



DEPOSITORS
INSURANCE
FUND

2021 Annual Report

Depositors Insurance Fund Annual Report

Year ended October 31, 2021

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ANNUAL MEETING

March 11, 2022; Zoom Video Conference Call; 10:00 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.

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

DIF Member Banks

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

As of December 31, 2021

Officers

Gilda M. Nogueira

Chair

Mark R. O'Connell

Vice Chair

Andrew J. Calamare

President and
Chief Executive Officer

Judith M. Javidpour

Senior Vice President,
Chief Financial Officer and
Treasurer

John J. D'Alessandro

Senior Vice President

Kara M. McNamara

Senior Vice President

Matthew P. Calnan

Vice President

Annemarie Lee

Vice President

Board of Directors

Donna L. Boulanger

Chief Executive Officer
North Brookfield Savings Bank

Peter G. Brown

President and Chief Executive Officer
Dedham Institution for Savings

Scott D. Cote

Chairman
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

Chairman
Monson Savings Bank

Edward F. Manzi, Jr.

Chairman and Chief Executive Officer
Fidelity Bank

Eileen P. McAnney

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.

Chairman, President and
Chief Executive Officer
Coastal Heritage Bank

Michael E. Tucker

Chief Executive Officer
Greenfield Cooperative Bank

Raija Vaisanen

Associate Director
Massachusetts Workforce Association

As of December 31, 2021

Depositors Insurance Fund Highlights

As of October 31, 2021 and 2020

Deposit Insurance Fund	<u>2021</u>	<u>2020</u>
Annual Assessments	\$ 4,740,341	\$ 3,751,350
Funds Available	\$ 508,429,563	\$ 507,990,639
Insured Excess Deposits	\$27,136,094,019	\$23,698,985,955
Coverage Ratio ¹	1.87%	2.14%

Liquidity Fund	<u>2021</u>	<u>2020</u>
Fund balance	\$ 7,711,739	\$ 7,782,313

¹The 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

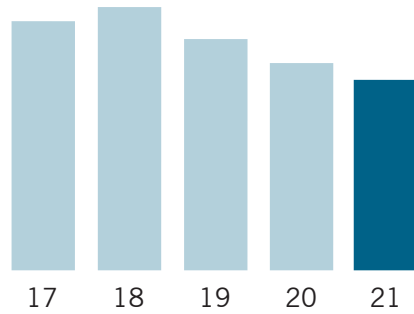
(In thousands, calendar year)

	<u>2021</u>	<u>2020</u>
Balance Sheet		
Assets:		
Securities	\$ 17,845,829	\$13,024,449
Loans (net)	72,899,711	70,561,134
Other	<u>14,332,991</u>	<u>13,096,593</u>
Total Assets	<u>\$105,078,531</u>	<u>\$96,682,176</u>
Liabilities:		
Deposits	\$ 89,263,701	\$80,235,490
Borrowed Funds	3,202,963	4,571,053
Other	<u>1,098,928</u>	<u>1,251,002</u>
Total Liabilities	<u>93,565,592</u>	<u>86,057,545</u>
Equity Capital	<u>11,512,939</u>	<u>10,624,631</u>
Total Liabilities and Equity Capital	<u>\$105,078,531</u>	<u>\$96,682,176</u>
Income Statement		
Total Interest Income	\$ 3,131,355	\$ 3,188,725
Total Interest Expense	<u>(319,779)</u>	<u>(602,302)</u>
Net Interest Income	2,811,576	2,586,423
Gains on Sales of Debt Securities	16,033	40,125
Gains on Sales of Loans	235,813	362,797
Other Noninterest Income	440,057	437,870
Total Noninterest Expense	(2,396,145)	(2,323,712)
Provision for Loan & Lease Losses	(39,611)	(217,244)
Unrealized & Realized Gains (Losses) on Equity Securities	<u>234,374</u>	<u>51,432</u>
Income before Taxes	1,302,097	937,691
Taxes	<u>(301,209)</u>	<u>(215,330)</u>
Net Income	<u>\$ 1,000,888</u>	<u>\$ 722,361</u>

