Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, Edward J. Sargood
Name of the Holding Company Director and Official

CFO, SVP of Finance
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

10/08/2019
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☒ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

Date of Report (top-tier holding company's fiscal year-end):
June 30, 2019
Month / Day / Year

n/a
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Community Financial Mutual Holding Company
Legal Title of Holding Company

155 North Street
(Mailing Address of the Holding Company) Street / P.O. Box

Bennington	VT	05201
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Edward J. Sargood	CFO, SVP of Finance
Name	Title

802-445-7912
Area Code / Phone Number / Extension

802-447-7295
Area Code / FAX Number

esargood@bennbank.com
E-mail Address

www.thebankofbennington.com
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

☐ Yes Please identify the report items to which this request applies:

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.

☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.25 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

Form FRY-6

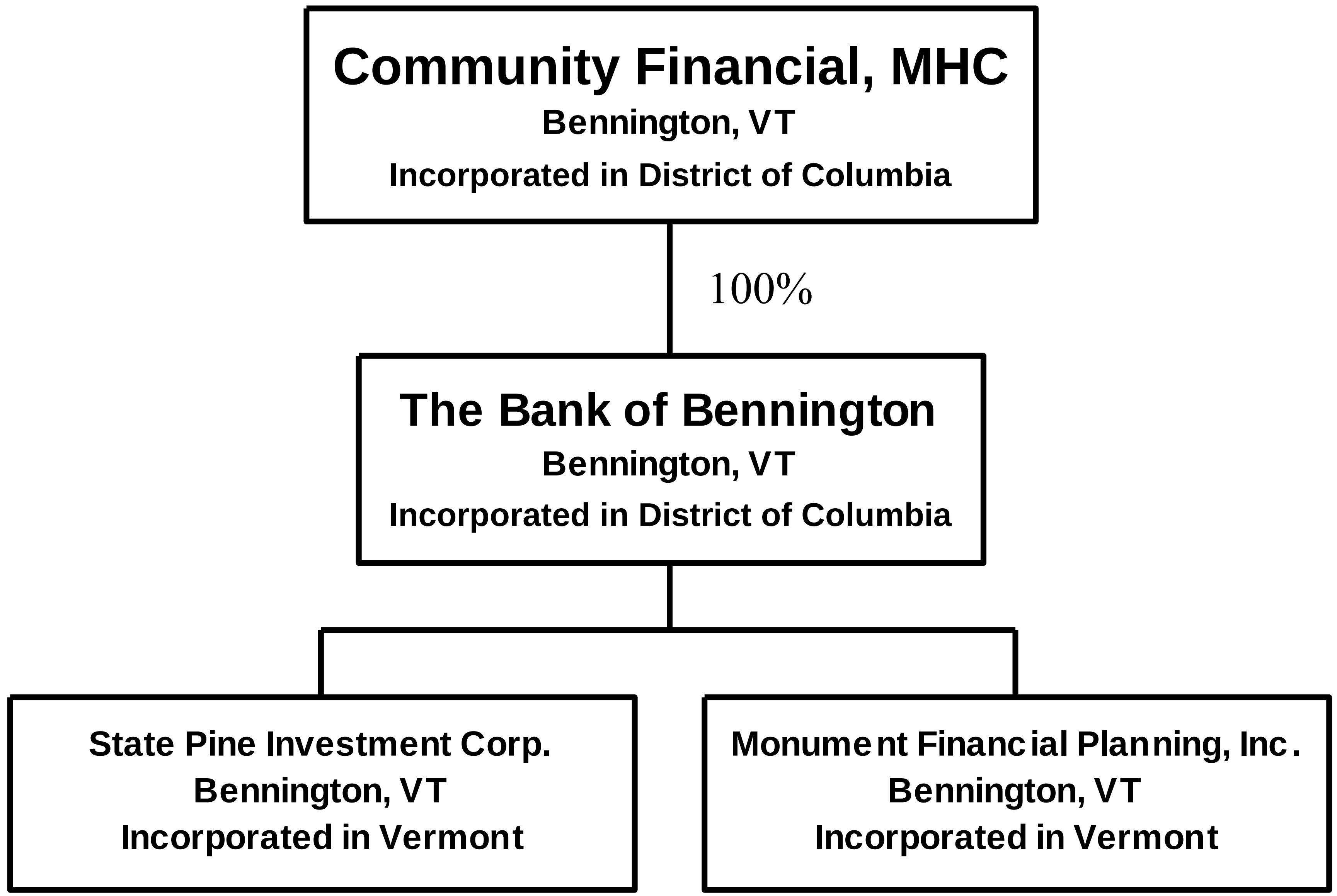
Community Financial Mutual Holding Company

155 North Street

Bennington, VT 05201

LEI: None Exists

Fiscal Year Ending June 30, 2019



Report Item 2b:

The Bank of Bennington

Main Office:	155 North Street Bennington VT 05201 802-442-8121
Branches:	78 Center Hill Rd Manchester Center VT 05255 802-362-4760
	3198 Route 7A Arlington, VT 05250 802-375-2319
	32 Phyllis Lane Bennington, VT 05201 802-445-3123
	143 Woodstock Ave Rutland, VT 05701 802-774-5085

Loan Production Office:

110 Merchants Row
Rutland, VT 05701
802-774-5017

Form FR Y-6
Community Financial MHC
Fiscal Year Ending June 30, 2019

Report Item 4: Insiders

Name, City, State, Country					Principal Occupation if other than with Holding Company	Title & Position with Holding Company (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Shares in Holding Company	Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	List name s of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
DIRECTORS										
Paquin	Thomas	T.	North Bennington, VT	USA	Pres., T&M Enterprises, Inc.	Director & Treasurer	President, T&M Enterprises, Inc.			
Chamberlain	Charles	C.	Manchester, VT	USA	Attorney(retired)/Consultant/Foundation Trustee	Director	Attorney(retired), Consultant, Foundation Trustee			
Keneally	Gerald	M.	Melbourne, FL	USA		Director (retired President & CEO, The Bank of Bennington)				
Donavan	Mark	A.	Bennington, VT	USA	Healthcare Consultant	Director	Healthcare Consultant			
Brown	James	D.	Greenwich, NY 12834	USA	President, The Bank of Bennington	Director & President (The Bank of Bennington)				
Horst	James	R.	Bennington, VT 05201	USA	Owner/Operator, Mt. Anthony Farms	Director & Chairman	Owner/Operator, Mt. Anthony Farms			
Kilburn	Michael	W.	Manchester Ctr, VT 05255	USA	Owner/Operator, Dees Electrical Services, Inc.	Director	Owner/Operator, Dees Electrical Services, Inc.			
Nemlich	Pamela	A.	Manchester Ctr, VT 05255	USA	Recruiting and Compensation Manager, The Orvis Company, Inc.	Director	Recruiting and Compensation Manager, The Orvis Company, Inc.			
Belnap	Florence	M.	Arlington, VT 05250	USA	CFO, Mack Molding	Director	CFO, Mack Molding			
Salem	Justin	P.	Bennington, VT 05201	USA	Owner/Operator, Salem Dentistry	Director	Owner/Operator, Salem Dentistry			
Morrisey	Jason	P.	North Bennington, VT	USA	Attorney	Director	Owner/Operator, Jason P. Morrissey & Sarah E. Wilson - Attorneys At Law			
Ahearn	John	M.	Bennington, VT 05201	USA	CFO, Riefenburg Construction	Director	CFO, Riefenburg Construction			
Brownlee	William	W.	Manchester Ctr, VT 05255	USA	Owner/Operator, H.N. Williams Store	Director	Owner/Operator, H.N. Williams Store			
Cohen	Laurie	T.	Bennington, VT 05201	USA	Partner, Nixon Peabody LLP	Director	Partner, Nixon Peabody LLP			
EXECUTIVE OFFICERS							Title			
Callahan	Mary	D.	Hoosick Falls, NY 12090	USA		Sr. VP Branch Administration (The Bank of Bennington)				
Sargood	Edward	J.	Hoosick Falls, NY 12090	USA		Sr. VP Finance, CFO (The Bank of Bennington)				
Bardin	David	E.	Wells, VT 05774	USA		Sr. VP of Lending (The Bank of Bennington)				
McLenithan	Shannon	L.	Bennington, VT 05201	USA		Sr. VP of Residential Lending (The Bank of Bennington)				

Community Financial, MHC and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2019 and 2018
With Independent Auditors' Report

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Community Financial, MHC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community Financial, MHC and Subsidiary, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Financial, MHC and Subsidiary as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Newman & Noyes LLC

Portsmouth, New Hampshire
September 17, 2019

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

June 30, 2019 and 2018

(In Thousands)

