ILLINOIS MINE SUBSIDENCE INSURANCE FUND

2016 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

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2016 Annual Report

Table of Contents

Letter from the Chairman of the Board and the President and CEO 3

Understanding Mine Subsidence 5

The Fund – A Private Solution to a Public Problem 8

Essential for Success: A Dedicated Board of Directors 9

IMSIF Board of Directors 10

Transitions 11

Staff 12

Independent Auditor's Report 13

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

> "The past is behind, learn from it.
> The future is ahead, prepare for it.
> The present is here, live it."
> – Thomas S. Monson

We can attest that 2016 was a year where our past, present, and future seemed to come together in a truly unique and dynamic way. Each of these distinct time continuum segments wisely informed us, as we recognized opportunities, made decisions, and led change.

Honoring Our Past

We recently published a comprehensive historical record of the Fund. It serves to capture the essence of who we are, define the problem we have been asked to solve, and tell the story of how we are solving that problem. The Preface of that publication states, "The Fund stands as a testament to the great heights of achievement that can be reached when government works in tandem with private enterprise to arrive at creative and workable solutions for the greater good of all."

We've learned many things from our past, but perhaps the most significant is the importance of thinking outside the box. The Fund was created using innovative and collaborative thinking. We had no blueprint to follow, no peers to consult, and no history to rely on. Our strength has come from leveraging our talented people and our engaged partners, and has been enhanced by prioritizing our commitment to the many stakeholders that depend on us to serve as a comprehensive solution to a previously under-addressed public problem.

Engaging Our Present

As we mature as an organization and face new challenges and opportunities, we continue to blaze the trail. 2016 was an active year for the Fund, one that demanded and illustrated both our propensity for full engagement and creative thinking. The most notable initiatives include:

- an Enterprise Risk Management study, resulting in the identification of potentially significant risks to the Fund and the establishment of a formal mitigation strategy for each risk;
- an IT upgrade, which includes custom coding and implementation of a document management and workflow system, moving us closer to a paperless and more interactive work environment;
- a Compensation Benchmarking study and the issuance of a Statement of Compensation Philosophy. Both efforts enhance our ability to continue to attract and retain exceptionally talented team members who are vital to our successful future;
- the reorganization of the Caseyville office, which included the relocation of Fund CFO Brandon Raimondi to provide day-to-day and strategic planning leadership to the Caseyville team; and
- a research project proposed by the University of Kentucky to explore the utility of Interferometric synthetic aperture radar (InSAR) to measure sub-centimeter-scale ground movement. We believe this project could result in viable alternatives to our time intensive field surveys and the ability to better assess damage in the event of a catastrophe.

These initiatives were successfully undertaken as we continued to diligently meet the routine needs of our stakeholders and conscientiously address the emerging issues we faced as an organization.

Envisioning Our Future

We recognize that establishing and maintaining financial stability is paramount in assuring our existence.

However, we are convinced that human capital must be the starting point and ongoing foundation of any successful strategy we undertake for our future. Our success has repeatedly come from our people and their commitment to our mission. Our growth has continually come from individuals willing to think outside the box even when doing so risks failure or invites adversity. The Fund is a pioneering organization that has rarely had the luxury of studying peers or considering the industry norm in making decisions. We believe this reality has been a strength that has spurred us on in maturing as an organization year after year.

We had three announced retirements in 2016, and seven of our 18 employees are now fully eligible to take advantage of early retirement. The Fund is at a critical crossroads in its organizational evolution and the future relies heavily on identifying, attracting, and retaining excellent talent and creative thinkers. That is a key management priority and commitment to all stakeholders.

It is equally vital to our future that we field an excellent, fully engaged, and diverse Board of Directors, as we have in both our past and present. We pledge to work with both the Nominating Committee and the Department of Insurance to do our part in promoting best practices in board governance and in championing overall effective board functioning. This organization is at its best when we work together with our partners to demand accountability and enable empowerment.

Closing

In closing, we want to recognize the Department of Insurance (DOI) for their partnership with the Fund in tackling mine subsidence issues over the years. We have a long history of cooperation with the DOI. We welcome the opportunity to work with Director Jennifer Hammer, and personally want to thank Chief Deputy Jim Stephens for his strong leadership and constant guidance over the past several years.

Finally, on both a personal and professional level, we extend our heartfelt wish for a most happy and healthy retirement, to our long tenured general counsel and friend, Jim Betke. A trusted counselor of the Fund for more than 27 years, Jim has provided dedicated guidance in helping to chart the course of our future. His imprint will be lasting.

Dorothy Even,
Chairman of the Board

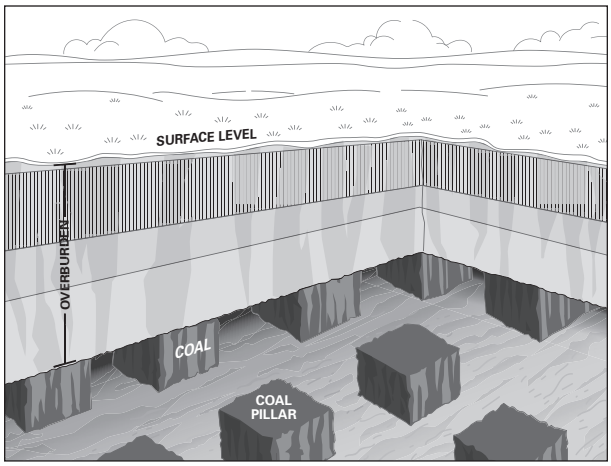
Heidi M. Weber,
President and CEO

Understanding Mine Subsidence

What Causes Mine Subsidence?

