DIF DEPOSITORS INSURANCE FUND

2020 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, 2020

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ANNUAL MEETING

March 31, 2021; Conference Call; 11:00 a.m.

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. On March 17, 2020, The Co-operative Central Bank merged into the DIF. As a result of this merger, all Massachusetts co-operative banks became members of the DIF and their deposits above the FDIC limit are insured by the DIF.

DIF Member Banks

Abington Bank
Adams Community Bank
Athol Savings Bank
Avidia Bank
Bank of Easton
BankFive
BankGloucester
BayCoast Bank
Bay State Savings Bank
Bluestone Bank
Bristol County Savings Bank
Cambridge Savings Bank
Bank of Canton
Canton Co-operative Bank
Cape Ann Savings Bank
The Cooperative Bank of Cape Cod
Cape Cod 5
Charles River Bank
Clinton Savings Bank
Coastal Heritage Bank
Commonwealth Cooperative Bank
The Cooperative Bank
Cornerstone Bank
Country Bank
Dean Bank
Dedham Institution for Savings
Eagle Bank
East Boston Savings Bank
East Cambridge Savings Bank
Easthampton Savings Bank
Envision Bank
Everett Co-operative Bank
Fidelity Bank
Florence Bank
Greenfield Savings Bank
Greenfield Cooperative Bank
HarborOne Bank
Haverhill Bank
Hingham Institution for Savings
Hometown Bank
Institution for Savings
Lee Bank
Lowell Five Bank
Main Street Bank
Marblehead Bank
Martha's Vineyard Bank
Mechanics Cooperative Bank
Methuen Co-operative Bank
Middlesex Savings Bank
Monson Savings Bank
MountainOne Bank
MutualOne Bank
Needham Bank
Newburyport Bank
North Brookfield Savings Bank
North Cambridge Co-operative Bank
North Easton Savings Bank
North Shore Bank
Norwood Bank
Patriot Community Bank
Pentucket Bank
PeoplesBank
Pittsfield Cooperative Bank
The Provident Bank
Reading Cooperative Bank
Rollstone Bank & Trust
Salem Five Bank
Savers Bank
Seamen's Bank
South Shore Bank
StonehamBank
Stoughton Co-operative Bank
The Savings Bank
UniBank
The Village Bank
Wakefield Co-operative Bank
Walpole Co-operative Bank
Washington Savings Bank
Watertown Savings Bank
Webster Five
Winchester Savings Bank
Winchester Co-operative Bank
Wrentham Cooperative Bank

Officers

Gilda M. Nogueira
Chair

Mark R. O'Connell
Vice Chair

Andrew J. Calamare
President and
Chief Executive Officer

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

John J. D'Alessandro
Senior Vice President

Judith M. Javidpour
Senior Vice President and
Chief Financial Officer

Kara M. McNamara
Senior Vice President

Annemarie Lee
Vice President

Board of Directors

Joseph T. Baptista Jr.
President and Chief Executive Officer
Mechanics Cooperative Bank

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

Joseph A. De Vito
President and Chief Executive Officer
The Village Bank

David G. Falwell
Retired Banking Executive

Mark R. Haranas
President and Chief Executive Officer
MutualOne Bank

Robert S. Karam
Principal
Karam Financial Group

Margaret H. Kelly
Principal
Kelly Associates

Steven E. Lowell
Chief Executive Officer
Monson Savings Bank

Edward F. Manzi, Jr.
Chairman and Chief Executive Officer
Fidelity Bank

Eileen P. McAnneny
President
Massachusetts Taxpayers Foundation

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

Andrew J. Raczka
President and Chief Executive Officer
Abington Bank

Robert W. Terravecchia, Jr.
President and Chief Executive Officer
Coastal Heritage Bank

Michael E. Tucker
Chief Executive Officer
Greenfield Cooperative Bank

Raija Vaisanen
Associate Director
Massachusetts Workforce Association

Depositors Insurance Fund Highlights

As of October 31, 2020 and 2019

Deposit Insurance Fund	2020*	2019
Annual Assessments	$ 3,751,350	$ 3,209,099
Funds Available	$ 507,990,639	$ 397,961,992
Insured Excess Deposits	$23,698,985,955	$16,368,511,161
Coverage Ratio[1]	2.14%	2.43%

Liquidity Fund	2020*	2019
Fund balance	$ 7,782,313	$ 6,192,187

[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.