Industry Highlights

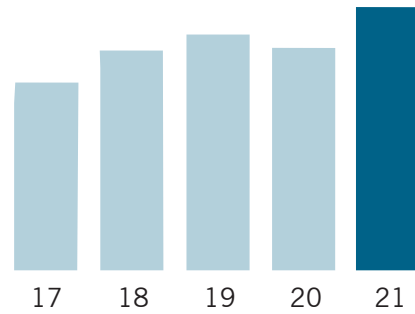
Net Interest Margin

3.16 3.21 3.09 3.00 2.94



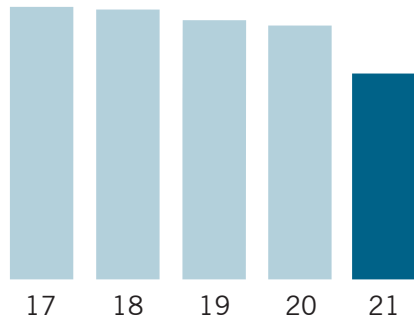
Return on Average Assets

0.65 0.78 0.84 0.79 0.99



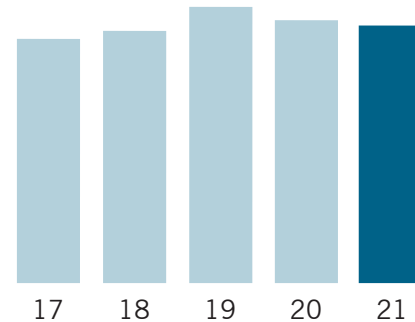
Operating Expense as % of Average Total Assets

2.61 2.60 2.56 2.54 2.36



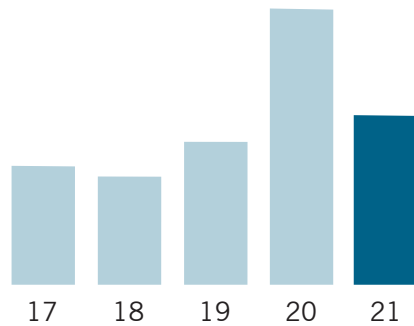
Tier 1 Leverage Capital Ratio

10.74 10.84 11.33 10.92 10.91



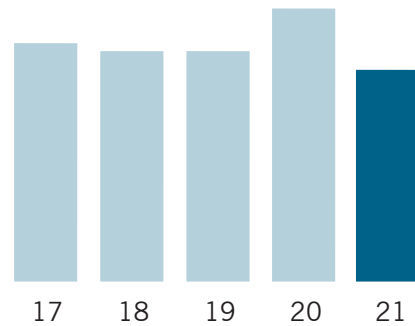
Deposit Growth

7.60 7.44 9.08 17.90 11.25



Nonperforming Assets as % of Total Loans and OREO

0.53 0.50 0.50 0.66 0.43



All references to historical industry financial data has been restated to reflect only the current 81 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, 2021 and 2020, 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.

Auditor's Responsibility

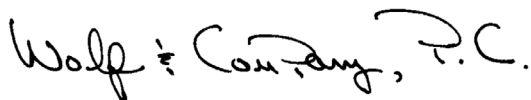
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 auditor's 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, 2021 and 2020, 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 25, 2022

October 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 4,452,873	\$ 2,891,744
Certificates of deposit	982,000	5,984,000
Securities available for sale, at fair value	503,497,595	497,284,195
Federal Home Loan Bank stock	769,300	678,000
Accrued interest receivable	2,471,793	2,366,064
Life insurance	5,702,438	5,702,438
Other assets	<u>1,482,687</u>	<u>2,413,383</u>
Total assets	<u>\$519,358,686</u>	<u>\$517,319,824</u>
Liabilities and Fund Balance		
Accrued expenses and other liabilities	\$ 4,385,104	\$ 2,795,364
Total liabilities	<u>4,385,104</u>	<u>2,795,364</u>
Commitments and contingencies (Note 6,7)		
Undistributed fund balance	514,629,517	507,709,415
Accumulated other comprehensive income	<u>344,065</u>	<u>6,815,045</u>
Total fund balance	<u>514,973,582</u>	<u>514,524,460</u>
Total liabilities and fund balance	<u>\$519,358,686</u>	<u>\$517,319,824</u>