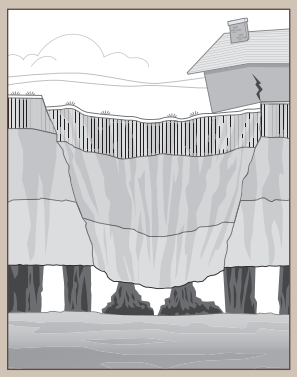
Mine Subsidence is defined in the Illinois Insurance Code as "lateral or vertical ground movement caused by a failure initiated at the mine level, of man made underground mines, including, but not limited to coal mines, clay mines, limestone mines, and fluorspar mines that directly damages residences or commercial buildings." The cause of mine subsidence is directly related to the early type of mining that was present in at least 72 counties and dates back over 200 years. The Room and Pillar method of mining, the most common type of early mining, required workers to mine the coal in a checkerboard or grid pattern, creating voids or "rooms" where the coal was mined, and "pillars" of un-mined coal to support the mine roof. Over time, these pillars disintegrate or collapse, causing collapse within the mine and sinking or shifting to the ground surface. The resulting subsidence at the ground level can cause considerable damage to structures built over or in close proximity to the subsidence. Conventional insurance does not provide for coverage categorized as "ground movement."

Room and Pillar Method

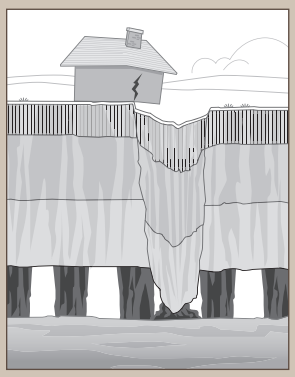


Cross-section of a Room and Pillar mine wherein pillars of coal were left unmined to support the mine roof. Over time, these pillars deteriorate, causing collapse or "subsidence" within the mine.

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.

Continuous Long Term Damage

A structure need not lie directly over a mine to be affected by mine subsidence, and it is extremely difficult to accurately gauge how far a property must lie from a mine to ensure that it will be unaffected. Each subsidence event is unique, and the range of ground movement is influenced by the angle of draw created by the subsurface collapse, the depth of the mine, and soil composition.

Unlike other perils such as fire, flood, wind and hail, when nearly all damage occurs within hours, mine subsidence often progresses very slowly over many years, sometimes decades. Damage may appear suddenly at first, and then continue to occur gradually. This is particularly frustrating for homeowners since permanent repairs are not recommended until damaging ground movement ceases. Cracks may open in basement floors, then widen or grow. Concrete or brick foundation walls may bulge or crack. The chimney, porch, or steps may tilt in opposite directions, or even separate from the house. Typically, the most severe damages are to the foundation and underlying structure of the property.

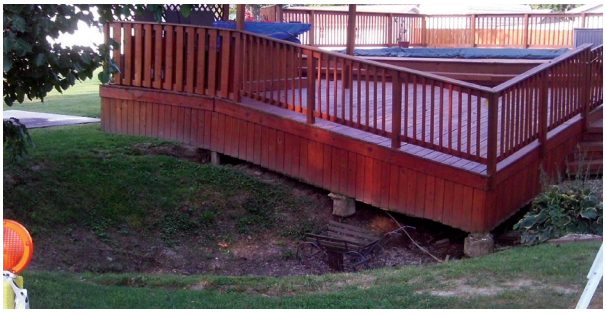
Step cracks, such as these, are common in block walls affected by mine subsidence.

Compression damage to a basement wall.

Common tension damage resulting in a break to a sidewalk.

This garage door has become misaligned from mine subsidence.

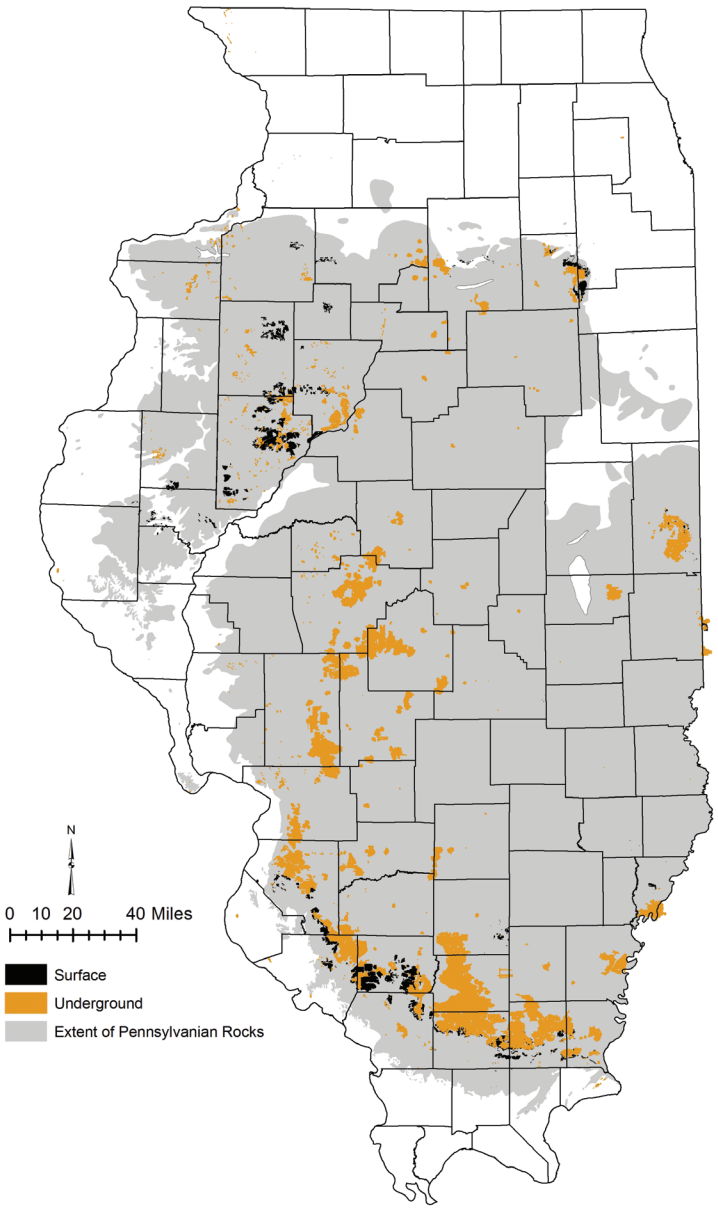
Damage from mine subsidence typically starts at the foundation level and works its way up.



