depositors Insurance Fund:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Deposit Insurance Fund and subsidiary, which comprise the consolidated statements of condition as of October 31, 2019 and 2018, and the related consolidated statements of net income, comprehensive income, changes in fund balance and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Deposit Insurance Fund and subsidiary as of October 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Boston, Massachusetts
January 22, 2020

October 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$16,219,359	$7,730,950
Certificates of deposit	975,000	1,710,000
Securities available for sale, at fair value	380,867,340	372,260,979
Federal Home Loan Bank stock	678,000	1,078,800
Accrued interest receivable	1,858,842	1,583,077
Other assets	195,878	79,853
Total assets	$400,794,419	$384,443,659
Liabilities and Fund Balance		
Accrued expenses and other liabilities	$ 1,958,549	$ 1,698,211
Total liabilities	1,958,549	1,698,211
Commitments and contingencies (Note 6)		
Undistributed fund balance	397,587,699	390,799,774
Accumulated other comprehensive income (loss)	1,248,171	(8,054,326)
Total fund balance	398,835,870	382,745,448
Total liabilities and fund balance	$400,794,419	$384,443,659

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

Years Ended October 31, 2019 and 2018

	2019	2018
Income:		
Interest and dividends on investments	$ 7,721,288	$6,321,416
Assessments	3,209,099	2,943,153
Net loss on sales of securities available for sale	(7,051)	(32,686)
Total income	10,923,336	9,231,883
Expenses:		
Salaries, employee benefits and related expenses	2,399,980	2,205,732
Professional and contract services	611,686	638,597
Technology	235,484	242,924
Deposit insurance materials	108,080	188,835
Meetings and travel	276,295	247,113
Employee incentive plan	240,000	239,917
Legal	44,848	181,483
Occupancy	92,537	92,788
Insurance	70,964	71,631
Other operating expenses	103,161	100,055
	4,183,035	4,209,075
Expenses allocated to Liquidity Fund	(47,624)	(48,927)
Total expenses, net	4,135,411	4,160,148
Net income	$ 6,787,925	$5,071,735

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

Years Ended October 31, 2019 and 2018

	2019	2018
Net income	$6,787,925	$5,071,735
Other comprehensive income (loss):		
Securities available for sale:		
Unrealized holding gains (losses) arising during the year	9,499,205	(4,452,005)
Reclassification adjustment for losses realized in net income	7,051	32,686
Net unrealized gain (loss)	9,506,256	(4,419,319)
Defined benefit plan:		
Losses arising during the period	(518,075)	(83,273)
Reclassification adjustment for losses recognized in net income[1]	306,408	237,706
Reclassification adjustment for prior service cost recognized in net income[1]	7,908	7,908
Net unrecognized gain (loss)	(203,759)	162,341
Other comprehensive income (loss)	9,302,497	(4,256,978)
Comprehensive income	$16,090,422	$814,757

[1]Included in salaries, employee benefits and related expenses in the consolidated statements of net income.

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

Consolidated Statements of Changes in Fund Balance

Years Ended October 31, 2019 and 2018

	Undistributed Fund Balance	Accumulated Other Comprehensive (Loss)	Total Fund Balance
Fund balance at October 31, 2017	$385,728,039	$(3,797,348)	$381,930,691
Comprehensive income (loss)	5,071,735	(4,256,978)	814,757
Fund balance at October 31, 2018	390,799,774	(8,054,326)	382,745,448
Comprehensive income (loss)	6,787,925	9,302,497	16,090,422
Fund balance at October 31, 2019	$397,587,699	$ 1,248,171	$398,835,870

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

Years Ended October 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income	$6,787,925	$5,071,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Net loss on sales of securities available for sale	7,051	32,686
Net amortization of premiums on securities available for sale	492,993	940,111
Net change in:		
Accrued interest receivable	(275,765)	(106,030)
Other assets	(116,025)	93,825
Accrued expenses and other liabilities	56,579	152,358
Net cash provided by operating activities	6,952,758	6,184,685
Cash flows from investing activities:		
Net change in certificates of deposit	735,000	(240,000)
Proceeds from sales of securities available for sale	35,852,199	2,700,272
Proceeds from maturities, calls and paydowns of securities available for sale	116,194,765	115,255,941
Purchases of securities available for sale	(151,647,113)	(118,732,463)
Redemption of Federal Home Loan Bank stock	400,800	—
Net cash provided by (used in) investing activities	1,535,651	(1,016,250)
Net change in cash and cash equivalents	8,488,409	5,168,435
Cash and cash equivalents at beginning of year	7,730,950	2,562,515
Cash and cash equivalents at end of year	$16,219,359	$7,730,950