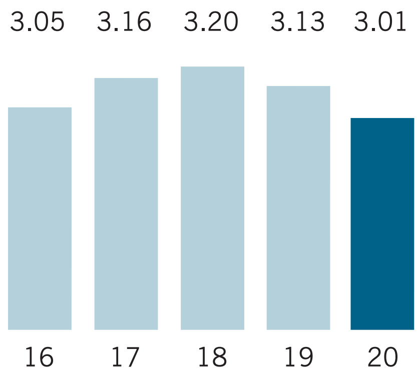
[*]On March 17, 2020, The Co-operative Central Bank merged into the DIF. As a result of this merger, all Massachusetts co-operative banks became members of the DIF and their deposits above the FDIC limit are insured by the DIF.

Industry Highlights

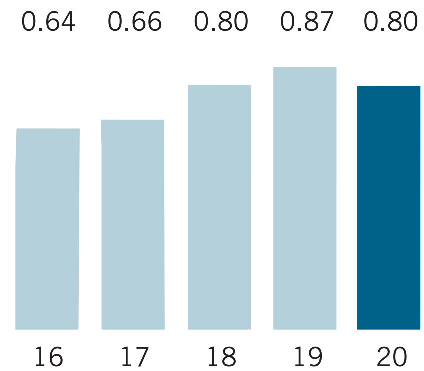
(In thousands, calendar year)	2020	2019
Balance Sheet		
Assets:		
Securities	$ 13,636,307	$12,243,780
Loans (net)	80,010,793	74,870,864
Other	14,842,049	8,335,308
Total Assets	$108,489,149	$95,449,952
Liabilities:		
Deposits	$ 89,412,675	$76,143,731
Borrowed Funds	5,815,609	7,348,039
Other	1,430,628	1,071,849
Total Liabilities	96,658,912	84,563,619
Equity Capital	11,830,237	10,886,333
Total Liabilities and Equity Capital	$108,489,149	$95,449,952
Income Statement		
Total Interest Income	$ 3,609,486	$ 3,681,355
Total Interest Expense	(688,978)	(960,120)
Net Interest Income	2,920,508	2,721,235
Gains on Sales of Debt Securities	42,531	53,188
Gains on Sales of Loans	374,415	107,416
Other Noninterest Income	459,666	407,640
Total Noninterest Expense	(2,519,474)	(2,310,084)
Provision for Loan & Lease Losses	(260,139)	(59,513)
Unrealized & Realized Gains (Losses) on Equity Securities	51,419	113,374
Income before Taxes	1,068,926	1,033,256
Income Taxes	(246,352)	(228,536)
Net Income	$ 822,574	$ 804,720

Industry Highlights

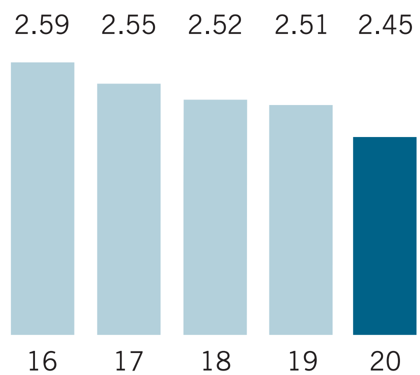
Net Interest Margin



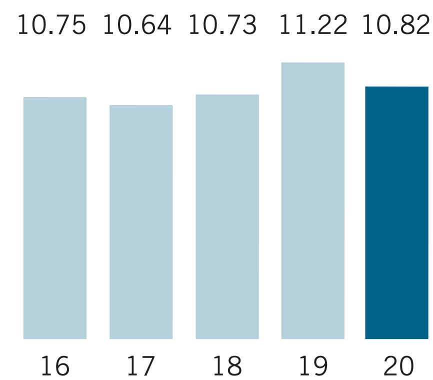
Return on Average Assets



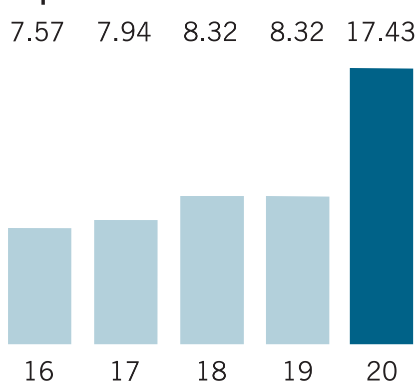
Operating Expense as % of Average Total Assets