This deck sustained considerable damage resulting from mine subsidence.

Most experts agree that 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. According to Illinois State Geological Survey estimates, there are approximately 201,000 acres of urban and built-up lands with potential for mine subsidence. Predominantly within that acreage, there are an estimated 333,000 housing units with possible mine subsidence exposure.

Statewide map illustrating areas of underground and surface mining in Illinois.
(Illinois State Geological Survey, Bauer 2006)



The Fund: A Private Solution to a Public Problem

Prior to 1979, Illinois homeowners did not have access to insurance to protect for damage caused by mine subsidence. Since much of the underground mining was done decades before, and many of the mining companies were no longer in existence, property owners had very few opportunities to recover from the responsible party. Consequently, numerous homeowners suffered devastating financial loss to their most valuable physical asset.

Through an Act of the Illinois General Assembly, Illinois became the second state, after Pennsylvania, to facilitate the availability of mine subsidence insurance. The Illinois Act requires that mine subsidence coverage be included in conventional policies on residential and commercial buildings in the 34 counties where most mining was conducted, unless waived in writing by the insured, and added upon request in the remaining 68 counties. The Statute also created the Illinois Mine Subsidence Insurance Fund (the Fund) as an independent reinsurer to primary companies required to include the coverage. In addition to offering reinsurance, the Fund conducts geotechnical investigations to determine if mine subsidence is the cause of damage and when damaging ground movement ceases, and establishes rates and rating schedules, provides underwriting guidance to primary insurers, promotes mine subsidence education and supports mine subsidence related research that ultimately benefits consumers.

Although created through statute, the Fund is not a state agency. The Fund is a taxable entity providing reinsurance to insurance companies licensed to write property coverage in Illinois. With no available mechanism for traditional capitalization, the Fund relies solely on premium and investment income to acquire financial resources. Policyholder surplus is built and retained to guard against deteriorating claims experience, the possibility of catastrophic loss, the inherent uncertainty in estimating loss reserves, and the risks of declining financial markets. The Fund's primary financial objective is long-term solvency.

For more information on the Fund and how it was created, please refer to our latest publication, *Illinois Mine Subsidence Insurance Fund Historical Record,* which can be accessed from the "About Us/History of the Fund" section of our website at *www.imsif.com*.

Essential for Success: A Dedicated Board of Directors

The Fund is managed by an eleven-member Board of Directors, as outlined in the Mine Subsidence legislation. The mandate requires that 6 be insurance industry directors, 4 public directors, and one Illinois licensed insurance producer. Directors serve three year terms. All Directors, regardless of designation, owe an individual fiduciary duty to the Fund and are expected to act in its best interests through exercising both the duty of loyalty and the duty of care.

The industry directors are elected through an established nomination and voting process described in the Articles of Governance. Insurance industry directors do not represent a particular company or trade association, but instead are individuals representing themselves, who most often have insurance industry experience or related expertise. The IMSIF Nominating Committee is tasked with identifying and soliciting recommendations to fill the insurance industry director terms expiring each year. Insurers are encouraged to recommend individual candidates possessing suitable background, expertise, and interest to serve, for consideration by the Nominating Committee. The Committee nominates candidates annually and each insurer that has reported premium during the previous twelve months is allowed one vote. The public directors and licensed insurance producer are appointed by the Director of Insurance.

The fundamental responsibility of the Board of Directors is to foster the long-term success of the Fund. Similar to other insurance entities, the primary objective of the IMSIF Board is to establish and maintain sufficient financial resources to meet its long term financial obligations and commitments, particularly as it relates to paying current and future reinsurance claims.

Governance activities include selecting the Chief Executive Officer (CEO) and assessing his or her performance, reviewing and authorizing strategic plans and related operating budgets, hiring and reviewing work of outside auditors, investment managers and actuaries to ensure compliance with financial and legal requirements, and periodically evaluating the organization's overall results. The Board carries out its governance responsibilities through oversight, while daily operational activities are the responsibility of the CEO and management staff.

The IMSIF Nominating Committee employs a competency based succession planning process that allows for identifying and attracting directors who bring a range of needed professional skills, backgrounds, and diversity that is reflective of the Fund's mission and commitment to its stakeholders. Although Directors often serve multiple 3 year terms, turnover is inevitable. The Fund strives to maintain a small pool of potential candidates for possible future election or appointment to the Board.

To assemble a highly effective Board, the Fund strives to include a mix of directors with collective expertise or experience in the areas of property underwriting, property claim handling, insurance management and leadership, financial literacy and expertise, fixed income/equity investment management, the coal or mining industry, insurance brokerage, actuarial and legal.

IMSIF Board of Directors

Dorothy Even, Chairman
Retired Executive
Insurance Investments
Director since 2010

Robert Ostgulen, Vice-Chairman
Retired Executive
Insurance
Director since 1999

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

Kenneth DeVries
Chief Accounting Officer
HUB International, LTD.
Director since 2015

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

Hernando Madronero
Managing Director
Madronero Enterprises, LLC
Director since 2015

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

David J. Queior
Retired Executive
Insurance
Director since 1999

Lloyd Parker
Retired Executive
Insurance
Director since 2003

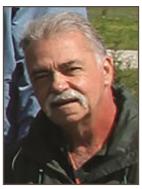
Richard A. Sedlak
Insurance Producer
Schmale Insurance
Director since 2009

Frederick M. Strauss
Senior Vice President
Holborn
Director since 2007

Attendees prepare for an upcoming IMSIF Board of Directors meeting. *Left to right:* IMSIF Directors Richard A. Sauget, Jr. and Hernando Madronero; Illinois Department of Insurance attendees Chief Deputy James A. Stephens and Deputy Director Brett A. Gerger.

