ILLINOIS MINE SUBSIDENCE INSURANCE FUND

2019 Annual Report

Celebrating 40 Years

IMSIF ILLINOIS MINE SUBSIDENCE INSURANCE FUND

MISSION OF THE FUND

The Illinois Mine Subsidence Insurance Fund is a taxable enterprise created by Statute to operate as a private solution to a public problem. The purpose of the Fund is to assure financial resources are available to owners of property damaged by mine subsidence. The Fund fills a gap in the insurance market for the benefit of Illinois property owners at risk of experiencing mine subsidence damage.

The Fund does this by:

- providing reinsurance to insurance companies for damage caused by mine subsidence,
- conducting geotechnical investigations to determine if mine subsidence caused the damage,
- supporting and sponsoring mine subsidence related research and initiatives consistent with the public interest, and
- educating the public and the industry about mine subsidence and related issues.

IMSIF ILLINOIS MINE SUBSIDENCE INSURANCE FUND

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2019 Annual Report

Table of Contents

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

In 1979, the Illinois Mine Subsidence Insurance Fund ("the Fund" or "IMSIF"), was created and became poised to fill a very specific gap in the voluntary insurance market. Illinois homes were being damaged by a type of earth movement known as mine subsidence and distraught property owners were left with no recourse and no avenue to recoup or repair their most valuable asset. The Fund was fashioned to be a private solution to that very public problem.

Forty years later, the Fund is successfully fulfilling that mission. Nearly 2,300 property owners have received in excess of $211 million because the Fund exists. This means that on average, we have financially impacted at least one property every week for 40 years. Annual premium for $250,000 of residential coverage is $85 and has been unchanged since 2013. IMSIF has been instrumental in the funding of an Illinois State Geological Survey (ISGS) digitized mapping project that created the consumer friendly ILMINES interactive map web application, making it possible for anyone to immediately determine if a particular property is known to be undermined or is considered to be in close proximity to a known mine.

We attribute much of this success to staying focused on our mission while simultaneously employing visionary thinking and implementing change. We are proud of both commitments and believe this unique organization demands a contemplative balance between a strict adherence to our narrowly defined statutory mission and appropriate emphasis on creating and incorporating visionary strategies. We were not created to compete with or even provide an alternative to existing products. That reality must remain unchanged, even as we usher in measured, effective change.

The Fund is preparing to embark on a 2020 update of the Enterprise Risk Management assessment and engage in a comprehensive Strategic Planning process. Our focus will be on prioritizing and leveraging our resources in a strategic way while understanding our mission and our role and considering the interests of our stakeholders.

Robert Ostgulen,
Chairman of the Board

Heidi M. Weber,
President and CEO

In our case, stakeholders are defined as those who have a serious interest in the Fund and the success of its mission. They include those who must implement the plan, those who benefit from its implementation, and those who could significantly help or hinder its implementation. Our list of stakeholders is long, and the interests they represent can sometimes be divergent. As a Board of Directors and a management team, our collective job is to effectively engage, prioritize, and balance these stakeholders' interests.

The ultimate exposure is absolutely mind blowing. The ISGS estimates 333,000 structures are undermined in Illinois and geotechnical experts opine that every mine will eventually subside given ample passage of time. Our commitment is to remain affordable, available, and alert as we employ our dynamic vision while staying true to our static mission.

Many thanks to our valued stakeholders for their collaborative spirit and long-term commitment that have added to our past success and are integral to our future success. If you are reading this, we trust you are a valued stakeholder and we appreciate you.

Robert Ostgulen
Heidi M. Weber

Mine Subsidence: A Challenging Peril

Illinois has 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 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.

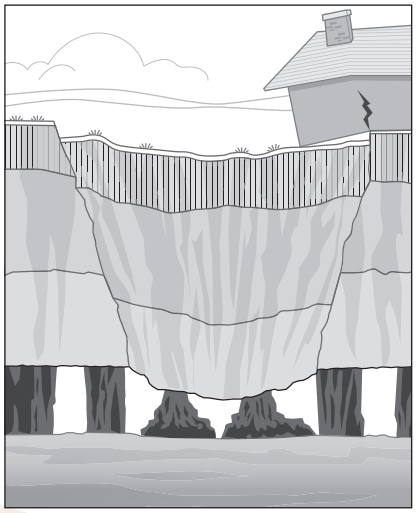
Mine subsidence occurs when the surface at the ground level sinks or shifts due to a collapse within an underground mine. Illinois statute defines mine subsidence as "lateral or vertical ground movement caused by a failure initiated at the mine level that directly damages residential or commercial buildings." Likewise, structures can sustain considerable damage from mine subsidence.

Conventional property insurance typically does not provide for any coverage that might be categorized as "ground movement." 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. Predominantly within that acreage, there are an estimated 333,000 housing units with possible mine subsidence exposure.

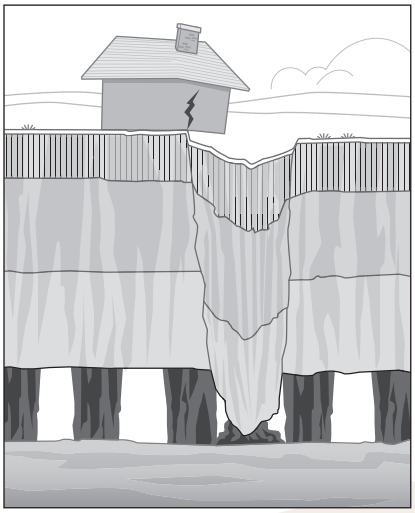
Most experts agree that all room and pillar mines will eventually experience some degree of collapse, but currently there is no way to determine when or where mine subsidence will occur. The unpredictability of mine subsidence is attributed to many variables that factor into the equation such as size, depth and age of the mine, and soil and weather conditions.

WHAT IS MINE SUBSIDENCE?

Mine Subsidence is the sinking or shifting of the ground surface resulting from collapse of an underground mine — most commonly of an old coal mine.



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.

