ILLINOIS MINE SUBSIDENCE INSURANCE FUND

2015 Annual Report

IMSIF ILLINOIS MINE SUBSIDENCE INSURANCE FUND

Mission of the Fund

The Illinois Mine Subsidence Insurance Fund is a non-governmental tax paying entity created by the Illinois General Assembly. The purpose of the Fund is to assure financial resources are available to owners of property damaged by mine subsidence so those damages can be repaired.

The Fund does this by providing reinsurance to insurance companies, conducting geotechnical investigations to determine if mine subsidence caused the damage, supporting research to mitigate structural damage, and educating the public about the use of insurance to lessen the risk of financial loss resulting from mine subsidence.

IMSIF ILLINOIS MINE SUBSIDENCE INSURANCE FUND

ILLINOIS MINE SUBSIDENCE INSURANCE FUND
2015 Annual Report

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Letter from the Chairman of the Board and the President and CEO

Productivity remained high throughout 2015, as the IMSIF staff and Board collaborated to establish and work toward achieving both short and long term goals that advance our mission.

2015 was a year of careful and deliberate preparation for change and growth. With an aging workforce and the imminent retirement of long-tenured key personnel in 2016, critical decisions were made with an eye to the future and to assure the long-term success and sustainability of the Fund. Succession plans are underway and exciting changes will be implemented in the coming months to allow for greater opportunity and flexibility in serving those affected by this devastating peril.

Through these changes, we remain fully committed to consumer education and excellent customer service. The Fund functions as a reinsurer to direct writers. Typically, a reinsurer rarely, if ever, has contact with a claimant or policyholder. But the Fund is not typical and over the years, has grown to become the repository for mine subsidence knowledge and information in Illinois. Not only do we receive inquiries from primary insurers, producers, realtors, financial institutions and other State and county agencies, but we field the multitude of calls from consumers that these agencies and companies refer to us.

On average, we receive about 20 inquiries per week for claim information on properties. Since our records are bound by privacy laws, we are only able to legally comply with requests from insurance companies and financial institutions who use the information for underwriting considerations, or to those who obtain written consent from the claimant. In cases where we are unable to provide specific claim information on a property, we can and do educate consumers on what questions they should be asking when considering the purchase of a mine subsidence affected property.

Our far-reaching goal has been first to establish and then to maintain financial strength. In the process we have attempted to provide this insurance at an affordable cost to the policyholders. The Fund is a lifeline and the sole recourse for thousands of Illinois property owners whose lives have been and will be impacted by mine subsidence. The Fund, as an independent, taxpaying reinsurer, is a private solution to a public problem. The Fund is a role model and case study for what can happen when diverse stakeholders partner together to solve a problem and commit to seeking and implementing a creative, self-sustaining solution.

We define our stakeholders as those who have a serious interest in the Fund and in the success of its mission. From licensed insurers to insurance agents to the Department of Insurance to the Illinois General Assembly to policyholders to claimants to Fund employees to the Board — our stakeholders must work together in order for the Fund to remain successful.

This organization would never have been established, could not have persevered through growing pains, and would not be the mature organization that it is today had it not been for every stakeholder being willing to do their part.

Vince Lombardi said it this way, “The achievements of an organization are the results of the combined effort of each individual”.

We want to thank each individual stakeholder for their efforts in making the Fund what it is today and challenge each one to continue to put forth a selfless effort to assure the future success and longevity of this pioneering organization. We pledge our intention to continue stewarding the Fund with integrity and great care.

Sincerely,

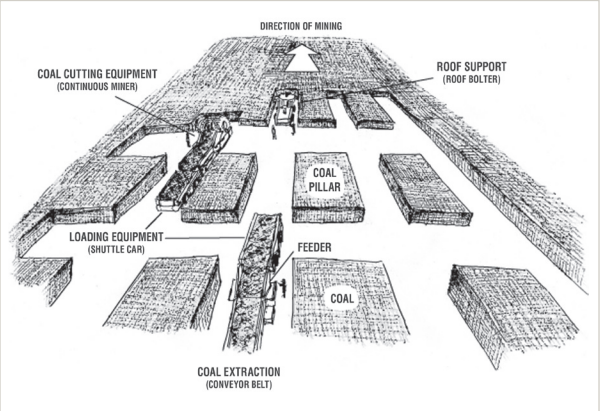
Richard A Sedlak,
Chairman of the Board

Heidi M. Weber,
President and CEO

Mine Subsidence: A Unique Peril

Illinois is a state with an extensive history of underground mining, dating back nearly 200 years. Mining for coal, limestone, fluorspar, lead or zinc has been conducted in at least 72 Illinois counties. The mining method commonly used in early coal mining, called Room and Pillar, created rooms in a checkerboard or grid pattern, leaving pillars of unmined coal to support the mine roof. As these pillars decay and deteriorate, they can cause collapse within the mine.

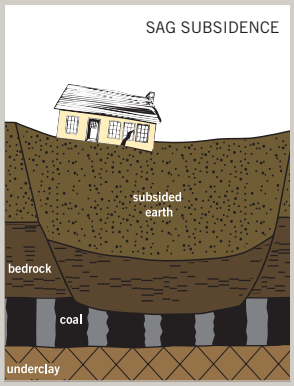
Room and Pillar Mining



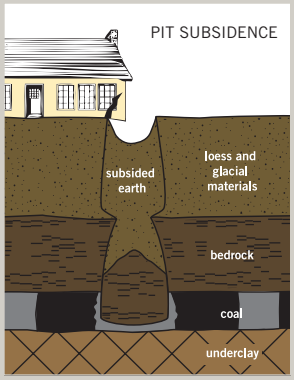
Mine subsidence occurs when the surface at the ground level sinks or shifts due to a collapse within the mine. Likewise, structures can sustain considerable damage from mine subsidence. Unlike fire, flood, earthquake, windstorm and hail, when nearly all damage usually occurs within a matter of hours, ground movement from a mine subsidence occurrence can last years, sometimes decades, causing additional damage until the ground movement has ceased. Conventional property insurance typically does not provide for any coverage that might be categorized as "ground movement."

Most experts agree that all room and pillar mines will eventually experience some degree of collapse, but currently there is no way to know when, or exactly where, mine subsidence will occur. The Illinois State Geological Survey estimates that approximately 201,000 acres of residential and other developed land areas are in close proximity to underground mines, and may be exposed to subsidence.