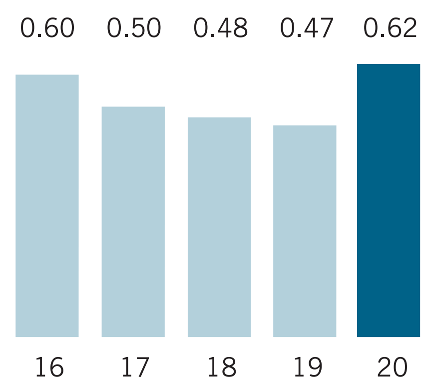
Tier 1 Leverage Capital Ratio



Deposit Growth



Nonperforming Assets as % of Total Loans and OREO



All references to historical industry financial data has been restated to reflect only the current 83 DIF member banks.

To the Board of Directors of the Depositors Insurance Fund:

Report on the 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, 2020 and 2019, 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 (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Deposit Insurance Fund and subsidiary as of October 31, 2020 and 2019, 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.

Wolf & Company, P.C.

Boston, Massachusetts
January 26, 2021

October 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 2,891,744	$ 16,219,359
Certificates of deposit	5,984,000	975,000
Securities available for sale, at fair value	497,284,195	380,867,340
Federal Home Loan Bank stock	678,000	678,000
Accrued interest receivable	2,366,064	1,858,842
Life insurance	5,702,438	—
Other assets	2,413,383	195,878
Total assets	$517,319,824	$400,794,419
Liabilities and Fund Balance		
Accrued expenses and other liabilities	$ 2,795,364	$ 1,958,549
Total liabilities	2,795,364	1,958,549
Commitments and contingencies (Note 6,7)		
Undistributed fund balance	507,709,415	397,587,699
Accumulated other comprehensive income	6,815,045	1,248,171
Total fund balance	514,524,460	398,835,870
Total liabilities and fund balance	$517,319,824	$400,794,419

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

Years Ended October 31, 2020 and 2019

	2020	2019
Income:		
Interest and dividends on investments	$ 8,304,736	$ 7,721,288
Assessments	3,751,350	3,209,099
Net gain (loss) on sales of securities available for sale	811,198	(7,051)
Total income	12,867,284	10,923,336
Expenses:		
Salaries, employee benefits and related expenses	3,139,351	2,493,317
Professional and contract services	713,088	611,686
Technology	269,281	235,484
Deposit insurance materials	95,543	108,080
Director fees, meetings and travel	217,796	276,295
Legal	194,984	44,848
Occupancy	95,183	92,537
Insurance	78,238	70,964
Other operating expenses	317,518	249,824
	5,120,982	4,183,035
Expenses allocated to Liquidity Fund	(51,311)	(47,624)
Total expenses, net	5,069,671	4,135,411
Net income	$ 7,797,613	$ 6,787,925

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

Years Ended October 31, 2020 and 2019

	2020	2019
Net income	$ 7,797,613	$ 6,787,925
Other comprehensive income (loss):		
Securities available for sale:		
Unrealized holding gains arising during the year	6,620,873	9,499,205
Reclassification adjustment for (gains) losses realized in net income	(811,198)	7,051
Net unrealized gain	5,809,675	9,506,256
Defined benefit plan:		
Losses arising during the period	(633,917)	(518,075)
Reclassification adjustment for losses recognized in net income[1]	383,208	306,408
Reclassification adjustment for prior service cost recognized in net income[1]	7,908	7,908
Net unrecognized loss	(242,801)	(203,759)
Other comprehensive income	5,566,874	9,302,497
Comprehensive income	$13,364,487	$16,090,422

[1]Included in other operating expense 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, 2020 and 2019