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

Years Ended October 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Income:		
Interest and dividends on investments	\$ 6,724,039	\$ 8,304,736
Assessments	4,740,341	3,751,350
Net gain on sales of securities available for sale	<u>142,437</u>	<u>811,198</u>
Total income	<u>11,606,817</u>	<u>12,867,284</u>
Expenses:		
Salaries, employee benefits and related expenses	2,768,905	3,139,351
Professional and contract services	835,106	713,088
Technology	245,103	269,281
Deposit insurance materials	45,843	95,543
Director fees, meetings and travel	236,201	217,796
Legal	2,044	194,984
Occupancy	96,558	95,183
Insurance	84,550	78,238
Other operating expenses	<u>422,177</u>	<u>317,518</u>
	4,736,487	5,120,982
Expenses allocated to Liquidity Fund	<u>(49,772)</u>	<u>(51,311)</u>
Total expenses, net	<u>4,686,715</u>	<u>5,069,671</u>
Net income	<u>\$ 6,920,102</u>	<u>\$ 7,797,613</u>

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

Years Ended October 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net income	\$ 6,920,102	\$ 7,797,613
Other comprehensive income (loss):		
Securities available for sale:		
Unrealized holding gains (losses) arising during the year	(7,703,356)	6,620,873
Reclassification adjustment for gains realized in net income	<u>(142,437)</u>	<u>(811,198)</u>
Net unrealized gain (loss)	<u>(7,845,793)</u>	<u>5,809,675</u>
Defined benefit plan:		
Settlement expense ⁽¹⁾	62,978	—
Gains (losses) arising during the period	850,760	(633,917)
Reclassification adjustment for losses recognized in net income ⁽¹⁾	453,736	383,208
Reclassification adjustment for prior service cost recognized in net income ⁽¹⁾	<u>7,908</u>	<u>7,908</u>
Net unrecognized gain (loss)	<u>1,375,382</u>	<u>(242,801)</u>
Other comprehensive income (loss)	<u>(6,470,411)</u>	<u>5,566,874</u>
Comprehensive income	<u>\$ 449,691</u>	<u>\$13,364,487</u>

⁽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.

Years Ended October 31, 2021 and 2020

	Undistributed Fund Balance	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
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
Comprehensive income (loss)	6,920,102	(6,470,980)	449,122
Fund balance at October 31, 2021	\$514,629,517	\$ 344,065	\$514,973,582

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

Years Ended October 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Net income	\$ 6,920,102	\$ 7,797,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on sales of securities available for sale	(142,437)	(811,198)
Net amortization of premiums on securities available for sale	2,740,907	1,347,602
Net change in:		
Accrued interest receivable	(105,729)	(173,976)
Other assets	2,320,529	56,411
Accrued expenses and other liabilities	2,965,122	(654,552)
Net cash provided by operating activities	<u>14,698,494</u>	<u>7,561,900</u>
Cash flows from investing activities:		
Cash received in connection with acquisition	—	2,560,220
Net change in certificates of deposit	5,002,000	4,319,000
Proceeds from sales of securities available for sale	41,088,723	120,013,203
Proceeds from maturities, calls and paydowns of securities available for sale	112,498,791	70,332,142
Purchases of securities available for sale	(171,635,579)	(218,114,080)
Purchase of Federal Home Loan Bank stock	(91,300)	—
Net cash used in investing activities	<u>(13,137,365)</u>	<u>(20,889,515)</u>
Net change in cash and cash equivalents	1,561,129	(13,327,615)
Cash and cash equivalents at beginning of year	<u>\$ 2,891,744</u>	<u>\$ 16,219,359</u>
Cash and cash equivalents at end of year	<u>\$ 4,452,873</u>	<u>\$ 2,891,744</u>
Non-cash activities:		
Securities matured pending proceeds	\$ 1,389,833	\$ 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, 2021 and 2020

1. DESCRIPTION OF BUSINESS

Depositors Insurance Fund

The Depositors Insurance Fund (the "DIF"), which conducted 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.

Reclassification

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

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 interest income using the interest method over the terms of the securities, with the exception of callable debt security premiums, which are amortized to the earliest call date. 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, 2021 and 2020, assets under management had a fair value of \$357,794,998 and \$395,309,869, respectively. These are included in securities available for sale on the consolidated statements of condition.