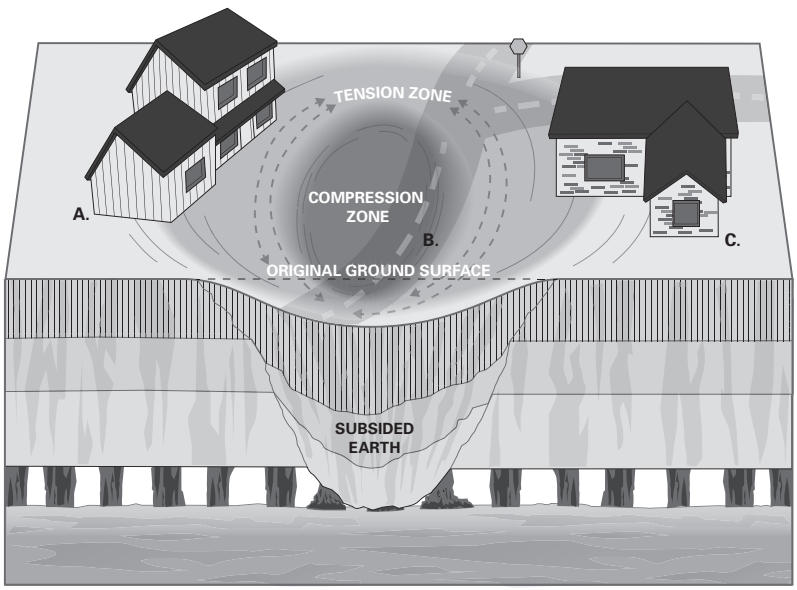


Pit subsidence forms a bell-shaped hole 6-8 feet deep and from 2-40 feet across and occurs when a shallow mine roof collapses.

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. Pit subsidence, less common, forms a bell-shaped hole 6–8 feet across and occurs when a shallow mine roof collapses.

A structure need not lie directly over a mine to be affected by mine subsidence. It is extremely difficult to accurately gauge how far a property must be from a mine to ensure that it will be unaffected by mine subsidence. 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. Rock and soil movement often progresses very slowly. Damages may appear suddenly at first, and then continue to occur gradually over many years. Concrete or brick foundation walls may bulge or crack, while the chimney, porch or steps may tilt in opposite directions or even separate from the structure. The most severe damage is usually to the foundation and underlying structure of the property. Unlike fire, flood, earthquake, windstorm and hail, which usually last for a few hours or less, most mine subsidence occurrences last for many years, sometimes decades, and final repairs are not recommended until after the damaging movement has ceased.

BLOCK DIAGRAM OF A TYPICAL SAG SUBSIDENCE EVENT



A. Wooden frame house in tension zone. Foundation has pulled apart and dropped away from the superstructure in one corner.

B. Road in compression zone. Asphalt has buckled.

C. Brick house in tension zone. Walls, ceilings, and floors have cracked.

The Fund: A Blueprint for Success

From its inception, the Fund has helped lessen the financial consequences for thousands of Illinois residents whose properties have been affected by mine subsidence, and facilitated insurance coverage to provide a measure of security to hundreds of thousands of Illinois property owners at risk of sustaining mine subsidence damage in future years. All who have taken part in forming, governing, and leading the Fund did so without the benefit of a prototype or comparable entity from which to draw experience along the way.

In the Fund's 40 year existence, there are some key imperatives that could be passed on as a blueprint to others:

- An emphasis on identifying crucial Director competencies and fostering a dedicated and effective Board of Directors demonstrating both universal and collective core competencies, seeking diversity in expertise, thought, and experience
- Prioritizing sound leadership that stays true to the Fund's Mission, and who values consistency, transparency, relationship building, and vision
- A focus on establishing and maintaining financial stability while embracing financial discipline
- Assembling a team of highly qualified, professional and impartial geotechnical investigators, specially trained in the identification of mine subsidence
- Establishment of collaborative partnerships across many disciplines and industries including insurance, mining, higher education, research, and relevant State agencies with shared interests in mine subsidence issues connected to the public good
- Commitment to identifying, supporting, and funding relevant and groundbreaking research
- Emphasizing a pro-active approach to providing mine subsidence education and resources directed at both the industry and the consumer

A Fresh Perspective from Marc Lovrak

Since joining the Fund in July, 2016 to oversee Reinsurance and Claim Operations, Marc Lovrak has made significant strides in moving the Fund forward to best facilitate its Mission and keep current with industry and technological advancements. Marc underscores some of the most impactful events and process enhancements occurring and implemented over the past few years.

Beginning August 2016, our objective was to automate the Fund's Reinsurance Operations, transitioning to a paperless environment. We began this process by exclusively communicating with the insurers through email and sending all documents electronically. Thereafter, we introduced an electronic document management system and process meant to streamline operations and produce a paperless claim file. Once these improvements were implemented, we enhanced several features on our claims system in order to allow Reinsurance Operations to function seamlessly in a virtual work environment. During the final stage of this paperless project, we oversaw the digitization of over 15,000 historical paper claim files accumulated since 1979. This new platform allows us immediate access to all of our historical claim data from any location at any time and enables us to better serve our stakeholders in real time.

Throughout 2016 and 2017, we developed the IMSIF Earthquake with Reported Mine Subsidence Catastrophe Plan, supplementing the initial efforts undertaken by Mr. Farnetti back in 2013. This Plan outlines the alternative process and procedures applicable should the Fund declare a catastrophe and defines the insurers role and responsibility in these unique instances. With the final details of this project approved by the IMSIF Board of Directors, I had an opportunity to formally present this program to many insurers and continue to do so in 2020.

The pursuit of subrogation remains of primary importance to the Fund. We consider it our stewardship responsibility to continually seek avenues and identify parties to hold accountable for the damage we reinsure. We were created to be a resource when there was no other identifiable viable entity, not to allow first parties or successors to avoid responsibility and accountability. I remain focused on that pursuit.

Pursuing subrogation on active mining operations continues to be a challenge, in light of the various mine closures and bankruptcies recently seen throughout Southcentral and Southeastern Illinois.