	2019	2018
ASSETS		
Cash and due from banks	$ 2,943	$ 3,558
Interest-bearing demand deposits with other banks	4,130	7,850
Cash and cash equivalents	7,073	11,408
Investments in available-for-sale securities	49,281	43,004
Federal Home Loan Bank stock, at cost	3,134	4,477
Loans, net	332,200	331,006
Premises and equipment	6,474	6,428
Accrued interest receivable	1,314	951
Deferred income tax asset, net	1,076	1,146
Cash surrender value of life insurance	8,278	8,093
Other assets	4,878	4,113
Total assets	$413,708	$410,626
LIABILITIES AND EQUITY		
Deposits:		
Noninterest-bearing	$ 23,854	$ 21,067
Interest-bearing	280,682	263,501
Total deposits	304,536	284,568
Federal Home Loan Bank advances	54,900	76,400
Other liabilities	6,915	6,370
Total liabilities	366,351	367,338
Equity:		
Retained earnings	47,390	43,906
Accumulated other comprehensive loss	(33)	(618)
Total equity	47,357	43,288
Total liabilities and equity	$413,708	$410,626

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

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2019 and 2018

(In Thousands)

	2019	2018
Interest and dividend income:		
Interest and fees on loans	$ 15,294	$ 14,893
Interest on debt securities:		
Taxable	953	709
Tax-exempt	59	77
Dividends	251	226
Other interest	58	30
Total interest and dividend income	16,615	15,935
Interest expense:		
Interest on deposits	2,379	1,619
Interest on Federal Home Loan Bank advances	1,405	1,507
Total interest expense	3,784	3,126
Net interest and dividend income	12,831	12,809
Provision for loan losses	200	–
Net interest and dividend income after provision for loan losses	12,631	12,809
Noninterest income:		
Customer service fees	1,323	1,209
Mortgage banking activities	130	209
Increase in cash surrender value of life insurance	185	190
Other income	266	236
Total noninterest income	1,904	1,844
Noninterest expense:		
Salaries and employee benefits	5,272	5,755
Occupancy and equipment expense	1,245	1,291
Data processing expense	923	841
FDIC insurance expense	220	283
(Gain) loss on sales of other real estate owned, including writedowns	(1)	71
Other expense	2,580	2,344
Total noninterest expense	10,239	10,585
Income before income tax expense	4,296	4,068
Income tax expense	812	1,681
Net income	$ 3,484	$ 2,387

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

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended June 30, 2019 and 2018

(In Thousands)

	2019	2018
Net income	$ 3,484	$ 2,387
Other comprehensive income (loss), net of tax:		
Net change in unrealized holding gains/losses on available-for-sale securities	585	(596)
Other comprehensive income (loss), net of tax	585	(596)
Comprehensive income	$ 4,069	$ 1,791

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

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended June 30, 2019 and 2018

(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, June 30, 2017	$41,519	$ (22)	$41,497
Net income	2,387	–	2,387
Other comprehensive loss, net of tax	–	(596)	(596)
Balance, June 30, 2018	43,906	(618)	43,288
Net income	3,484	–	3,484
Other comprehensive income, net of tax	–	585	585
Balance, June 30, 2019	$47,390	$ (33)	$47,357

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

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 and 2018

(In Thousands)

	2019	2018
Cash flows from operating activities:		
Net income	$ 3,484	$ 2,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	680	737
Change in deferred loan fees, net	(10)	10
Provision for loan losses	200	–
Depreciation and amortization of premises and equipment	383	339
(Gain) loss on sales of other real estate owned	(1)	71
Gain on sales of premises and equipment	–	(15)
Loans originated for sale	(4,803)	(5,660)
Proceeds from sales of loans	4,895	16,559
Net gain on loans sold	(92)	(116)
(Increase) decrease in accrued interest receivable	(363)	14
Increase in cash surrender value of life insurance	(185)	(190)
(Increase) decrease in other assets	(44)	174
Deferred income tax (benefit) expense	(86)	827
Increase in accrued expenses and other liabilities	545	369
Net cash provided by operating activities	4,603	15,506
Cash flows from investing activities:		
Principal payments and maturities on available-for-sale securities	10,772	11,655
Purchases of available-for-sale securities	(17,488)	(8,132)
Proceeds from sale of available-for-sale securities	500	–
Purchases of Federal Home Loan Bank stock	(84)	(112)
Redemptions of Federal Home Loan Bank stock	1,427	572
Purchase of other investments	(600)	(250)
Loan originations and principal collections, net	(1,733)	(14,409)
Recoveries of loans previously charged off	172	211
Capital expenditures of premises and equipment	(429)	(627)
Proceeds from sales of premises and equipment	–	141
Proceeds from sales of other real estate owned	57	972
Net cash used in investing activities	(7,406)	(9,979)
Cash flows from financing activities:		
Net increase in demand deposits, NOW, and savings accounts	14,569	15,250
Net increase (decrease) in time deposits	5,399	(9,621)
Net decrease in short-term advances from Federal Home Loan Bank	–	(17,000)
Proceeds from long-term Federal Home Loan Bank advances	1,500	19,000
Repayment of long-term Federal Home Loan Bank advances	(23,000)	(9,000)
Net cash used in financing activities	(1,532)	(1,371)
Net (decrease) increase in cash and cash equivalents	(4,335)	4,156
Cash and cash equivalents at beginning of year	11,408	7,252
Cash and cash equivalents at end of year	$ 7,073	$ 11,408

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2019 and 2018

(In Thousands)

	2019	2018
Supplemental disclosures:		
Interest paid	$ 3,805	$ 3,123
Income taxes paid	703	843
Loans transferred to other real estate owned	177	743
Loans transferred to loans held for sale	–	10,783
Other real estate owned transferred to other assets	114	–

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

1. Nature of Operations

Community Financial, MHC (the Company) is a mutual holding company. The Bank of Bennington (the Bank), a federally chartered bank and the Company's wholly-owned subsidiary, is headquartered in Bennington, Vermont. The Bank provides a variety of financial services to individuals and businesses. Its primary deposit products are demand, savings and other time accounts and its primary lending products are real estate mortgage, consumer and commercial loans.

2. Accounting Policies

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America (GAAP) and predominant practices within the banking industry. The consolidated financial statements were prepared using the accrual basis of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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 allowance for loan losses.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. The Bank's financial statements include State Pine Investment Corporation and Monument Financial Planning, Inc., the Bank's wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks and interest-bearing demand deposits with other banks.

Securities

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

2. Accounting Policies (Continued)

The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

- Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, or in a separate component of equity; they are merely disclosed in the notes to the consolidated financial statements.

- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of equity until realized.

- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

For any debt security with a fair value less than its amortized cost basis, the Company will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Company will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive income (loss).

Declines in marketable equity securities below their cost that are deemed other than temporary are reflected in earnings as realized losses.

Federal Home Loan Bank Stock

Federal Home Loan Bank of Boston (FHLB) stock is carried at cost and can only be sold to the FHLB based on its current redemption policies. Management evaluates the Bank's investment in FHLB stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Based on its most recent analysis of the FHLB as of June 30, 2019, management determined its investment was not impaired.

Limited Partnership Investments

The Company invests in qualified low-income housing developments through limited liability entities that generate low-income housing and rehabilitation tax credits. The Company has elected to account for these investments using the cost method whereby the initial cost of the investment in the limited liability entity is amortized in proportion to the tax credits allocated to the Company. The Company expects that this method of amortization produces a measurement that reasonably approximates the proportional amortization method. These investments are reported in other assets in the consolidated balance sheets in the amounts of $706,000 and $821,000 at June 30, 2019 and 2018, respectively. There were no outstanding commitments to these projects as of June 30, 2019 and 2018.

2. Accounting Policies (Continued)

Loans

Loans receivable that management has the intent and ability to hold until maturity or payoff, are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual lives of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

2. Accounting Policies (Continued)

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, commercial and consumer. Management uses rolling historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: historical loss experience related to economic cycle, levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions.

There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the year ended June 30, 2019. During the year ended June 30, 2018, the Company implemented a new qualitative factor to adjust for the cyclical nature of losses. This factor was created to capture historical loss data from calendar year 2009 to 2012, the most recent period of economic contraction.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate: Loans in this segment include first lien mortgages and home equity loans, which can be either first or second lien mortgages, primarily collateralized by owner-occupied residential real estate. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. Repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate: Loans in this segment are primarily income-producing properties throughout the southwestern part of Vermont and the Albany, New York area. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which, in turn, will have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

Commercial: Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer: Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower.