Sag and Pit Subsidence

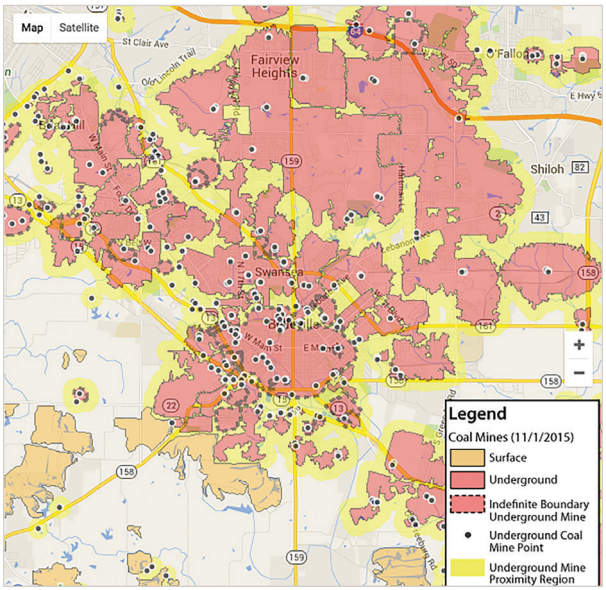


Sag subsidence, the most common type of mine subsidence, appears as a gentle depression in the ground and can spread over an area as large as several acres. Collapse of pillars supporting the mine roof is a typical cause.



Pit subsidence forms a bell-shaped hole 6-8 feet deep and from 2-40 feet across and occurs when a shallow mine roof collapses.

Exposure in St Clair County



The Fund as Reinsurer

The Fund was created on September 1, 1979 by the Illinois General Assembly, making Illinois the second State in the nation to provide for its citizens the availability of protection against the potentially devastating financial loss that can result from mine subsidence. The Illinois Mine Subsidence statute requires all Illinois Class 3 property insurers to make mine subsidence coverage available.

The Fund is not a Class 3 property insurer, nor is it a State agency. It was created specifically to afford reinsurance for the property insurers who provide coverage and pay mine subsidence losses.

As a reinsurer, the Fund has a contractual relationship with the primary insurers, not with the consumers who purchase mine subsidence coverage. This is a very important distinction, particularly with respect to the ultimate handling of mine subsidence claims.

Once the Fund's geotechnical experts have determined whether or not a property has been damaged by mine subsidence, the primary insurer is responsible for administering and supervising the claim in its entirety.

The primary insurer may request the Fund to provide technical assistance to identify methods of repairing the damaged property, and to estimate the cost of those repairs. When requested, the Fund provides those services, at no cost, to the primary insurer. The primary insurer may accept, modify or reject the results of that technical assistance. The primary insurer controls the claim valuation and settlement process.

As a single peril reinsurer with very limited geographic spread of risk, the Fund does not have the diversification of business that allows most reinsurance companies to overcome an unexpected catastrophic event. Somewhat like flood or earthquake, mine subsidence events tend to be of relatively low frequency, while producing severe damages per claim. Because of the long tail on claims, early estimates of damages may be low compared to the ultimate cost of repairs. In addition, mine subsidence losses have proven to be extremely variable and particularly difficult to predict from year to year. Over the past 36 years the Fund has reimbursed more than $170 million indemnity dollars representing over 2,000 claimants.

Governance

As outlined in the Mine Subsidence legislation, the Fund is managed by an 11 member Board of Directors, with each director being elected or appointed to a three year term. Six directors are elected by the insurance industry, four are public members, and one is a licensed insurance producer. The latter five members are appointed by the Director of Insurance, and that office has regulatory responsibility for the Fund.

Critical governance responsibilities include appointing and approving compensation for the President and CEO, reviewing and authorizing strategic plans and major commitments, ensuring compliance with financial and legal requirements, and evaluating the work of Fund management. The Board carries out its governance responsibilities through oversight and does not involve itself with the Fund's day-to-day operations.

The fundamental responsibility of the Board is to foster the long-term success of the Fund, consistent with its fiduciary responsibility to stakeholders and its obligations to regulators. There are no state funds or insurance industry assessment mechanisms to provide additional financial security for Illinois consumers who suffer mine subsidence damage. Therefore, the primary objective of the Board and Officers of the Fund is to establish and maintain sufficient financial resources to pay current and future claims.

IMSIF Board of Directors

Richard A. Sedlak, Chairman
Insurance Producer
Schmale Insurance
Director since 2009

Dorothy Even, Vice-Chairman
Retired Executive
Insurance Investments
Director since 2010

David J. Queior, Secretary
Director of Underwriting
United Educators
Director since 1999

Kenneth DeVries
Chief Accounting Officer
HUB International, LTD.
Elected in 2015

Charles M. Hill, Sr.
Retired Executive
Banking
Director since 1983

Hernando Madronero
Managing Director
Madronero Enterprises, LLC
Appointed in 2015

Paul O'Grady
Attorney
Peterson, Johnson & Murray
Director since 2014

Robert Ostgulen
Vice President Underwriting
Meadowbrook Insurance Group
Director since 1999

Lloyd Parker
Retired Executive
Insurance
Director since 2003

Richard A. Sauget, Jr.
Mayor
Sauget, IL.
Director since 2006

Frederick M. Strauss
Senior Vice President
Holborn
Director since 2007

We extend our deep gratitude to **Loren J. Alter** for his many years of dedicated service to this Board.

IMSIF Staff

Chicago

Heidi M. Weber
President & Chief Executive Officer

John P. Farnetti
Vice President Reinsurance Operations

Brandon R. Raimondi
Vice President & Chief Financial Officer

Kathleen A. Moran
Industry Relations and Consumer Education Manager

Patricia F. Bednarek
Office Manager

Sheila Dean
Administration

Nancy Moore
Administration

Diana Solis
Administration

Caseyville

Allen J. Costello
Manager, Geotechnical Services

Thomas G. Denton
Geotechnical Investigations

Darrell Hein
Geotechnical Investigations

Gregory J. Gollaher
Geotechnical Investigations

Rance Olliges
Geotechnical Investigations

David J. Owens
Geotechnical Investigations

Joe Robertson
Geotechnical Investigations

Terry Woodcock
Administration

Independent Auditors
Johnson Lambert, LLP
Arlington Heights, IL.

Independent Actuaries
Milliman, Inc.
Chicago, Illinois

Investment Managers
Conning & Company
Hartford, Connecticut

General Counsel
James E. Betke
Oak Park, Illinois

JOHNSON LAMBERT LLP

Illinois Mine Subsidence Insurance Fund

Audited Financial Statements - Statutory Basis

Years ended December 31, 2015 and 2014
with Report of Independent Auditors

Illinois Mine Subsidence Insurance Fund

Audited Financial Statements - Statutory Basis

Years ended December 31, 2015 and 2014

Contents

JOHNSON LAMBERT LLP

Report of Independent Auditors

Board of Directors
Illinois Mine Subsidence Insurance Fund

We have audited the accompanying individual and combined statutory basis financial statements of the Residential and Commercial Sub-Funds of the Illinois Mine Subsidence Insurance Fund ("the Fund"), which comprise the individual and combined statutory basis balance sheets as of December 31, 2015, and the related individual and combined statutory basis statements of income, changes in policyholder surplus, and cash flows for the year then ended and the related notes to the statutory basis financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with the accounting practices prescribed or permitted by the Illinois Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory basis financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these statutory basis financial statements based on our audit. We conducted our audit 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 statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the statutory basis 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 Fund's internal control over financial reporting. 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 statutory basis financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note 2 to the statutory basis financial statements, the Fund prepared these statutory basis financial statements using accounting practices prescribed or permitted by the Illinois Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the statutory basis financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the statutory basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the individual and combined Residential and Commerical Sub-Funds of the Illinois Mine Subsidence Insurance Fund as of December 31, 2015, or the results of their operations or their cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of the individual and combined Residential and Commercial Sub-Funds of the Illinois Mine Subsidence Insurance Fund as of December 31, 2015, and the results of their operations and their cash flows for the year then ended, in accordance with the basis of accounting described in Note 2.

