



# 2020

## ANNUAL REPORT



**Florida Lawyers Mutual<sup>®</sup>**  
INSURANCE COMPANY

 LAWYERS PROFESSIONAL LIABILITY INSURANCE CREATED BY THE FLORIDA BAR 

## **PRESIDENT'S MESSAGE TO POLICYHOLDERS**

### ***Greeting Members, from my remote office to yours-***

*It is my privilege to greet you on behalf of the Company's directors, officers and staff and add to the information provided in this 2020 Annual Report.*

*This has been an unusual year for you, the member-owners of Florida Lawyers Mutual and for the directors, officers and especially the staff of Florida Lawyers Mutual. Fifteen months ago, FLMIC's staff, like you, transitioned to its present-day remote work environment. FLMIC provided company owned computer and office equipment to every employee so each could more securely serve our members. Anticipating the pandemic's financial and communication impacts, FLMIC suspended the interest charges on all premium financed accounts and replaced its phone system to facilitate better remote communication with our members. The Annual Meeting in June of this year will provide for phone attendance by all members who may wish to participate.*

*I am especially pleased to announce that Cathleen M. Sargent, Esq. joined FLMIC on February 1st as its Executive Vice President. We are delighted to have Ms. Sargent manage the day-to-day operations of the company. Ms. Sargent, previously with Lawyers Mutual Insurance Company of California, has more than thirty years of leadership and lawyers' professional liability insurance experience. Ms. Sargent's depth of knowledge and understanding of direct-write and brokered mutual company operations and her familiarity with state bar related companies and their operating officers all bring added value to FLMIC's members, management team, staff, and business partners.*

*After the relaunch of our website in September 2020, our Marketing Department has expanded its library of CLE, risk management and educational resources. Soon all members will have the exclusive benefit of more than 33 hours of cost-free CLE videos, enough to satisfy the Bar's reporting period requirements including hard-to-find credit types, such as Professionalism, Technology, and Board Certification courses. I urge you to regularly visit FLMIC's website and social media channels (Facebook, Instagram, LinkedIn, and Twitter) to learn of new risk alerts, CLE courses and other resources as they are published.*

*Please take a moment to let me ([williaml@flmic.com](mailto:williaml@flmic.com)) or Ms. Sargent ([cathys@flmic.com](mailto:cathys@flmic.com)) know what FLMIC is doing that you like; how it can do it better; and what additional services you would ask FLMIC to provide. Your responses will help FLMIC achieve its goal to provide all members with superior liability protections and quality, prompt, fair and professional insurance services.*



*With personal regards and thanks for your continued loyalty to Florida Lawyers Mutual,*