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

Years Ended October 31, 2019 and 2018

1. DESCRIPTION OF BUSINESS

Depositors Insurance Fund

The Depositors Insurance Fund (the "DIF"), which did business under the name Mutual Savings Central Fund, Inc. until February 1993, was established by the Massachusetts Legislature in 1932 and is now comprised of the Deposit Insurance Fund and its subsidiary and the Liquidity Fund. The two funds may not be commingled and the assets of one do not stand behind the liabilities of the other. The Deposit Insurance Fund and the Liquidity Fund share office space and personnel. Costs incurred are generally paid by the Deposit Insurance Fund and allocated to the Liquidity Fund. The DIF is an organization described under Section 501(c)(14) of the Internal Revenue Code (the "Code") and is exempt from taxes on related income under Section 501(a) of the Code.

In the event a DIF member bank obtains a federal charter or merges into a nonmember bank, its membership in the DIF is terminated and the DIF retains all amounts paid into the DIF by the member bank. Banks whose membership in the DIF has been terminated as a result of obtaining a federal charter may reapply for excess deposit insurance. There is currently one federal member bank in the DIF.

Deposit Insurance Fund

The Deposit Insurance Fund (the "Fund") was established in 1934 for the insurance of all deposits in Massachusetts savings banks. All Massachusetts savings banks are now members of the Federal Deposit Insurance Corporation (the "FDIC"). Therefore, the Deposit Insurance Fund currently insures only those deposits in excess of the FDIC limit as defined by the FDIC ("excess deposits").

In consideration for the insurance provided, the Fund charges assessments at rates determined by the Board of Directors and approved by the Commissioner of Banks of the Commonwealth of Massachusetts (the "Commissioner"). The assessments are based upon the excess deposits of each bank insured by the Fund and the assessment rate may vary based on risk classifications assigned to each bank.

The Fund insures depositors for the amount of their excess deposits plus accrued interest in the event the Commissioner determines a member bank to be insolvent. In addition, the Fund is empowered to provide assistance to a member bank when the Commissioner determines it is inadvisable or inexpedient for the member bank to continue to transact business without receiving financial assistance from the Fund.

A member bank that is determined by the Board of Directors of the DIF to pose a greater than normal loss exposure risk to the Fund can, with the approval of the Commissioner, be required to take action(s) to mitigate the risk. As an alternative to taking any such action(s), the bank can withdraw from membership in the DIF. In such event (i) the DIF retains all amounts paid into the DIF by the bank, and the bank retains its rights to share in any dividends paid by the DIF and the proceeds of any liquidation of the Fund; and (ii) the Fund continues to insure the term excess deposits in the bank as of the date of withdrawal until their maturity and all other excess deposits in the bank on such date for one year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The consolidated financial statements of the Fund include the accounts of the Fund and its wholly-owned subsidiary, JAE Corporation, organized to hold and liquidate certain assets of a failed institution. All intercompany balances have been eliminated. Income and expenses of the Fund and its subsidiary are recognized on the accrual method of accounting.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the reserve for insurance losses and the determination of the defined benefit pension plan obligation. See Note 4 – Anticipated Deposit Insurance Losses and Note 5 – Employee Benefit Plans.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Fair Value Hierarchy

The Fund groups its assets that are measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Valuations are obtained from readily available pricing sources.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers into and out of levels are determined by a third-party pricing service based on inputs used in pricing models.

Pension plan investments in pooled separate accounts are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient and have not been classified in the fair value hierarchy.

Securities

Securities classified as “available for sale” are carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Premiums and discounts are recognized in income by the interest method over the terms of the securities. Gains and losses on the sales of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Fund evaluates all securities classified as available for sale with a fair value below amortized cost to determine whether or not the impairment is deemed to be other than temporary ("OTTI"). OTTI is required to be recognized if (1) the Fund intends to sell the security; (2) it is more likely than not that the Fund will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that the Fund intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income.

The DIF has an agreement with an unrelated investment advisor whereby the advisor provides investment management services to the Fund. Investment authority has been granted to the investment advisor within prescribed limits on allowable investments. At October 31, 2019 and 2018, assets under management had a fair value of $299,727,185 and $286,801,222, respectively.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a restricted equity security and is carried at cost.

Dividends

The Fund may pay an annual discretionary dividend which requires approval of the DIF Board of Directors and the Commissioner. Dividends are accrued by a charge to the undistributed fund balance when all approvals are received.

Anticipated Deposit Insurance Losses on Member Banks

An accrued liability for anticipated deposit insurance losses may be recorded with respect to certain banks determined by DIF management, in consultation with regulatory authorities, to be experiencing serious financial difficulties, as well as general losses based on many factors such as historical experience and current economic conditions. Substantial weight is accorded to indications from regulatory authorities that a member bank has an extremely high or near-term possibility of failure. See Note 4 – Anticipated Deposit Insurance Losses.