Other Matters

The individual and combined statutory basis financial statements of the Residential and Commerical Sub-Funds of the Illinois Mine Subsidence Insurance Fund as of and for the year ended December 31, 2014 were audited by other auditors whose report dated June 9, 2015 expressed an unqualified opinion on those statements on the basis of accounting described in Note 2 and an adverse opinion on those statements in accordance with accounting principles generally accepted in the United States of America.

Johnson Lambert LLP

Arlington Heights, Illinois
May 10, 2016

Illinois Mine Subsidence Insurance Fund

Balance Sheets - Statutory Basis

December 31 , 2015 and 2014

	Residential Sub-Fund		Commericial Sub-Fund		Combined	
	2015	2014	2015	2014	2015	2014
Admitted Assets						
Cash and invested assets						
Bonds	$ 139,158,996	$ 130,220,142	$ 49,139,314	$ 46,037,400	$ 188,298,310	$ 176,257,542
Cash and short-term investments	3,595,219	3,465,656	1,990,198	1,203,612	5,585,417	4,669,268
Real estate	169,730	176,085	50,698	52,597	220,428	228,682
Total cash and invested assets	142,923,945	133,861,883	51,180,210	47,293,609	194,104,155	181,155,492
Premiums receivable	5,019,860	4,851,854	1,551,542	1,461,345	6,571,402	6,313,199
Investment receivable	260	349	91	122	351	471
Accrued investment income	1,341,801	1,228,440	473,812	434,297	1,815,613	1,662,737
Net deferred tax asset	1,248,626	1,314,283	438,706	370,695	1,687,332	1,684,978
Other	3,077	3,077	919	919	3,996	3,996
Total Admitted Assets	$ 150,537,569	$ 141,259,886	$ 53,645,280	$ 49,560,987	$ 204,182,849	$ 190,820,873
Liabilities and Policyholder Surplus						
Liabilities						
Loss and loss adjustment expense	$ 71,184,657	$ 65,987,713	$ 10,607,725	$ 10,908,132	$ 81,792,382	$ 76,895,845
Unearned premium	10,779,642	10,577,676	3,056,978	3,065,879	13,836,620	13,643,555
Commissions payable	752,979	727,778	310,308	292,269	1,063,287	1,020,047
Income tax payable	622,041	1,100,479	560,632	216,463	1,182,673	1,316,942
Accrued expenses	1,931,271	2,284,303	608,529	600,150	2,539,800	2,884,453
Total Liabilities	85,270,590	80,677,949	15,144,172	15,082,893	100,414,762	95,760,842
Policyholder surplus	65,266,979	60,581,937	38,501,108	34,478,094	103,768,087	95,060,031
Total Liabilities and Policyholder Surplus	$ 150,537,569	$ 141,259,886	$ 53,645,280	$ 49,560,987	$ 204,182,849	$ 190,820,873

Illinois Mine Subsidence Insurance Fund

Statements of Income - Statutory Basis

Years Ended December 31, 2015 and 2014

	Residential Sub-Fund		Commericial Sub-Fund		Combined	
	2015	2014	2015	2014	2015	2014
Underwriting						
Premiums earned	$ 21,031,449	$ 20,537,882	$ 6,136,506	$ 6,596,973	$ 27,167,955	$ 27,134,855
Less underwriting expenses						
Loss and loss adjustment expense	14,702,691	12,915,482	481,304	1,353,547	15,183,995	14,269,029
Commissions	3,193,015	3,066,506	1,224,413	1,260,009	4,417,428	4,326,515
State income tax expense	561,498	699,304	489,446	465,991	1,050,944	1,165,295
Other underwriting expenses	1,517,295	1,284,658	480,120	359,679	1,997,415	1,644,337
Total underwriting expenses	19,974,499	17,965,950	2,675,283	3,439,226	22,649,782	21,405,176
Underwriting gain	1,056,950	2,571,932	3,461,223	3,157,747	4,518,173	5,729,679
Investment Income						
Net interest income	4,257,726	4,010,705	1,495,704	1,411,849	5,753,430	5,422,554
Net realized capital gains, net of tax	411,266	383,764	144,499	134,836	555,765	518,600
Net investment gain	4,668,992	4,394,469	1,640,203	1,546,685	6,309,195	5,941,154
Net income before federal income tax expense	5,725,942	6,966,401	5,101,426	4,704,432	10,827,368	11,670,833
Federal income tax expense	1,207,639	1,561,865	1,162,913	1,103,047	2,370,552	2,664,912
Net income	$ 4,518,303	$ 5,404,536	$ 3,938,513	$ 3,601,385	$ 8,456,816	$ 9,005,921

See accompanying notes to the statutory basis financial statements

Illinois Mine Subsidence Insurance Fund

Statements of Changes in Policyholder Surplus - Statutory Basis

Years Ended December 31, 2015 and 2014

	Residential Sub-Fund		Commericial Sub-Fund		Combined	
	2015	2014	2015	2014	2015	2014
Beginning Policyholder Surplus	$ 60,581,937	$ 56,387,533	$ 34,478,094	$ 31,218,033	$ 95,060,031	$ 87,605,566
Net income	4,518,303	5,404,536	3,938,513	3,601,385	8,456,816	9,005,921
Change in additional minimum pension liability	60,341	(802,994)	(8,036)	(226,486)	52,305	(1,029,480)
Change in unrecognized obligations for pensions	177,163	(468,780)	27,370	(132,222)	204,533	(601,002)
Change in net deferred tax asset	(175,197)	68,936	58,880	19,443	(116,317)	88,379
Change in non-admitted assets	104,432	(7,294)	6,287	(2,059)	110,719	(9,353)
Ending Policyholder Surplus	$ 65,266,979	$ 60,581,937	$ 38,501,108	$ 34,478,094	$ 103,768,087	$ 95,060,031