2. Accounting Policies (Continued)

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring (TDR) agreement.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDRs are initially classified as impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Other Real Estate Owned and In-Substance Foreclosure

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures. These properties are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure or transfer, establishing a new cost basis. Subsequent to foreclosure or transfer, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Any writedown from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets are included in other expenses, and subsequent writedowns and gains or losses recognized upon sale are included in (gain) loss on sales of other real estate owned.

2. Accounting Policies (Continued)

The Company classifies commercial loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place. An in-substance repossession or foreclosure occurs, and the Company is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either: (1) obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated lives of the improvements.

Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The Company recognizes a loan servicing fee for the difference between the principal and interest payment collected on the loan and the payment remitted to the investor. The capitalized mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing revenue.

Advertising

The Company directly expenses costs associated with advertising as they are incurred. Advertising expense amounted to $179,000 and $189,000 for the years ended June 30, 2019 and 2018, respectively.

Income Taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

2. Accounting Policies (Continued)

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and makes targeted improvements to GAAP as follows:

1. Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.
2. Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.
3. Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost.
4. Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
5. Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the consolidated financial statements.
6. Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10)*, which seeks to clarify ASU 2016-01 with respect to certain aspects of ASU 2016-01. The amendments in these updates are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company, as permitted under ASU 2016-01, adopted item 3 during fiscal year 2016. The Company adopted the remaining items in these ASUs on July 1, 2019 with no material impact on its consolidated financial statements.

2. Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU was issued to increase transparency and comparability among organizations by requiring reporting entities to recognize all leases, including operating, as lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements* to Topic 842, *Leases*, which seeks to clarify ASU 2016-02 with respect to certain aspects of the update and ASU 2018-11, *Leases (Topic 842) – Targeted Improvements*, which provides transition relief on comparative reporting upon adoption of the updates by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Following the issuance of the original pronouncement, there was a number of narrow-scope updates issued to date. The amendments in these ASUs are effective for fiscal years beginning after December 15, 2019. Early application is permitted. The Company anticipates that the adoption of these ASUs will not have a material impact on its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a reporting entity's portfolio. Additionally, this ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, which clarifies that receivables from operating leases are accounted for using the lease guidance and not as financial instruments. The update also delayed the effective date of ASU 2016-13 to fiscal years beginning after December 15, 2021, and interim periods within these fiscal years. Following the issuance of the original pronouncement, there was a number of narrow-scope updates issued to date. All entities may adopt the amendments in this ASU earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company does not intend to early adopt. The Company is currently reviewing the amendments in this ASU to determine the impact on its consolidated financial statements.

In August 2019, the FASB issued a proposed ASU that would grant private companies, not-for-profit organizations, and certain small public companies additional time to implement ASU 2016-02 and ASU 2016-13.The proposed ASU, if approved, will extend the effective dates of ASU 2016-02 and 2016-13 to fiscal years beginning after December 15, 2020 and 2022, respectively. Comments related to this proposed ASU are due by September 16, 2019.

2. Accounting Policies (Continued)

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*. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU modify the disclosure requirements for fair value measurements for Level 3 assets and liabilities, and eliminate the requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy, among other modifications. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2019 and are to be applied prospectively for all new disclosures, and retrospectively for existing disclosures that were modified or removed. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Company anticipates that the adoption of this ASU will not have a material effect on its consolidated financial statements.

3. Investments in Available-For-Sale Securities

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost basis of securities and their approximate fair values are as follows as of June 30:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
Available-for-sale securities				
2019:				
State and municipal	$ 2,354	$ 34	$ –	$ 2,388
Mortgage-backed securities	25,469	203	46	25,626
Asset-backed securities	21,500	39	272	21,267
	$49,323	$ 276	$ 318	$49,281
2018:				
State and municipal	$ 2,474	$ 10	$ 29	$ 2,455
Corporate bonds	500	3	–	503
Mortgage-backed securities	12,874	5	265	12,614
Asset-backed securities	27,939	2	509	27,432
	$43,787	$ 20	$ 803	$43,004

3. Investments in Available-For-Sale Securities (Continued)

The scheduled maturities of debt securities were as follows as of June 30, 2019:

	Fair Value (In Thousands)
Due after one year through five years	$ 524
Due after five years through ten years	1,864
Mortgage-backed securities	25,626
Asset-backed securities	21,267
	$49,281

During the year ended June 30, 2019, proceeds from the sale of an available-for-sale security amounted to $500,000. No gain or loss was recognized on the sale. There were no available-for-sale securities sold during the year ended June 30, 2018.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of equity as of June 30, 2019.

As of June 30, 2019 and 2018, the total carrying value of securities pledged to secure public deposit accounts and for other purposes was $2,538,000 and $2,601,000, respectively.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or longer, and are not other-than-temporarily impaired, are as follows as of June 30:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
2019						
Mortgage-backed securities	$ 2,656	$ 7	$ 5,785	$ 39	$ 8,441	$ 46
Asset-backed securities	–	–	16,683	272	16,683	272
	$ 2,656	$ 7	$22,468	$ 311	$25,124	$ 318
2018						
State and municipal	$ 1,317	$ 29	$ –	$ –	$ 1,317	$ 29
Mortgage-backed securities	5,912	77	5,772	188	11,684	265
Asset-backed securities	16,436	224	9,790	285	26,226	509
	$23,665	$ 330	$15,562	$ 473	$39,227	$ 803

3. Investments in Available-For-Sale Securities (Continued)

Management evaluates investments for other-than-temporary impairment based on the type of investment and the period of time the investment has been in an unrealized loss position. The unrealized losses at June 30, 2019 were comprised of twenty-one mortgage-backed securities and forty-six asset-backed securities. Management monitors the credit quality of the issuer, financial results and projections and current events relative to the issuer, and expected cash flows from the bonds on an ongoing basis. Management does not have the intention to sell and believes they will not be required to sell the securities for contractual, regulatory or liquidity reasons as of the reporting date. At June 30, 2019, management believes these investments are not other-than-temporarily impaired.

4. Loans

Loans consisted of the following as of June 30:

	2019	2018
	(In Thousands)	
Mortgage loans on real estate:		
Residential	$250,019	$249,678
Commercial	76,198	76,320
Commercial	9,077	8,268
Consumer	687	685
	335,981	334,951
Allowance for loan losses	(3,542)	(3,696)
Deferred fees, net	(239)	(249)
Net loans	$332,200	$331,006

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during the years ended June 30, 2019 and 2018. Total loans to such persons and their companies amounted to $3,484,000 and $2,017,000 as of June 30, 2019 and 2018, respectively.

4. Loans (Continued)

The following tables set forth information regarding the allowance for loan losses by portfolio segment as of and for the years ended June 30:

	Real Estate					
	Residential	Commercial	Commercial	Consumer	Unallocated	Total
			(In Thousands)			
2019						
Allowance for loan losses						
Beginning balance	$ 2,374	$ 888	$ 108	$ 44	$ 282	$ 3,696
Charge-offs	(40)	(459)	(25)	(2)	–	(526)
Recoveries	19	153	–	–	–	172
Provision (benefit)	(134)	560	34	(8)	(252)	200
Ending balance	$ 2,219	$ 1,142	$ 117	$ 34	$ 30	$ 3,542
Ending balance:						
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	2,219	1,142	117	34	30	3,542
	$ 2,219	$ 1,142	$ 117	$ 34	$ 30	$ 3,542
Loans						
Ending balance:						
Individually evaluated for impairment	$ 224	$ 2,220	$ 9	$ –	$ –	$ 2,453
Collectively evaluated for impairment	249,795	73,978	9,068	687	–	333,528
Total loans ending balance	$ 250,019	$ 76,198	$ 9,077	$ 687	$ –	$ 335,981

4. Loans (Continued)

	Real Estate Residential	Real Estate Commercial	Commercial	Consumer	Unallocated	Total
			(In Thousands)			
2018						
Allowance for loan losses						
Beginning balance	$ 2,281	$ 750	$ 52	$ 23	$ 745	$ 3,851
Charge-offs	(298)	(68)	–	–	–	(366)
Recoveries	117	87	–	7	–	211
Provision (benefit)	274	119	56	14	(463)	–
Ending balance	$ 2,374	$ 888	$ 108	$ 44	$ 282	$ 3,696
Ending balance:						
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	2,374	888	108	44	282	3,696
	$ 2,374	$ 888	$ 108	$ 44	$ 282	$ 3,696
Loans						
Ending balance:						
Individually evaluated for impairment	$ 233	$ 1,912	$ 261	$ –	$ –	$ 2,406
Collectively evaluated for impairment	249,445	74,408	8,007	685	–	332,545
Total loans ending balance	$ 249,678	$ 76,320	$ 8,268	$ 685	$ –	$ 334,951