	Undistributed Fund Balance	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
Fund balance at October 31, 2018	$390,799,774	$(8,054,326)	$382,745,448
Comprehensive income	6,787,925	9,302,497	16,090,422
Fund balance at October 31, 2019	397,587,699	1,248,171	$398,835,870
Comprehensive income	7,797,613	5,566,874	13,364,487
Net assets acquired in CCB acquisition (Note 3)	102,324,103	—	102,324,103
Fund balance at October 31, 2020	$507,709,415	$ 6,815,045	$514,524,460

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

Years Ended October 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income	$ 7,797,613	$ 6,787,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (gain) loss on sales of securities available for sale	(811,198)	7,051
Net amortization of premiums on securities available for sale	1,347,602	492,993
Net change in:		
Accrued interest receivable	(173,976)	(275,765)
Other assets	56,411	(116,025)
Accrued expenses and other liabilities	(654,552)	56,579
Net cash provided by operating activities	7,561,900	6,952,758
Cash flows from investing activities:		
Cash received in connection with acquisition	2,560,220	—
Net change in certificates of deposit	4,319,000	735,000
Proceeds from sales of securities available for sale	120,013,203	35,852,199
Proceeds from maturities, calls and paydowns of securities available for sale	70,332,142	116,194,765
Purchases of securities available for sale	(218,114,080)	(151,647,113)
Redemption of Federal Home Loan Bank stock	—	400,800
Net cash provided by (used in) investing activities	(20,889,515)	1,535,651
Net change in cash and cash equivalents	(13,327,615)	8,488,409
Cash and cash equivalents at beginning of year	16,219,359	7,730,950
Cash and cash equivalents at end of year	$ 2,891,744	$ 16,219,359
Non-cash activities:		
Securities matured pending proceeds	$ 2,260,000	$ —
Non-cash financing activities in connection with acquisition:		
Fair value of assets acquired, net of liabilities assumed	$ 102,324,103	$ —
Fair value of acquired entity	102,324,103	—

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

Years Ended October 31, 2020 and 2019

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. Since 1986, the Fund’s deposit insurance function has been that of an excess deposit insurer, insuring all deposits in member banks in excess of the Federal Deposit Insurance Corporation (“FDIC”) limit as defined by the FDIC.

On March 17, 2020, The Co-operative Central Bank and its Share Insurance Fund (“SIF”) merged into the DIF. As a result of this merger, all Massachusetts co-operative banks became members of the DIF and their deposits in excess of the FDIC limit as defined by the FDIC are insured by the Fund.

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 5 – Anticipated Deposit Insurance Losses and Note 6 – 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, 2020 and 2019, assets under management had a fair value of $395,309,869 and $299,727,185, respectively.

Federal Home Loan Bank Stock

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

Split Dollar Life Insurance

Collaterally assigned split dollar arrangements are reflected on the consolidated statement of condition at the lesser of cash surrender value or premiums paid plus accrued interest.

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 5 – 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.

Effective October 31, 2020 the Fund adopted Financial Accounting Standards Board (“FASB”) 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.* The amendments in this Update require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. See Note 6 – Employee Benefit Plans.

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 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, 2020 and 2019, are as follows:

	2020	2019
Net unrealized gain on securities available for sale	$9,053,742	$3,244,067
Defined benefit pension plan:		
Unrecognized actuarial loss	(2,211,965)	(1,961,256)
Unrecognized prior service cost	(26,732)	(34,640)
	$6,815,045	$1,248,171

Approximately $454,000 of the unrecognized actuarial loss and $8,000 of the unrecognized prior service cost, included in accumulated other comprehensive income at October 31, 2020, is expected to be recognized as a component of net periodic pension cost in fiscal 2021.

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 qualified expenses, excluding those expenses directly related only to the Fund.

Recent Accounting Pronouncements

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 2018-14, *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. Early adoption is permitted. Management does not currently expect this ASU to have a significant impact on the consolidated financial statements.

3. ACQUISITION

Effective March 17, 2020, the DIF merged with The Co-operative Central Bank ("CCB"), a Massachusetts-chartered special act corporation. The merger results in a single organization with greater resources to protect deposits in member banks.