Pension Plan

The compensation cost of an employee's pension benefit is recognized on the net periodic pension cost method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes. The Fund (1) recognizes on its statement of condition the funded status of the pension plan, (2) measures the plan's assets and its obligations that determine its funded status as of the end of the DIF's fiscal year, and (3) recognizes, through other comprehensive income (loss), changes in the funded status of the pension plan that are not recognized as net periodic benefit cost.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and unrecognized pension benefit cost elements, are reported as a separate component of the fund balance section of the statement of condition, such items, along with net income, are components of comprehensive income (loss).

The components of accumulated other comprehensive income (loss), included in the fund balance at October 31, 2019 and 2018, are as follows:

	2019	2018
Net unrealized gain (loss) on securities available for sale	$3,244,067	$(6,262,189)
Defined benefit pension plan:		
Unrecognized actuarial loss	(1,961,256)	(1,749,589)
Unrecognized prior service cost	(34,640)	(42,548)
	$1,248,171	$(8,054,326)

Approximately $383,000 of the unrecognized actuarial loss and $8,000 of the unrecognized prior service cost, included in accumulated other comprehensive income at October 31, 2019, is expected to be recognized as a component of net periodic pension cost in fiscal 2020.

Assessments

Assessments are recorded as income in the fiscal year that the insurance coverage to which they apply is provided to depositors.

Expense Allocation

Expenses of the Fund are allocated to the Liquidity Fund based on a formula of 2% of all expenses, excluding those expenses directly related only to the Fund.

Recent Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* Under the new guidance, employers will continue to present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period, but will be required to include all other components of net benefit cost in a separate line item from the service cost. Employers will disclose the line used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. This ASU is effective for the Fund for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. This ASU is not expected to have a significant impact on the Fund's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* This ASU requires that premiums on bonds purchased will be amortized to the bond's earliest call date, rather than the date of maturity, to more closely align interest income recorded on bonds held at a premium with the economics of the underlying instrument. This ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. This ASU is not expected to have a significant impact on the Fund's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* For non-public business entities, the amendments in this ASU remove and modify disclosure requirements relating to fair value measurements. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. In 2019, the Fund early adopted the provisions to remove or modify disclosures and this adoption did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans - General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans.* This ASU removes the disclosure requirements that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The amendments are effective for fiscal years ending after December 15, 2021. Management does not currently expect this ASU to have a significant impact on the consolidated financial statements.

3. INVESTMENTS

Securities Available for Sale

Mortgage- and asset-backed securities are issued by government-sponsored enterprises or federal agencies, or are fully guaranteed by the U.S. government. Of the mortgage- and asset-backed securities at October 31, 2019, approximately 61% are backed by mortgages.

The amortized cost, fair value, and unrealized gains and losses on securities classified as available for sale at October 31, 2019 and 2018, by contractual maturity, are presented in the following tables:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2019				
U.S. Treasury obligations and guarantees:				
Due in one year or less	$ 69,770,513	$ 113,675	$ (24,538)	$ 69,859,650
Due after one year through five years	156,185,071	1,534,164	(51,339)	157,667,896
Due after five years through ten years	11,942,517	226,763	(3,497)	12,165,783
	237,898,101	1,874,602	(79,374)	239,693,329
U.S. government-sponsored enterprise obligations:				
Due in one year or less	26,572,091	59,855	(16,453)	26,615,493
Due after one year through five years	58,411,062	611,076	(21,999)	59,000,139
Due after five years through ten years	4,082,455	56,440	—	4,138,895
	89,065,608	727,371	(38,452)	89,754,527
Mortgage- and asset-backed securities:				
Due in one year or less	637,363	—	(372)	636,991
Due after one year through five years	11,016,799	30,254	(16,134)	11,030,919
Due after five years through ten years	17,770,248	457,773	(27,050)	18,200,971
Due after ten years	21,235,154	356,797	(41,348)	21,550,603
	50,659,564	844,824	(84,904)	51,419,484
Total securities available for sale	$377,623,273	$3,446,797	$(202,730)	$380,867,340

Maturities are based on the final contractual payment dates, and do not reflect the impact of scheduled payments, prepayments or early redemptions that may occur.