The following tables set forth information regarding nonaccrual loans and past-due loans as of June 30:

	30-59 Days	60-89 Days	90 + Days	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
				(In Thousands)				
2019								
Real estate:								
Residential	$ –	$ 619	$ 800	$1,419	$ 248,600	$ 250,019	$ –	$ 833
Commercial	80	47	–	127	76,071	76,198	–	2,229
Commercial	–	–	–	–	9,077	9,077	–	40
Consumer	–	–	–	–	687	687	–	–
	$ 80	$ 666	$ 800	$1,546	$ 334,435	$ 335,981	$ –	$3,102

4. Loans (Continued)

	30-59 Days	60-89 Days	90 + Days	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
					(In Thousands)			
2018								
Real estate:								
Residential	$ –	$ 430	$ 427	$ 857	$ 248,821	$ 249,678	$ –	$ 484
Commercial	95	357	773	1,225	75,095	76,320	–	2,043
Commercial	–	–	–	–	8,268	8,268	–	40
Consumer	–	–	–	–	685	685	–	–
	$ 95	$ 787	$1,200	$2,082	$ 332,869	$ 334,951	$ –	$2,567

Information about loans that meet the definition of an impaired loan in Accounting Standards Codification (ASC) 310-10-35 is as follows as of and for the fiscal year ended June 30:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
2019					
With no related allowance recorded:					
Real estate loans:					
Residential	$ 224	$ 248	$ –	$ 228	$ 2
Commercial	2,220	2,934	–	2,556	19
Commercial	9	9	–	65	4
Total impaired with no related allowance	2,453	3,191	–	2,849	25
With an allowance recorded:					
Real estate loans:					
Residential	–	–	–	–	–
Commercial	–	–	–	–	–
Commercial	–	–	–	–	–
Total impaired with an allowance recorded	–	–	–	–	–
Total					
Real estate loans:					
Residential	224	248	–	228	2
Commercial	2,220	2,934	–	2,556	19
Commercial	9	9	–	65	4
Total impaired loans	$ 2,453	$ 3,191	$ –	$ 2,849	$ 25

4. Loans (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
2018					
With no related allowance recorded:					
Real estate loans:					
Residential	$ 233	$ 257	$ –	$ 115	$ 1
Commercial	1,912	2,243	–	2,045	9
Commercial	261	267	–	92	2
Total impaired with no related allowance	2,406	2,767	–	2,252	12
With an allowance recorded:					
Real estate loans:					
Residential	–	–	–	–	–
Commercial	–	–	–	–	–
Commercial	–	–	–	–	–
Total impaired with an allowance recorded	–	–	–	–	–
Total					
Real estate loans:					
Residential	233	257	–	115	1
Commercial	1,912	2,243	–	2,045	9
Commercial	261	267	–	92	2
Total impaired loans	$ 2,406	$ 2,767	$ –	$ 2,252	$ 12

Loans modified in a troubled debt restructuring during the years ended June 30, 2019 and 2018 were not significant. There were no loans that were modified as TDRs for which there was a payment default within one year of the date of modification during the years ended June 30, 2019 and 2018.

At June 30, 2019 and 2018, there were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings.

At June 30, 2019 and 2018, there was no other real estate owned. There were five residential mortgage loans with a total recorded investment of $840,000 collateralized by residential real estate in the process of foreclosure as of June 30, 2019. There were three residential mortgage loans with a total recorded investment of $376,000 collateralized by residential real estate in the process of foreclosure as of June 30, 2018.

4. Loans (Continued)

The following tables present the Company's loans by risk rating as of June 30:

	Real Estate				
	Residential	Commercial	Commercial	Consumer	Total
			(In Thousands)		
2019					
Grade:					
Pass	$ –	$ 72,709	$ 8,432	$ –	$ 81,141
Special mention	596	389	–	–	985
Substandard	2	2,671	645	–	3,318
Doubtful	–	429	–	–	429
Not formally rated	249,421	–	–	687	250,108
Total	$250,019	$76,198	$ 9,077	$ 687	$335,981
2018					
Grade:					
Pass	$ –	$ 72,331	$ 7,307	$ –	$ 79,638
Special mention	285	940	221	–	1,446
Substandard	–	3,049	740	–	3,789
Not formally rated	249,393	–	–	685	250,078
Total	$249,678	$76,320	$ 8,268	$ 685	$334,951

Credit Quality Information

The Company utilizes a nine grade internal loan rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 10 – 40: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 50: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 60: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 70: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 80: Loans in this category are considered uncollectible (loss) and of such little value that their continuance as loans is not warranted.

4. Loans (Continued)

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, construction and commercial relationships with an exposure of $150,000 or more. For residential real estate and consumer loans, the Company initially assesses the credit quality based upon borrowers' ability to pay and subsequently monitors these loans based on borrowers' payment activity.

The unpaid principal balances of mortgages and other loans serviced for others were $39,392,000 and $42,825,000 at June 30, 2019 and 2018, respectively. Capitalized servicing rights, included in other assets at June 30, 2019 and 2018, amounted to $220,000 and $278,000, respectively, which approximates fair value.

5. Premises and Equipment

The following is a summary of premises and equipment as of June 30:

	2019	2018
	(In Thousands)	
Land	$ 1,536	$ 1,536
Buildings and improvements	6,761	6,352
Furniture and equipment	4,411	4,391
	12,708	12,279
Accumulated depreciation and amortization	(6,234)	(5,851)
	$ 6,474	$ 6,428

Total depreciation and amortization expense for the years ended June 30, 2019 and 2018 amounted to $383,000 and $339,000, respectively.

6. Deposits

The aggregate amount of time deposit accounts in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 as of June 30, 2019 and 2018 amounted to $12,518,000 and $7,764,000, respectively.

The total brokered certificates of deposit which were bifurcated into amounts below the FDIC insurance limit as of June 30, 2019 and 2018 were $2,994,000 and $8,101,000, respectively.

6. Deposits (Continued)

Deposits from related parties held by the Bank as of June 30, 2019 amounted to $3,781,000, or 1.24% of total deposits. Deposits from related parties held by the Bank as of June 30, 2018 amounted to $3,875,000, or 1.36% of total deposits.

For time deposits as of June 30, 2019, the scheduled maturities for each of the following five years ended June 30 are (in thousands):

2020	$46,577
2021	21,166
2022	10,370
2023	3,874
2024	4,785
	$86,772

7. Federal Home Loan Bank Advances

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB).

Maturities of advances from the FHLB for the five fiscal years ending after June 30, 2019, and thereafter, are summarized as follows (in thousands):

2020	$12,900
2021	14,000
2022	10,500
2023	8,500
2024	4,500
Thereafter	4,500
	$54,900

Borrowings from the FHLB are secured by a list of specifically identified first mortgages secured by one to four family properties and other qualified assets. These assets as of June 30, 2019 and 2018 amounted to $227,441,000 and $238,398,000, respectively.

At June 30, 2019, the interest rates on FHLB advances ranged from 1.43% to 3.09%. At June 30, 2019, the weighted average interest rate on FHLB advances was 2.06%. At June 30, 2018, the interest rates on FHLB advances ranged from 1.43% to 3.69%. At June 30, 2018, the weighted average interest rate on FHLB advances was 2.06%.

8. Income Taxes

The components of income tax expense for the fiscal years ended June 30 are as follows:

	2019	2018
	(In Thousands)	
Current:		
Federal	$ 876	$ 834
State	22	20
	898	854
Deferred:		
Federal	(86)	170
Effect of change in federal tax rate	–	657
	(86)	827
Total income tax expense	$ 812	$ 1,681

The reasons for the differences between the statutory federal income tax rates and the effective tax rates are summarized as follows for the years ended June 30:

	2019 % of Income	2018 % of Income
Federal income tax statutory rates	21.0%	27.6%
Increase (decrease) in tax resulting from:		
State taxes, net of federal tax benefit	0.4	0.4
Bank-owned life insurance	(0.9)	(1.3)
Tax-exempt income	(0.5)	(0.5)
Federal tax credits	(1.2)	(2.3)
Effect of change in federal tax rate	–	16.2
Other	0.1	1.2
Effective tax rates	18.9%	41.3%

8. Income Taxes (Continued)

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of June 30:

	2019	2018
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 744	$ 776
Interest on non-performing loans	71	49
Accrued vacation	17	21
Defined benefit plan	94	42
Deferred compensation	351	332
Deferred directors' fees	261	232
Net unrealized holding loss on available-for-sale securities	9	165
Deferred loan fees	61	60
Gross deferred tax assets	1,608	1,677
Deferred tax liabilities:		
Depreciation	(279)	(259)
Servicing rights	(46)	(58)
Low-income housing investments net of basis adjustments	(177)	(173)
Prepaid expenses	(18)	(16)
Deferred incentive bonus	(11)	(23)
Other	(1)	(2)
Gross deferred tax liabilities	(532)	(531)
Net deferred tax asset	$ 1,076	$ 1,146

Management performs an evaluation of deferred tax assets for expected realization based upon estimates of future taxable income. Based on management's evaluation, no valuation allowance is deemed necessary for the deferred tax assets.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties (recorded as a component of income tax expense, if any) based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of June 30, 2019 and 2018, there were no material uncertain tax positions related to federal and state income tax matters.