**William E. Loucks**  
President

## OFFICERS

**Ray Ferrero, Jr., Chairman**

Nova Southeastern University, Ft. Lauderdale

**William E. Loucks, President**

Florida Lawyers Mutual Insurance Company, Oviedo

**C. Gary Williams, Vice-Chairman**

Tallahassee

**Ava Doppelt, Secretary**

Allen, Dyer, Doppelt, & Gilchrist, P.A., Orlando

**Philip A. Disque, Treasurer**

Powers & Disque, Chartered, Ft. Lauderdale

## DIRECTORS

**Ramon Abadin**

Ramon A. Abadin, P.A., Coral Gables

**Kimberly A. Bald**

Harllee & Bald, P.A., Bradenton

**Alan B. Bookman**

Emmanuel, Sheppard & Condon, Pensacola

**Donald L. Braddock**

Jacksonville

**Philip A. Disque**

Powers & Disque, Chartered, Ft. Lauderdale

**Ava Doppelt**

Allen, Dyer, Doppelt, & Gilchrist, P.A., Orlando

**Ray Ferrero, Jr.**

Nova Southeastern University, Ft. Lauderdale

**Craig Gibbs**

Law Office of Craig Gibbs, Jacksonville

**Gordon Glover**

Glover Law Firm, Ocala

**J. Dudley Goodlette**

Of Counsel, Henderson, Franklin, Starnes and Holt, Naples

**John F. Harkness, Jr.**

Tallahassee

**William E. Loucks**

Florida Lawyers Mutual Insurance Company, Oviedo

**Lake Lytal Jr.**

Lytal, Reiter, Smith, Ivey & Fronrath, LLC, West Palm Beach

**Lake H. "Trey" Lytal, III**

Lytal, Reiter, Smith, Ivey & Fronrath, LLC, West Palm Beach

**Stephen A. Rappenecker**

Stephen A. Rappenecker, P.A., Gainesville

**Juliet M. Roulhac**

Ft. Lauderdale

**William J. Schifino, Jr.**

Gunster, Tampa

**Lansing C. Scriven**

Lanse Scriven Law, Tampa

**Robert M. Sondak**

Of Counsel, Cohen, Chase, Hoffman & Schimmel, P.A. Miami

**C. Gary Williams**

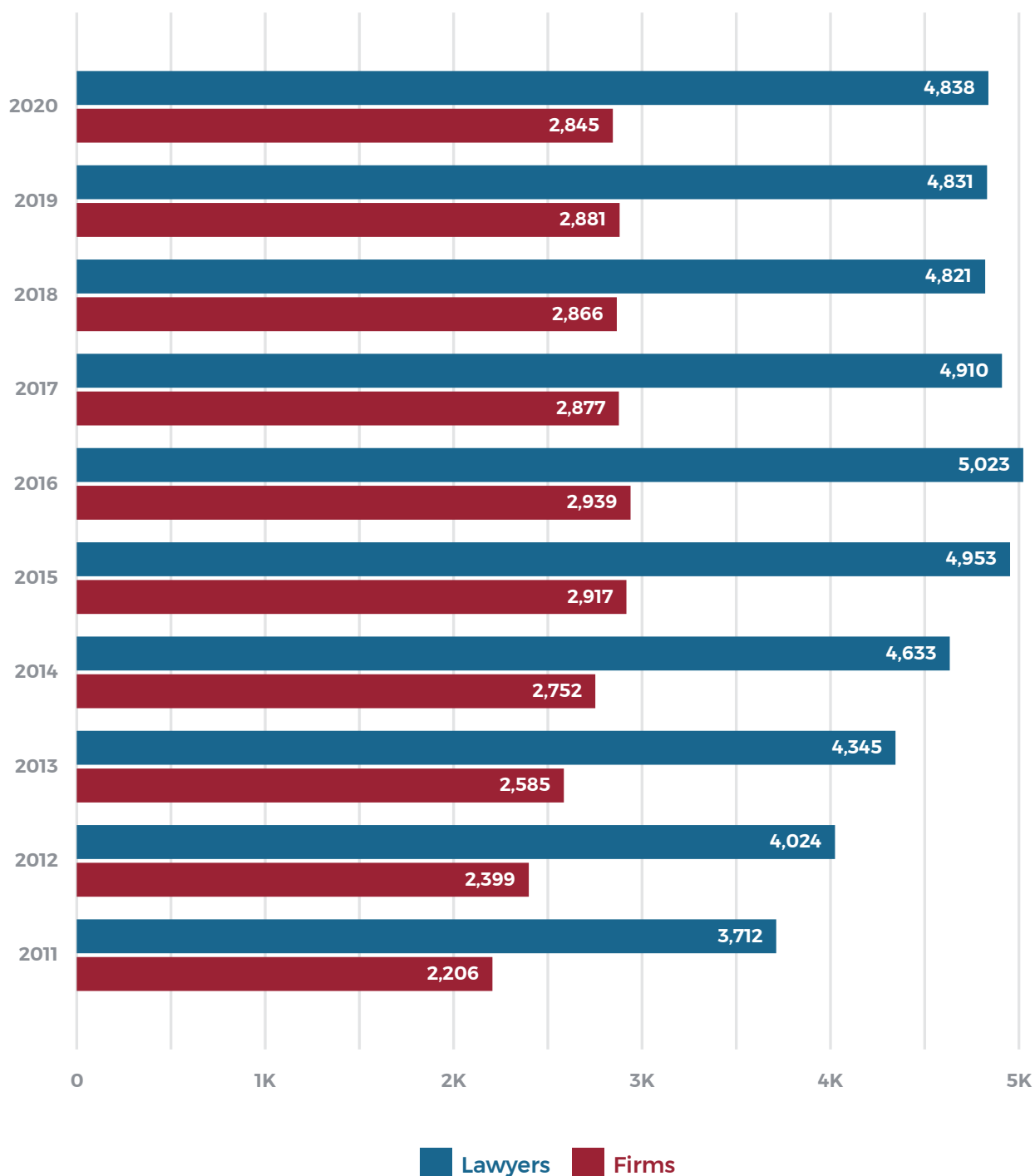
Tallahassee

**C. Lawrence Stagg**

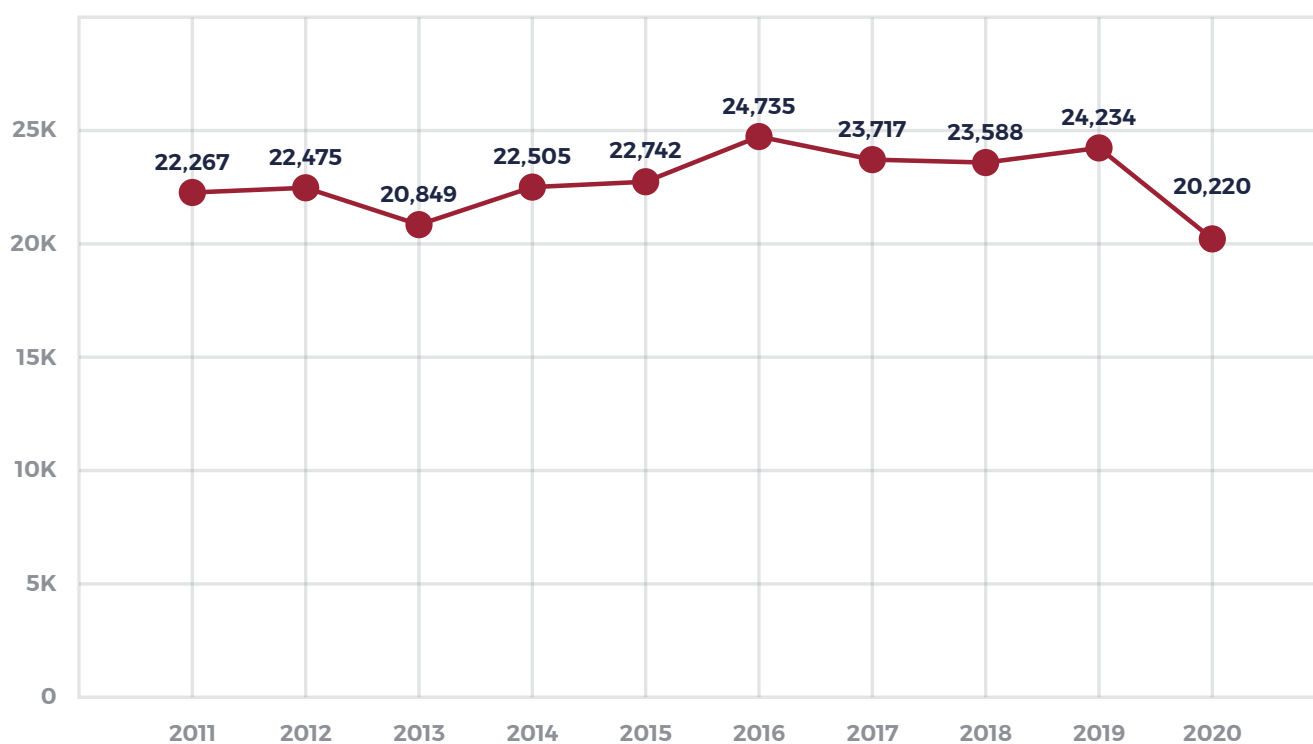
Tampa, Director Emeritus



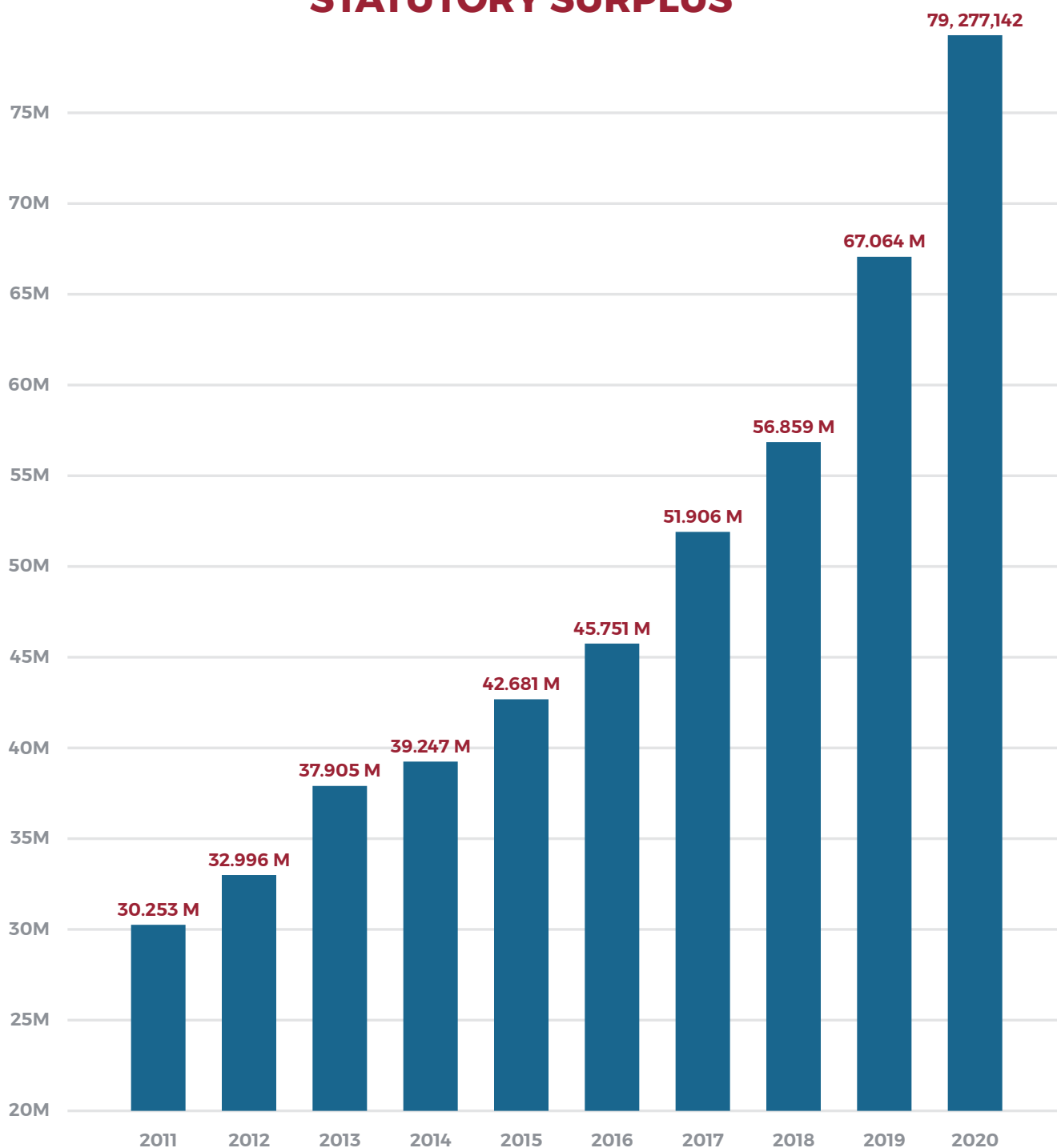
## INSURED LAWYERS AND FIRMS



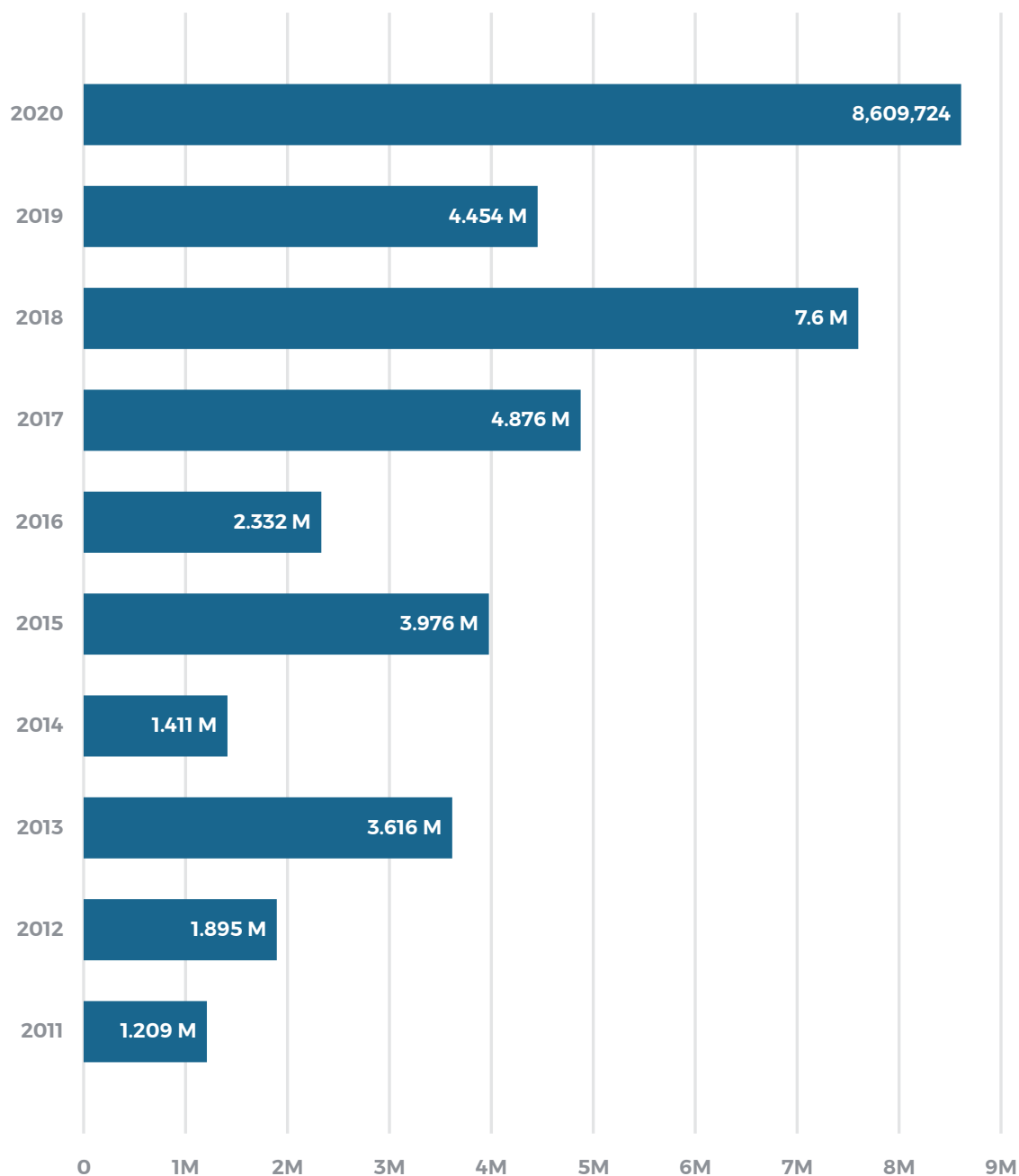
## STATUTORY NET CLAIMS RESERVES



## STATUTORY SURPLUS

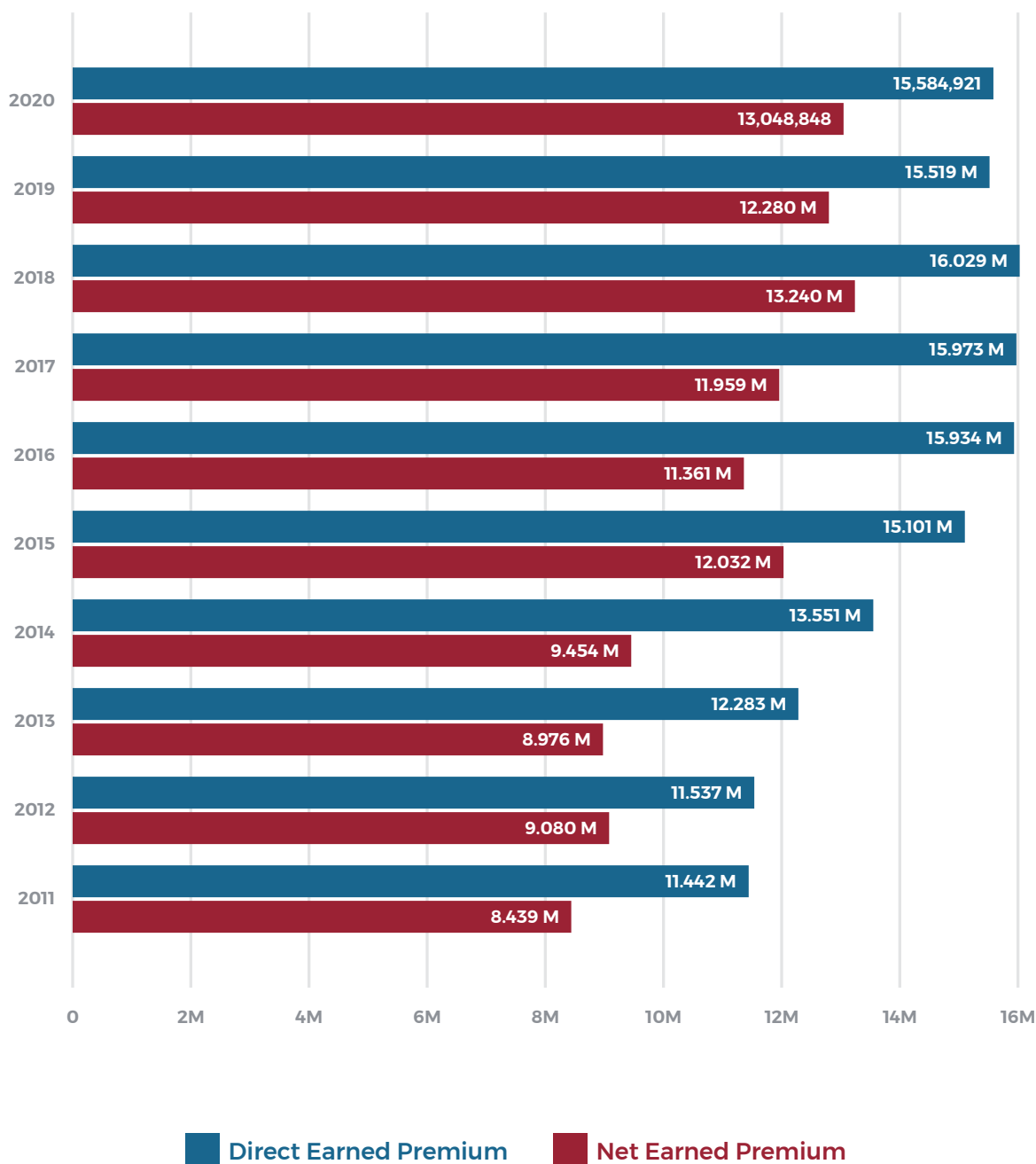


## STATUTORY NET INCOME





## STATUTORY DIRECT EARNED PREMIUM AND NET EARNED PREMIUM







**Florida Lawyers Mutual<sup>®</sup>**  
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# **INDEPENDENT**

# **AUDITOR'S REPORT**



**Florida Lawyers Mutual<sup>®</sup>**  
INSURANCE COMPANY