Effective October 31, 2021 the Fund adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“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. Adoption of this update did not have a material impact on the Fund’s consolidated financial statements.

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. 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. 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, included in the fund balance at October 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Net unrealized gain on securities available for sale	\$1,207,380	\$9,053,742
Defined benefit pension plan:		
Unrecognized actuarial loss	(844,491)	(2,211,965)
Unrecognized prior service cost	<u>(18,824)</u>	<u>(26,732)</u>
	<u>\$ 344,065</u>	<u>\$6,815,045</u>

Approximately \$158,000 of the unrecognized actuarial loss and \$8,000 of the unrecognized prior service cost, included in accumulated other comprehensive income at October 31, 2021, is expected to be recognized as a component of net periodic pension cost in fiscal 2022.

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 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, 2021, approximately 75% are backed by mortgages.

The amortized cost, fair value, and unrealized gains and losses on securities classified as available for sale at October 31, 2021 and 2020, by contractual maturity, are presented in the following tables:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
2021				
U.S. Treasury obligations and guarantees:				
Due in one year or less	\$ 70,530,311	\$ 644,721	\$ —	\$ 71,175,032
Due after one year through five years	229,752,529	1,458,624	(1,065,299)	230,145,854
Due after five years through ten years	14,232,140	176,697	(120,692)	14,288,145
	<u>314,514,980</u>	<u>2,280,042</u>	<u>(1,185,991)</u>	<u>315,609,031</u>
U.S. government-sponsored enterprise obligations:				
Due in one year or less	28,188,097	113,741	—	28,301,838
Due after one year through five years	108,009,217	65,059	(983,997)	107,090,279
	<u>136,197,314</u>	<u>178,800</u>	<u>(983,997)</u>	<u>135,392,117</u>
Mortgage- and asset-backed securities:				
Due in one year or less	1,916,953	11,242	—	1,928,195
Due after one year through five years	15,381,103	234,284	(24,637)	15,590,750
Due after five years through ten years	20,998,496	510,286	(4,606)	21,504,176
Due after ten years	13,281,369	249,557	(57,600)	13,473,326
	<u>51,577,921</u>	<u>1,005,369</u>	<u>(86,843)</u>	<u>52,496,447</u>
Total securities available for sale	<u>\$502,290,215</u>	<u>\$3,464,211</u>	<u>\$(2,256,831)</u>	<u>\$503,497,595</u>

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
2020				
U.S. Treasury obligations and guarantees:				
Due in one year or less	\$ 40,929,457	\$ 489,073	\$ (735)	\$ 41,417,795
Due after one year through five years	189,248,272	5,028,684	(5,431)	194,271,525
Due after five years through ten years	<u>28,127,272</u>	<u>498,999</u>	<u>(12,679)</u>	<u>28,613,592</u>
	<u>258,305,001</u>	<u>6,016,756</u>	<u>(18,845)</u>	<u>264,302,912</u>
U.S. government-sponsored enterprise obligations:				
Due in one year or less	34,616,393	277,272	(1,619)	34,892,046
Due after one year through five years	<u>117,412,124</u>	<u>894,343</u>	<u>(62,358)</u>	<u>118,244,109</u>
	<u>152,028,517</u>	<u>1,171,615</u>	<u>(63,977)</u>	<u>153,136,155</u>
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	<u>15,773,014</u>	<u>537,525</u>	<u>(5,311)</u>	<u>16,305,228</u>
	<u>77,896,935</u>	<u>1,962,920</u>	<u>(14,727)</u>	<u>79,845,128</u>
Total securities available for sale	<u>\$488,230,453</u>	<u>\$9,151,291</u>	<u>\$(97,549)</u>	<u>\$497,284,195</u>