See accompanying notes to the statutory basis financial statements

Illinois Mine Subsidence Insurance Fund

Statements of Cash Flows - Statutory Basis

Years Ended December 31, 2015 and 2014

	Residential Sub-Fund		Commericial Sub-Fund		Combined	
	2015	2014	2015	2014	2015	2014
Cash From Operations						
Premiums collected	$ 20,910,416	$ 20,312,053	$ 6,037,408	$ 6,509,643	$ 26,947,824	$ 26,821,696
Less underwriting expenses paid						
Loss and loss adjustment expenses paid	(9,564,662)	(9,740,179)	(787,130)	(1,703,806)	(10,351,792)	(11,443,985)
Commissions	(3,136,564)	(3,042,034)	(1,206,374)	(1,301,922)	(4,342,938)	(4,343,956)
Other	(1,528,151)	(1,431,686)	(529,842)	(347,640)	(2,057,993)	(1,779,326)
Net investment income	5,169,808	4,840,114	1,816,480	1,700,580	6,986,288	6,540,694
Federal income taxes paid	(2,462,973)	(2,851,776)	(1,388,346)	(2,239,870)	(3,851,319)	(5,091,646)
Net cash from operations	9,387,874	8,086,492	3,942,196	2,616,985	13,330,070	10,703,477
Cash From Investments						
Proceeds from investments sold, matured, or repaid	31,241,667	72,993,329	10,976,863	22,935,233	42,218,530	95,928,562
Cost of investments acquired	(40,499,978)	(80,317,889)	(14,132,473)	(25,808,631)	(54,632,451)	(106,126,520)
Net cash used in investments	(9,258,311)	(7,324,560)	(3,155,610)	(2,873,398)	(12,413,921)	(10,197,958)
Net change in cash	129,563	761,932	786,586	(256,413)	916,149	505,519
Cash and short-term investments, beginning of year	3,465,656	2,703,724	1,203,612	1,460,025	4,669,268	4,163,749
Cash and short-term investments, end of year	$ 3,595,219	$ 3,465,656	$ 1,990,198	$ 1,203,612	$ 5,585,417	$ 4,669,268

See accompanying notes to the statutory basis financial statements

Illinois Mine Subsidence Insurance Fund

Notes to Statutory Basis Financial Statements

Years ended December 31, 2015 and 2014

Note 1 - Organization and Nature of Operations

The Illinois Mine Subsidence Insurance Fund (the "Fund") was established by Illinois statute and is governed by Article XXXVIIIA (the "Article") of the Illinois Insurance Code. The purpose for establishing the Fund was to create a reinsurer that offered mine subsidence reinsurance coverage to insurers doing business within the State of Illinois. The Fund was divided into two separate sub-funds (the "sub-funds"; also, collectively, the "Fund") effective January 1, 1994. The Residential Sub-Fund provides reinsurance for mine subsidence losses arising from residential and living unit coverage. The Commercial Sub-Fund provides reinsurance for mine subsidence losses arising from commercial coverage.

According to the Article, the assets of the Residential Sub-Fund shall not be used to reimburse insurers for losses for commercial coverage and, likewise, the assets of the Commercial Sub-Fund shall not be used to reimburse insurers for losses for residential or living unit coverage.

By law, all insurance companies authorized to write basic property insurance in Illinois are required to offer mine subsidence insurance coverage. A mine subsidence loss is defined as a loss resulting from lateral or vertical ground movement, caused by a failure at the mine level, of man-made underground mines. Such insurance companies must further enter into reinsurance agreements with the Fund in which each company agrees to cede 100% of residential and commercial mine subsidence insurance to the Fund. In consideration for the ceding commission retained by such companies, they also agree to undertake adjustment of losses, payment of premium taxes and certain other expenses related to the sale of policies and certain aspects of the administration of the mine subsidence program.

Under the terms of the reinsurance agreements, the sub-funds will reimburse the ceding company for each claim, up to $750,000 per commercial building for policies issued or renewed on or after July 1, 2011 ($350,000 prior to July 1, 2011) and up to $750,000 per residential structure for policies issued or renewed on or after April 1, 2008 ($350,000 prior to April 1, 2008). Additionally, in accordance with the Article, Section 806.1b of the Illinois Insurance Code, ceding insurers are not required to pay any claim for losses resulting from mine subsidence except to the extent that the amount available in the respective sub-fund is sufficient to reimburse the insurer.

Each ceding company is required to report the results of mine subsidence premium transactions and remit ceded premiums to the Fund on a quarterly basis. Such reports are due no later than 45 days after the close of each calendar quarter. Each ceding company is also required to report mine subsidence claim activity as it is reported by its policyholders.

Note 2 - Summary of Significant Accounting Policies

Basis of Reporting
These statutory basis financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Illinois Department of Insurance (the "SAP"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Prescribed accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), including the NAIC Accounting Practices and Procedure Manual, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future. There are no differences with respect to the Fund's statutory basis financial statements between SAP and the NAIC basis accounting practices.

The more significant variances between SAP and GAAP that affect the Fund are as follows:

a. *Investments:* Under SAP, investments in bonds are generally carried at amortized cost; under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Fund's ability and intent to hold or trade the securities.

b. *Policy Acquisition Costs:* Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred under SAP; under GAAP, those costs related to successful contract acquistion, to the extent recoverable, are deferred and amortized as the related premiums are earned.

c. *Deferred Income Taxes:* Under SAP, the net deferred tax asset is computed for federal income taxes only and is subject to certain admissibility limitations based on prescribed rules. Changes in deferred taxes are reflected in policyholder surplus. Under GAAP, deferred taxes are provided for federal and state income taxes with changes generally reflected in the statements of income.

d. *Non-admitted Assets:* Non-admitted assets are excluded through a charge against policyholder surplus under SAP; under GAAP, non-admitted assets are reinstated to the balance sheet, net of any valuation allowance.

e. *Comprehensive Income:* Comprehensive income and its components are not presented in the statutory basis financial statements, which is required under GAAP.

f. *Realized Gains or Losses:* Under SAP, realized gains or losses are reported net of related income taxes while, under GAAP, such gains or losses are reported gross of tax.

g. *Statements of Cash Flows:* Cash, cash equivalents and short-term investments in the accompanying statutory basis statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.

Note 2 - Summary of Significant Accounting Policies (Continued)

The effects of the foregoing variances between SAP and GAAP have not been determined, but are presumed to be material.

Accounting by the Sub-Funds
Premiums are credited and claim and claim adjustment expense is charged, net of related subrogation, to the Residential Sub-Fund or Commercial Sub-Fund based upon the nature of the insured property. The sub-funds' investment balances reflect their pro rata, undivided interests in the investment portfolio and are based on each sub-fund's respective cumulative investing activity. Investment income and expenses are allocated based upon the sub-fund's respective ownership of the investment portfolio, which is determined on a quarterly basis. Realized capital gains and losses are allocated based upon each sub-fund's respective share of the proceeds from the related sales. Other underwriting expenses are allocated to each sub-fund by formula, based on written premium. For the year ended December 31, 2015, the allocation percentages were 74% and 26% for the Residential Sub-Fund and Commercial Sub-Fund, respectively. The allocation percentages were 78% and 22% for the Residential Sub-Fund and the Commercial Sub-Fund, respectively, in 2014. The Fund's income taxes are allocated between the sub-funds based on their pretax income.