 LAWYERS PROFESSIONAL LIABILITY INSURANCE CREATED BY THE FLORIDA BAR 



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Florida Lawyers Mutual Insurance Company  
Oviedo, Florida

We have audited the accompanying statutory financial statements of Florida Lawyers Mutual Insurance Company (the Company), which are comprised of the statutory balance sheets as of December 31, 2020 and 2019, and the related 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 Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

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

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



### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 to the financial statements, the financial statements are prepared by the Company in accordance with accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida, which is a basis of accounting other than accounting principles generally accepted in the United States of America to meet the requirements of the state of Florida.

The effects on the statutory financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America have not been determined but 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 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 Company as of December 31, 2020 and 2019, and the results of its operations and its 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 Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida described in Note 1.

*Strohm Ballweg, LLP*

Madison, Wisconsin  
February 22, 2021

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**

**STATUTORY BALANCE SHEETS**

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ADMITTED ASSETS</b>		
Cash and invested assets:		
Bonds	\$ 56,906,557	\$ 54,470,118
Common stocks and mutual funds	41,915,491	37,513,086
Real estate, occupied by the Company	1,073,357	1,103,012
Cash, cash equivalents, and short-term investments	<u>13,559,414</u>	<u>9,682,738</u>
Cash and invested assets	113,454,819	102,768,954
Uncollected premiums	1,453,566	1,373,020
Due from reinsurers	4,627	767,120
Investment income due and accrued	446,476	483,706
Federal income tax recoverable	197,213	380,347
State income tax recoverable	<u>70,336</u>	<u>148,620</u>
Total admitted assets	<u><u>\$ 115,627,037</u></u>	<u><u>\$ 105,921,767</u></u>