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2018				
U.S. Treasury obligations and guarantees:				
Due in one year or less	$ 84,138,118	$ —	$ (683,291)	$ 83,454,827
Due after one year through five years	120,558,433	—	(2,397,177)	118,161,256
Due after five years through ten years	19,475,688	—	(522,340)	18,953,348
	224,172,239	—	(3,602,808)	220,569,431
U.S. government-sponsored enterprise obligations:				
Due in one year or less	29,569,771	—	(128,858)	29,440,913
Due after one year through five years	58,965,621	9,094	(1,210,547)	57,764,168
Due after five years through ten years	5,298,467	—	(53,925)	5,244,542
	93,833,859	9,094	(1,393,330)	92,449,623
Mortgage- and asset-backed securities:				
Due in one year or less	3,598,909	—	(36,731)	3,562,178
Due after one year through five years	14,618,370	218	(335,339)	14,283,249
Due after five years through ten years	12,306,461	—	(276,289)	12,030,172
Due after ten years	29,993,330	21,616	(648,620)	29,366,326
	60,517,070	21,834	(1,296,979)	59,241,925
Total securities available for sale	$378,523,168	$ 30,928	$(6,293,117)	$372,260,979

Maturities are based on the final contractual payment dates, and do not reflect the impact of scheduled payments, prepayments or early redemptions that may occur.

Proceeds from sales of securities available for sale during fiscal 2019 and 2018 were $35,852,199 and $2,700,272, respectively. Gross realized gains amounted to $16,312 and $12,126 for fiscal 2019 and 2018, respectively. Gross realized losses amounted to $23,363 and $44,812 for fiscal 2019 and 2018, respectively.

Gross unrealized losses on securities available for sale and the fair value of the related securities, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at October 31, 2019 and 2018, are as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2019						
U.S. Treasury obligations and guarantees	$ 8,220,101	$ (12,754)	$ 47,015,985	$ (66,620)	$ 55,236,086	$ (79,374)
U.S. government-sponsored enterprise obligations	—	—	17,361,351	(38,452)	17,361,351	(38,452)
Mortgage- and asset-backed securities	—	—	19,592,303	(84,904)	19,592,303	(84,904)
	$ 8,220,101	$ (12,754)	$ 83,969,639	$ (189,976)	$ 92,189,740	$ (202,730)
2018						
U.S. Treasury obligations and guarantees	$ 41,207,505	$ (322,866)	$179,361,926	$(3,279,942)	$220,569,431	$(3,602,808)
U.S. government-sponsored enterprise obligations	33,462,739	(317,806)	56,965,284	(1,075,524)	90,428,023	(1,393,330)
Mortgage- and asset-backed securities	29,817,717	(468,101)	27,469,755	(828,878)	57,287,472	(1,296,979)
	$104,487,961	$(1,108,773)	$263,796,965	$(5,184,344)	$368,284,926	$(6,293,117)

At October 31, 2019, 38 debt securities with unrealized losses have aggregate depreciation of less than 1% of their amortized cost and are reflective of interest rate changes. The principal and accrued interest on all of the securities are guaranteed by the U.S. Government, an agency of the U.S. Government, or both. Because the Fund does not intend to sell the securities and it is unlikely that it will be required to sell the securities before recovery of their amortized cost bases (which may be at maturity), management does not consider these securities to be other-than-temporarily impaired at October 31, 2019.

Federal Home Loan Bank Stock

The DIF is a member of the Federal Home Loan Bank of Boston ("FHLBB"). As a condition of membership, the DIF is required to maintain an investment in FHLBB stock based on the DIF's holdings of U.S. Treasury and government-sponsored enterprise obligations. Additional stock purchases are required based on growth of the DIF's holdings of U.S. Treasury and government-sponsored enterprise obligations and/or usage of FHLBB advances and related services. The DIF reviews its investment for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of October 31, 2019, no impairment has been recognized.

At October 31, 2019 and 2018, the DIF's investment in FHLBB stock was $690,400 of which $678,000 was allocated to the Fund. The amount allocated to the Fund is based on the Fund's holdings of U.S. Treasury and government-sponsored enterprise obligations and its use of FHLBB services, plus all stock held by the DIF in excess of the required holdings of the Fund and the Liquidity Fund.

The DIF also has a master agreement with the FHLBB regarding advances, which are secured by the DIF's FHLBB stock and specifically-pledged securities. As of October 31, 2019 and 2018, the DIF had no outstanding advances from the FHLBB and, accordingly, no securities were specifically pledged. FHLBB advances would be allocated to the Fund and the Liquidity Fund based on the portion of advances applicable to each fund.

4. ANTICIPATED DEPOSIT INSURANCE LOSSES

In fulfilling its insurance responsibilities described in Note 1, the Fund may sustain losses in subsequent accounting periods as a result of honoring claims associated with excess deposits in insolvent banks. In addition, there are several types of assistance which may be given when it appears that a bank should not continue to transact business unaided or as an independent institution. It is possible that the Fund could sustain losses in subsequent accounting periods as a result of providing assistance to members. Any such losses could be material. Because many of the factors that might contribute to future losses to the Fund are beyond the DIF's control, the amount of such losses, if any, generally cannot be determined or reasonably estimated (and, accordingly, are not reflected in the accrued liability for deposit insurance losses).