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 2021 and 2020 were \$41,088,723 and \$120,013,203, respectively. Gross realized gains amounted to \$241,310 and \$822,973 for fiscal 2021 and 2020, respectively. Gross realized losses amounted to \$98,873 and \$11,775 for fiscal 2021 and 2020, 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, 2021 and 2020, are as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2021						
U.S. Treasury obligations and guarantees	\$148,684,886	\$(1,139,475)	\$ 4,861,186	\$ (46,515)	\$153,546,072	\$(1,185,990)
U.S. government-sponsored enterprise obligations	79,641,853	(717,247)	16,063,811	(266,750)	95,705,664	(983,997)
Mortgage- and asset-backed securities	6,773,028	(80,883)	513,632	(5,961)	7,286,660	(86,844)
	<u>\$235,099,767</u>	<u>\$(1,937,605)</u>	<u>\$ 21,438,629</u>	<u>\$ (319,226)</u>	<u>\$256,538,396</u>	<u>\$(2,256,831)</u>

	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)
	<u>\$ 52,956,312</u>	<u>\$ (90,982)</u>	<u>\$ 1,898,294</u>	<u>\$ (6,567)</u>	<u>\$ 54,854,606</u>	<u>\$ (97,549)</u>

At October 31, 2021, 76 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, 2021.

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, 2021, no impairment has been recognized.

At October 31, 2021 and 2020, the DIF's investment in FHLBB stock was \$781,700 and \$690,400, respectively of which \$769,300 and \$678,000 was allocated to the Fund, respectively. 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, 2021 and 2020, 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, 2021 and 2020.

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 2021 and 2020, 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$8,714,354	\$8,531,817
Service cost	262,858	297,587
Interest cost	323,772	322,578
Actuarial loss	295,192	368,242
Benefits paid	(983,495)	(805,870)
Benefit obligation at end of year	<u>8,612,681</u>	<u>8,714,354</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	6,920,001	7,136,147
Actual return on plan assets	1,664,752	239,724
Employer contribution	400,000	350,000
Benefits paid	(983,495)	(805,870)
Fair value of plan assets at end of year	<u>8,001,258</u>	<u>6,920,001</u>
Unfunded status and accrued pension cost at end of year	<u>\$ 611,423</u>	<u>\$1,794,353</u>
Accumulated benefit obligation	<u>\$7,415,973</u>	<u>\$7,750,754</u>

The following table presents certain assumptions used in determining the benefit obligation at October 31, 2021 and 2020 and the benefit cost for the years then ended:

	<u>2021</u>	<u>2020</u>
Discount rate - funded status at year-end	3.97%	3.98%
Discount rate - benefit cost	3.98	4.36
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	7.25	7.75

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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Service cost	\$262,858	\$297,587
Interest cost	323,772	322,578
Expected return on plan assets	(518,800)	(505,399)
Amortization of prior service cost	7,908	7,908
Recognized net actuarial loss	453,736	383,208
Settlement expense	<u>62,978</u>	<u>—</u>
	<u>\$592,452</u>	<u>\$505,882</u>

The fair value of major categories of pension plan assets at October 31, 2021 and 2020, and the measurement levels within the fair value hierarchy, are summarized below.

<u>Asset Category</u>	<u>2021</u>	
	<u>Level 1</u>	<u>Total</u>
Collective funds	\$ 871,478	\$ 871,478
Equity securities	1,964,930	1,964,930
Mutual funds	<u>954,034</u>	<u>954,034</u>
	<u>\$3,790,442</u>	3,790,442
Investments in funds measured at net asset value		<u>4,210,816</u>
Investments at fair value		<u>\$8,001,258</u>
		<u>2020</u>
<u>Asset Category</u>	<u>Level 1</u>	<u>Total</u>
Collective funds	\$ 675,869	\$ 675,869
Equity securities	1,756,029	1,756,029
Mutual funds	<u>892,460</u>	<u>892,460</u>
	<u>\$3,324,358</u>	3,324,358
Investments in funds measured at net asset value		<u>3,595,643</u>
Investments at fair value		<u>\$6,920,001</u>

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:

<u>Year Ending October 31,</u>	<u>Amount</u>
2022	\$ 533,493
2023	1,063,558
2024	638,650
2025	660,732
2026	1,162,918
2027-2031	3,866,633

The DIF plans to make a contribution to the plan during the year ending October 31, 2022 in the amount of approximately \$375,000.

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 46% to 63% of total portfolio assets. The remainder of the portfolio is allocated to fixed income from 28% to 42% and other investments including global asset allocation and hedge funds from 3% to 15%. 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.) to limit risks from large market swings.