<b>LIABILITIES AND SURPLUS</b>		
Liabilities:		
Unpaid losses, net of reinsurance	\$ 10,291,886	\$ 12,937,022
Unpaid loss adjustment expenses (LAE), net of reinsurance	9,927,716	11,296,557
Unearned premiums, net of reinsurance	6,521,172	6,167,224
Premiums received in advance	1,188,868	1,225,173
Ceded reinsurance premiums payable	749,996	638,614
Due to reinsurers	5,228,285	5,206,505
Provision for reinsurance	51,420	1,431
Net deferred tax liability	2,046,152	1,026,977
Other liabilities	<u>344,400</u>	<u>358,159</u>
Total liabilities	<u>36,349,895</u>	<u>38,857,662</u>
Surplus:		
Contributed surplus	299,235	299,235
Unassigned surplus	<u>78,977,907</u>	<u>66,764,870</u>
Total surplus	<u>79,277,142</u>	<u>67,064,105</u>
Total liabilities and surplus	<u><u>\$ 115,627,037</u></u>	<u><u>\$ 105,921,767</u></u>

See Notes to Statutory Financial Statements.

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY****STATUTORY STATEMENTS OF INCOME**

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>UNDERWRITING OPERATIONS</b>		
Net premiums earned:		
Direct premiums earned	<b>\$ 15,584,921</b>	\$ 15,519,179
Reinsurance ceded	<b>(2,536,073)</b>	(3,239,180)
	<b><u>13,048,848</u></b>	<u>12,279,999</u>
Net losses incurred:		
Direct losses incurred	<b>(4,605,316)</b>	11,696,528
Reinsurance recoveries	<b>4,880,591</b>	(6,926,665)
	<b><u>275,275</u></b>	<u>4,769,863</u>
Operating expenses incurred:		
Direct LAE	<b>(1,096,856)</b>	3,923,397
Reinsurance recoveries on LAE	<b>2,618,115</b>	(1,803,249)
Direct underwriting expenses	<b>4,036,114</b>	4,348,505
	<b><u>5,557,373</u></b>	<u>6,468,653</u>
Net underwriting gain	<b><u>7,216,200</u></b>	<u>1,041,483</u>
<b>INVESTMENT AND OTHER INCOME</b>		
Investment income earned	<b>1,896,367</b>	2,145,181
Investment expenses	<b>(458,491)</b>	(459,509)
Net realized capital gains, net of tax	<b>1,710,959</b>	2,116,325
Other income	<b>36,979</b>	167,713
	<b><u>3,185,814</u></b>	<u>3,969,710</u>
Investment and other income	<b><u>3,185,814</u></b>	<u>3,969,710</u>
Net income before federal income tax expense	<b>10,402,014</b>	5,011,193
Federal income tax expense	<b><u>1,792,290</u></b>	<u>557,086</u>
Net income	<b><u>\$ 8,609,724</u></b>	<u>\$ 4,454,107</u>

See Notes to Statutory Financial Statements.