Transitions

Retirees



Allen J. Costello, Manager, Geotechnical Services
As a veteran geologist in the mining industry, Allen brought expertise and experience to the Fund when he was hired in 1993 to enhance the geotechnical investigative team and later to manage the southern Illinois office. He faithfully served the Fund for 23 years, and was instrumental in the leadership effort that grew and trained the professional team that we now have assembled.

John P. Farnetti, Vice President Reinsurance Operations
When operations run smoothly for a very long time, the tremendous effort behind it can become difficult to distinguish. Such is the case with this experienced property claims adjuster, who was hired in 1991 to oversee claim reinsurance operations with Illinois property insurers. John's methodical approach provided consistency and stability to the process, allowing Illinois insurers a means to provide a high level of service to their policyholders with mine subsidence claims. Aside from day to day administrative business of claim handling, John is also responsible for creating one of the most successful and innovative programs at the Fund to date, the Designated Adjuster program, instituted in 2001.

New Hires

Michael A. Anderson, Geotechnical Investigator
Michael was previously employed by Peabody Energy, leaving his position as Senior Geologist after 25 years. He is a graduate of Southern Illinois University, Edwardsville and resides in Madison County.

Marc C. Lovrak, Vice President Reinsurance Operations
Marc was hired after an exhaustive nationwide search to identify qualified candidates to replace veteran VP, John Farnetti. Marc possesses impressive credentials with over two decades of experience in property insurance claim management and contractual litigation. He relocated from Ohio to accept the IMSIF position and resides in the Chicagoland area.

Keith Culli, Rodman
Keith originally joined the Fund as a part-time rodman in 2013 and was promoted to full-time rodman and surveyor-in-training in 2016.

General Counsel

James E. Betke
Jim, who first served as General Counsel to the Fund nearly 30 years ago, as an attorney with McDermott, Will & Emery, has retired. His contribution to the past, present and planning for the future of the Fund is far-reaching, manifested in the thousands of documents and publications he has reviewed or drafted, his successful negotiations for subrogation recovery from mining companies, and his constant and steadfast guidance to the Board of Directors and the management team through the years.

Todd S. Schenk
Todd, a partner at Tressler LLP, was selected to replace James Betke as IMSIF General Counsel. Todd is highly experienced in providing insurance coverage counseling and litigation representation to insurance companies. His contribution to the Fund is already making a difference in several areas including risk management assessment, corporate governance best practices, and Designated Adjuster program enhancement.

IMSIF Staff

Chicago

Heidi M. Weber
President & Chief Executive Officer

Marc C. Lovrak
Vice President Reinsurance Operations

Kathleen A. Moran
Industry Relations and Consumer Education Manager

Patricia F. Bednarek
Office Manager

Sheila Dean
Administration

Nancy Moore
Administration

Diana Solis
Administration

Caseyville

Brandon R. Raimondi
Vice President & Chief Financial Officer

Michael A. Anderson
Geotechnical Investigations

Anthony Caudillo
Rodman

Keith Culli
Rodman

Thomas G. Denton
Geotechnical Investigations

Gregory J. Gollaher
Geotechnical Investigations

Darrell Hein
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
Todd S. Schenk
Tressler LLP

JOHNSON LAMBERT LLP

Illinois Mine Subsidence Insurance Fund

Audited Financial Statements - Statutory Basis

Years ended December 31, 2016 and 2015
with Report of Independent Auditors

Illinois Mine Subsidence Insurance Fund

Audited Financial Statements - Statutory Basis

Years ended December 31, 2016 and 2015

Contents

Report of Independent Auditors....15-16

Audited Financial Statements - Statutory Basis

Balance Sheets - Statutory Basis....17
Statements of Income - Statutory Basis....18
Statements of Changes in Policyholder Surplus - Statutory Basis....19
Statements of Cash Flows - Statutory Basis....20
Notes to Statutory Basis Financial Statements....21-39

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, 2016 and 2015, and the related individual and combined statutory basis statements of income, changes in policyholder surplus, and cash flows for the years 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 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 audits 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 opinions.

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 Commercial Sub-Funds of the Illinois Mine Subsidence Insurance Fund as of December 31, 2016 and 2015, or the results of their operations or their cash flows for the years 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, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with the basis of accounting described in Note 2.