Assessing the adequacy of the accrued liability for deposit insurance losses on member banks involves substantial uncertainties and is based upon management's evaluation, after weighing various factors, of the amount required to meet estimated future losses for payment to depositors in insolvent banks having excess deposits. DIF management monitors the condition of insured member banks by reviewing their financial statements and regulatory examination reports and by meeting regularly with officials of the Commonwealth of Massachusetts Division of Banks, the FDIC and the Federal Reserve Bank to discuss industry conditions and specific problem banks. Substantial weight is accorded to indications from regulatory authorities that a member bank has an extremely high or near-term possibility of failure. Among the other factors management may consider regarding member banks are the amount of excess deposits, the amount of nonperforming assets in relation to regulatory capital and total loans and leases, the capital ratio, the recency of regulatory examinations, current economic conditions, and trends in the amount of excess deposits at banks which have failed. Ultimate losses may vary from current estimates. There was no accrued liability for deposit insurance losses for the years ended October 31, 2019 and 2018.

The DIF has no independent authority to examine member banks, nor does it have independent authority to pay depositors or provide assistance unless the Commissioner has acted to close the member bank or to approve the assistance, respectively. Examinations of DIF members are conducted by the Commonwealth of Massachusetts Division of Banks, the FDIC and the Federal Reserve Bank. Regulatory policy has generally been for an examination to be performed at least once within every 12-month period, except that banks with assets not exceeding $1 billion that are considered to be "well-capitalized" under FDIC regulations are generally examined once within every 18-month period.

During fiscal 2019 and 2018, no member banks were closed by the Commissioner, and no deposit insurance payments were made by the DIF from the Fund.

5. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

All employees of the DIF participate in a defined benefit pension plan offered and administered by the Savings Banks Employees Retirement Association ("SBERA" or the "Association"). Employees become eligible to participate in the plan after reaching 21 years of age and completing one year of service, and become 100% vested after completing three years of service. The DIF's policy is to fund the plan within the allowable range under current law, determined on a discretionary basis. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Information pertaining to the activity in the plan for the years ended October 31, 2019 and 2018 is as follows:

	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	$7,557,827	$7,649,982
Service cost	130,985	143,511
Interest cost	272,095	251,233
Actuarial (gain) loss	767,417	(290,392)
Benefits paid	(196,507)	(196,507)
Benefit obligation at end of year	8,531,817	7,557,827
Change in plan assets:		
Fair value of plan assets at beginning of year	6,393,564	6,401,853
Actual return on plan assets	689,090	63,218
Employer contribution	250,000	125,000
Benefits paid	(196,507)	(196,507)
Fair value of plan assets at end of year	7,136,147	6,393,564
Unfunded status and accrued pension cost at end of year	$1,395,670	$1,164,263
Accumulated benefit obligation	$7,438,484	$6,650,136

The following table presents certain assumptions used in determining the benefit obligation at October 31, 2019 and 2018 and the benefit cost for the years then ended:

	2019	2018
Discount rate - funded status at year-end	4.36%	4.09%
Discount rate - benefit cost	4.09	3.75
Rate of increase in compensation levels - funded status at year-end	4.00	4.00
Rate of increase in compensation levels - benefit cost	4.00	4.00
Expected long-term rate of return	8.00	8.00

In general, the DIF's assumption with respect to the expected long-term rate of return is based on prevailing yields on high-quality, fixed-income investments increased by a premium for equity return expectations.

The components of net periodic pension cost for the years ended October 31, 2019 and 2018 are as follows:

	2018	2017
Service cost	$130,985	$143,511
Interest cost	272,095	251,233
Expected return on plan assets	(439,748)	(436,883)
Amortization of prior service cost	7,908	7,908
Recognized net actuarial loss	306,408	237,706
	$277,648	$203,475

The fair value of major categories of pension plan assets at October 31, 2019 and 2018, and the measurement levels within the fair value hierarchy, are summarized below.

	2019	
Asset Category	Level 1	Total
Collective funds	$ 630,667	$ 630,677
Equity securities	679,750	679,750
Mutual funds	2,062,431	2,062,431
	$3,372,848	3,372,848
Investments in funds measured at net asset value		3,763,299
Investments at fair value		$7,136,147

	2018	
Asset Category	Level 1	Total
Collective funds	$ 340,398	$ 340,398
Equity securities	748,819	748,819
Mutual funds	1,919,589	1,919,589
	$3,008,806	3,008,806
Investments in funds measured at net asset value		3,384,758
Investments at fair value		$6,393,564

For investments measured at net asset value, there are no redemption restrictions for these investments, which can be redeemed on a daily basis.

The plan assets measured at fair value in Level 1 are based on quoted market prices in an active exchange market. There are no plan assets measured at fair value in Level 2 or 3.