No consideration was exchanged in the merger, which was accounted for using the acquisition method of accounting. As such, the fair value of SIF was recognized as an addition to the Fund's fund balance, and all assets acquired and liabilities assumed were recognized at their fair values. There was no goodwill recorded for the transaction. As of the merger date, SIF had total assets of $103,572,669 and total liabilities of $1,248,566.

4. 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, 2020, approximately 79% are backed by mortgages.

The amortized cost, fair value, and unrealized gains and losses on securities classified as available for sale at October 31, 2020 and 2019, by contractual maturity, are presented in the following tables:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2020				
U.S. Treasury obligations and guarantees:				
Due in one year or less	$ 38,380,586	$ 460,299	$ (735)	$ 38,840,150
Due after one year through five years	177,751,011	4,644,268	(5,431)	182,389,848
Due after five years through ten years	23,452,097	367,361	(12,679)	23,806,779
	239,583,694	5,471,928	(18,845)	245,036,777
U.S. government-sponsored enterprise obligations:				
Due in one year or less	37,165,265	306,045	(1,619)	37,469,691
Due after one year through five years	128,909,384	1,278,760	(62,358)	130,125,786
Due after five years through ten years	4,675,175	131,638	—	4,806,813
	170,749,824	1,716,443	(63,977)	172,402,290
Mortgage- and asset-backed securities:				
Due in one year or less	8,317,848	15,505	(6,567)	8,326,786
Due after one year through five years	20,486,839	519,087	—	21,005,926
Due after five years through ten years	33,319,234	890,803	(2,849)	34,207,188
Due after ten years	15,773,014	537,525	(5,311)	16,305,228
	77,896,935	1,962,920	(14,727)	79,845,128
Total securities available for sale	$488,230,453	$9,151,291	$ (97,549)	$497,284,195

	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.

Proceeds from sales of securities available for sale during fiscal 2020 and 2019 were $120,013,203 and $35,852,199, respectively. Gross realized gains amounted to $822,973 and $16,312 for fiscal 2020 and 2019, respectively. Gross realized losses amounted to $11,775 and $23,363 for fiscal 2020 and 2019, 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, 2020 and 2019, are as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2020						
U.S. Treasury obligations and guarantees	$ 18,225,631	$ (18,845)	$ —	$ —	$ 18,225,631	$ (18,845)
U.S. government-sponsored enterprise obligations	33,414,721	(63,977)	—	—	33,414,721	(63,977)
Mortgage- and asset-backed securities	1,315,960	(8,160)	1,898,294	(6,567)	3,214,254	(14,727)
	$ 52,956,312	$ (90,982)	$ 1,898,294	$ (6,567)	$ 54,854,606	$(97,549)

	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)

At October 31, 2020, 24 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, 2020.

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, 2020, no impairment has been recognized.

At October 31, 2020 and 2019, 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, 2020 and 2019, 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.

5. 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 and results 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, 2020 and 2019.

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 of Boston.

During fiscal 2020 and 2019, no member banks were closed by the Commissioner, and no deposit insurance payments were made by the DIF from the Fund.

6. 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, 2020 and 2019 is as follows:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$8,531,817	$7,557,827
Service cost	297,587	130,985
Interest cost	322,578	272,095
Actuarial (gain) loss	368,242	767,417
Benefits paid	(805,870)	(196,507)
Benefit obligation at end of year	8,714,354	8,531,817
Change in plan assets:		
Fair value of plan assets at beginning of year	7,136,147	6,393,564
Actual return on plan assets	239,724	689,090
Employer contribution	350,000	250,000
Benefits paid	(805,870)	(196,507)
Fair value of plan assets at end of year	6,920,001	7,136,147
Unfunded status and accrued pension cost at end of year	$1,794,353	$1,395,670
Accumulated benefit obligation	$7,750,754	$7,438,484

The following table presents certain assumptions used in determining the benefit obligation at October 31, 2020 and 2019 and the benefit cost for the years then ended:

	2020	2019
Discount rate - funded status at year-end	3.98%	4.36%
Discount rate - benefit cost	4.36	4.09
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	7.75	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, 2020 and 2019 are as follows::

	2020	2019
Service cost	$297,587	$130,985
Interest cost	322,578	272,095
Expected return on plan assets	(505,399)	(439,748)
Amortization of prior service cost	7,908	7,908
Recognized net actuarial loss	383,208	306,408
	$505,882	$277,648

The service cost component of net periodic pension cost is included in salaries, employee benefits and related expenses and the remaining components are included in other operating expenses in the consolidated statements of net income.