A risk management SWOT analysis was conducted in late 2016, allowing us to stress test our current Reinsurance Operations processes and procedures. We've contractually defined and refined the role and duties of the Designated Adjusters, amended many claims circulars and brochures, and revised the Reinsurance Agreement and Plan of Operation. We've asked our Geotechnical Investigators to more formally address the date of first reasonably observable mine subsidence damage in the course of their normal investigation.

Finally, I must acknowledge our partnership with the following stakeholders who have enhanced our collective knowledge of mine subsidence and provided us many opportunities to better develop our investigative skills:

- Illinois State Geological Survey
- Illinois Department of Natural Resources
- United States Department of the Interior – Office of Surface Mining and Reclamation
- Illinois Abandoned Mines and Land Reclamation

I would also be remiss if I didn't extend a thank you to the following coal companies for providing training in and access to active underground mining:

- Murray Energy
- Peabody Energy
- Prairie State Mine
- Springfield Coal Company LLC

The State of Illinois is truly fortunate to have such a diverse group of talented individuals collectively working on this public concern.

Timeline of Significant Events

1979
- The Illinois Mine Subsidence Insurance Fund created by Act of Illinois General Assembly
- Coverage available for both residential structures and commercial buildings
- Reinsurance maximum set at $50,000 per structure/building
- Ceding commission rate set at 30%
- Edmund W. Murphy named General Manager

1986
- Reinsurance maximum increased to $100,000 per structure/building

1989
- In-house geotechnical operation established

1990
- First of five consecutive years of financial net loss resulting in $3.7 million negative policyholder surplus balance at the end of 1994, precipitating counteractive measures through 1994

1991
- Reinsurance maximum increased to $350,000 per structure/building
- Uniform rate increase of 25%

1992
- Added residential living unit (condo) coverage with maximum of $15,000 per unit
- Hired in-house professional claim management

1993
- Residential rate increase of 25%
- Commercial rate increase of 100%

1994
- Separated from FAIR Plan
- Established independent Board of Directors
- Established separate residential and commercial sub-funds to protect the assets of each sub-fund from the financial results of the other
- Ceding commission rate reduced to 20%
- Residential rate increase of 40%
- Commercial rate increase of 10%

1996
- Amended statute to allow Fund and Department of Insurance (DOI) to establish reinsurance maximum limits within range of $200,000 to $350,000 without legislative action, to alleviate burden on legislative body
- Residential rate increase of 20%
- Commercial rate increase of 20%

2000
- Outsourced investment management

2001
- Established Designated Adjuster Program

2003
- Residential rate increase of 18%

2005
- Edmund W. Murphy retires
- Randolph J. Beck appointed President and Chief Executive Officer

2007
- Amended statute to allow Fund and DOI to set maximum limits without legislative action, to alleviate burden on legislative body
- Formation of Geotechnical Advisory Committee

2008
- Reinsurance maximum increased to $750,000 per structure on residential structures only
- Adopted new logo

2009
- Released consumer video on DVD to schools, libraries, and added to newly designed website

2010
- DOI conducts financial and market conduct examination of the Fund

2011
- Second DOI Examiner opens “Special Targeted Examination of the Fund”
- Internet Coal Mine Viewer developed by the Illinois State Geological Survey through partnership with the Fund
- Reinsurance maximum increased to $750,000 per building on commercial properties

2012
- DOI concludes both examinations of the Fund

2013
- Determination made by DOI that 20% ceding commission rate on residential business did not accurately reflect current actual costs to primary insurers
- Ceding commission rate reduced to 15% on residential business only
- Residential rate decrease of 10%
- Randolph J. Beck retires
- Heidi M. Weber appointed President and Chief Executive Officer
- Brandon R. Raimondi hired as Chief Financial Officer

2014
- Commercial rate decrease of 13.8%

2016
- John P. Farnetti retires as Vice President of Reinsurance Operations
- Marc C. Lovrak hired as Vice President of Reinsurance Operations

2017
- Adoption of a formal Whistleblower Policy
- Introduction of the IMSIF Earthquake with Reported Mine Subsidence Catastrophe Plan
- Development of a contractual agreement that better defines roles and responsibilities of Designated Adjusters, while incorporating best practice terms to maintain high standards

2018
- Completion of University of Kentucky research project funded by IMSIF to explore the utility of Interferometric synthetic aperture radar (InSAR) to measure sub-centimeter scale ground movement.
- IMSIF completes the digitization of over 15,000 paper claim files, facilitating paperless operations

IMSIF Board of Directors

Robert Ostgulen,
Chairman
Retired Executive
Insurance
Director since 1999

Richard A. Sauget, Jr.,
Vice-Chairman
Mayor
Sauget, IL.
Director since 2006

Frederick M. Strauss
Secretary
Senior Vice President
Holborn
Director since 2007

Nancy Bufalino
Chief Operating Officer
Fenwick High School
Director since 2019

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

Dorothy Even
Retired Executive
Insurance Investments
Director since 2010

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

Lloyd Parker
Retired Executive
Insurance
Director since 2003

Richard A. Sedlak
Insurance Producer
Schmale Insurance
Director since 2009

IMSIF Staff

Chicago

Heidi M. Weber
President & Chief Executive 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

Brandon R. Raimondi
Vice President & Chief Financial Officer

Marc C. Lovrak
Vice President Reinsurance Operations

Michael A. Anderson
Geotechnical Investigations

Keith Culli
Geotechnical Investigations

Gregory J. Gollaher
Geotechnical Investigations

Bryce Kaemmerer
Geotechnical Investigations

Rance Olliges
Geotechnical Investigations

David J. Owens
Geotechnical Investigations

Collin Pierce
Geotechnical Investigations

Joe Robertson
Geotechnical Investigations

Brent Shelton
Geotechnical Investigations

Terry Woodcock
Administration

Independent Auditors
Johnson Lambert LLP
Park Ridge, Illinois

Independent Actuaries
Milliman, Inc.
Chicago, Illinois

Investment Managers
Conning & Company
Hartford, Connecticut

General Counsel
Todd S. Schenk
Tressler LLP

JohnsonLambert LLP
cpas + consultants

Illinois Mine Subsidence Insurance Fund

Audited Financial Statements – Statutory

Years ended December 31, 2019 and 2018
with Report of Independent Auditors

Illinois Mine Subsidence Insurance Fund

Audited Financial Statements – Statutory

Years ended December 31, 2019 and 2018

Report of Independent Auditors

Board of Directors
Illinois Mine Subsidence Insurance Fund

We have audited the accompanying individual and combined statutory 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 balance sheets as of December 31, 2019 and 2018, and the related individual and combined statutory statements of income, changes in surplus, and cash flows for the years then ended and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these statutory 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 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 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 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 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 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 financial statements, the Fund prepared these statutory 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 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 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, 2019 and 2018, 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 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, 2019 and 2018, 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.