Arlington Heights, Illinois
April 19, 2017

Illinois Mine Subsidence Insurance Fund

Balance Sheets - Statutory Basis

December 31 , 2016 and 2015

	Residential Sub-Fund		Commercial Sub-Fund		Combined	
	2016	2015	2016	2015	2016	2015
Admitted Assets						
Cash and invested assets						
Bonds	$ 147,260,046	$ 139,158,996	$ 52,496,645	$ 49,139,314	$ 199,756,691	$ 188,298,310
Cash and short-term investments	2,603,925	3,595,219	2,144,763	1,990,198	4,748,688	5,585,417
Real estate	163,375	169,730	48,800	50,698	212,175	220,428
Total cash and invested assets	150,027,346	142,923,945	54,690,208	51,180,210	204,717,554	194,104,155
Premiums receivable	5,044,746	5,019,860	1,612,288	1,551,542	6,657,034	6,571,402
Investment receivable	291	260	102	91	393	351
Accrued investment income	1,417,396	1,341,801	505,287	473,812	1,922,683	1,815,613
Current federal income tax recoverable	285,866	-	252,168	-	538,034	-
Net deferred tax asset	1,242,817	1,248,626	436,666	438,706	1,679,483	1,687,332
Other	199,315	3,077	69,665	919	268,980	3,996
Total Admitted Assets	$ 158,217,777	$ 150,537,569	$ 57,566,384	$ 53,645,280	$ 215,784,161	$ 204,182,849
Liabilities and Policyholder Surplus						
Liabilities						
Loss and loss adjustment expense	$ 75,379,768	$ 71,184,657	$ 12,792,348	$ 10,607,725	$ 88,172,116	$ 81,792,382
Unearned premium	10,902,006	10,779,642	3,176,075	3,056,978	14,078,081	13,836,620
Commissions payable	756,712	752,979	322,458	310,308	1,079,170	1,063,287
Income tax payable	-	622,041	-	560,632	-	1,182,673
Accrued expenses	2,107,906	1,931,271	632,739	608,529	2,740,645	2,539,800
Total Liabilities	89,146,392	85,270,590	16,923,620	15,144,172	106,070,012	100,414,762
Policyholder surplus	69,071,385	65,266,979	40,642,764	38,501,108	109,714,149	103,768,087
Total Liabilities and Policyholder Surplus	$ 158,217,777	$ 150,537,569	$ 57,566,384	$ 53,645,280	$ 215,784,161	$ 204,182,849

See accompanying notes to the statutory basis financial statements

Illinois Mine Subsidence Insurance Fund

Statements of Income - Statutory Basis

Years Ended December 31, 2016 and 2015

	Residential Sub-Fund		Commercial Sub-Fund		Combined	
	2016	2015	2016	2015	2016	2015
Underwriting						
Premiums earned	$ 21,178,725	$ 21,031,449	$ 6,248,545	$ 6,136,506	$ 27,427,270	$ 27,167,955
Less underwriting expenses						
Loss and loss adjustment expense	15,680,881	14,702,691	3,235,609	481,304	18,916,490	15,183,995
Commissions	3,193,245	3,193,015	1,273,993	1,224,413	4,467,238	4,417,428
State income tax expense	373,827	561,498	205,929	489,446	579,756	1,050,944
Other underwriting expenses	1,617,683	1,517,295	469,528	480,120	2,087,211	1,997,415
Total underwriting expenses	20,865,636	19,974,499	5,185,059	2,675,283	26,050,695	22,649,782
Underwriting gain	313,089	1,056,950	1,063,486	3,461,223	1,376,575	4,518,173
Investment Income						
Net interest income	4,508,443	4,257,726	1,598,897	1,495,704	6,107,340	5,753,430
Net realized capital gains, net of tax	21,032	411,266	7,389	144,499	28,421	555,765
Net investment gain	4,529,475	4,668,992	1,606,286	1,640,203	6,135,761	6,309,195
Net income before federal income tax expense	4,842,564	5,725,942	2,669,772	5,101,426	7,512,336	10,827,368
Federal income tax expense	920,406	1,207,639	509,182	1,162,913	1,429,588	2,370,552
Net income	$ 3,922,158	$ 4,518,303	$ 2,160,590	$ 3,938,513	$ 6,082,748	$ 8,456,816

Illinois Mine Subsidence Insurance Fund

Statements of Changes in Policyholder Surplus - Statutory Basis

Years Ended December 31, 2016 and 2015

	Residential Sub-Fund		Commercial Sub-Fund		Combined	
	2016	2015	2016	2015	2016	2015
Beginning Policyholder Surplus	$ 65,266,979	$ 60,581,937	$ 38,501,108	$ 34,478,094	$ 103,768,087	$ 95,060,031
Net income	3,922,158	4,518,303	2,160,590	3,938,513	6,082,748	8,456,816
Change in additional minimum pension liability	(51,556)	60,341	(2,711)	(8,036)	(54,267)	52,305
Change in unrecognized obligations for pensions	(62,516)	177,163	(15,531)	27,370	(78,047)	204,533
Change in net deferred tax asset	(46,436)	(175,197)	(25,199)	58,880	(71,635)	(116,317)
Change in non-admitted assets	42,756	104,432	24,507	6,287	67,263	110,719
Ending Policyholder Surplus	$ 69,071,385	$ 65,266,979	$ 40,642,764	$ 38,501,108	$ 109,714,149	$ 103,768,087

Illinois Mine Subsidence Insurance Fund

Statements of Cash Flows - Statutory Basis

Years Ended December 31, 2016 and 2015

	Residential Sub-Fund		Commercial Sub-Fund		Combined	
	2016	2015	2016	2015	2016	2015
Cash From Operations						
Premiums collected	$ 21,263,386	$ 20,910,416	$ 6,309,263	$ 6,037,408	$ 27,572,649	$ 26,947,824
Less underwriting expenses paid						
Loss and loss adjustment expenses paid	(11,441,644)	(9,564,662)	(1,038,594)	(787,130)	(12,480,238)	(10,351,792)
Commissions	(3,189,512)	(3,136,564)	(1,261,843)	(1,206,374)	(4,451,355)	(4,342,938)
Other	(1,587,380)	(1,528,151)	(469,304)	(529,842)	(2,056,684)	(2,057,993)
Net investment income	4,466,905	5,169,808	1,580,051	1,816,480	6,046,956	6,986,288
Federal income taxes paid	(2,212,974)	(2,462,973)	(1,531,718)	(1,388,346)	(3,744,692)	(3,851,319)
Net cash from operations	7,298,781	9,387,874	3,587,855	3,942,196	10,886,636	13,330,070
Cash From Investments						
Proceeds from investments sold, matured, or repaid	41,429,906	31,241,667	14,567,052	10,976,863	55,996,958	42,218,530
Cost of investments acquired	(49,719,981)	(40,499,978)	(18,000,342)	(14,132,473)	(67,720,323)	(54,632,451)
Net cash used in investments	(8,290,075)	(9,258,311)	(3,433,290)	(3,155,610)	(11,723,365)	(12,413,921)
Net change in cash	(991,294)	129,563	154,565	786,586	(836,729)	916,149
Cash and short-term investments, beginning of year	3,595,219	3,465,656	1,990,198	1,203,612	5,585,417	4,669,268
Cash and short-term investments, end of year	$ 2,603,925	$ 3,595,219	$ 2,144,763	$ 1,990,198	$ 4,748,688	$ 5,585,417