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**  
**STATUTORY STATEMENTS OF CHANGES IN SURPLUS**  
Years Ended December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
Surplus, beginning of year	<u>\$ 67,064,105</u>	<u>\$ 56,859,205</u>
Net income	<u>8,609,724</u>	4,454,107
Change in net unrealized capital gains (losses), net of tax	<u>3,722,366</u>	5,671,694
Change in nonadmitted assets	<u>(39,379)</u>	(68,078)
Change in net deferred income tax	<u>(29,685)</u>	61,455
Change in provision for reinsurance	<u>(49,989)</u>	85,722
Net change in surplus	<u>12,213,037</u>	<u>10,204,900</u>
Surplus, end of year	<u>\$ 79,277,142</u>	<u>\$ 67,064,105</u>



**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY****STATUTORY STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
Cash from operations:		
Net premiums collected	\$ 13,419,109	\$ 12,883,418
Net investment income received	1,812,882	2,023,407
Other income received	36,979	167,713
Net losses paid	(2,157,918)	(4,538,529)
Operating expenses paid	(6,883,725)	(6,908,470)
Federal income taxes paid	(2,063,967)	(1,260,450)
Net cash from operations	<u>4,163,360</u>	<u>2,367,089</u>
Cash from investments:		
Proceeds from investments sold, matured, or repaid:		
Bonds	25,660,686	16,765,299
Stocks and mutual funds	6,101,391	9,162,602
Miscellaneous proceeds	14,536	30,690
	<u>31,776,613</u>	<u>25,958,591</u>
Cost of investments acquired:		
Bonds	(27,669,676)	(17,123,376)
Stocks and mutual funds	(4,393,621)	(9,525,938)
	<u>(32,063,297)</u>	<u>(26,649,314)</u>
Net cash from investments	<u>(286,684)</u>	<u>(690,723)</u>
Net change in cash, cash equivalents, and short-term investments	3,876,676	1,676,366
Cash, cash equivalents, and short-term investments:		
Beginning of year	<u>9,682,738</u>	<u>8,006,372</u>
End of year	<u>\$ 13,559,414</u>	<u>\$ 9,682,738</u>

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See Notes to Statutory Financial Statements.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies**

**Nature of Business.** Florida Lawyers Mutual Insurance Company (the Company), is a Florida mutual insurance company that provides professional liability insurance for eligible lawyers who are members in good standing of The Florida Bar and whose principal practice of law is in the state of Florida. The Company offers insurance on a "claims made" basis, with both "prior acts" and "tail" coverage available. Under a "claims made" policy, insurance is generally provided to cover claims presented during the term of the policy.

A summary of the Company's significant accounting policies follows.

**Basis of Presentation.** The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida (the Department). Prescribed statutory accounting practices include the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, which has been adopted by the Department, as well as state insurance laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Company had no such specifically permitted practices.

Statutory accounting practices vary in some respects from U.S. generally accepted accounting principles (GAAP). Such significant differences include the following:

- Investments in debt securities are generally carried at amortized cost. Under GAAP, the Company's debt securities would be classified as held-to-maturity, trading, or available-for-sale. For GAAP, debt securities classified as held-to-maturity would be carried at cost or amortized cost and debt securities classified as trading or available-for-sale would be carried at fair value with the unrealized holding gains and losses reported in income for those securities classified as trading and as a separate component of surplus for those securities classified as available-for sale.
- Investments in equity securities are generally carried at fair value with unrealized holding gains and losses reported as a direct charge or credit to surplus. Under GAAP, the Company's equity securities would be carried at fair value with the unrealized holding gains and losses reported in income.
- Policy acquisition costs are charged to current operations as incurred; under GAAP, these acquisition costs would be deferred and recognized as an expense over the periods covered by the policies.
- Deferred income taxes are provided for differences between the financial statement and the tax bases of assets and liabilities and are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Additionally, under statutory accounting practices, limitations are placed on the admissibility of deferred tax assets, changes in deferred tax assets and liabilities are reported as changes in surplus, and state income taxes are not included in deferred tax calculations; under GAAP, there is no admissibility concept, deferred income taxes would be provided for state income taxes, changes in deferred tax assets and liabilities would be reported through operations and/or surplus depending on their characteristics, and state income taxes would be included in the deferred tax calculation.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

- A self-charged rent on real estate occupied by the Company is reflected as investment income and as offsetting rental expense; under GAAP, no such rental charge would be recorded.
- Certain assets designated as “nonadmitted assets” (principally certain premiums and deductibles receivable, furniture and equipment, prepaid expenses, investments in subsidiaries and affiliates, and certain deferred tax assets) are charged against surplus. Under GAAP, receivables would be recorded as an asset less an allowance for uncollectible amounts. Furniture and equipment would be recognized as an asset net of accumulated depreciation, and prepaid expenses would be recognized as assets. The operations of subsidiaries and affiliates would be presented on a consolidated basis. Deferred taxes would be accounted for as previously noted.
- Assets related to reinsurance ceded transactions are netted with the respective liabilities; under GAAP, reinsurance balances would be shown on a separate gross basis.
- A provision for overdue or unauthorized reinsurance has been recorded in accordance with statutory requirements; under GAAP, no such provision would be recognized.
- Statutory financial statements are prepared in a form using language and groupings substantially the same as the annual statement of the Company filed with the NAIC and state regulatory authorities, which differ from the presentation and disclosure of financial statements presented under GAAP.

The effects of these variances from GAAP on the accompanying statutory financial statements have not been determined.

**Accounting Estimates.** The preparation of statutory financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to:

- The liabilities for unpaid losses and unpaid loss adjustment expenses. In estimating these liabilities, management uses the methodology discussed in the unpaid losses and unpaid loss adjustment expenses paragraph of this note.
- The Company’s reinsurance contracts in which the ceded premiums are determined based on the loss experience of the contracts (loss-sensitive). Since the liabilities for unpaid losses and unpaid loss adjustment expenses are estimates, any significant change in these amounts will impact the amounts reported as ceded premiums.
- The assumptions regarding the other-than-temporary impairment (OTTI) analysis of the investment portfolio.
- The amount of deferred tax assets expected to be realized.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

**Risk and Uncertainties.** The Company's operating results and financial condition are affected by numerous factors and circumstances unique to the property/casualty insurance industry, some of which it can neither predict nor control. Among them are (1) statutorily imposed regulatory capital requirements can limit an insurer's ability to underwrite new business or retain otherwise desirable risks; (2) an insurer's ability to enter into suitable reinsurance agreements is subject to prevailing conditions in reinsurance markets; (3) competitive pressure on pricing, while cyclical, may be intense; (4) fluctuations in interest rates affect the value and income yield of an insurer's investment portfolio in the short-term and often affect default and prepayment rates over time; (5) inflationary pressures affect the magnitude of losses and loss adjustment expenses; (6) emerging legal precedents and trends may have a significant specific impact on settlement amounts and the cost of defending claims; and (7) ultimate losses may not fully emerge for several years following the year in which an insured event occurs is reported.