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 2021 and 2020, the DIF's matching contribution expense for the defined contribution pension plan was \$66,410 and \$72,185, 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 Agreements

The DIF has entered into employment agreements with senior executives that generally provide for a specified minimum annual compensation. Employment may be terminated for cause, as defined, without incurring any continuing obligations. The agreements have 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 \$73,956 for fiscal 2021 and \$74,855 for fiscal 2020.

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 eighteen 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, 2021 and 2020 are summarized below. There were no liabilities measured at fair value on a recurring basis at October 31, 2021 or 2020.

2021	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Securities available for sale:				
U.S. Treasury obligations and guarantees	\$252,041,126	\$ 63,567,905	\$ —	\$315,609,031
U.S. government-sponsored enterprise obligations	—	135,392,117	—	135,392,117
Mortgage- and asset-backed securities	—	52,496,447	—	52,496,447
Total	<u>\$252,041,126</u>	<u>\$251,456,469</u>	<u>\$ —</u>	<u>\$503,497,595</u>

2020

Securities available for sale:				
U.S. Treasury obligations and guarantees	\$188,394,084	\$ 75,908,828	\$ —	\$264,302,912
U.S. government-sponsored enterprise obligations	—	153,136,155	—	153,136,155
Mortgage- and asset-backed securities	—	79,845,128	—	79,845,128
Total	<u>\$188,394,084</u>	<u>\$308,890,111</u>	<u>\$ —</u>	<u>\$497,284,195</u>

During the year ended October 31, 2021 and 2020, the Fund had no assets that are considered Level 3 assets. There were no transfers, into or out of Level 3 assets during 2021 or 2020.

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, 2021 or 2020.

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 25, 2022, which is the date the financial statements were available to be issued. As of December 2021, the Board of Directors voted to dissolve the JAE Corporation, with the underlying assets of the Corporation to be absorbed by the DIF.

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, 2021 and 2020, 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.

Auditor's 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 auditor's 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, 2021 and 2020, 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 25, 2022

October 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash	\$ 148,952	\$ 328,578
Securities available for sale, at fair value	6,546,006	7,411,938
Federal Home Loan Bank stock	12,400	12,400
Accrued interest receivable	19,953	19,034
Other assets	<u>1,005,000</u>	<u>10,363</u>
Total assets	<u>\$7,732,311</u>	<u>\$7,782,313</u>
Liabilities and Fund Balance		
Other payables	<u>\$ 20,572</u>	<u>\$ —</u>
Total liabilities	<u>20,572</u>	<u>—</u>
Undistributed fund balance	7,743,093	7,752,476
Accumulated other comprehensive income (loss)	<u>(31,354)</u>	<u>29,837</u>
Total fund balance	<u>7,711,739</u>	<u>7,782,313</u>
Total liabilities and fund balance	<u>\$7,732,311</u>	<u>\$7,782,313</u>

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

Years Ended October 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Income:		
Interest and dividends on investments	\$ 41,958	\$115,985
Expenses:		
Expenses allocated from the Deposit Insurance Fund	49,772	51,311
Other expenses	<u>1,569</u>	<u>213</u>
Total expenses	<u>51,341</u>	<u>51,524</u>
Net income (loss)	<u>(9,383)</u>	<u>64,461</u>
Other comprehensive income:		
Unrealized holding gains/(losses) on securities available for sale arising during the period	<u>(61,191)</u>	<u>350</u>
Comprehensive income (loss)	<u>\$ (70,574)</u>	<u>\$ 64,811</u>

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

Years Ended October 31, 2021 and 2020

	Undistributed Fund Balance	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
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)	<u>1,525,315</u>	<u>—</u>	<u>1,525,315</u>
Fund balance at October 31, 2020	7,752,476	29,837	7,782,313
Comprehensive loss	<u>(9,383)</u>	<u>(61,191)</u>	<u>(70,574)</u>
Fund balance at October 31, 2021	<u>\$7,743,093</u>	<u>\$(31,354)</u>	<u>\$7,711,739</u>