See accompanying notes to the statutory basis financial statements

Illinois Mine Subsidence Insurance Fund

Notes to Statutory Basis Financial Statements

Years ended December 31, 2016 and 2015

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 private 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") 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 acquisition, 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. Under GAAP, presentation of a reconciliation of net income to cash from operations is required. No such reconciliation is required under SAP.

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 years ended December 31, 2016 and 2015, the allocation percentages were 74% and 26% for the Residential Sub-Fund and Commercial Sub-Fund, respectively. 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, 2016 and 2015, third-party ceding companies retain 15% of the Residential and 20% of the Commercial premiums remitted 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. There were no subrogation recoverables as of December 31, 2016 and 2015. Other recoveries are recognized when received. Subrogation of $0 and $441,174 was received during 2016 and 2015, 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.

Subsequent Events
The Fund evaluated subsequent events for recognition and disclosure through April 19, 2017, 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, 2016 and 2015. The amortized cost, gross unrealized gains and losses and fair value of investments in debt securities and short-term investments are as follows:

At December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government and government agency bonds	2,427,773	132,845	(27,137)	2,533,481
Corporate bonds	61,142,461	861,001	(444,567)	61,558,895
State and municipal bonds	101,097,949	3,245,400	(766,332)	103,577,017
Asset-backed bonds	1,941,791	17,172	(10,404)	1,948,559
Mortgage-backed bonds	33,146,717	600,125	(383,674)	33,363,168
Total debt securities	$ 199,756,691	$ 4,856,543	$ (1,632,114)	$ 202,981,120
Short-term investments	$ 3,215,637	$ -	$ -	$ 3,215,637

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
Short-term investments	$ 3,883,494	$ -	$ -	$ 3,883,494

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, 2016 and 2015:

	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, 2016						
Debt securities:						
Government and government agency bonds	$ 491,441	$ (7,937)	$ 387,450	$ (19,200)	$ 878,891	$ (27,137)
Corporate bonds	20,616,598	(373,832)	2,432,586	(70,735)	23,049,184	(444,567)
State and municipal bonds	26,043,761	(766,332)	-	-	26,043,761	(766,332)
Asset-backed bonds	370,995	(7,331)	104,407	(3,073)	475,402	(10,404)
Mortgage-backed bonds	11,870,566	(274,955)	2,735,414	(108,719)	14,605,980	(383,674)
Total debt securities	$ 59,393,361	$ (1,430,387)	$ 5,659,857	$ (201,727)	$ 65,053,218	$ (1,632,114)

	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)

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, 2016 or 2015, 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, including short-term investments, at December 31, 2016 by contractual maturity, is shown below:

	Amortized Cost	**Fair Value**
Years to maturity		
One or less	$ 7,992,103	$ 8,025,143
After one through five	26,793,320	27,084,678
After five through ten	57,269,289	57,578,454
After ten	75,829,108	78,196,755
Mortgage and asset-backed securities	35,088,508	35,311,727
Total securities	$ 202,972,328	$ 206,196,757

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

Structured Notes

As part of its investment strategy, the Fund invests in structured notes, which are direct debt issuances where either the coupon and/or principal payments are linked to prices from indices, or assets deriving their value from other than the issuer's credit quality, or the coupon and/or principal payments are leveraged by a formula that is different from either a fixed coupon, or a non-leveraged floating rate coupon linked to an interest rate index. The Fund had the following structured notes as of December 31, 2016:

CUSIP	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage Referenced Security
65504LAM9	$ 419,105	$ 419,475	$ 419,475	No

Note 3 - Investments (Continued)

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, 2016	2015
Proceeds from sales, calls, and maturitie	$ 55,333,460	$ 41,936,843
Gross realized gains on sales	$ 108,113	$ 967,041
Gross realized losses on sales	(65,051)	(124,973)
Net realized gains on sales	43,062	842,068
Income tax	(14,641)	(286,303)
Net realized gains on sales	$ 28,421	$ 555,765

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

	2016	2015
Interest Income		
Government and government agency bonds	$ 86,049	$ 165,371
Corporate bonds	2,045,972	1,599,379
State and municipal bonds	3,455,146	3,401,243
Asset-backed bonds	55,359	84,635
Mortgage-backed bonds	860,551	878,625
Total interest income	6,503,077	6,129,253
Expenses		
Investment expenses incurred	(395,737)	(375,823)
Net interest income	$ 6,107,340	$ 5,753,430

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.

Note 4 - Fair Value of Financial Instruments (Continued)

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.

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, 2016

Description	Level 1	Level 2	Level 3	Total
Government and government agency bonds	$ 1,385,723	$ 1,147,758	$ -	$ 2,533,481
Corporate bonds	-	61,558,895	-	61,558,895
State and municipal bonds	-	103,577,017	-	103,577,017
Asset-backed bonds	-	1,948,559	-	1,948,559
Mortgage-backed bonds:	-	33,363,168	-	33,363,168
Short-term investments	3,215,637	-	-	3,215,637
Total	$ 4,601,360	$ 201,595,397	$ -	$ 206,196,757

As of December 31, 2015

Description	Level 1	Level 2	Level 3	Total
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
Short-term investments	3,883,494	-	-	3,883,494
Total	$ 5,046,349	$ 192,342,510	$ -	$ 197,388,859

Bonds

The fair values for bonds are based on NAIC-prescribed market values, where available, or quoted market values. For bonds not actively traded, fair values are estimated using values obtained from independent pricing services that specialize in matrix pricing and modeling techniques for estimating fair values or internal pricing software generally based on market-observable inputs. Bonds are measured and reported at amortized cost, except those with an NAIC designation of 3-6, which are reported at the lower of amortized cost or fair value.