The benefits expected to be paid for each of the following five fiscal years and the aggregate for the five fiscal years thereafter are as follows:

Year Ending October 31,	Amount
2020	$2,290,913
2021	832,171
2022	442,090
2023	1,042,175
2024	482,262
2025-2029	2,722,606

The DIF plans to make a contribution to the plan during the year ending October 31, 2019 in the amount of approximately $350,000.

SBERA offers a common and collective trust as the underlying investment structure for pension plans participating in the Association. The target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range from 43% to 57% of total portfolio assets. The remainder of the portfolio is allocated to fixed income from 15% to 25% and other investments including global asset allocation and hedge funds from 15% to 31%. The Trustees of SBERA, through the Association's Investment Committee, select investment managers for the common and collective trust portfolio. A professional investment advisory firm is retained by the Investment Committee to provide allocation analysis, performance measurement and assistance with manager searches. The overall investment objective is to diversify equity investments across a spectrum of investment types (e.g., small cap, large cap, international, etc.) and styles (e.g., growth, value, etc.).

Defined Contribution Pension Plan

All employees of the DIF participate in a defined contribution pension plan offered and administered by SBERA. Employees become eligible to participate in the plan upon employment. Participating employees make contributions to the plan based on a percentage of their income. The DIF matches a percentage of the amounts contributed by employees. Employees become 100% vested in the DIF's matching contributions immediately. For fiscal 2019 and 2018, the DIF's matching contribution expense for the defined contribution pension plan was $53,234 and $51,161, respectively.

6. COMMITMENTS, CONTINGENCIES, AND OTHER MATTERS

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the Fund's consolidated financial statements, as follows.

Employment Agreement

The DIF has entered into an employment agreement with its President and Chief Executive Officer that generally provides for a specified minimum annual compensation. Employment may be terminated for cause, as defined, without incurring any continuing obligations. The agreement has a continual expiration date of one year.

Severance Program

The DIF has a Severance Program that covers substantially all employees of the DIF. The program provides salary and benefits to employees in the event of "triggering events" related to a liquidation, mandated downsizing, change of control, merger, or reorganization of the DIF. Benefit amounts are dependent upon years of service and salary grade levels, with a maximum benefit of one year's salary and qualifying benefits.

Operating Lease Commitments

The DIF has a lease providing for the use of its office space. The lease is cancelable by the DIF or the lessor. Total rent expense amounted to $72,504 for fiscal 2019 and 2018.

Legal Claims

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Fund's consolidated financial statements.

7. RELATED PARTY TRANSACTIONS

A majority of the DIF's twelve directors are associated with member banks.

8. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Fund uses fair value measurements to record fair value adjustments to certain assets. The fair value of a financial instrument is 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. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. All fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at October 31, 2019 and 2018 are summarized below. There were no liabilities measured at fair value on a recurring basis at October 31, 2019 or 2018.

2019	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale:				
U.S. Treasury obligations and guarantees	$211,378,729	$ 28,314,600	$ —	$239,693,329
U.S. government-sponsored enterprise obligations	—	81,084,602	8,669,925	89,754,527
Mortgage- and asset-backed securities	—	49,268,294	2,151,190	51,419,484
Total	$211,378,729	$158,667,496	$10,821,115	$380,867,340
2018				
Securities available for sale:				
U.S. Treasury obligations and guarantees	$181,852,410	$ 38,717,021	$ —	$220,569,431
U.S. government-sponsored enterprise obligations	—	90,428,023	2,021,600	92,449,623
Mortgage- and asset-backed securities	—	56,641,291	2,600,634	59,241,925
Total	$181,852,410	$185,786,335	$ 4,622,234	$372,260,979

As of October 31, 2019, Level 3 assets reflect three U.S. Government-sponsored enterprise obligations and one mortgage-backed security for which the fair values are obtained from the issuer and are based on unobservable inputs. As of October 31, 2018, Level 3 assets reflect two U.S. government-sponsored enterprise obligations and one mortgage-backed security for which the fair values are obtained from the issuer and are based on unobservable inputs.

During the year ended October 31, 2019 and 2018, the Fund had $7,533,162 and $3,883,673, respectively, in purchases that are considered Level 3 assets. There were no transfers, into or out of Level 3 assets during 2019 or 2018.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

There were no assets or liabilities measured at fair value on a non-recurring basis at October 31, 2019 or 2018.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2020, which is the date the financial statements were available to be issued. On December 13, 2018, the Fund entered into a Combination Agreement with The Co-Operative Central Bank, a Massachusetts-charted special act corporation. Pursuant to the Combination Agreement, the The Co-Operative Central Bank will merge with and into the Fund. Completion of the Combination is subject to customary closing conditions, including receipt of regulatory approvals. The Combination is expected to close in the first quarter of 2020. There were no other subsequent events that occurred requiring accrual or disclosure.