Premium Revenue
Insurance premiums, as reported by ceding companies, are deferred as unearned premiums and earned on a pro rata basis over the terms of the policies. Premiums receivable relate to amounts due from ceding companies related to premiums collected on behalf of the Fund.

Loss and Loss Adjustment Expense Reserves
The reserve for loss and loss adjustment expense is the estimated amount necessary to settle both reported and unreported claims of reinsured losses based on (a) case basis estimates for losses reported by third-party ceding companies, adjusted in the aggregate for ultimate loss expectations, (b) estimates of unreported losses based upon past experience and (c) estimates of future expenses to be incurred in the settlement of losses (see Note 5).

Commissions
For the years ended December 31, 2015 and 2014, third-party ceding companies retain 15% of the Residential and 20% of the Commercial premiums paid to the Fund as commission, respectively.

Cash and Short-Term Investments
Cash and short-term investments consist primarily of cash on deposit in bank accounts and investments with initial maturities of one year or less at the date of acquisition. Short-term investments, primarily money market funds, are carried at cost which approximates fair value. At times, cash may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance levels.

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments
Investments are carried at values prescribed by the National Association of Insurance Commissioners ("NAIC"). Bonds are carried at values based on categories established by the NAIC that are primarily influenced by credit ratings. Bonds are carried at amortized cost or, for lower credit ratings, at the lower of amortized cost or NAIC fair value.

Investment income consists primarily of interest and is recognized on an accrual basis. Realized capital gains and losses, resulting from sales of investments, represent the difference between the net proceeds and the cost or amortized cost of investments sold, determined on a specific-identification basis.

The Fund reviews its investment portfolio for factors that may indicate that a decline in the fair value of any investment is other than temporary. These declines in fair value are computed on a specific-identification method and are reflected in the statutory basis statements of income in the period in which the decline was determined to be other than temporary. Where a decline in value has occurred, that is, other than temporary, investments will be written down to their estimated realizable value, generally fair value.

Real Estate
Real estate represents Fund-owned and occupied office space which is depreciated on a straight-line basis over 31.5 years, the estimated life of the property.

Subrogation
Subrogation recoverable is accrued in cases where collectability is reasonably assured and is reported as a reduction of loss and loss adjustment expense and the related reserves. Subrogation recoverable of $0 and $432,143 at December 31, 2015 and 2014, respectively, was considered in determining the loss reserve. Other recoveries are recognized when received. Subrogation of $441,174 and $467,996 was received during 2015 and 2014, respectively.

Pension and Other Post Retirement Plans
Any underfunded defined benefit pension and other post retirement plan amounts, are recognized as a liability and included in accrued expenses. Benefits expected to be earned by unvested participants are included in the calculation of net periodic pension cost and the projected benefit obligation is used to determine the related liabilities.

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates
The preparation of financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the amounts reported in the statutory basis financial statements and accompanying notes. The most significant estimates include reserves for loss and loss adjustment expense.

Reclassifications
Certain balances in the 2014 statutory basis financial statements have been reclassified to conform to the 2015 presentation.

Subsequent Events
The Fund evaluated subsequent events for recognition and disclosure through May 10, 2016, the date the statutory basis financial statements were available to be issued.

Note 3 - Investments

The Residential and Commercial Sub-Funds have undivided interests in the investment portfolio of 74% and 26%, respectively, at both December 31, 2015 and 2014. The amortized cost, gross unrealized gains and losses and fair value of investments in debt securities are as follows:

At December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government and government agency bonds	2,011,110	167,369	(109,291)	2,069,188
Corporate bonds	58,229,662	459,046	(1,027,014)	57,661,694
State and municipal bonds	94,711,610	5,209,438	(55,069)	99,865,979
Asset-backed bonds	2,962,486	19,248	(5,709)	2,976,025
Mortgage-backed bonds	30,383,442	767,505	(218,468)	30,932,479
Total debt securities	$ 188,298,310	$ 6,622,606	$ (1,415,551)	$ 193,505,365

At December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government and government agency bonds	$ 12,552,620	$ 1,189,254	$ (29,675)	$ 13,712,199
Corporate bonds	36,847,715	771,747	(152,779)	37,466,683
State and municipal bonds	88,530,419	5,358,754	(36,671)	93,852,502
Asset-backed bonds	7,318,469	48,303	(15,092)	7,351,680
Mortgage-backed bonds	31,008,319	1,131,481	(254,081)	31,885,719
Total debt securities	$ 176,257,542	$ 8,499,539	$ (488,298)	$ 184,268,783

Note 3 - Investments (Continued)

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time securities have been in a continuous unrealized loss position, as of December 31, 2015 and 2014:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
At December 31, 2015						
Debt securities:						
Government and government agency bonds	$ -	$ -	$ 375,488	$ (109,291)	$ 375,488	$ (109,291)
Corporate bonds	32,362,032	(818,410)	1,345,315	(208,604)	33,707,347	(1,027,014)
State and municipal bonds	3,445,958	(44,894)	1,259,560	(10,175)	4,705,518	(55,069)
Asset-backed bonds	1,826,838	(4,909)	161,330	(800)	1,988,168	(5,709)
Mortgage-backed bonds	7,497,393	(56,933)	2,274,705	(161,535)	9,772,098	(218,468)
Total debt securities	$ 45,132,221	$ (925,146)	$ 5,416,398	$ (490,405)	$ 50,548,619	$ (1,415,551)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
At December 31, 2014						
Debt securities:						
Government and government agency bonds	$ 880,950	$ (29,675)	$ -	$ -	$ 880,950	$ (29,675)
Corporate bonds	12,048,237	(152,779)	-	-	12,048,237	(152,779)
State and municipal bonds	3,783,427	(36,671)	-	-	3,783,427	(36,671)
Asset-backed bonds	3,341,134	(15,092)	-	-	3,341,134	(15,092)
Mortgage-backed bonds	6,268,741	(254,081)	-	-	6,268,741	(254,081)
Total debt securities	$ 26,322,489	$ (488,298)	$ -	$ -	$ 26,322,489	$ (488,298)

Note 3 - Investments (Continued)

The Fund's bond portfolio is sensitive to interest rate fluctuations, which impact the fair value of individual securities. Virtually all unrealized losses on bonds were caused by certain securities with stated interest rates currently below market rates. The Fund does not believe the unrealized losses represent an other-than-temporary impairment as of December 31, 2015 or 2014, and has the intent and ability to hold until maturity or recovery.