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	
	2016	2015	2016	2015
Reserves, at January 1	$ 71,184,657	$ 65,987,713	$ 10,607,725	$ 10,908,132
Add:				
Provision for insured events of current year	16,799,537	15,103,021	4,091,589	3,358,496
Decrease in provision attributable to prior year events	(1,162,782)	(341,415)	(868,372)	(2,871,773)
Total incurred during the year	15,636,755	14,761,606	3,223,217	486,723
Deduct loss and LAE payments for claims, occurring during:				
Current year	548,127	505,240	174,844	149,742
Prior years	10,893,517	9,059,422	863,750	637,388
Total paid during the year	11,441,644	9,564,662	1,038,594	787,130
Reserves, at December 31	$ 75,379,768	$ 71,184,657	$ 12,792,348	$ 10,607,725

During 2016 and 2015, 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	
	2016	2015	2016	2015
Amount included in above table	$ 15,636,755	$ 14,761,606	$ 3,223,217	$ 486,723
Income (expense) items classified as LAE that do not affect reserves	44,126	(58,915)	12,392	(5,419)
Total per statutory basis financial statements	$ 15,680,881	$ 14,702,691	$ 3,235,609	$ 481,304

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

Management believes that the reserves for loss and loss adjustment expense at December 31, 2016 and 2015 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 2016 and 2015, respectively. Other underwriting expenses consist of the following items:

	2016	2015
Salaries	$ 695,266	$ 650,623
Employee relations and benefits	373,773	452,692
Professional fees	331,040	386,083
Director's fees	125,951	132,425
Rent, including allocated building overhead	123,923	122,733
Insurance	90,293	80,841
Research	100,000	32,847
Travel and meetings	70,760	52,379
Public awareness and relations	15,998	13,286
Purchase of equipment - net of disposals	74,068	2,247
Dues and memberships	28,987	26,711
Other	57,152	44,548
Total	$ 2,087,211	$ 1,997,415

Note 7 - Federal Income Taxes

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

	2016	2015
Federal income tax expense	$ 1,429,588	$ 2,370,552
Realized capital gains tax	14,641	286,303
Total federal income tax expense	$ 1,444,229	$ 2,656,855

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:

	2016	Effective Tax Rate	2015	Effective Tax Rate
Provision computed at statutory rate	$ 2,559,173	34.00 %	$ 3,778,649	34.00 %
Tax-exempt interest deduction	(982,334)	(13.05)%	(1,002,123)	(9.02)%
Nondeductible	18,163	0.24 %	17,657	0.16 %
Other	(222,408)	(2.96)%	(253,645)	(2.28)%
Total statutory income taxes	$ 1,372,594	18.23 %	$ 2,540,538	22.86 %
Current Federal income taxes incurred	$ 1,429,588	18.99 %	$ 2,370,552	21.33 %
Net realized capital gains tax	14,641	0.19 %	286,303	2.58 %
Change in net deferred income taxes	(71,635)	(0.95)%	(116,317)	(1.05)%
Total statutory income taxes	$ 1,372,594	18.23 %	$ 2,540,538	22.86 %

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:

	2016	2015
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 1,468,556	$ 1,571,485
Unearned premiums	957,310	940,890
Non-admitted assets	38,641	23,767
Total deferred tax assets	2,464,507	2,536,142
Nonadmitted deferred tax assets	(785,024)	(848,810)
Net admitted deferred tax asset	$ 1,679,483	$ 1,687,332

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

	2016	2015	Change
Total deferred tax assets (DTAs)	$ 2,464,507	$ 2,536,142	$ (71,635)
Total deferred tax liabilities (DTLs)	-	-	-
Net deferred tax asset	$ 2,464,507	$ 2,536,142	$ (71,635)
Tax effect of change in unrealized capital gains			-
Change in net deferred income tax			$ (71,635)

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, 2016		
	Ordinary	Capital	Total
Can be recovered through loss carrybacks (a)	$ 1,484,228	$ -	$ 1,484,228
Lesser of:			
Adjusted gross DTA expected to be recognized following the statement of admitted assets, liabilities and surplus date (b.i)	195,255	-	195,255
Adjusted gross DTA allowed per limitation threshold (b.ii)	-	-	16,231,428
Adjusted gross DTAs offset against existing DTLs (c)	-	-	-
DTAs admitted as a result of the application of SSAP 101 (a+b.i+c)	$ 1,679,483	$ -	$ 1,679,483

	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

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:

	2016	2015
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	$ 108,209,519	$ 102,080,755

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

At December 31, 2016, 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.

2016	$	1,429,588
2015	$	2,370,552

The Fund's federal income tax return is not consolidated with any entities for the years ended December 31, 2016 and 2015.

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
2017	$	75,259
2018		77,240
Total	$	152,499

Note 9 - Pension and Other Postretirement Plans

The Fund participates, along with other employers, in a defined benefit pension plan that is administered by an unaffiliated third party. During 2012, the Board of Directors approved the closing of the defined benefit pension plan to new employees hired after June 30, 2012. All active full-time employees hired prior to July 1, 2012 are eligible for this plan. Coverage under this plan begins at the date of retirement, and normal retirement age is 65. Benefits under the plan are based primarily on years of service and employee compensation near retirement. The pension plan is funded per the 1974 Employee Retirement Income Security Act.