To the Board of Directors of the Depositors Insurance Fund:

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of the Liquidity Fund, which comprise the statements of condition as of October 31, 2019 and 2018, and the related statements of net income and comprehensive income (loss), changes in fund balance and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

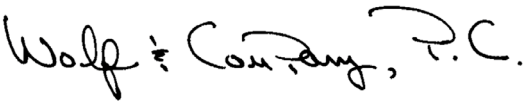
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Liquidity Fund as of October 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Boston, Massachusetts
January 22, 2020

October 31, 2019 and 2018

	2019	2018
Assets		
Cash	$ 165,998	$ 83,870
Securities available for sale, at fair value	6,299,364	6,225,155
Federal Home Loan Bank stock	12,400	21,600
Accrued interest receivable	40,614	37,598
Total assets	$6,518,376	$6,368,223
Fund Balance		
Dividends payable	$ 326,189	$ —
Total liabilities	326,189	—
Undistributed fund balance	6,162,700	6,394,499
Accumulated other comprehensive income (loss)	29,487	(26,276)
Total fund balance	6,192,187	6,368,223
Total liabilities and fund balance	$6,518,376	$6,368,223

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

Statements of Net Income and Comprehensive Income (Loss)

Years Ended October 31, 2019 and 2018

	2019	2018
Income:		
Interest and dividends on investments	$142,014	$ 80,319
Expenses:		
Expenses allocated from the Deposit Insurance Fund	47,624	48,927
Net income	94,390	31,392
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale arising during the period	55,763	(1,496)
Comprehensive income	$150,153	$ 29,896

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

Years Ended October 31, 2019 and 2018

	Undistributed Fund Balance	Accumulated Other Comprehensive Loss	Total Fund Balance
Fund balance at October 31, 2017	$6,363,107	$(24,780)	$6,338,327
Comprehensive income (loss)	31,392	(1,496)	29,896
Fund balance at October 31, 2018	6,394,499	(26,276)	6,368,223
Comprehensive income (loss)	94,390	55,763	150,153
Dividends declared to member banks	(326,189)	—	(326,189)
Fund balance at October 31, 2019	$6,162,700	$29,487	$6,192,187

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

Years Ended October 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income	$ 94,390	$ 31,392
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion of securities	(13,786)	(247)
Change in accrued interest receivable	(3,016)	(26,437)
Net cash provided by operating activities	77,588	4,708
Cash flows from investing activities:		
Maturities of securities available for sale	2,820,000	4,385,000
Purchases of securities available for sale	(2,824,660)	(4,399,266)
Redemption of Federal Home Loan Bank stock	9,200	—
Net cash provided by (used in) investing activities	4,540	(14,266)
Net change in cash	82,128	(9,558)
Cash at beginning of year	83,870	93,428
Cash at end of year	$ 165,998	$ 83,870
Non-cash activities:		
Dividends declared	$ 326,189	$ —

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

Years Ended October 31, 2018 and 2017

1. DESCRIPTION OF BUSINESS

Depositors Insurance Fund

The Depositors Insurance Fund (the "DIF"), which did business under the name Mutual Savings Central Fund, Inc. until February 1993, was established by the Massachusetts Legislature in 1932 and is now comprised of the Liquidity Fund and the Deposit Insurance Fund and its subsidiary. The two funds may not be commingled and the assets of one do not stand behind the liabilities of the other. The Liquidity Fund and the Deposit Insurance Fund share office space and personnel. Costs incurred are generally paid by the Deposit Insurance Fund and allocated to the Liquidity Fund. The DIF is an organization described under Section 501(c)(14) of the Internal Revenue Code (the "Code") and is exempt from taxes on related income under Section 501(a) of the Code.

Liquidity Fund

The Liquidity Fund (the "Fund") was established in 1932 for the purpose of providing temporary liquidity to member banks by making loans to them secured by assets of the borrowing banks.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

Income and expenses of the Fund are recognized on the accrual method of accounting.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Fund considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Fair Value Hierarchy

The Fund groups its assets that are measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Valuations are obtained from readily available pricing sources.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Securities Available for Sale

All securities are classified as "available for sale" and carried at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Premiums and discounts are recognized in income by the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Fund evaluates all securities classified as available for sale with a fair value below amortized cost to determine whether or not the impairment is deemed to be other than temporary ("OTTI"). OTTI is required to be recognized if (1) the Fund intends to sell the security; (2) it is more likely than not that the Fund will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that the Fund intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income (loss).

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a restricted equity security and is carried at cost.