Johnson Lambert LLP

Park Ridge, Illinois
May 4, 2020

Illinois Mine Subsidence Insurance Fund

Balance Sheets - Statutory

December 31 , 2019 and 2018

	Residential Sub-Fund		Commercial Sub-Fund		Combined	
	2019	2018	2019	2018	2019	2018
Admitted Assets						
Cash and invested assets						
Bonds	$ 173,403,067	$ 165,044,317	$ 68,334,625	$ 63,193,237	$ 241,737,692	$ 228,237,554
Cash and cash equivalents	497,987	1,312,253	631,043	1,308,306	1,129,030	2,620,559
Real estate	144,311	150,667	43,105	45,003	187,416	195,670
Total cash and invested assets	174,045,365	166,507,237	69,008,773	64,546,546	243,054,138	231,053,783
Premiums receivable	5,616,253	5,384,097	1,779,683	1,685,136	7,395,936	7,069,233
Investment receivable	149	210	58	78	207	288
Accrued investment income	1,413,499	1,404,359	557,031	537,710	1,970,530	1,942,069
Current federal income tax recoverable	-	-	-	108,695	-	108,695
Net deferred tax asset	669,151	799,998	247,494	295,890	916,645	1,095,888
Other	3,420	3,077	1,026	919	4,446	3,996
Total Admitted Assets	$ 181,747,837	$ 174,098,978	$ 71,594,065	$ 67,174,974	$ 253,341,902	$ 241,273,952
Liabilities and Surplus						
Liabilities						
Loss and loss adjustment expense	$ 71,471,359	$ 72,912,403	$ 17,866,939	$ 18,527,376	$ 89,338,298	$ 91,439,779
Unearned premium	11,896,497	11,496,398	3,496,585	3,284,725	15,393,082	14,781,123
Commissions payable	842,438	807,615	355,937	337,027	1,198,375	1,144,642
Income tax payable	1,757,267	2,242,371	210,953	-	1,968,220	2,242,371
Accrued expenses	1,851,239	1,768,106	558,731	533,242	2,409,970	2,301,348
Total Liabilities	87,818,800	89,226,893	22,489,145	22,682,370	110,307,945	111,909,263
Surplus	93,929,037	84,872,085	49,104,920	44,492,604	143,033,957	129,364,689
Total Liabilities and Surplus	$ 181,747,837	$ 174,098,978	$ 71,594,065	$ 67,174,974	$ 253,341,902	$ 241,273,952

See accompanying notes to the statutory financial statements

Illinois Mine Subsidence Insurance Fund

Statements of Income - Statutory

Years Ended December 31, 2019 and 2018

	Residential Sub-Fund		Commercial Sub-Fund		Combined	
	2019	2018	2019	2018	2019	2018
Underwriting						
Premiums earned	$ 22,825,395	$ 21,937,197	$ 6,819,532	$ 6,415,587	$ 29,644,927	$ 28,352,784
Less underwriting expenses						
Loss and loss adjustment expense	10,374,737	9,954,353	600,351	3,192,853	10,975,088	13,147,206
Commissions	3,484,055	3,358,586	1,406,258	1,295,248	4,890,313	4,653,834
State income tax expense	1,222,019	1,094,323	617,360	301,762	1,839,379	1,396,085
Other underwriting expenses	1,558,539	1,588,097	463,919	483,875	2,022,458	2,071,972
Total underwriting expenses	16,639,350	15,995,359	3,087,888	5,273,738	19,727,238	21,269,097
Underwriting gain	6,186,045	5,941,838	3,731,644	1,141,849	9,917,689	7,083,687
Investment Income						
Net interest income	5,145,366	4,877,090	2,016,036	1,836,499	7,161,402	6,713,589
Net realized capital gains, net of tax	165,217	41,734	64,251	15,436	229,468	57,170
Net investment income	5,310,583	4,918,824	2,080,287	1,851,935	7,390,870	6,770,759
Net income before federal income tax expense	11,496,628	10,860,662	5,811,931	2,993,784	17,308,559	13,854,446
Federal income tax expense	2,211,957	1,786,512	1,122,208	491,590	3,334,165	2,278,102
Net income	$ 9,284,671	$ 9,074,150	$ 4,689,723	$ 2,502,194	$ 13,974,394	$ 11,576,344

See accompanying notes to the statutory financial statements

Illinois Mine Subsidence Insurance Fund

Statements of Changes in Surplus - Statutory

Years Ended December 31, 2019 and 2018

	Residential Sub-Fund		Commercial Sub-Fund		Combined	
	2019	2018	2019	2018	2019	2018
Beginning Surplus	$ 84,872,085	$ 75,975,868	$ 44,492,604	$ 42,016,227	$ 129,364,689	$ 117,992,095
Net income	9,284,671	9,074,150	4,689,723	2,502,194	13,974,394	11,576,344
Change in pension liability	(92,866)	(226,158)	(27,740)	(58,819)	(120,606)	(284,977)
Change in net deferred tax asset	75,089	31,318	13,117	27,953	88,206	59,271
Change in non-admitted assets	(209,942)	16,907	(62,784)	5,049	(272,726)	21,956
Ending Surplus	$ 93,929,037	$ 84,872,085	$ 49,104,920	$ 44,492,604	$ 143,033,957	$ 129,364,689