The Fund also provides certain life insurance and health care benefits for eligible active and retired employees. All active full-time employees are eligible for these benefits. Coverage begins at the date of retirement, and normal retirement age is 65. Early retirement is allowed at ages 55 through 65 with at least 14 years and 1 day 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.

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	
	2016	2015	2016	2015
Change in benefit obligations:				
Benefit obligation, beginning of year	$ 6,576,617	$ 6,612,744	$ 1,347,286	$ 1,441,044
Service cost	180,812	196,867	20,226	11,671
Interest cost	292,313	265,905	57,227	56,986
Actuarial (gain) loss	166,868	(501,263)	71,950	(141,717)
Benefits paid	(179,319)	(145,400)	(42,714)	(20,698)
Plan amendments	-	147,764	-	-
Benefit obligation, end of year	$ 7,037,291	$ 6,576,617	$ 1,453,975	$ 1,347,286
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 5,599,442	$ 5,583,264	$ -	$ -
Actual return on plan assets	345,726	(78,422)	-	-
Employer contributions	240,000	240,000	42,714	20,698
Benefits paid	(179,319)	(145,400)	(42,714)	(20,698)
Fair value of plan assets, end of year	$ 6,005,849	$ 5,599,442	$ -	$ -
Funded Status: Underfunded				
Liabilities recognized				
Liability for pension benefits	$ (1,031,442)	$ (977,175)	$ (1,453,975)	$ (1,347,286)
Total liabilities recognized	$ (1,031,442)	$ (977,175)	$ (1,453,975)	$ (1,347,286)
Components of net periodic benefit cost:				
Service cost	$ 180,812	$ 196,867	$ 20,226	$ 11,671
Interest cost	292,313	265,905	57,227	56,986
Expected return on plan assets	(337,719)	(331,395)	-	-
Net prior service cost amortization	24,343	13,343	(100,964)	(103,338)
Amount of loss recognized	145,919	190,058	29,201	71,380
Total benefit cost	$ 305,668	$ 334,778	$ 5,690	$ 36,699

Note 9 - Pension and Other Postretirement Plans (Continued)

	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Changes in amounts recognized in accumulated surplus:				
Beginning unrecognized balances	$ 1,682,146	$ 1,829,229	$ 176,241	$ 286,000
Net prior service cost recognized	(24,343)	(13,343)	100,964	103,338
Net loss recognized	(145,919)	(190,058)	(29,201)	(71,380)
New actuarial (gains) losses occurring	158,861	(91,446)	71,950	(141,717)
New prior service cost occurring	-	147,764	-	-
Ending unrecognized balances	$ 1,670,745	$ 1,682,146	$ 319,954	$ 176,241
Amounts in accumulated surplus that have not yet been recognized as components of net periodic benefit cost:				
Net prior service cost	$ 123,421	$ 147,764	$ (52,814)	$ (153,778)
Net recognized losses	1,547,324	1,534,382	372,768	330,019
Total	$ 1,670,745	$ 1,682,146	$ 319,954	$ 176,241
Amounts in accumulated surplus expected to be recognized in the next year:				
Net prior service cost	$ 24,343	$ 20,921	$ (44,012)	$ (100,964)
Net recognized losses	138,798	124,129	31,756	30,400
Total	$ 163,141	$ 145,050	$ (12,256)	$ (70,564)

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

	Pension Benefits		Other Benefits	
	2016	2015	2016	2015
Discount rate	4.50 %	4.00 %	4.25 %	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 %	6.00 %	N/A	N/A*

*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	
	2016	2016	2015
Asset Category			
Equity securities	40.0 %	50.6 %	48.7 %
Debt securities	60.0	48.9	50.5
Other	0.0	0.5	0.8
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, 2016 and 2015, respectively, are summarized in the tables below:

	Level 1	Level 2	Level 3	Total	% of Total
2016					
Equity securities	$ 2,328,491	$ 707,578	$ -	$ 3,036,069	50.6 %
Debt securities	-	2,938,340	-	2,938,340	48.9 %
Other	-	28,768	-	28,768	0.4 %
Private equity partnerships (a)	-	-	-	2,672	0.1 %
Total	$ 2,328,491	$ 3,674,686	$ -	$ 6,005,849	100.0 %

	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	50.5 %
Other	-	46,675	-	46,675	0.7 %
Private equity partnerships (a)	-	-	-	2,596	0.1 %
Total	$ 2,173,675	$ 3,423,171	$ -	$ 5,599,442	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
2017	$ 219,361	$ 42,982
2018	255,823	53,610
2019	290,791	63,397
2020	320,909	72,820
2021	359,467	83,113
2022-2026	2,184,393	464,776
Total	$ 3,630,744	$ 780,698

In 2017, the Fund expects to contribute $325,082 to the pension plan and $42,982 to the other postretirement plan.

Note 10 - Non-admitted assets

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

	2016	2015	Change
Prepaid insurance	$ 51,367	$ 54,844	$ (3,477)
Deferred tax asset: non-admitted	785,024	848,810	(63,786)
Total	$ 836,391	$ 903,654	$ (67,263)

Note 11 - Related Party Transactions

As part of an executive relocation provision in 2016, the Fund purchased a residential property for immediate occupancy by an executive. The carrying value of the property is $264,984 as of December 31, 2016 and is included in other assets. This relocation provision allowed for the sale of the relocated executive's previous residence and requires the relocated executive to purchase the new residence from the Fund. The purchase by the executive of the new residence is expected to be finalized in the second quarter of 2017.

IMSIF ILLINOIS MINE SUBSIDENCE INSURANCE FUND

Illinois Mine Subsidence Insurance Fund
P.O. Box 812060
Chicago, Illinois 60681-2060
www.imsif.com

For general information about mine subsidence or the Illinois Mine Subsidence Insurance Fund, visit our website at www.imsif.com.

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