On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, *An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018* (Tax Act). Among other provisions, the Tax Act reduced the historical federal corporate income tax rate to a newly enacted rate of 21 percent for tax years beginning after December 31, 2017. At the date the new legislation was enacted, under ASC 740, *Income Taxes*, the Company was required to recognize the effects of the change in tax law and rates on its deferred tax assets and liabilities as a charge to income tax expense. As a result of the above Tax Act and the revaluation of deferred tax assets and liabilities at June 30, 2018, the Company recognized additional income tax expense of $657,000 during the year ended June 30, 2018.

9. Off-Balance Sheet Activities

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of June 30, 2019 and 2018, the maximum potential amount of the Company's obligation was $739,000 and $1,181,000 for financial and standby letters of credit, respectively. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

Notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of June 30:

	2019	2018
	(In Thousands)	
Commitments to grant loans	$ 8,769	$ 7,182
Unadvanced portions of loans:		
Consumer commitments under lines of credit	21,456	26,405
Commercial letters of credit	739	1,181
	$30,964	$34,768

10. Fair Value Measurements

ASC 820-10, *Fair Value Measurement – Overall*, provides a framework for measuring fair value under generally accepted accounting principles. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not elected fair value treatment for any financial assets or liabilities.

In accordance with ASC 820-10, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value for June 30, 2019 and 2018. The Company did not have any significant transfers of assets between Level 1 and Level 2 of the fair value hierarchy during the year ended June 30, 2019.

Included in other assets are mutual funds for the participant accounts of the deferred directors' compensation plan. The mutual funds are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Company's investment in mortgage-backed securities and other debt securities available-for-sale is generally classified within Level 2 of the fair value hierarchy. For these securities, the Company obtains fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

10. Fair Value Measurements (Continued)

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The Company's impaired loans are reported at the fair value of the underlying collateral less estimated costs to sell if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based upon appraisals of similar properties obtained from a third party. For Level 3 inputs, fair value is based upon management estimates of the value of the underlying collateral or the present value of the expected cash flows.

The following summarizes assets measured at fair value on a recurring basis as of June 30:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
2019				
Securities available for sale:				
State and municipal	$ 2,388	$ –	$ 2,388	$ –
Mortgage-backed securities	25,626	–	25,626	–
Asset-backed securities	21,267	–	21,267	–
Other assets:				
Mutual funds:				
U.S. government securities	270	270	–	–
Dividend growth	148	148	–	–
Large cap stocks	140	140	–	–
Middle cap stocks	210	210	–	–
Small cap stocks	36	36	–	–
Balanced	201	201	–	–
	$50,286	$1,005	$49,281	$ –

10. Fair Value Measurements (Continued)

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
2018:				
Securities available for sale:				
State and municipal	$ 2,455	$ –	$ 2,455	$ –
Corporate bonds	503	–	503	–
Mortgage-backed securities	12,614	–	12,614	–
Asset-backed securities	27,432	–	27,432	–
Other assets:				
Mutual funds:				
U.S. government securities	190	190	–	–
Dividend growth	204	204	–	–
Large cap stocks	125	125	–	–
Middle cap stocks	182	182	–	–
Small cap stocks	37	37	–	–
Balanced	162	162	–	–
	$43,904	$ 900	$43,004	$ –

Under certain circumstances, the Company makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheets by caption and by level in the fair value hierarchy at June 30, 2019 and 2018 for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
2019				
Impaired loans	$ 841	$ –	$ –	$ 841
2018				
Impaired loans	$ 103	$ –	$ –	$ 103

11. Significant Group Concentrations of Credit Risk

Most of the Company's business activity is with customers located within the State of Vermont. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Company's loan portfolio is comprised of loans collateralized by real estate located in the State of Vermont.

12. Other 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 are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income (loss), included in equity, are as follows for the years ended June 30:

	2019	2018
	(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ 741	$ (749)
Other comprehensive income (loss) before income tax effect	741	(749)
Income tax (expense) benefit	(156)	153
Other comprehensive income (loss), net of tax	$ 585	$ (596)

Accumulated other comprehensive loss as of June 30, 2019 and 2018 consists of net unrealized holding losses on available-for-sale securities, net of taxes.

13. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

13. Regulatory Matters (Continued)

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to capital regulations adopted by the Board of Governors of the Federal Reserve System (FRB) and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the *Dodd-Frank Act*. The regulations require a common equity Tier 1 (CET1) capital to risk-weighted assets ratio of 4.5%, a minimum Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8.0% and a minimum Tier 1 leverage ratio of 4.0%. CET1 generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 risk-based capital ratio of 6.5%, a Tier 1 risk-based capital ratio of 8.0%, a total risk-based capital ratio of 10% and a Tier 1 leverage ratio of 5.0%. In addition, the regulations establish a capital conservation buffer above the required capital ratios that began phasing in beginning January 1, 2016 at 0.625% of risk-weighted assets and increased each year by 0.625% until it was fully phased in at 2.5% effective January 1, 2019. Failure to maintain the capital conservation buffer will limit the ability of the Bank to pay dividends or pay discretionary bonuses. As of June 30, 2019, the Bank exceeds the fully phased in regulatory requirement for the capital conservation buffer.

Management believes, as of June 30, 2019 and 2018, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2019, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage capital ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of June 30, 2019						
Total capital (to risk-weighted assets)	$49,123	21.18%	$18,551	8.0%	$23,189	10.0%
Tier 1 capital (to risk-weighted assets)	46,259	19.95	13,914	6.0	18,551	8.0
Common Equity Tier 1 Capital (to risk-weighted assets)	46,259	19.95	10,435	4.5	15,073	6.5
Tier 1 capital (to average assets)	46,259	11.19	16,533	4.0	20,666	5.0

13. Regulatory Matters (Continued)

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of June 30, 2018						
Total capital (to risk-weighted assets)	$46,525	18.6%	$19,996	8.0%	$24,995	10.0%
Tier 1 capital (to risk-weighted assets)	43,394	17.4	14,997	6.0	19,996	8.0
Common Equity Tier 1 Capital (to risk-weighted assets)	43,394	17.4	11,248	4.5	16,247	6.5
Tier 1 capital (to average assets)	43,394	10.7	16,304	4.0	20,380	5.0

14. Employee Benefit Plans

The Company provides pension benefits for its employees through membership in a noncontributory defined benefit pension plan provided as a participating employer in a Pentegra Defined Benefit Plan (Pentegra Plan). Contributions to the Pentegra Plan are based upon calculations made annually by the Pentegra Plan's outside actuaries and are designed to fund the normal cost of pension benefits, the cost of preretirement death and disability benefits, and the amortization of unfunded accrued liabilities over various periods prescribed by law. Effective July 1, 2016, the Company suspended the Pentegra Plan whereby further benefits will no longer accrue. The required disclosures follow:

Name of Plan:	The Pentegra Defined Benefit Plan for Financial Institutions	
Plan's Tax ID #:	13-5645888	
Plan Number:	333	
Plan Year End:	June 30, 2019	June 30, 2018
Actuarial Valuation Date:	July 1, 2018	July 1, 2017
Funded Target Attainment Percentage:	127.82% (Green)	114.73% (Green)
Employer Plan Year Contributions:	$60,000 Did not exceed 5%	$750,000 Did not exceed 5%

14. Employee Benefit Plans (Continued)

Funding Improvement:	The Company was not subject to any specific minimum contributions other than amounts determined by the Trustees of the Pentegra Plan that maintain the funded status of the Plan in accordance with the requirements of the *Pension Protection Act* (PPA) and the *Employee Retirement Income Security Act* (ERISA).