See accompanying notes to the statutory financial statements

Illinois Mine Subsidence Insurance Fund

Statements of Cash Flows - Statutory

Years Ended December 31, 2019 and 2018

	Residential Sub-Fund		Commercial Sub-Fund		Combined	
	2019	2018	2019	2018	2019	2018
Cash From Operations						
Premiums collected	$ 22,994,874	$ 22,126,462	$ 6,936,774	$ 6,431,108	$ 29,931,648	$ 28,557,570
Less underwriting expenses paid						
Loss and loss adjustment expenses paid	(11,796,463)	(10,659,272)	(1,256,714)	(1,319,710)	(13,053,177)	(11,978,982)
Commissions	(3,449,232)	(3,318,971)	(1,387,348)	(1,286,220)	(4,836,580)	(4,605,191)
Other	(1,506,676)	(1,993,974)	(557,167)	(614,864)	(2,063,843)	(2,608,838)
Net investment income	5,349,949	4,991,635	2,080,532	1,867,195	7,430,481	6,858,830
Federal income taxes paid	(3,963,000)	(2,350,000)	(1,437,000)	(790,000)	(5,400,000)	(3,140,000)
Net cash from operations	7,629,452	8,795,880	4,379,077	4,287,509	12,008,529	13,083,389
Cash From Investments						
Proceeds from investments sold, matured, or repaid	35,516,444	37,120,535	13,811,948	13,060,078	49,328,392	50,180,613
Cost of investments acquired	(43,960,162)	(45,167,236)	(18,868,288)	(17,658,287)	(62,828,450)	(62,825,523)
Net cash used in investments	(8,443,718)	(8,046,701)	(5,056,340)	(4,598,209)	(13,500,058)	(12,644,910)
Net change in cash	(814,266)	749,179	(677,263)	(310,700)	(1,491,529)	438,479
Cash and cash equivalents, beginning of year	1,312,253	563,074	1,308,306	1,619,006	2,620,559	2,182,080
Cash and cash equivalents, end of year	$ 497,987	$ 1,312,253	$ 631,043	$ 1,308,306	$ 1,129,030	$ 2,620,559

See accompanying notes to the statutory financial statements

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 financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Illinois Department of Insurance ("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 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:* Investments are valued in accordance with methods prescribed by the NAIC as set forth in Notes 2 and 3. Under SAP, bonds are generally carried at amortized cost or fair value based on rating received from the NAIC. Under GAAP, investments in bonds, other than those intended to be held-to-maturity, are recorded at fair value, with unrealized gains and losses recorded as either a separate component of accumulated other comprehensive income, net of tax (for bonds classified as "available-for-sale"), or as a direct charge to net income (bonds classified as "trading" 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 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 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 financial statements, which is required under GAAP.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Reporting (continued)

g. *Statements of Cash Flows:* Cash and cash equivalents in the accompanying statutory 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.

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, 2019 and 2018, the allocation percentages were 77% and 23% 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).

In establishing the liability for loss and loss adjustment expenses, the Fund performs an independent calculation, comparing the findings to an independent consulting actuary. The choice of reserving methodology utilized by the actuary considers the number of years of experience, and the age of the accident year being developed. The following methods were used to evaluate ultimate retained losses for the Fund: Incurred plus Adjusted Case Reserve Development Method, Paid Loss Development Method, Bornhuetter- Ferguson using Earned Premiums and Adjusted Incurred Loss Method, Bornhuetter Ferguson using Earned Premiums and Paid Loss Method, Frequency and Severity Method, and Adjusted Frequency and Severity Method.

Note 2 - Summary of Significant Accounting Policies (Continued)

Commissions
For the years ended December 31, 2019 and 2018, third-party ceding companies retain 15% of the Residential and 20% of the Commercial premiums remitted to the Fund as commission, respectively.

Cash and Cash Equivalents
Cash and cash equivalents consist primarily of cash on deposit in bank accounts and money market funds. As of December 31, 2019 and 2018, qualifying money market funds are considered to be cash equivalents. At times, cash and cash equivalents may exceed Federal Deposit Insurance Corporation ("FDIC") insurance levels or may not be covered by FDIC insurance.

Investments
Investments are carried at values prescribed by the 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 impairment (OTTI). These declines in fair value are computed on a specific-identification method and are reflected in the statutory 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.

The amount of these declines in investments deemed other-than-temporary were $0 and $71,874 for the years ended December 31, 2019 and 2018, respectively.

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, 2019 and 2018. Other recoveries are recognized when received. Subrogation of $28,693 and $48,648 was received during 2019 and 2018, 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 financial statements and accompanying notes. The most significant estimates include reserves for loss and loss adjustment expense. Actual results could differ from those estimates.

Risks and Uncertainties
The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the statutory balance sheets.

Subsequent Events
The Fund evaluated subsequent events for recognition and disclosure through May 4, 2020, the date the statutory financial statements were available to be issued.

In March 2020, the World Health Organization declared a pandemic related to the rapidly spreading coronavirus (COVID-19) outbreak, which has led to a global health emergency. As a result, economic uncertainties have arisen which could impact the Fund's operations and its financial position. The extent of the impact of COVID-19 on the Fund's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, as well as the impact on policyholders, employees and vendors, all of which are uncertain and cannot be predicted. The related financial impact cannot be reasonably estimated at this time.