The fair value of major categories of pension plan assets at October 31, 2020 and 2019, and the measurement levels within the fair value hierarchy, are summarized below.

	2020	
Asset Category	Level 1	Total
Collective funds	$ 675,869	$ 675,869
Equity securities	1,756,029	1,756,029
Mutual funds	892,460	892,460
	$3,324,358	3,324,358
Investments in funds measured at net asset value		3,595,643
Investments at fair value		$6,920,001

	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

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
2021	$1,170,141
2022	614,951
2023	1,044,776
2024	615,643
2025	628,969
2026-2030	3,609,833

The DIF plans to make a contribution to the plan during the year ending October 31, 2021 in the amount of approximately $400,000.

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 47% to 61% of total portfolio assets. The remainder of the portfolio is allocated to fixed income from 24% to 38% and other investments including global asset allocation and hedge funds from 9% to 21%. 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 2020 and 2019, the DIF's matching contribution expense for the defined contribution pension plan was $72,185 and $53,234, respectively.

7. 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 $74,855 for fiscal 2020 and $72,504 for fiscal 2019.

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.

8. RELATED PARTY TRANSACTIONS

A majority of the DIF’s nineteen directors are associated with member banks.

9. 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, 2020 and 2019 are summarized below. There were no liabilities measured at fair value on a recurring basis at October 31, 2020 or 2019.

2020	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale:				
U.S. Treasury obligations and guarantees	$188,394,084	$ 55,704,243	$ 938,450	$245,036,777
U.S. government-sponsored enterprise obligations	—	161,500,486	10,901,804	172,402,290
Mortgage- and asset-backed securities	—	77,946,835	1,898,293	79,845,128
Total	$188,394,084	$295,151,564	$13,738,547	$497,284,195

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

As of October 31, 2020, Level 3 assets reflect one U.S. Treasury obligation and guarantee, 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, 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.

During the year ended October 31, 2020 and 2019, the Fund had $3,836,635 and $7,533,162, respectively, in purchases that are considered Level 3 assets. There were no transfers, into or out of Level 3 assets during 2020 or 2019.

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, 2020 or 2019.

10. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic. While disruption is currently expected to be temporary, there is considerable uncertainty about its possible duration. As a result, significant economic uncertainties have arisen which are likely to negatively impact the Fund's members, employees, vendors and business operations. Other negative financial and operational impacts could occur although such potential impact is unknown and cannot be reasonably estimated at this time.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 26, 2021, which is the date the financial statements were available to be issued.

To the Board of Directors of the Depositors Insurance Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of the Liquidity Fund, which comprise the statements of condition as of October 31, 2020 and 2019, and the related statements of net income and comprehensive income, 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 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, 2020 and 2019, 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.

Wolf & Company, P.C.

Boston, Massachusetts
January 26, 2021

October 31, 2020 and 2019

	2020	2019
Assets		
Cash	$ 328,578	$ 165,998
Securities available for sale, at fair value	7,411,938	6,299,364
Federal Home Loan Bank stock	12,400	12,400
Accrued interest receivable	19,034	40,614
Other assets	10,363	—
Total assets	$7,782,313	$6,518,376
Liabilities and Fund Balance		
Dividends payable	$ —	$ 326,189
Total liabilities	—	326,189
Undistributed fund balance	7,752,476	6,162,700
Accumulated other comprehensive income	29,837	29,487
Total fund balance	7,782,313	6,192,187
Total liabilities and fund balance	$7,782,313	$6,518,376