Dividends

The Fund may pay discretionary dividends on a quarterly or semi-annual basis which are accrued by a charge to the undistributed fund balance when approved by the DIF Board of Directors.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the fund balance section of the statement of condition, such items, along with net income, are components of comprehensive income (loss).

Expense Allocation

The Fund shares office space and personnel with the Deposit Insurance Fund, and 2% of the Deposit Insurance Fund's expenses, excluding those expenses directly related only to the Deposit Insurance Fund, are allocated to the Liquidity Fund.

3. INVESTMENTS

Securities Available for Sale

The amortized cost, fair value, and unrealized gains and losses of securities classified as available for sale at October 31, 2019 and 2018, by contractual maturity, are as follows:

2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury obligations:				
Due in one year or less	$3,438,455	$10,173	$ —	$3,448,628
Due after one year through five years	997,679	8,356	—	1,006,035
	4,436,134	18,529	—	4,454,663
U.S. government-sponsored enterprise obligations:				
Due in one year or less	864,873	7,012	—	871,885
Due after one year through five years	968,870	3,946	—	972,816
	1,833,743	10,958	—	1,844,701
Total securities available for sale	$6,269,877	$29,487	$ —	$6,299,364
2018				
U.S. Treasury obligations:				
Due in one year or less	$1,005,096	$ —	$ (6,176)	$ 998,920
Due after one year through five years	3,438,034	—	(12,039)	3,425,995
	4,443,130	—	(18,215)	4,424,915
U.S. government-sponsored enterprise obligations:				
Due in one year or less	1,808,301	—	(8,061)	1,800,240
Total securities available for sale	$6,251,431	$ —	$(26,276)	$6,225,155

There were no sales of securities during the years ended October 31, 2019 or 2018.

Gross unrealized losses on securities available for sale and the fair values of the related securities aggregated by category and length of time that individual securities have been in a continuous unrealized loss position at 2018 follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018						
U.S. Treasury obligations	$3,425,995	$(12,039)	$ 998,920	$ (6,176)	$4,424,915	$ (18,215)
U.S. government-sponsored enterprise	1,800,240	(8,061)	—	—	1,800,240	(8,061)
	$5,226,235	$(20,100)	$ 998,920	$ (6,176)	$6,225,155	$ (26,276)

Federal Home Loan Bank Stock

The DIF is a member of the Federal Home Loan Bank of Boston ("FHLBB"). As a condition of membership, the DIF is required to maintain an investment in FHLBB stock based on the DIF's holdings of U.S. Treasury and government-sponsored enterprise obligations. Additional stock purchases are required based on growth of the DIF's holdings of U.S. Treasury and government-sponsored enterprise obligations and/or usage of FHLBB advances and related services. The DIF reviews its investment for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of October 31, 2019, no impairment has been recognized.

At October 31, 2019 and 2018, the DIF's investment in FHLBB stock was $690,400, of which $12,400 was allocated to the Fund. The amount allocated to the Fund represents the Fund's required FHLBB stock based on its holdings of U.S. Treasury and government-sponsored enterprise obligations and its use of FHLBB services; all FHLBB stock held in excess of required stock is allocated to the Deposit Insurance Fund.

The DIF also has a master agreement with the FHLBB regarding advances, which are secured by the DIF's FHLBB stock and specifically-pledged securities. As of October 31, 2019 and 2018, the DIF had no outstanding advances from the FHLBB and, accordingly, no securities have been specifically pledged. FHLBB advances would be allocated to the Fund and the Deposit Insurance Fund based on the portion of advances applicable to each fund.

4. RELATED PARTY TRANSACTIONS

A majority of the DIF's twelve directors are associated with member banks.

5. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Fund uses fair value measurements to record fair value adjustments to certain assets. The fair value of a financial instrument is 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. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. All fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at October 31, 2019 and 2018 are summarized below. There were no liabilities measured at fair value on a recurring basis at October 31, 2019 or 2018.

October 31, 2019	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale:				
U.S. Treasury obligations	$4,454,663	$ —	$ —	$ 4,454,663
U.S. government-sponsored enterprise obligations	—	1,844,701	—	1,844,701
	$4,454,663	$1,844,701	$ —	$ 6,299,364
October 31, 2018				
Securities available for sale:				
U.S. Treasury obligations	$4,424,915	$ —	$ —	$ 4,424,915
U.S. government-sponsored enterprise obligations	—	1,800,240	—	1,800,240
	$4,424,915	$1,800,240	$ —	$ 6,225,155

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

There were no assets or liabilities measured at fair value on a non-recurring basis at October 31, 2019 or 2018.

6. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2020, which is the date the financial statements were available to be issued. There were no subsequent events that required adjustment or disclosure in the financial statements.

NOTES

DIF DEPOSITORS INSURANCE FUND

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