The summary of the amortized cost and fair value of the Fund's investment in fixed-maturity securities at December 31, 2015 by contractual maturity, is shown below:

	Amortized Cost	Fair Value
Years to maturity		
One or less	$ 2,124,831	$ 2,126,690
After one through five	34,452,418	34,575,433
After five through ten	48,170,481	48,859,658
After ten	73,167,138	77,011,105
Mortgage-backed securities	30,383,442	30,932,479
Total debt securities	$ 188,298,310	$ 193,505,365

Actual maturities may differ from those scheduled as a result of prepayments by the issuers.

The proceeds from sales, calls, and maturities of investments in debt securities and the related gross realized gains (losses) on those sales are as follows:

	Year Ended December 31, 2015	2014
Proceeds from sales	$ 41,936,843	$ 95,720,043
Gross realized gains on sales	$ 967,041	$ 1,205,084
Gross realized losses on sales	(124,973)	(419,327)
Net realized gains on sales	842,068	785,757
Income tax	(286,303)	(267,157)
Net realized gains on sales	$ 555,765	$ 518,600

Note 3 - Investments (Continued)

Net interest income is composed of the following for the years ended December 31:

	2015	2014
Interest Income		
Government and government agency bonds	$ 165,371	$ 421,814
Corporate bonds	1,599,379	986,137
State and municipal bonds	3,401,243	3,401,042
Asset-backed bonds	84,635	110,375
Mortgage-backed bonds	878,625	854,784
Total interest income	6,129,253	5,774,152
Expenses		
Investment expenses incurred	(375,823)	(351,598)
Net interest income	$ 5,753,430	$ 5,422,554

Note 4 - Fair Value of Financial Instruments

The Fund adheres to *"Fair Value Measurements and Disclosures,"* which has a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity ("observable inputs") and the reporting entity's own assumptions developed based on the best information available in the circumstances ("unobservable inputs"). The hierarchy level assigned to financial instruments recorded at fair value is based on the Fund's assessment of the transparency and reliability of the inputs used in the valuation of such instrument at the measurement date. The three hierarchy levels are defined as follows:

Level 1 – Valuations based on unadjusted quoted market prices in active markets for identical securities.

Level 2 – Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment.

If the inputs used to measure fair value fall in different levels of the fair value hierarchy, the instrument is placed in the hierarchy level based upon the lowest level of input that is significant to the fair value measurement. Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Note 4 - Fair Value of Financial Instruments (Continued)

Financial Assets Measured at Fair Value

The tables below present the Fund's investments aggregated by the level in the fair value hierarchy within which those measurements fall.

As of December 31, 2015

Description	Level 1	Level 2	Level 3	Total
Debt securities:				
Government and government agency bonds	$ 1,162,855	$ 906,333	$ -	$ 2,069,188
Corporate bonds	-	57,661,694	-	57,661,694
State and municipal bonds	-	99,865,979	-	99,865,979
Asset-backed bonds	-	2,976,025	-	2,976,025
Mortgage-backed bonds:	-	30,932,479	-	30,932,479
Total debt securities	$ 1,162,855	$ 192,342,510	$ -	$ 193,505,365

As of December 31, 2014

Description	Level 1	Level 2	Level 3	Total
Debt securities:				
Government and government agency bonds	$ 13,222,580	$ 489,619	$ -	$ 13,712,199
Corporate bonds	-	37,166,389	300,294	37,466,683
State and municipal bonds	-	93,852,502	-	93,852,502
Asset-backed bonds	-	7,351,680	-	7,351,680
Mortgage-backed bonds:	-	31,885,719	-	31,885,719
Total debt securities	$ 13,222,580	$ 170,745,909	$ 300,294	$ 184,268,783

A reconciliation of assets measured at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) from January 1, 2014 to December 31, 2015 follows:

Balance, as of January 1, 2014	$ -
Purchases, issuances, and settlements	300,294
Balance, as of December 31, 2014	300,294
Transfers out of Level 3	(133,125)
Purchases, issuances, and settlements	(167,169)
Balance, as of December 31, 2015	$ -

The Fund's policy is to evaluate the classification of Levels 1, 2 and 3 assets at the end of each reporting period. During the year ended December 31, 2014, $300,294 of investments valued using Level 3 inputs were purchased by the Fund. These investments were sold or transferred to Level 2 during 2015.

Note 5 - Reserve for Loss and Loss Adjustment Expense

As described in Note 2, management establishes reserves for loss and loss adjustment expense (LAE) on reported and unreported claims for reinsured losses. The establishment of appropriate reserves is an inherently uncertain process. Furthermore, estimation of the ultimate reserve level is difficult due to the lack of industry and Fund historical claim data as a result of the relatively small mine subsidence claim population. Estimation is further complicated by the extended periods of time between the date the loss occurs and the date the loss is reported to the third-party ceding company and ultimately settled. Loss reporting to the Fund may be further delayed because the Fund must rely on the third-party ceding companies to report losses. Reserve estimates are regularly reviewed and updated using the most current information available. Any resulting adjustments, which may be material, are reflected in current operations.

Activity in the reserve for loss and loss adjustment expense is summarized as follows:

	Residential Sub-Fund		Commercial Sub-Fund	
	2015	2014	2015	2014
Reserves, at January 1	$ 65,987,713	$ 62,783,319	$ 10,908,132	$ 11,264,677
Add:				
Provision for insured events of current year	15,103,021	15,060,566	3,358,496	4,918,482
Decrease in provision attributable to prior year events	(341,415)	(2,115,993)	(2,871,773)	(3,571,221)
Total incurred during the year	14,761,606	12,944,573	486,723	1,347,261
Deduct loss and LAE payments for claims, occurring during:				
Current year	505,240	597,247	149,742	163,476
Prior years	9,059,422	9,142,932	637,388	1,540,330
Total paid during the year	9,564,662	9,740,179	787,130	1,703,806
Reserves, at December 31	$ 71,184,657	$ 65,987,713	$ 10,607,725	$ 10,908,132

During 2015 and 2014, the Fund experienced favorable loss development for both the residential and commercial sub-funds, attributable to better than expected claim experience on prior year losses.

Reconciliation of incurred loss and loss adjustment expense:

	Residential Sub-Fund		Commercial Sub-Fund	
	2015	2014	2015	2014
Amount included in above table	$ 14,761,606	$ 12,944,573	$ 486,723	$ 1,347,261
(Income) expense items classified as LAE that do not affect reserves	(58,915)	(29,091)	(5,419)	6,286
Total per statutory basis financial				

Note 5 - Reserve for Loss and Loss Adjustment Expense (Continued)

Management believes that the reserves for loss and loss adjustment expense at December 31, 2015 and 2014 are appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by that date. However, the estimation process is inherently uncertain and actual amounts could vary significantly from amounts estimated.