The Company has a 401(k) plan whereby substantially all employees participate in the Plan. The Plan provides for participants' contributions as a percentage of compensation, but not in excess of the maximum allowed under the Internal Revenue Code. Effective January 1, 2013, the Plan was amended whereby the Company will make a safe harbor matching contribution equal to 100% of participants' deferrals that do not exceed 3% of compensation, as defined in the Plan, plus 50% of participants' deferrals between 3% and 5% of compensation, as defined in the Plan. Effective January 1, 2017, the Plan was amended whereby the Company will make a fixed contribution equal to 5% of compensation of participants eligible to share in allocations. For the years ended June 30, 2019 and 2018, contributions to the Plan for the employer match amounted to $275,000 and $269,000, respectively.

The Company has entered into supplemental executive retirement agreements for four executive officers, including one agreement entered into during the year ended June 30, 2018. The agreements are not funded. The liability for the agreements amounted to $772,000 and $631,000 at June 30, 2019 and 2018, respectively. The expense for the years ended June 30, 2019 and 2018 was $86,000 and $61,000, respectively. Embedded within the agreements are additional change-in-control benefits for the four executive officers. The agreements provide for a lump-sum severance benefit upon termination following a change in control, as defined in the agreements. The executive officers may also elect to defer a percentage of his/her compensation, as defined in the agreements.

The Company has an executive salary continuation plan for three former executive officers. The Company purchased life insurance contracts on these officers and recognized a liability for the Company's postretirement benefit obligations under endorsement split-dollar life insurance arrangements. The accrued liability at June 30, 2019 and 2018 was $1,138,000 and $1,229,000, respectively. The effect of deferred compensation on the consolidated statements of income was expense of $19,000 and $24,000 for the years ended June 30, 2019 and 2018, respectively.

The Company has a deferred directors' compensation plan, which allows members of the Board of Directors to defer fees currently earned until a later date. Participants are fully vested in their accounts, which are maintained by the Company on their behalf. These participant accounts at June 30, 2019 and 2018 amounted to $1,005,000 and $900,000, respectively, and were included in other assets on the balance sheet with a corresponding liability included in other liabilities. Benefit payments are made to participants after retirement, based on their elections. The effect of deferred compensation on the consolidated statements of income was expense of $114,000 and $105,000 for the years ended June 30, 2019 and 2018, respectively.

The Company has a Directors' Long Term Service Plan. This retirement plan rewards directors who have served at least ten years on the Board of Directors. The accrued liability at June 30, 2019 and 2018 was $292,000 and $327,000, respectively. The effect of the retirement plan on the consolidated statements of income was expense of $5,000 and $14,000 for the years ended June 30, 2019 and 2018, respectively.

15. Other Investments

The Company currently holds a 29.16% interest and 46.67% interest in two related Vermont Limited Liability Companies (the LLCs) acquired in 2016 and 2019, respectively. An interest in the 2016 LLC was acquired by an initial capital contribution of $500,000, and an interest in the 2019 LLC was acquired by an initial capital contribution of $350,000. The purpose of these LLCs is to acquire and redevelop certain real estate in Bennington, Vermont. The operating agreements between the Company and the LLCs dictate that all distributions, profits and losses will be allocated to each member of the LLCs in proportion to each member's interest. The investment in the LLCs is grouped in other assets in the Company's consolidated balance sheet and is accounted for as an equity method investment. The total combined recorded investment in the LLCs amounted to $1,100,000 and $500,000 as of June 30, 2019 and 2018, respectively. No investment income or loss was recognized for the years ended June 30, 2019 or 2018 as the amounts were immaterial.

The Company entered into a guarantee agreement with respect to a promissory note executed on June 14, 2019 between a third-party lender and the LLC. The maximum potential amount of future payments under the guarantee is approximately $1,350,000, including accrued and unpaid interest and other acceptable charges incurred by the third party. This obligation of the Company shall continue until conditions in the promissory note are met.

16. Subsequent Events

Management has evaluated subsequent events through September 17, 2019, which is the date the financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

17. Reclassifications

Certain amounts in the prior year have been reclassified to be consistent with the current year's statement presentation.

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

Audit Committee of the Board of Directors
Community Financial, MHC and Subsidiary

We are pleased to present this report related to our audit of the consolidated financial statements of Community Financial, MHC and Subsidiary (the Company) as of and for the year ended June 30, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Company's financial reporting process.

This report is intended solely for the information and use of the Audit Committee, the Board of Directors, and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Community Financial, MHC and Subsidiary.

Baker Newman & Noyes LLC
Portsmouth, New Hampshire
September 17, 2019

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated October 17, 2018. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement. There were no changes to the planned scope and timing of our audit, and we did not identify any significant risks subsequent to our previous communication.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Company. The Company did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period. **Significant or Unusual Transactions** We did not identify any unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
Audit Adjustments	Audit adjustments proposed by us and recorded by Community Financial, MHC are shown on the attached Summary of Recorded Audit Adjustments.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached management representation letter.

Required Communications (Continued)

Area	Comments
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the consolidated financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the Company, including the representation letter provided to us by management, are attached.

Summary of Significant Accounting Estimates

Year Ended June 30, 2019

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimate reflected in the Company's June 30, 2019 consolidated financial statements.

Estimate	**Accounting Policy**	**Management's Estimation Process**	**Basis for Our Conclusions on Reasonableness of Estimate**
Allowance for loan losses	Refer to Note 2 of the consolidated financial statements	Allowance for loan losses model incorporating both quantitative and qualitative assumptions	Audit of the allowance for loan losses

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

SUMMARY OF RECORDED AUDIT ADJUSTMENTS

Year Ended June 30, 2019

Entry #	Description	Debit	Credit
1	Deferred tax asset	$ 96,235	
	Accumulated other comprehensive loss (AOCL)		$ 96,235
	To adjust AOCL and deferred tax asset on available-for-sale securities.		
2	FHLB Ideal Way	204,663	
	Retirement plan	10,361	
	Wire transfer suspense	21,865	
	Accrued expenses		208,662
	Payroll preparation		107
	Employee benefits		6,353
	Taxes – FICA		14,678
	Federal unemployment tax		7
	State unemployment insurance		88
	Money Concepts		6,994
	To reverse a back-dated entry to record the bonus payout.		
3	Deferred tax asset	84,087	
	Income tax payable – state	17,799	
	Income tax expense – federal	17,799	
	Income tax payable – federal		101,886
	Income tax expense – NY State		17,799
	To reclassify current and deferred tax accounts.		

BAKER
NEWMAN
NOYES

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

October 17, 2018

The Audit Committee of the Board of Directors
Community Financial, MHC
155 North Street
Bennington, Vermont 05201

Dear Members:

The Objective and Scope of the Audit of the Consolidated Financial Statements

You have requested that we audit the consolidated financial statements of Community Financial, MHC and Subsidiary (the Company), which comprise the consolidated balance sheet as of June 30, 2019, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ending, and the related notes to the consolidated financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the consolidated financial statements.

The Responsibilities of the Auditor

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that are immaterial to the consolidated financial statements.

In making our risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the consolidated financial statements that we have identified during the audit.

We will also communicate to the Audit Committee (a) any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the consolidated financial statements that becomes known to us during the audit, and (b) any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

We will maintain our independence in accordance with the standards of the American Institute of Certified Public Accountants (AICPA).

Under certain circumstances, including but not limited to a public offering of securities, if the Company is subject to *Federal Deposit Insurance Corporation Improvement Act* requirements or if the Company is a savings association under supervision of the Office of the Comptroller of the Currency and is required to have an audit under Part 562.4(b)(1) of the Code of Federal Regulations, we are also required to be independent under the rules of the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB). The rules of the SEC and PCAOB are different from those of the AICPA. Examples of services allowed under the AICPA rules that would impair independence under the SEC and PCAOB rules include preparation of the consolidated financial statements, preparation of the tax provision, implementing financial information systems, internal audit outsourcing and performance of tax services for a contingent fee. If our independence were determined to be impaired under the SEC and PCAOB rules for any periods where independence with such rules would be required, the Company would be required to have the impacted periods re-audited, at the Company's expense, by another firm. Accordingly, you agree to notify us promptly if you determine you may require us to be independent under the rules of the SEC and PCAOB.

Our services under this arrangement letter do not include services for tax return preparation, tax advice or representation in any tax matter. Nevertheless, we may discuss with you certain tax considerations or provide you with tax information that may be relevant to our services. Any such discussions or information would be based upon limited tax research, limited due diligence and limited analysis regarding the underlying facts. Because additional research or a more complete review of the facts could affect our analysis and conclusions, the information provided during these discussions should not be used as the basis for proceeding with any transaction or any tax return reporting.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our audit will be conducted on the basis that management and the Audit Committee acknowledges and understands that they have responsibility:

1. For the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America;
2. To evaluate subsequent events through the date the consolidated financial statements are issued or available to be issued, and to disclose the date through which subsequent events were evaluated in the consolidated financial statements. Management also agrees that it will not evaluate subsequent events earlier than the date of the management representation letter referred to below;
3. For the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; and

4. To provide us with:
   a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the consolidated financial statements such as records, documentation and other matters;
   b. Additional information that we may request from management for the purpose of the audit; and
   c. Unrestricted access to persons within the Company from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit, including, among other items:

1. That management has fulfilled its responsibilities as set out in the terms of this letter; and
2. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

Management is responsible for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Company involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the consolidated financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, analysts, regulators, or others.