**Cash, Cash Equivalents, and Short-Term Investments.** For purposes of reporting cash flows, the Company follows statutory accounting practices and considers cash in checking accounts, bank deposit accounts, and bonds and certificates of deposit purchased with a maturity of 1 year or less to be cash, cash equivalents, and short-term investments. Cash, cash equivalents, and short-term investments are carried at cost, which approximates fair value.

The Company periodically has deposits in a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Company does not believe it is exposed to any significant credit risk on the amounts not insured.

In accordance with Florida Statutes, the Company is required to maintain assets on deposit in trust funds as security for claims of all policyholders and creditors. At December 31, 2020, \$250,000 of cash was on deposit.

**Investments.** Investments are valued in accordance with the valuation methods prescribed by the NAIC. Investments in bonds are generally carried at amortized cost using the scientific interest method; however, bonds with an NAIC designation of 3 or lower are carried at the lower of amortized cost or fair value. Loan-backed securities are generally valued at amortized cost using the scientific interest method, including anticipated prepayments; however, loan-backed securities with an initial NAIC designation of 3 or lower are carried at the lower of amortized cost or fair value. The retrospective adjustment method is used to value all loan-backed securities. Prepayment assumptions are obtained from Moody's Analytics and are based on 3-month PSA speed. Investments in unaffiliated common stocks and mutual funds are generally carried at fair value.

Realized gains and losses on the sale of investments are recognized on the specific identification basis and are included in income. Unrealized gains and losses from changes in the fair value of common stocks, mutual funds, and certain preferred stocks and bonds are credited or charged directly to surplus.



**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

**Fair Value Measurements.** Financial instruments are categorized in a fair value hierarchy based on the reliability of inputs to the valuation techniques as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; inputs other than quoted prices that are observable; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company believes its valuation methods are appropriate and consistent with 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 Company owns 631 shares of Lawyers Reinsurance Company (LRC), which represents approximately 33 percent ownership. The financial statement value of LRC common stock, prior to non-admittance, was \$938,019 and \$920,673 at December 31, 2020 and 2019, respectively. The financial statement value of the common stock is based on the reinsurer's statutory surplus from the most recent financial statement as filed with the Vermont Department of Financial Regulation Division of Insurance. The common stock was obtained through private placement, contains significant transfer restrictions, and has no public trading market. As of December 31, 2020, the Company has nonadmitted this investment after notifying the Department of their intent to nonadmit the investment, and not receiving disapproval of this treatment.

**Real Estate.** Real estate occupied by the Company of \$1,073,357 and \$1,103,012 is recorded as an admitted asset at cost less accumulated depreciation of \$309,653 and \$279,997 at December 31, 2020 and 2019, respectively, and is presented as an investment. Depreciation expense is calculated by applying the straight-line method over the estimated useful life. The total depreciation expense was \$29,656 for both 2020 and 2019.

**Unpaid Losses and Unpaid Loss Adjustment Expenses.** The liabilities for unpaid losses and unpaid loss adjustment expenses are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate net cost of all reported and unreported losses, which are unpaid at year end.

**Note 1 ~ Nature of Business and Summary of Significant Accounting Policies** (Continued)

All estimates of unpaid losses and unpaid loss adjustment expenses are continually reviewed and any adjustments determined to be necessary are reflected in current operations. Because of the nature of the risks insured, the estimates of unpaid losses and loss adjustment expenses are susceptible to significant changes based on ultimate settlements. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for unpaid losses and unpaid loss adjustment expenses are adequate. The liabilities for unpaid losses and unpaid loss adjustment expenses are reported net of the effects of reinsurance.

**Recognition of Premium.** Premiums from policies written are recognized on a pro rata basis over the respective terms of the policies. Unearned premiums represent the portion of premiums written which relate to future periods, net of reinsurance. A liability for premiums received in advance is established for all premiums received by the Company or by the Company's agent on policies effective in the following fiscal year.

**Reinsurance.** Reinsurance premiums, commissions, loss, and loss adjustment recoveries related to reinsured business are accounted for on terms consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company's loss-sensitive reinsurance contracts are recorded at the maximum potential obligation due under the contract until sufficient time has elapsed for management to evaluate the ultimate losses. These obligations are recorded within the due to reinsurers and ceded reinsurance premiums payable balances on the statutory balance sheets.

**Federal Income Taxes.** The Company files both federal and state income tax returns. The Company records deferred income taxes on temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities based upon enacted federal income tax rates.

**Subsequent Events.** Subsequent events were evaluated through February 22, 2021, which is the date the financial statements were available to be issued.

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**

**NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 2 ~ Investments**

The cost and fair value of investments at December 31, 2020 and 2019, were as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b><u>2020</u></b>				
Bonds (at amortized cost):				
U.S. government	\$ 584,429	\$ 68,259	\$ -	\$ 652,688
Other governments	-	-	-	-
States, territories, and possessions	21,957,937	1,191,293	-	23,149,230
Corporate securities	30,213,129	2,902,365	(25,902)	33,089,592
Loan-backed securities	<u>4,151,062</u>	<u>82,263</u>	<u>(10,062)</u>	<u>4,223,263</u>
Total bonds	56,906,557	4,244,180	(35,964)	61,114,773
 Common stocks and mutual funds (admitted)	<u>28,640,990</u>	<u>13,442,581</u>	<u>(168,080)</u>	<u>41,915,491</u>
	<u>\$ 85,547,547</u>	<u>\$ 17,686,761</u>	<u>\$ (204,044)</u>	<u>\$ 103,030,264</u>
 <b><u>2019</u></b>				
Bonds (at amortized cost):				
U.S. government	\$ 1,097,516	\$ 58,731	\$ -	\$ 1,156,247
Other governments	300,005	262	-	300,267
States, territories, and possessions	21,413,903	690,305	(9,522)	22,094,686
Corporate securities	28,038,413	1,836,086	(21,971)	29,852,528
Loan-backed securities	<u>3,620,281</u>	<u>57,509</u>	<u>(7,125)</u>	<u>3,670,665</u>
Total bonds	54,470,118	2,642,893	(38,618)	57,074,393
 Common stocks and mutual funds (admitted)	<u>28,933,095</u>	<u>8,742,572</u>	<u>(162,581)</u>	<u>37,513,086</u>
	<u>\$ 83,403,213</u>	<u>\$ 11,385,465</u>	<u>\$ (201,199)</u>	<u>\$ 94,587,479</u>

The cumulative unrealized loss of \$204,044 as of December 31, 2020, consisted of \$71,188 of unrealized losses in a loss position for greater than 12 months and \$132,856 of unrealized losses in a loss position for less than 12 months. The cumulative unrealized loss of \$201,199 as of December 31, 2019, consisted of \$174,640 of unrealized losses in a loss position for greater than 12 months and \$26,559 of unrealized losses in a loss position for less than 12 months.