Note 6 - Other Underwriting Expenses

The Residential and Commercial Sub-Funds other underwriting expenses were allocated 76% and 24% during 2015 and 78% and 22% during 2014, respectively. Other underwriting expenses consist of the following items:

	2015	2014
Salaries	$ 650,623	$ 619,428
Employee relations and benefits	452,692	105,832
Professional fees	386,082	411,147
Director's fees	132,425	124,200
Rent, including allocated building overhead	122,733	98,330
Insurance	80,841	81,586
Research	32,847	36,478
Travel and meetings	52,379	71,190
Public awareness and relations	13,286	19,135
Purchase of equipment - net of disposals	2,247	2,267
Dues and memberships	26,712	26,430
Other	44,548	48,314
Total	$ 1,997,415	$ 1,644,337

Note 7 - Federal Income Taxes

The provision for Federal income taxes consists of the following components:

	2015	2014
Federal income tax expense	$ 2,370,552	$ 2,664,912
Realized capital gains tax	286,303	267,157
Federal income tax expense	$ 2,656,855	$ 2,932,069

Note 7 - Federal Income Taxes (Continued)

The provision for federal income taxes incurred is different from that which would be obtained by applying the Federal income tax rate to statutory income before income taxes. The items causing this difference are as follows for the years ended December 31:

	2015	Effective Tax Rate	2014	Effective Tax Rate
Provision computed at statutory rate	$ 3,778,649	34.00 %	$ 4,058,917	34.00 %
Tax-exempt interest deduction	(1,002,123)	(9.02)%	(978,303)	(8.19)%
Nondeductible	17,657	0.16 %	17,501	0.15 %
Other	(253,645)	(2.28)%	(77,667)	(0.65)%
Total statutory income taxes	$ 2,540,538	22.86 %	$ 3,020,448	25.31 %
Current Federal income taxes incurred	$ 2,370,552	21.33 %	$ 2,664,912	22.32 %
Net realized capital gains tax	286,303	2.58 %	267,157	2.24 %
Change in net deferred income taxes	(116,317)	(1.05)%	88,379	1.24 %
Total statutory income taxes	$ 2,540,538	22.86 %	$ 3,020,448	25.80 %

Deferred federal income taxes arise from temporary differences between the valuation of assets and liabilities as determined for financial reporting purposes and income tax purposes. The amount of gross deferred tax asset calculated is then reduced for any valuation allowance and an admissibility test, which is based on the realization threshold table and other limitations.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31 are as follows:

	2015	2014
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 1,571,485	$ 1,701,048
Unearned premiums	940,890	927,762
Non-admitted assets	23,767	23,650
Total deferred tax assets	2,536,142	2,652,459
Nonadmitted deferred tax assets	(848,810)	(967,481)
Net admitted deferred tax asset	$ 1,687,332	$ 1,684,978

The change in net deferred income taxes, before consideration of the change in nonadmitted assets, is comprised of the following at December 31:

	2015	2014	Change
Total deferred tax assets (DTAs)	$ 2,536,142	$ 2,652,459	$ (116,317)
Total deferred tax liabilities (DTLs)	-	-	-
Net deferred tax asset	$ 2,536,142	$ 2,652,459	$ (116,317)
Tax effect of change in unrealized capital gains			-
Change in net deferred income tax			$ (116,317)

Note 7 - Federal Income Taxes (Continued)

The amounts of each component pursuant to SSAP 101 paragraph 11 by tax character are as follows:

	December 31, 2015		
	Ordinary	Capital	Total
Can be recovered through loss carrybacks (a)	$ 1,528,501	$ -	$ 1,528,501
Lesser of:			
Adjusted gross DTA expected to be recognized following the statement of admitted assets, liabilities and surplus date (b.i)	158,831	-	158,831
Adjusted gross DTA allowed per limitation threshold (b.ii)	-	-	15,312,113
Adjusted gross DTAs offset against existing DTLs (c)	-	-	-
DTAs admitted as a result of the application of SSAP 101 (a+b.i+c)	$ 1,687,332	$ -	$ 1,687,332

	December 31, 2014		
	Ordinary	Capital	Total
Can be recovered through loss carrybacks (a)	$ 1,684,978	$ -	$ 1,684,978
Lesser of:			
Adjusted gross DTA expected to be recognized following the statement of admitted assets, liabilities and surplus date (b.i)	-	-	-
Adjusted gross DTA allowed per limitation threshold (b.ii)	-	-	14,006,258
Adjusted gross DTAs offset against existing DTLs (c)	-	-	-
DTAs admitted as a result of the application of SSAP 101 (a+b.i+c)	$ 1,684,978	$ -	$ 1,684,978

The ratio and amount of adjusted capital and surplus used to determine the recovery period and threshold limitation as of December 31 are as follows:

	2015	2014
Ratio % used to determine recovery period and threshold limitation amount	2 %	2 %
Realization threshold limitation	15 %	15 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation amount	$ 102,080,755	$ 93,375,053

The Fund's tax-planning strategies did not include the use of reinsurance-related tax planning strategies.

At December 31, 2015, the Fund did not have any unused operating loss carryforwards available to offset against future taxable income.

Note 7 - Federal Income Taxes (Continued)

The following are federal income taxes incurred in the current and prior year that may be available for recovery in the event of future net operating losses.

2015	$	2,370,552
2014	$	2,664,912

The Fund's federal income tax return is not consolidated with any entities for the years ended December 31, 2015 and 2014.

The Fund has no tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

Note 8 - Commitments

The Fund leases office space through December 31, 2018 with the following minimum lease payments:

Year Ending December 31	Amount
2016	$ 73,279
2017	75,259
2018	77,240
Total	$ 225,778

Note 9 - Pension and Other Postretirement Plans

The Fund has agreed to provide certain life insurance, pension and health care benefits for eligible active and retired employees. All active full-time employees hired prior to July 1, 2012 are eligible for these benefits; coverage begins at the date of retirement. Normal retirement age is 65. Early retirement is allowed at ages 55 through 65 for employees with at least 15 years of service. Life insurance amounts are based upon 200% of the basic annual earnings immediately prior to retirement. At age 65, life insurance benefits are reduced to $5,000.

The Fund participates, along with other employers, in a defined benefit pension plan that is administered by an unaffiliated third party. Benefits under the plan are based primarily on years of service and employee compensation near retirement. The pension plan is funded according to the 1974 Employee Retirement Income Security Act ("ERISA"). During 2012, the Board of Directors approved the closing of the defined benefit pension plan to new employees hired after June 30, 2012.