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

Years Ended October 31, 2020 and 2019

	2020	2019
Income:		
Interest and dividends on investments	$115,985	$142,014
Expenses:		
Expenses allocated from the Deposit Insurance Fund	51,311	47,624
Other expenses	213	—
Total expenses	51,524	47,624
Net income	64,461	94,390
Other comprehensive income:		
Unrealized holding gains on securities available for sale arising during the period	350	55,763
Comprehensive income	$ 64,811	$150,153

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

Years Ended October 31, 2020 and 2019

	Undistributed Fund Balance	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
Fund balance at October 31, 2018	$6,394,499	$(26,276)	$6,368,223
Comprehensive income	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
Comprehensive income	64,461	350	64,811
Net assets acquired in acquisition (Note 3)	1,525,315	—	1,525,315
Fund balance at October 31, 2020	$7,752,476	$ 29,837	$7,782,313

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

Years Ended October 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income	$ 64,461	$ 94,390
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of securities	35,033	(13,786)
Change in accrued interest receivable	50,738	(3,016)
Change in other assets	35,422	—
Net cash provided by operating activities	185,654	77,588
Cash flows from investing activities:		
Cash received in connection with acquisition	245,184	—
Maturities of securities available for sale	4,913,299	2,820,000
Purchases of securities available for sale	(4,855,368)	(2,824,660)
Redemption of Federal Home Loan Bank stock	—	9,200
Net cash provided by investing activities	303,115	4,540
Cash flows from financing activities:		
Dividends paid	(326,189)	—
Net cash used in financing activities	(326,189)	—
Net change in cash	162,580	82,128
Cash at beginning of year	165,998	83,870
Cash at end of year	$ 328,578	$ 165,998
Non-cash activities:		
Dividends declared	$ —	$ 326,189
Non-cash financing activities in connection with acquisition:		
Fair value of assets acquired, net of liabilities assumed	$ 1,525,315	$ —
Fair value of acquired entity	1,525,315	—

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

Years Ended October 31, 2020 and 2019

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

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.

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. ACQUISITION

Effective March 17, 2020, the DIF merged with The Co-operative Central Bank (“CCB”), a Massachusetts-chartered special act corporation. As part of the Combination Agreement, CCB’s Reserve Fund, was merged into the Liquidity Fund. The merger creates a single fund making reserve funds available to member banks.

No consideration was exchanged in the merger, which was accounted for using the acquisition method of accounting. As such, the fair value of the Reserve Fund was recognized as an addition to the Liquidity Fund’s fund balance, and all assets acquired and liabilities assumed were recognized at their fair values. There was no goodwill recorded for the transaction. As of the merger date, the Reserve Fund had total assets of $1,525,315 and no liabilities.

4. 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, 2020 and 2019, by contractual maturity, are as follows:

2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury obligations:				
Due in one year or less	$2,908,719	$24,440	$ —	$2,933,159
Due after one year through five years	2,924,111	—	(2,539)	2,921,572
	5,832,830	24,440	(2,539)	5,854,731
U.S. government-sponsored enterprise obligations:				
Due in one year or less	586,504	575	—	587,079
Due after one year through five years	962,767	7,361	—	970,128
	1,549,271	7,936	—	1,557,207
Total securities available for sale	$7,382,101	$32,376	$ (2,539)	$7,411,938

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

There were no sales of securities during the years ended October 31, 2020 or 2019.

As of October 31, 2020 the fair value of U.S. Treasury obligations in a loss position was $2,921,572, with gross unrealized losses of $2,539. These securities were in a loss position for less than twelve months as of October 31, 2020.

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, 2020 no impairment has been recognized.

At October 31, 2020 and 2019, 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, 2020 and 2019, 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.

5. RELATED PARTY TRANSACTIONS

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

6. 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, 2020 and 2019 are summarized below. There were no liabilities measured at fair value on a recurring basis at October 31, 2020 or 2019.

October 31, 2020	Level 1	Level 2	Level 3	Total Fair Value
Securities available for sale:				
U.S. Treasury obligations	$5,854,731	$ —	$ —	$ 5,854,731
U.S. government-sponsored enterprise obligations	—	1,557,207	—	1,557,207
	$5,854,731	$1,557,207	$ —	$ 7,411,938
October 31, 2019				
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

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, 2020 or 2019.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 26, 2021, 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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