The Audit Committee is responsible for informing us of its views about the risks of fraud within the Company, and its knowledge of any fraud or suspected fraud affecting the Company.

The Company agrees that it will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our permission. Any such request is also a matter for which separate arrangements will be necessary. After obtaining our permission, the Company also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the Company seeks our permission, we will be under no obligation to grant such permission or approval.

Records and Assistance

If circumstances arise relating to the condition of the Company's records, the availability of appropriate audit evidence or indications of a significant risk of material misstatement of the consolidated financial statements because of error, fraudulent financial reporting or misappropriation of assets which, in our professional judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the Company's books and records. The Company will determine that all such data, if necessary, will be so reflected. Accordingly, the Company will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by Company personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Company personnel. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

If, in connection with our audit, you request us to perform accounting services necessary for the preparation of the consolidated financial statements (such as maintaining depreciation schedules, computing the provision for income taxes, drafting the consolidated financial statements, etc.), you agree to designate an appropriate individual to oversee the services, make all management decisions involved in those services, evaluate the adequacy and results of the services, and accept responsibility for the results of the services.

Other Relevant Information

Baker Newman & Noyes LLC (BNN) may mention the Company's name and provide a general description of the engagement in BNN's client lists and marketing materials.

From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

You agree that any dispute (other than our efforts to collect an outstanding invoice) that may arise regarding the meaning, performance or enforcement of this engagement or any prior engagement that we have performed for you, will, prior to resorting to litigation, be submitted to mediation, and that the parties will engage in the mediation process in good faith once a written request to mediate has been given by any party to the engagement. The results of such mediation shall be binding only upon agreement of each party to be bound. The costs of any mediation proceeding shall be shared equally by the participating parties.

As required by Rule 301 of the American Institute of Certified Public Accountants' Code of Professional Conduct and the *Gramm-Leach-Bliley Act*, we protect the confidentiality of our clients and their customers. We do not disclose any nonpublic information obtained in the course of our practice except as permitted or required by law. In those cases, we stress the confidentiality of such information. In order to guard your nonpublic information, we maintain physical, electronic, and procedural safeguards that comply with our professional standards.

Fees, Costs, and Access to Workpapers

Our fee for the audit and accounting services described above will be $53,400 and is based upon the value of the services performed and the time required by the individuals assigned to the engagement, plus out-of-pocket expenses. This fee estimate will be subject to adjustments based on unanticipated changes in the scope of our work and/or the incomplete or untimely receipt by us of the information on the client participation list. All other provisions of this letter will survive any fee adjustment. Our fee estimate and completion of our work is based upon the following criteria:

1. Anticipated cooperation from Company personnel
2. Timely responses to our inquiries

3. Timely completion and delivery of client assistance requests
4. Timely communication of all significant accounting and financial reporting matters
5. The assumption that unexpected circumstances will not be encountered during the engagement

If any of the aforementioned criteria are not met, then fees may increase. Interim billings will be submitted as work progresses and as expenses are incurred. Billings are due upon submission.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a principal or professional employee leaves BNN and is subsequently employed by or associated with a client in a key position. Accordingly, the Company agrees it will compensate BNN for any additional costs incurred as a result of additional time to redo and/or review work performed by a principal or professional employee in the event they become employed by the Company.

The audit documentation for this engagement is the property of BNN and constitutes confidential information. However, as required by banking regulations, we are required to make certain audit documentation available to the banking regulators upon request for their regulatory oversight purposes. Access to the requested audit documentation will be provided to the banking regulators under the supervision of BNN audit personnel and at a location designated by BNN.

In the event we are requested or authorized by the Company or are required by government regulation, subpoena or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the Company, the Company will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

All matters related to the Company's adoption of the new revenue recognition standard pursuant to ASC 606 will be accounted for and billed separately.

All matters related to the Company's adoption of FASB ASC 842, *Leases*, will be accounted for and billed separately.

All matters related to the Company's adoption of the new credit losses standard pursuant to ASC 326 will be accounted for and billed separately.

Reporting

We will issue a written report upon completion of our audit of the Company's consolidated financial statements. Our report will be addressed to the Audit Committee of the Company. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

This letter constitutes the complete and exclusive statement of agreement between BNN and the Company, superseding all proposals, oral or written, and all other communications with respect to the terms of the engagement between the parties.

Electronic Signatures and Counterparts

Each party hereto agrees that any electronic signature of a party to this agreement or any electronic signature to a document contemplated hereby (including any representation letter) is intended to authenticate such writing and shall be as valid, and have the same force and effect, as a manual signature. Any such electronically signed document shall be deemed (i) to be "written" or "in writing," (ii) to have been signed and (iii) to constitute a record established and maintained in the ordinary course of business and an original written record when printed from electronic files. Each party hereto also agrees that electronic delivery of a signature to any such document (via email or otherwise) shall be as effective as manual delivery of a manual signature. For purposes hereof, "electronic signature" includes, but is not limited to, (i) a scanned copy (as a "pdf" (portable document format) or other replicating image) of a manual ink signature, (ii) an electronic copy of a traditional signature affixed to a document, (iii) a signature incorporated into a document utilizing touchscreen capabilities or (iv) a digital signature. This agreement may be executed in one or more counterparts, each of which shall be considered an original instrument, but all of which shall be considered one and the same agreement. Paper copies or "printouts," of such documents if introduced as evidence in any judicial, arbitral, mediation or administrative proceeding, will be admissible as between the parties to the same extent and under the same conditions as other original business records created and maintained in documentary form. Neither party shall contest the admissibility of true and accurate copies of electronically signed documents on the basis of the best evidence rule or as not satisfying the business records exception to the hearsay rule.

Please sign and return a copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the consolidated financial statements, including our respective responsibilities.

Very truly yours,

BAKER NEWMAN & NOYES LLC

Joseph A. Jalbert
Audit Principal

Confirmed on behalf of Community Financial, MHC:

Jason Morrissey, Chairman of the Audit Committee	6/21/19 Date
James D. Brown, President and Chief Executive Officer	6-13-19 Date
Edward Sargood, Chief Financial Officer	6/11/19 Date

The Bank of Bennington

September 17, 2019

Baker Newman & Noyes LLC
100 Arboretum Drive, Suite 204
Portsmouth, New Hampshire 03801

This representation letter is provided in connection with your audits of the consolidated financial statements of Community Financial, MHC and Subsidiary (Company) which comprise the consolidated balance sheets as of June 30, 2019 and 2018 and the related consolidated statements of income, comprehensive income, changes in equity, cash flows, and the related notes to the consolidated financial statements for the years then ended. We confirm that we are responsible for the fair presentation in the consolidated financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated October 17, 2018, for the preparation and fair presentation of the consolidated financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

The Bank of Bennington

7. The methods and significant assumptions used to determine fair values of financial instruments are as follows: In determining fair value, the Company uses various methods including quoted market prices, or in cases where quoted prices are not available, fair values are based on estimates using present value of cash flows, or other valuation techniques.

8. The following information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the consolidated financial statements:
   a. The extent, nature and terms of financial instruments with off-balance sheet risk;
   b. The amount of credit risk of financial instruments with off-balance sheet risk and information about the collateral supporting such financial instruments; and
   c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

9. We have evaluated all of our debt securities for which there has been a decline in fair value below the amortized cost. In that regard:
   a. We do not have the intent to sell any of the securities that are in an unrealized loss position.
   b. We have forecasted recovery of these debt securities and our liquidity and have concluded that it is not more likely than not that we will have to sell the securities prior to forecasted recovery.
   c. We have evaluated these debt securities to determine whether we expect to recover the amortized cost basis of the securities. We have concluded in all cases that we will recover the amortized cost basis of the securities and have recorded the entire unrealized loss in other comprehensive income.
   d. Any sales of securities in a loss position are immaterial to the consolidated financial statements and the sale resulted from an overall portfolio evaluation and not as a result of the loss on the security.