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY****NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 2 ~ Investments** (Continued)

The amortized cost and fair value of bonds (including short-term bonds) at December 31, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	\$ 5,083,069	\$ 5,554,208
Due after one year through five years	32,333,552	34,761,401
Due after five years through ten years	19,188,959	20,428,360
Due after ten years	<u>1,300,915</u>	<u>1,370,742</u>
	<u>\$ 57,906,495</u>	<u>\$ 62,114,711</u>

**Gains and Losses on Investments.** The components of net realized investment gains were as follows:

	2020	2019
Gains on disposals	\$ 2,986,550	\$ 3,056,503
Losses on disposals	<u>(820,780)</u>	<u>(377,611)</u>
	2,165,770	2,678,892
Tax expense	<u>(454,811)</u>	<u>(562,567)</u>
Net realized capital gains	<u>\$ 1,710,959</u>	<u>\$ 2,116,325</u>

Declines in fair value that are determined to be OTTI are included in the statutory statement of income as realized capital losses. The Company determines a decline to be other than temporary by reviewing and evaluating relevant objective and subjective factors for each security, including the extent of the depressed value, the length of time the value has been depressed, the Company's intent and ability to hold the security, a security's current performance, the current and projected financial condition of the issuer, the industry in which the issuer operates, the estimated future cash flows of loan-backed securities, and the status of the market as a whole. Estimating the future cash flows of loan-backed securities also involves assumptions regarding the underlying collateral such as prepayment rates, default and recovery rates, existence of subordinated classes capable of absorbing losses, and third-party servicing abilities. There were no such declines for the years ended December 31, 2020 and 2019.

**Summary of Significant Valuation Techniques for Financial Instruments.** The following valuation techniques and inputs were used to estimate the fair value of each class of significant financial instrument:

**Level 1 Measurements**

Bonds: Comprised of actively traded U.S. Treasury notes. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company.

**Note 2 ~ Investments** (Continued)

Common stocks: Comprised of actively traded equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company.

Mutual funds: Comprised of actively traded mutual funds that have daily quoted net asset values for identical assets that are accessible to the Company.

**Level 2 Measurements**

Bonds: Comprised of government, municipal, corporate, and loan-backed securities. Valuation is based on inputs including quoted prices for identical or similar assets in inactive markets. The Company uses a leading, nationally recognized provider of financial market data and analytics to price the Company's bond holdings. Because many fixed income securities do not trade on a daily basis, the provider's pricing applications apply available information through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare evaluations.

**Financial Instruments Reported at Fair Value in the Statutory Balance Sheets.** The following summarizes the assets measured at fair value as of December 31, 2020 and 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2020</u></b>				
Common stocks and mutual funds	<u>\$ 41,915,491</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,915,491</u>
<b><u>December 31, 2019</u></b>				
Common stocks and mutual funds	<u>\$ 37,513,086</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,513,086</u>

The Company does not have any liabilities measured at fair value at December 31, 2020 and 2019.

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**

**NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 2 ~ Investments** (Continued)

**All Financial Instruments.** The following is the aggregate fair value for all financial instruments (excluding investments accounted for under the equity method) as of December 31, 2020 and 2019:

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
<b><u>December 31, 2020</u></b>					
Bonds	\$ 62,114,711	\$ 57,906,495	\$ 1,652,625	\$ 60,462,086	\$ -
Common stocks and mutual funds	<u>41,915,491</u>	<u>41,915,491</u>	<u>41,915,491</u>	<u>-</u>	<u>-</u>
	<u>\$ 104,030,202</u>	<u>\$ 99,821,986</u>	<u>\$ 43,568,116</u>	<u>\$ 60,462,086</u>	<u>\$ -</u>
<b><u>December 31, 2019</u></b>					
Bonds	\$ 57,209,137	\$ 54,607,316	\$ 1,156,247	\$ 56,052,890	\$ -
Common stocks and mutual funds	<u>37,513,086</u>	<u>37,513,086</u>	<u>37,513,086</u>	<u>-</u>	<u>-</u>
	<u>\$ 94,722,223</u>	<u>\$ 92,120,402</u>	<u>\$ 38,669,333</u>	<u>\$ 56,052,890</u>	<u>\$ -</u>

**Note 3 ~ Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses**

Activity in the liabilities for unpaid losses and unpaid loss adjustment expenses for the years ended December 31, 2020 and 2019, is summarized as follows (000's omitted):

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 39,237	\$ 31,505
Less reinsurance recoverable	<u>15,003</u>	<u>7,917</u>
Net balance at January 1	<u>24,234</u>	<u>23,588</u>
Incurred related to:		
Current year	7,745	12,520
Prior years	<u>(5,948)</u>	<u>(5,630)</u>
Total incurred	<u>1,797</u>	<u>6,890</u>
Paid related to:		
Current year	1,178	1,910
Prior years	<u>4,633</u>	<u>4,334</u>
Total paid	<u>5,811</u>	<u>6,244</u>
Net balance at December 31	20,220	24,234
Plus reinsurance recoverable	<u>5,430</u>	<u>15,003</u>
Balance, end of year	<u>\$ 25,650</u>	<u>\$ 39,237</u>



**Note 3 ~ Liabilities for Unpaid Losses and Unpaid Loss Adjustment Expenses** (Continued)

As a result of changes in estimates of insured events in prior years, net loss and loss adjustment expenses incurred were decreased in 2020 and 2019 by approximately \$5,948,000 and \$5,630,000, respectively, due to lower than anticipated losses and related expenses.

**Note 4 ~ Reinsurance**

The Company has purchased reinsurance coverage to pay individual losses and loss adjustment expenses in excess of its retention limits as follows:

<u>Period Claim is Reported</u>	<u>Retention per Claim</u>
Prior to June 30, 2007	\$250,000 plus \$25,000 increase each year claim remains open
July 1, 2007 – June 30, 2018	\$350,000
July 1, 2018 – June 30, 2020	\$500,000
After July 1, 2020	\$500,000 plus 20 percent of next \$4,500,000

In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the Company would be liable for such defaulted amounts. Amounts included in admitted assets and the amounts deducted from certain liabilities resulting from these reinsurance agreements were as follows at December 31 (000's omitted):

	<u>2020</u>	<u>2019</u>
Due from reinsurers	\$ 5	\$ 767
Unpaid losses	3,271	9,986
Unpaid LAE	2,159	5,017
Unearned premiums	<u>1,191</u>	<u>1,367</u>
	<u>\$ 6,626</u>	<u>\$ 17,137</u>

At December 31, 2020, the Company had no unsecured aggregate recoverables for losses, loss adjustment expenses, and unearned premiums from individual reinsurers which exceed 3 percent of surplus.