Note 3 - Investments

The Residential and Commercial Sub-Funds have undivided interests in the investment portfolio of approximately 72% and 28%, respectively, as of December 31, 2019 and 2018. The amortized cost, gross unrealized gains and losses and fair value of investments in debt securities are as follows:

At December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government and government agency bonds	$ 2,733,689	$ 47,149	$ (2,110)	$ 2,778,728
Corporate bonds	93,192,344	5,268,510	(49,224)	98,411,630
State and municipal bonds	76,938,083	4,048,554	(51,401)	80,935,236
Asset-backed bonds	8,963,747	60,946	(18,173)	9,006,520
Mortgage-backed bonds	59,909,829	1,424,049	(66,956)	61,266,922
Total debt securities	$ 241,737,692	$ 10,849,208	$ (187,864)	$ 252,399,036

Note 3 - Investments (Continued)

At December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government and government agency bonds	$ 14,122,950	$ 100,127	$ (62,817)	$ 14,160,260
Corporate bonds	84,901,533	235,099	(2,339,952)	82,796,680
State and municipal bonds	74,777,059	2,107,718	(395,798)	76,488,979
Asset-backed bonds	3,246,803	3,353	(11,028)	3,239,128
Mortgage-backed bonds	51,189,209	332,948	(726,772)	50,795,385
Total debt securities	$ 228,237,554	$ 2,779,245	$ (3,536,367)	$ 227,480,432

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, 2019 and 2018:

	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, 2019						
Debt securities:						
Government and government agency bonds	$ -	$ -	$ 497,852	$ (2,110)	$ 497,852	$ (2,110)
Corporate bonds	4,955,547	(38,876)	392,883	(10,348)	5,348,430	(49,224)
State and municipal bonds	6,526,579	(51,401)	-	-	6,526,579	(51,401)
Asset-backed bonds	2,571,932	(18,034)	249,325	(139)	2,821,257	(18,173)
Mortgage-backed bonds	3,885,132	(4,269)	3,812,803	(62,687)	7,697,935	(66,956)
Total debt securities	$ 17,939,190	$ (112,580)	$ 4,952,863	$ (75,284)	$ 22,892,053	$ (187,864)

	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, 2018						
Debt securities:						
Government and government agency bonds	$ 1,096,984	$ (2,601)	$ 3,316,680	$ (60,216)	$ 4,413,664	$ (62,817)
Corporate bonds	34,843,111	(1,081,228)	30,884,568	(1,258,724)	65,727,679	(2,339,952)
State and municipal bonds	-	-	18,854,174	(395,798)	18,854,174	(395,798)
Asset-backed bonds	1,173,011	(2,781)	1,040,833	(8,247)	2,213,844	(11,028)
Mortgage-backed bonds	6,330,745	(21,099)	20,313,159	(705,673)	26,643,904	(726,772)
Total debt securities	$ 43,443,851	$ (1,107,709)	$ 74,409,414	$ (2,428,658)	$ 117,853,265	$ (3,536,367)

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, 2019 or 2018, 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, 2019 by contractual maturity, is shown below:

	Amortized Cost	Fair Value
Years to maturity		
One or less	$ 1,030,863	$ 1,035,426
After one through five	38,469,356	39,554,698
After five through ten	81,244,648	85,823,009
After ten	52,119,249	55,712,461
Mortgage and asset-backed securities	68,873,576	70,273,442
Total securities	$ 241,737,692	$ 252,399,036

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. No structured notes were held in 2019. The Fund had the following structured note as of December 31, 2018:

CUSIP	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage Referenced Security
As of December 31, 2018				
25746UCT4	$ 200,206	$ 196,940	$ 200,101	No

Note 3 - Investments (Continued)

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

	Year Ended December 31, 2019	Year Ended December 31, 2018
Proceeds from sales, calls and maturities	$ 49,328,392	$ 49,288,696
Gross realized gains on sales	$ 393,536	$ 291,511
Gross realized losses on sales	(103,070)	(147,270)
OTTI	-	(71,874)
Net realized gains on sales	290,466	72,367
Income tax	(60,998)	(15,197)
Net realized gains on sales	$ 229,468	$ 57,170

The Fund had thirteen bonds sold, disposed, or redeemed in 2019 as a result of a callable feature. Investment income of $1,181 was recorded as a result of prepayment penalties and acceleration fees at December 31, 2019. The Fund had twenty bonds sold, disposed, or redeemed in 2018 as a result of a callable feature. Investment income of $35,928 was recorded as a result of prepayment penalties and acceleration fees at December 31, 2018.

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

	2019	2018
Interest Income		
Government and government agency bonds	$ 225,874	$ 326,220
Corporate bonds	3,149,008	2,677,316
State and municipal bonds	2,438,298	2,700,849
Asset-backed bonds	164,193	69,256
Mortgage-backed bonds	1,618,862	1,352,549
Total interest income	7,596,235	7,126,190
Expenses		
Investment expenses incurred	(434,833)	(412,601)
Net interest income	$ 7,161,402	$ 6,713,589

Note 4 - Fair Value of Financial Instruments

The Fund follows 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.

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, 2019

Description	Level 1	Level 2	Level 3	Total Fair Value	Admitted Asset Value
Government and government agency bonds	$ 2,007,070	$ 771,658	$ -	$ 2,778,728	$ 2,733,689
Corporate bonds	-	98,411,630	-	98,411,630	93,192,344
State and municipal bonds	-	80,935,236	-	80,935,236	76,938,083
Asset-backed bonds	-	9,006,520	-	9,006,520	8,963,747
Mortgage-backed bonds:	-	61,266,922	-	61,266,922	59,909,829
Total	$ 2,007,070	$ 250,391,966	$ -	$ 252,399,036	$ 241,737,692

Note 4 - Fair Value of Financial Instruments (Continued)

As of December 31, 2018

Description	Level 1	Level 2	Level 3	Total Fair Value	Admitted Asset Value
Government and government agency bonds	$ 5,322,617	$ 8,837,643	$ -	$ 14,160,260	$ 14,122,950
Corporate bonds	-	82,796,680	-	82,796,680	84,901,533
State and municipal bonds	-	76,488,979	-	76,488,979	74,777,059
Asset-backed bonds	-	3,239,128	-	3,239,128	3,246,803
Mortgage-backed bonds:	-	50,795,385	-	50,795,385	51,189,209
Total	$ 5,322,617	$ 222,157,815	$ -	$ 227,480,432	$ 228,237,554

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.

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.