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

Years Ended October 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income (loss)	\$ (9,383)	\$ 64,461
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net amortization of securities	33,256	35,033
Change in accrued interest receivable	(919)	50,738
Change in other assets	(994,637)	35,422
Change in other payables	20,572	—
Net cash provided by (used in) operating activities	<u>(951,111)</u>	<u>185,654</u>
Cash flows from investing activities:		
Cash received in connection with acquisition	—	245,184
Maturities of securities available for sale	4,440,562	4,913,299
Purchases of securities available for sale	<u>(3,669,077)</u>	<u>(4,855,368)</u>
Net cash provided by investing activities	<u>771,485</u>	<u>303,115</u>
Cash flows from financing activities:		
Dividends paid	—	(326,189)
Net cash used in financing activities	<u>—</u>	<u>(326,189)</u>
Net change in cash	(179,626)	162,580
Cash at beginning of year	<u>328,578</u>	<u>165,998</u>
Cash at end of year	<u>\$ 148,952</u>	<u>\$ 328,578</u>
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, 2021 and 2020

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 interest income using the interest method over the terms of the securities, with the exception of callable debt security premiums, which are amortized to the earliest call date. 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. 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, 2021 and 2020, by contractual maturity, are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2021				
U.S. Treasury obligations:				
Due in one year or less	\$3,209,101	\$ —	\$ (150)	\$3,208,951
Due after one year through five years	1,402,505	—	(27,173)	1,375,332
	<u>4,611,606</u>	<u>—</u>	<u>(27,323)</u>	<u>4,584,283</u>
U.S. government-sponsored enterprise obligations:				
Due after one year through five years	1,965,754	—	(4,031)	1,961,723
	<u>1,965,754</u>	<u>—</u>	<u>(4,031)</u>	<u>1,961,723</u>
Total securities available for sale	<u>\$6,577,360</u>	<u>\$ —</u>	<u>\$(31,354)</u>	<u>\$6,546,006</u>
2020				
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
	<u>5,832,830</u>	<u>24,440</u>	<u>(2,539)</u>	<u>5,854,731</u>
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
	<u>1,549,271</u>	<u>7,936</u>	<u>—</u>	<u>1,557,207</u>
Total securities available for sale	<u>\$7,382,101</u>	<u>\$32,376</u>	<u>\$ (2,539)</u>	<u>\$7,411,938</u>

There were no sales of securities available for sale during fiscal 2021 and 2020. There were no gross realized gains or losses during fiscal 2021 and 2020.

As of October 31, 2021 and 2020 the fair value of U.S. treasury obligations in a loss position was \$2,640,484 and \$2,921,572, respectively, with gross unrealized losses of \$27,323, and \$2,539, respectively. As of October 31, 2021 and 2020, the fair value of U.S. government-sponsored enterprise obligations in a loss position was \$1,961,723 and \$0, respectively, with gross unrealized losses of \$4,031 and \$0, respectively. These securities were in a loss position for less than twelve months as of October 31, 2021 and 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, 2021 no impairment has been recognized.

At October 31, 2021 and 2020, the DIF’s investment in FHLBB stock was \$781,700 and \$690,400, respectively, 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, 2021 and 2020, 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 eighteen 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, 2021 and 2020 are summarized below. There were no liabilities measured at fair value on a recurring basis at October 31, 2021 or 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
October 31, 2021				
Securities available for sale:				
U.S. Treasury obligations	\$4,584,283	\$ —	\$ —	\$4,584,283
U.S. government-sponsored enterprise obligations	<u>—</u>	<u>1,961,723</u>	<u>—</u>	<u>1,961,723</u>
	<u>\$4,584,283</u>	<u>\$1,961,723</u>	<u>\$ —</u>	<u>\$6,546,006</u>
October 31, 2020				
Securities available for sale:				
U.S. Treasury obligations	\$5,854,731	\$ —	\$ —	\$5,854,731
U.S. government-sponsored enterprise obligations	<u>—</u>	<u>1,557,207</u>	<u>—</u>	<u>1,557,207</u>
	<u>\$5,854,731</u>	<u>\$1,557,207</u>	<u>\$ —</u>	<u>\$7,411,938</u>

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, 2021 or 2020.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 25, 2022, 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.



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