Note 9 - Pension and Other Postretirement Plans (Continued)

A summary of assets, obligations and assumptions of the Pension, Post Employment and Other Postretirement Benefit Plans as of December 31 are as follows:

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Change in benefit obligations:				
Benefit obligation, beginning of year	$ 6,612,744	$ 4,953,030	$ 1,441,044	$ 1,070,294
Service cost	196,867	145,481	11,671	16,596
Interest cost	265,905	251,030	56,986	53,633
Actuarial (gain) loss	(501,263)	1,408,603	(141,717)	320,669
Benefits paid	(145,400)	(145,400)	(20,698)	(20,148)
Plan amendments	147,764	-	-	-
Benefit obligation, end of year	$ 6,576,617	$ 6,612,744	$ 1,347,286	$ 1,441,044
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 5,583,264	$ 5,045,256	$ -	$ -
Actual return on plan assets	(78,422)	443,816	-	-
Employer contributions	240,000	239,592	20,698	20,148
Benefits paid	(145,400)	(145,400)	(20,698)	(20,148)
Fair value of plan assets, end of year	$ 5,599,442	$ 5,583,264	$ -	$ -
Funded Status: Underfunded				
Liabilities recognized				
Liability for pension benefits	$ (977,175)	$ (1,029,480)	$ (1,347,286)	$ (1,441,044)
Total liabilities recognized	$ (977,175)	$ (1,029,480)	$ (1,347,286)	$ (1,441,044)
Components of net periodic benefit cost:				
Service cost	$ 196,867	$ 145,481	$ 11,671	$ 16,596
Interest cost	265,905	251,030	56,986	53,633
Expected return on plan assets	(331,395)	(317,844)	-	-
Net prior service cost amortization	13,343	13,343	(103,338)	(103,338)
Amount of loss recognized	190,058	27,835	71,380	34,969
Total benefit cost	$ 334,778	$ 119,845	$ 36,699	$ 1,860

Note 9 - Pension and Other Postretirement Plans (Continued)

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Changes in amounts recognized in accumulated surplus:				
Beginning unrecognized balances	$ 1,829,229	$ 587,776	$ 286,000	$ (103,038)
Net prior service cost recognized	(13,343)	(13,343)	103,338	103,338
Net loss recognized	(190,058)	(27,835)	(71,380)	(34,969)
New actuarial (gains) losses occurring	(91,446)	1,282,631	(141,717)	320,669
New prior service cost occurring	147,764	-	-	-
Ending unrecognized balances	$ 1,682,146	$ 1,829,229	$ 176,241	$ 286,000
Amounts in accumulated surplus that have not yet been recognized as components of net periodic benefit cost:				
Net prior service cost	$ 147,764	$ 13,343	$ (153,778)	$ (257,116)
Net recognized losses	1,534,382	1,815,886	330,019	543,116
Total	$ 1,682,146	$ 1,829,229	$ 176,241	$ 286,000
Amounts in accumulated surplus expected to be recognized in the next year:				
Net prior service cost	$ 20,921	$ 13,343	$ (100,964)	$ (103,338)
Net recognized losses	124,129	173,626	30,400	71,380
Total	$ 145,050	$ 186,969	$ (70,564)	$ (31,958)

The assumptions used in determing the actuarial present value of the projected benefit obligations as of December 31 were as follows:

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Discount rate	4.00 %	5.00 %	4.00 %	4.00 %
Average rate of compensation increase	3.00	3.00	3.00	3.00
Expected long-term rate of return on plan assets	6.00	6.25	N/A*	N/A*
Assumed health care cost trend rate during first year	N/A	N/A	7.00	7.00
Ultimate health care cost trend rate	N/A	N/A	5.00	5.00

*There is no expected long-term rate of return since there are no invested assets in the plan.

Note 9 - Pension and Other Postretirement Plans (Continued)

Pension plan assets are invested in trusts comprised primarily of investments in various debt and equity funds. A fiduciary committee establishes the target asset mix and monitors asset performance. The expected rate of return on assets includes the determination of a real rate of return for equity and fixed income investment applied to the portfolio based on their relative weighting, increased by an underlying inflation rate. The Fund's pension plan weighted average asset allocations by asset category are as follows:

	Target	Allocation December 31	
	2015	2015	2014
Asset Category			
Equity securities	40.0 %	48.7 %	53.0 %
Debt securities	60.0	50.4	45.6
Other	0.0	0.9	1.4
Total	100.0 %	100.0 %	100.0 %

Following is a description of the valuation methodologies used for pension assets measured at fair value:

- *Equity securities*: Equity securities consist of various managed funds that invest primarily in common stocks. These securities are valued at the net asset value of shares held by the plan at year-end. The net asset value is calculated based on the underlying shares and investments held by the funds.
- *Debt securities:* Debt securities consist of fixed income funds that invest primarily in debt securities. These securities are valued at the net asset value of shares held by the plan at year-end. The net asset value is calculated based on the underlying shares and investments held by the funds.
- *Other:* Other consists of investments in cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes that its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 9 - Pension and Other Postretirement Plans (Continued)

The levels assigned to the defined benefit plan assets as of December 31, 2015 and 2014, respectively, are summarized in the tables below:

	Level 1	Level 2	Level 3	Total	% of Total
2015					
Equity securities	$ 2,173,675	$ 553,825	$ -	$ 2,727,500	48.7 %
Debt securities	-	2,822,671	-	2,822,671	50.4 %
Other	-	46,675	-	46,675	0.8 %
Private equity partnerships (a)	-	-	-	2,596	0.1 %
Total	$ 2,173,675	$ 3,423,171	$ -	$ 5,599,442	100.0 %

	Level 1	Level 2	Level 3	Total	% of Total
2014					
Equity securities	$ 939,969	$ 2,017,957	$ -	$ 2,957,926	53.0 %
Debt securities	-	2,543,121	-	2,543,121	45.6 %
Other	-	79,462	-	79,462	1.3 %
Private equity partnerships (a)	-	-	-	2,755	0.1 %
Total	$ 939,969	$ 4,640,540	$ -	$ 5,583,264	100.0 %

(a) In accordance with Subtopic 820, certain investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in the tables above is intended to permit reconciliation to the amounts presented in the change in plan assets.

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

	Pension Benefits	Other Benefits
2016	$ 200,365	$ 32,455
2017	232,214	40,504
2018	264,329	47,898
2019	295,936	55,720
2020	322,648	63,509
2021-2025	2,015,234	406,572
Total	$ 3,330,726	$ 646,658

In 2016, the Fund expects to contribute $240,000 to the pension plan and $32,455 to the other postretirement plan.

Note 10 - Non-admitted assets

Components of non-admitted assets as of December 31, were as follows:

	2015	2014	Change
Prepaid insurance	$ 54,844	$ 46,892	$ 7,952
Deferred tax asset: non-admitted	848,810	967,481	(118,671)
Total	$ 903,654	$ 1,014,373	$ (110,719)

IMSIF ILLINOIS MINE SUBSIDENCE INSURANCE FUND

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