10. The following have been properly recorded and/or disclosed in the consolidated financial statements:
   a. Guarantees, whether written or oral, under which the Company is contingently liable.
   b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
   c. Lines of credit or similar arrangements.
   d. Agreements to repurchase assets previously sold.
   e. Security agreements in effect under the Uniform Commercial Code.
   f. All other liens or encumbrances on assets and all other pledges of assets.
   g. Amounts of contractual obligations for plant construction and/or purchase of real property, equipment, other assets, and intangibles.
   h. Investments in debt and equity securities, including their classification as trading, available-for-sale, and held-to-maturity.
   i. All liabilities that are subordinated to any other actual or possible liabilities of the Company.
   j. All leases and material amounts of rental obligations under long-term leases.
   k. All significant estimates and material concentrations known to management that are required to be disclosed in accordance with the *Risks and Uncertainties Topic* of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.

l. Derivative financial instruments.
m. Assets and liabilities measured at fair value in accordance with the *Fair Value Measurements and Disclosures Topic* of the FASB ASC.
n. All current and deferred assets and liabilities related to the accounting for income taxes.
o. The effect on the consolidated financial statements of recent accounting pronouncements, which have been issued, but which we have not yet adopted.

Information Provided

11. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the consolidated financial statements such as records, documentation, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit;
    c. Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of directors, committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
    e. Reports and correspondence between the Company and regulatory examiners during the period under audit and all supervisory memoranda or agreements, if any, with any federal and state regulatory authority.

12. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

13. We have disclosed to you the results of our assessment of risk that the consolidated financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's consolidated financial statements involving:
    a. Management.
    b. Employees who have significant roles in the internal control.
    c. Others where the fraud could have a material effect on the consolidated financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's consolidated financial statements received in communications from employees, former employees, analysts, regulators or others.

16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing consolidated financial statements.

17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the consolidated financial statements and we have not consulted legal counsel concerning litigation or claims.

18. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

The Bank of Bennington

19. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company's ability to record, process, summarize, and report financial data.

20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices. In addition, there have been no unfavorable findings that materially affect mortgage operations or suspensions by HUD, any investor or regulatory agency within the past twelve months.

21. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
    a. The Company has no significant amounts of idle property and equipment.
    b. The Company has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.
    c. We consider the decline in value of debt or equity securities classified as either available-for-sale to be temporary.
    d. Provision has been made to reduce all assets that have permanently declined in value to their realizable values.
    e. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

22. We are responsible for making the accounting estimates included in the consolidated financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
    a. To reduce receivables to their estimated net collectable amounts.
    b. To reduce deferred tax assets to amounts that are more likely than not to be realized.
    c. For uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2019 and/or for expected retroactive insurance premium adjustments applicable to periods through the date of this letter.
    d. For pension obligations, postretirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through the date of this letter.
    e. For any material loss to be sustained in the fulfillment of or from the inability to fulfill any commitments.
    f. For environmental clean-up obligations.

23. We have reviewed all of the Company's tax positions and have informed you of any potentially material uncertain tax positions, as defined in ASC 740-10 (formerly FIN 48). In that regard, we confirm that the consolidated financial statements include all material liabilities for uncertain tax positions (including positions related to returns that should have been, but were not, filed) and disclosures required by ASC 740-10.

24. There are no:
    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.

OnLine Banking
www.thebankofbennington.com

Telephone Banking
800.216.1103

Main Office:	***155 North Street, Bennington, VT 05201***	***Phone 802-442-1640***	***Fax 802-442-1641***
Branch:	*32 Phyllis Lane, Bennington, VT 05201*	*Phone 802-445-3123*	*Fax 802-445-3142*
	3198 Route 7A, Arlington, VT 05250	*Phone 802-375-2319*	*Fax 802-375-2617*
	78 Center Hill, Manchester Center, VT 05255	*Phone 802-362-4760*	*Fax 802-362-0577*
	143 Woodstock Ave, Rutland, VT 05701	*Phone 802-774-5085*	*Fax 802-774-5005*
Loan Office:	*110 Merchants Row, Rutland, VT 05701*	*Phone 802-774-5017*	*Fax 802-774-5028*

b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the *Contingencies Topic* of the FASB ASC.

25. The Company has satisfactory title to all owned assets.

26. No action has been taken, nor is any action contemplated that would cause any portion of the accumulated base year bad debt deduction or bank-owned life insurance to be subjected to income tax.

27. We have complied with all aspects of contractual agreements that would have a material effect on the consolidated financial statements in the event of noncompliance.

28. We agree with the findings of specialists in evaluating the Company's post-retirement benefit obligations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the consolidated financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

29. In considering the disclosures that should be made about risks and uncertainties, we have concluded that the following are required:
    a. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management periodically obtains independent appraisals for significant properties.
    b. Management of the Company believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on judgments different from those of management.
    c. A substantial portion of the Company's loans are secured by real estate in Vermont. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in Vermont.
    d. Management believes that the reserve required at June 30, 2019 for possible losses on loans sold is adequate.

30. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through the date of this letter, have been recognized or disclosed in the consolidated financial statements. No events or transactions other than those disclosed in the consolidated financial statements have occurred subsequent to the balance sheet date and through the date of this letter that would require recognition or disclosure in the consolidated financial statements. We further represent that as of the date of this letter, the consolidated financial statements were complete in a form and format that complied with U.S. GAAP, and all approvals necessary for issuance of the consolidated financial statements had been obtained.

31. We believe that the past due, watch, impaired, troubled debt restructuring, nonaccrual and loans held for sale listings are complete and accurate as of June 30, 2019.

The Bank of Bennington

32. We assert that loan participations sold as of June 30, 2019 qualify for sales treatment and that we are in compliance with the *Transfers and Servicing Topic* of the FASB ASC.

33. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

34. Management has reviewed the Checklist for Disclosures and we are satisfied that the consolidated financial statements contain all material disclosures required by generally accepted accounting principles.

35. The Company has no outstanding commitments to investments in qualified affordable housing projects as of June 30, 2019.

36. As of and for the year ended June 30, 2019, we believe that the effects of the uncorrected misstatements identified by you and summarized below are immaterial to the consolidated financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

	Increase (Decrease)				
Description	Assets	Liabilities	Equity	Revenue	Expenses
Carryover impact from prior year to reverse pension accrual	$ –	$(200,208)	$200,208	$ –	$ –
Current year misstatement:					
To reverse current year pension accrual	–	(247,965)	–	–	(247,965)
Total pretax effect	$ –	$(448,173)	$200,208	$ –	$(247,965)

Very truly yours,

Community Financial, MHC and Subsidiary

James D. Brown, President and Chief Executive Officer

Edward Sargood, Chief Financial Officer

OnLine Banking
www.thebankofbennington.com

Telephone Banking
800.216.1103

Main Office: *155 North Street, Bennington, VT 05201* *Phone 802-442-1640* *Fax 802-442-1641*
Branch: *32 Phyllis Lane, Bennington, VT 05201* *Phone 802-445-3123* *Fax 802-445-3142*
3198 Route 7A, Arlington, VT 05250 *Phone 802-375-2319* *Fax 802-375-2617*
78 Center Hill, Manchester Center, VT 05255 *Phone 802-362-4760* *Fax 802-362-0577*
143 Woodstock Ave, Rutland, VT 05701 *Phone 802-774-5085* *Fax 802-774-5005*
Loan Office: *110 Merchants Row, Rutland, VT 05701* *Phone 802-774-5017* *Fax 802-774-5028*

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

To the Audit Committee of the Board of Directors
Community Financial, MHC and Subsidiary

In planning and performing our audit of the consolidated financial statements of Community Financial, MHC and Subsidiary (the Company) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of the Audit Committee, Board of Directors, management, and regulators and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Newman & Noyes LLC

Portsmouth, New Hampshire
September 17, 2019

BAKER
NEWMAN
NOYES

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

To the Audit Committee of the Board of Directors
Community Financial, MHC and Subsidiary

In planning and performing our audit of the consolidated financial statements of Community Financial, MHC and Subsidiary (the Company) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when *(a)* a control necessary to meet the control objective is missing, or *(b)* an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those responsible charged with governance.

Following is a description of an identified control deficiency that we determined did not constitute a significant deficiency or material weakness:

Allowance for Loan and Lease Losses (ALLL)

During our audit, we tested the clerical accuracy of the data used in the June 30, 2019 ALLL calculation. We noted that the historical loss factor used for one loan segment, Owner Occupied Commercial Real Estate loans risk rated watch, was incorrect. We recommend the Company enhance its secondary review control over the ALLL by verifying the clerical accuracy of the data used in the ALLL calculation.

This communication is intended solely for the information and use of the Audit Committee, Board of Directors, management, and regulators and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Newman + Noyes LLC

Portsmouth, New Hampshire
September 17, 2019