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

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

	Residential Sub-Fund		Commercial Sub-Fund	
	2019	2018	2018	2018
Reserves, at January 1	$ 72,912,403	$ 73,273,428	$ 18,527,376	$ 16,552,216
Add:				
Provision for insured events of current year	15,139,652	16,147,626	3,870,523	3,489,393
Decrease in provision attributable to prior year events	(4,784,233)	(5,849,379)	(3,274,246)	(194,523)
Total incurred during the year	10,355,419	10,298,247	596,277	3,294,870
Deduct loss and LAE payments for claims, occurring during:				
Current year	1,314,872	981,836	63,960	123,591
Prior years	10,481,591	9,677,436	1,192,754	1,196,119
Total paid during the year	11,796,463	10,659,272	1,256,714	1,319,710
Reserves, at December 31	$ 71,471,359	$ 72,912,403	$ 17,866,939	$ 18,527,376

During 2019 and 2018, the Fund experienced favorable loss development for both the residential and commercial sub-funds. The changes are primarily the result of favorable development on the 2017 and 2018 accident years in 2019 and on the 2017 accident year in 2018.

Reconciliation of incurred loss and loss adjustment expense:

	Residential Sub-Fund		Commercial Sub-Fund	
	2019	2018	2019	2018
Amount included in above table	$ 10,355,419	$ 10,298,247	$ 596,277	$ 3,294,870
Expense (income) items classified as LAE that do not affect reserves	19,318	(343,894)	4,074	(102,017)
Total	$ 10,374,737	$ 9,954,353	$ 600,351	$ 3,192,853

Management believes that the reserves for loss and lae at December 31, 2019 and 2018 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 77% and 23% during 2019 and 2018, respectively. Other underwriting expenses consist of the following items:

	2019	2018
Salaries	$ 774,417	$ 750,199
Employee relations and benefits	385,272	421,415
Professional fees	288,828	322,144
Directors' fees	134,200	120,500
Rent, including allocated building overhead	115,099	139,134
Insurance	101,771	63,380
Research	65,353	90,516
Travel and meetings	77,713	51,192
Public awareness and relations	9,580	10,820
Purchase of equipment - net of disposals	4,274	13,922
Dues and memberships	23,251	25,071
Other	42,700	63,679
Total	$ 2,022,458	$ 2,071,972

Note 7 - Federal Income Taxes

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

	2019	2018
Federal income tax expense	$ 3,334,165	$ 2,278,102
Realized capital gains tax	60,998	15,197
Total federal income tax expense	$ 3,395,163	$ 2,293,299

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 primarily as a result of the tax-exempt interest deduction.

Deferred federal income taxes arise from temporary differences between the valuation of assets and liabilities as determined for financial reporting purposes and federal income tax purposes. The Fund's temporary differences are measured at an effective tax rate of 21% as of December 31, 2019 and 2018. The amount of gross deferred tax asset calculated is then reduced for any valuation allowance and an admissibility test. In accordance with SSAP 101, the admissibility test is based on the realization threshold table and other limitations. The Fund also admitted deferred tax assets that can be used to offset against deferred tax liabilities.

The Fund recognized an adjustment of $290,329 in 2018 related to loss discounting, decreted over a period of 8 years, to account for the tax effects of the Tax Cuts and Jobs Act of 2017 related to the provisional amounts recorded at December 31, 2017. Final discount rates for the 2017 and 2018 years were released by the IRS in 2019. The Fund adjusted for these items and the impact was not material to the statutory financial statements.

Note 7 - Federal Income Taxes (Continued)

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:

	2019	2018
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 1,162,748	$ 1,228,080
Unearned premiums	646,509	620,807
Non-admitted assets	20,618	28,918
Total deferred tax assets	1,829,875	1,877,805
Nonadmitted deferred tax assets	(695,483)	(428,034)
Net admitted deferred tax asset	1,134,392	1,449,771
Deferred tax liabilities:		
Legislative change in loss discounting	217,747	353,883
Total deferred tax liabilities	217,747	353,883
Net deferred tax asset	$ 916,645	$ 1,095,888

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

	2019	2018	Change
Total deferred tax assets (DTAs)	$ 1,829,875	$ 1,877,805	$ (47,930)
Total deferred tax liabilities (DTLs)	(217,747)	(353,883)	136,136
Net deferred tax asset	$ 1,612,128	$ 1,523,922	$ 88,206
Tax effect of change in unrealized capital gains			-
Change in net deferred income tax			$ 88,206

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

	December 31, 2019		
	Ordinary	Capital	Total
Can be recovered through loss carrybacks (a)	$ 899,182	$ -	$ 899,182
Lesser of:			
Adjusted gross DTA expected to be recognized following the balance sheet date (b.i)	126,337	-	126,337
Adjusted gross DTA allowed per limitation threshold (b.ii)	-	-	21,317,597
Adjusted gross DTAs offset against existing DTLs (c)	108,873	-	108,873
DTAs admitted as a result of the application of SSAP 101 (a+b.i+c)	$ 1,134,392	$ -	$ 1,134,392

Note 7 - Federal Income Taxes (Continued)

	December 31, 2018		
	Ordinary	Capital	Total
Can be recovered through loss carrybacks (a)	$ 967,018	$ -	$ 967,018
Lesser of:			
Adjusted gross DTA expected to be recognized following the balance sheet date (b.i)	173,105	-	173,105
Adjusted gross DTA allowed per limitation threshold (b.ii)	-	-	19,240,320
Adjusted gross DTAs offset against existing DTLs (c)	309,648	-	309,648
DTAs admitted as a result of the application of SSAP 101 (a+b.i+c)	$ 1,449,771	$ -	$ 1,449,771

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:

	2019	2018
Ratio % used to determine recovery period and threshold limitation amount	1 %	2 %
Realization threshold limitation	15 %	15 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation amount	$ 142,117,312	$ 128,268,801

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

At December 31, 2019, the Fund did not have any unused operating loss carryforwards available to offset against future taxable income.

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.

2019	$ 3,395,163
2018	$ 2,293,299

The Fund's federal income tax return is not consolidated with any entities for the years ended December 31, 2019 and 2018.