The Company has a reinsurance agreement with LRC. The Company ceded premium of \$2,000 and \$148,000 in 2020 and 2019, respectively. The Company ceded losses or loss adjustment expenses of \$127,000 and \$653,000 in 2020 and 2019, respectively. The Company reported amounts due from LRC of \$101,000 and \$652,000 as of December 31, 2020 and 2019, respectively, related to recoverables for unpaid losses and unpaid loss adjustment expenses.

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**

**NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 5 ~ Income Taxes**

The Company is taxed as an insurance company under Section 831 of the Internal Revenue Code. Federal income tax expense differs from the amount obtained by applying the federal income tax rate of 21 percent to pretax income for the years ended December 31, 2020 and 2019, due to the following:

	<u>2020</u>	<u>2019</u>
Computed expected federal income tax	\$ 2,279,933	\$ 1,170,490
Increase (decrease) in taxes resulting from:		
Discounting of unpaid losses and LAE	(54,274)	(6,307)
Unearned and advance premium adjustment	13,341	10,913
Tax-exempt interest	(14,192)	(19,224)
Dividends received deduction	(31,844)	(40,383)
Other – net	<u>54,137</u>	<u>4,164</u>
Federal income tax expense	<u>\$ 2,247,101</u>	<u>\$ 1,119,653</u>

The components of the net deferred tax asset (liability) at December 31, 2020 and 2019, were as follows:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<b><u>2020</u></b>			
Gross deferred tax assets	\$ 893,053	\$ -	\$ 893,053
Statutory valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>
	893,053	-	893,053
Deferred tax asset nonadmitted	<u>-</u>	<u>-</u>	<u>-</u>
	893,053	-	893,053
Deferred tax liability	<u>(102,997)</u>	<u>(2,836,208)</u>	<u>(2,939,205)</u>
	<u>\$ 790,056</u>	<u>\$ (2,836,208)</u>	<u>\$ (2,046,152)</u>

<b><u>2019</u></b>			
Gross deferred tax assets	\$ 943,338	\$ -	\$ 943,338
Statutory valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>
	943,338	-	943,338
Deferred tax asset nonadmitted	<u>-</u>	<u>-</u>	<u>-</u>
	943,338	-	943,338
Deferred tax liability	<u>(123,597)</u>	<u>(1,846,718)</u>	<u>(1,970,315)</u>
	<u>\$ 819,741</u>	<u>\$ (1,846,718)</u>	<u>\$ (1,026,977)</u>

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**

**NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 5 ~ Income Taxes** (Continued)

The admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs of NAIC *Statement of Statutory Accounting Principles No. 101 (SSAP 101)*:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<b><u>2020</u></b>			
11a. Ability to recover taxes paid in prior years	\$ 543,636	\$ -	\$ 543,636
11b. Expected to be realized, after application of threshold limitations	-	-	-
11c. Offset of deferred tax liabilities	<u>349,417</u>	<u>-</u>	<u>349,417</u>
	<u>\$ 893,053</u>	<u>\$ -</u>	<u>\$ 893,053</u>
<b><u>2019</u></b>			
11a. Ability to recover taxes paid in prior years	\$ 578,901	\$ -	\$ 578,901
11b. Expected to be realized, after application of threshold limitations	-	-	-
11c. Offset of deferred tax liabilities	<u>364,437</u>	<u>-</u>	<u>364,437</u>
	<u>\$ 943,338</u>	<u>\$ -</u>	<u>\$ 943,338</u>
		<u>2020</u>	<u>2019</u>
Ratio Used to Determine Recovery Period and Threshold Limitation amount under paragraph 11b		1,229%	1,199%
Amount of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation under paragraph 11b		\$ 79,277,142	\$ 67,064,105

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**

**NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2020 and 2019

**Note 5 ~ Income Taxes** (Continued)

The major components of current income taxes incurred and net deferred tax assets (liabilities) as of December 31, 2020 and 2019, were as follows:

	2020	2019	Change
Current income tax:			
Federal	\$ 1,792,290	\$ 557,086	\$ 1,235,204
Foreign	-	3,556	(3,556)
Federal income tax on net capital gains	454,811	562,567	(107,756)
Federal and foreign income taxes incurred	<u>2,247,101</u>	<u>1,123,209</u>	<u>1,123,892</u>
Deferred tax assets:			
Unpaid loss and LAE	354,913	427,719	(72,806)
Unearned and advance premiums	323,822	310,481	13,341
Nonadmitted assets	198,034	194,391	3,643
Other	16,284	10,747	5,537
Total deferred tax assets	893,053	943,338	(50,285)
Nonadmitted deferred tax assets	-	-	-
Total admitted deferred tax assets	<u>893,053</u>	<u>943,338</u>	<u>(50,285)</u>
Deferred tax liabilities:			
Unpaid loss and LAE	(102,997)	(123,597)	20,600
Net unrealized capital gains	(2,836,208)	(1,846,718)	(989,490)
Total deferred tax liabilities	<u>(2,939,205)</u>	<u>(1,970,315)</u>	<u>(968,890)</u>
Net deferred tax asset (liability)	<u>\$ (2,046,152)</u>	<u>\$ (1,026,977)</u>	<u>\$ (1,019,175)</u>

As of December 31, 2020, the Company had not identified any material loss contingencies arising from uncertain tax positions. The Company had no tax planning strategies that have a material impact on adjusted gross or net admitted deferred tax assets.

Income taxes incurred in the current and prior year that will be available for recoupment in the event of future net losses were \$2,202,787 and \$1,163,967, respectively.

The Company also pays Florida income and franchise taxes at a rate of 4.5 percent of Florida taxable income. Included in direct underwriting expenses incurred is \$388,830 and \$251,380 of Florida state income and franchise taxes for the years ended December 31, 2020 and 2019, respectively.

**Note 6 ~ Pension Plan**

The Company offers a profit sharing 401(k) plan, where the Company contributes 3 percent of each employee's salary to the plan. The amount of contributions under this plan was \$58,585 for 2020 and \$59,550 for 2019.

**Note 7 ~ Software Commitments**

During 2017, the Company entered into a noncancelable contract to purchase customized software for policy and claims administration, and for the vendor to host the software for the Company. Hosting expense related to the software was \$126,000 for both 2020 and 2019. Annual costs for the vendor to host the software will be \$126,000 per annum during each year 2021 through 2023, and \$73,500 for 2024.

**Note 8 ~ Surplus**

The Department requires the maintenance of a minimum surplus level for a mutual insurance company that issues nonassessable insurance policies. The Company is also subject to Risk-Based Capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances and various levels of activities based on the perceived degree of risk. At December 31, 2020, the Company's surplus exceeded the minimum levels required by the Department and RBC standards.

The Company's unassigned surplus was increased (reduced) by the following cumulative amounts as of December 31:

	2020	2019
Net unrealized capital gains	\$ 13,505,752	\$ 8,793,896
Nonadmitted assets	(1,202,770)	(1,163,392)
Provision for reinsurance	(51,420)	(1,431)



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