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, 2025 with the following minimum lease payment:

Year Ending December 31	Amount
2020	$ 87,968
2021	90,167
2022	92,421
2023	94,731
2024	97,100
Thereafter	99,527
Total	$ 561,914

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. 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 retired employees. Coverage begins at the date of retirement with a normal retirement age of 65. Early retirement is allowed at ages 55 through 64 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.

Eligible retirees are also provided access to a Health Reimbursement Arrangement (HRA) account. The Fund contributes to the account in annually agreed upon lump sum amounts for retiree and eligible spouse.

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	
	2019	2018	2019	2018
Change in benefit obligations:				
Benefit obligation, beginning of year	$ 7,928,006	$ 8,029,862	$ 1,649,919	$ 1,648,919
Service cost	127,723	140,002	18,034	23,077
Interest cost	322,267	297,041	65,949	60,447
Actuarial loss (gain)	1,408,428	(279,327)	249,597	(24,461)
Benefits paid	(250,470)	(259,572)	(80,069)	(58,063)
Benefit obligation, end of year	$ 9,535,954	$ 7,928,006	$ 1,903,430	$ 1,649,919
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 7,483,208	$ 6,910,606	$ -	$ -
Actual return on plan assets	1,688,549	(470,226)	-	-
Employer contributions	297,744	1,302,400	80,069	58,063
Benefits paid	(250,470)	(259,572)	(80,069)	(58,063)
Fair value of plan assets, end of year	$ 9,219,031	$ 7,483,208	$ -	$ -
Funded Status: Underfunded				
Liabilities recognized				
Liability for pension benefits	$ (316,923)	$ (444,798)	$ (1,903,430)	$ (1,649,919)
Total liabilities recognized	$ (316,923)	$ (444,798)	$ (1,903,430)	$ (1,649,919)
Components of net periodic benefit cost:				
Service cost	$ 127,723	$ 140,002	$ 18,034	$ 23,077
Interest cost	322,267	297,041	65,949	60,447
Expected return on plan assets	(411,336)	(380,102)	-	-
Net prior service cost amortization	24,343	24,343	-	(8,802)
Amount of loss recognized	204,775	196,720	31,091	48,956
Total benefit cost	$ 267,772	$ 278,004	$ 115,074	$ 123,678

Note 9 - Pension and Other Postretirement Plans (Continued)

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Changes in amounts recognized in accumulated surplus:				
Beginning unrecognized balances	$ 2,140,666	$ 1,790,728	$ 444,937	$ 509,552
Net prior service cost recognized	(24,343)	(24,343)	-	8,802
Net loss recognized	(204,775)	(196,720)	(31,091)	(48,956)
New actuarial losses (gains) occurring	131,125	571,001	249,597	(24,461)
Ending unrecognized balances	$ 2,042,673	$ 2,140,666	$ 663,443	$ 444,937
Amounts in accumulated surplus that have not yet been recognized as components of net periodic benefit cost:				
Net prior service cost	$ 50,392	$ 74,735	$ -	$ -
Net recognized losses	1,992,371	2,065,931	663,443	444,937
Total	$ 2,042,763	$ 2,140,666	$ 663,443	$ 444,937
Amounts in accumulated surplus expected to be recognized in the next year:				
Net prior service cost	$ 24,343	$ 24,343	$ -	$ -
Net recognized losses	179,000	204,683	51,000	29,406
Total	$ 203,343	$ 229,026	$ 51,000	$ 29,406

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

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Discount rate	3.15 %	4.20 %	3.10 %	4.10 %
Average rate of compensation increase	4.00 %	4.00 %	4.00 %	4.00 %

Note 9 - Pension and Other Postretirement Plans (Continued)

The assumptions used to determine the net benefit cost as of December 31 were as follows:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Discount rate	4.20 %	3.60 %	4.10 %	3.50 %
Average rate of compensation increase	4.00 %	4.00 %	4.00 %	4.00 %
Expected long-term rate of return on plan assets	5.50 %	5.50 %	N/A*	N/A*

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

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	
	2019	2019	2018
Asset Category			
Equity securities	40.0 %	43.0 %	39.0 %
Debt securities	60.0	50.6	53.3
Other	0.0	6.4	7.7
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, limited partnerships, pooled separate accounts and common collective trusts. Cash and cash equivalents are stated at cost, which approximates fair value.

Note 9 - Pension and Other Postretirement Plans (Continued)

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.

The levels assigned to the defined benefit plan assets as of December 31, 2019 and 2018, respectively, are summarized in the tables below:

	Level 1	Level 2	Level 3	Total	% of Total
2019					
Equity securities	$ 2,943,293	$ 1,023,061	$ -	$ 3,966,354	43.0 %
Debt securities	-	4,663,136	-	4,663,136	50.6 %
Other	-	588,559	-	588,559	6.3 %
Private equity partnerships	-	-	982	982	0.1 %
Total	$ 2,943,293	$ 6,274,756	$ 982	$ 9,219,031	100.0 %

	Level 1	Level 2	Level 3	Total	% of Total
2018					
Equity securities	$ 2,239,661	$ 677,691	$ -	$ 2,917,352	39.0 %
Debt securities	-	3,985,943	-	3,985,943	53.3 %
Other	-	578,910	-	578,910	7.6 %
Private equity partnerships	-	-	1,003	1,003	0.1 %
Total	$ 2,239,661	$ 5,242,544	$ 1,003	$ 7,483,208	100.0 %

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

	Pension Benefits	Other Benefits
2020	$ 330,745	$ 93,229
2021	352,167	104,650
2022	379,278	114,620
2023	401,249	110,036
2024	437,490	109,351
2025-2029	2,548,921	551,957
Total	$ 4,449,850	$ 1,083,843

In 2020, the Fund expects to contribute $0 to the pension plan and $93,229 to the other postretirement plan.

Note 10 - Non-admitted assets

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

	2019	2018	Change
Prepaid expenses	$ 84,093	$ 78,816	$ 5,277
Deferred tax asset: non-admitted	695,483	428,034	267,449
Total	$ 779,576	$ 506,850	$ 272,726

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