

# 2021

## ANNUAL REPORT

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY

## PRESIDENT'S MESSAGE TO MEMBERS

### *Greetings, Members!*

It is my privilege to address you on behalf of the Company's directors, officers, and team members as we embark on yet another exciting year at Florida Lawyers Mutual.

Congratulations! Because of your loyalty as members and your good practices as lawyers resulting in a favorable claims experience for the Company — combined with our excellent financial standing and our strong performance throughout 2021 — your Board of Directors has declared the *first-ever Florida Lawyers Mutual dividend for qualifying members*. \* We will be sending you those details in separate communications. This historic dividend is just one of the ways Florida Lawyers Mutual continues to serve you and create value for your practice beyond the insurance policy itself.

Your exclusive members-only *CLE portal* has grown to include *33 hours of accredited free CLE content*, enough to satisfy your entire reporting period requirement with The Florida Bar. This growing library includes coveted credit types such as Technology, Professionalism, Board Certification, and others — all streaming in HD online. We invite you to visit our library to satisfy your bar education requirements.

We also bring you important risk management content through our website, emails, and social media. If you are not following us on Facebook, LinkedIn, Instagram, and Twitter, those are great ways to learn about added resources such as your *cyber risk management hotline* and your newly published guides on *Wire Transfer Fraud Prevention*, *Avoiding the Top 10 Malpractice Traps*, and more.

As a company created by and for Florida lawyers, we know that a healthy lawyer is a better lawyer. To that end, we recently launched a *Lawyer Well-Being Resource Center* online. Among the varied resources there, you will find a music playlist with thirty songs to uplift, encourage, and inspire you in the face of all the challenges that come with a career in law. You have let us know how fun the playlist has been, and we hope more will enjoy it.

Finally, because you asked for it, we recently rolled out *new and improved payment options* for making your premium payments online. These options now include e-check, Apple Pay, Google Pay, PayPal, Venmo, and more. Visit our newly enhanced payment platform at [www.flmic.com](http://www.flmic.com).

I am so honored to continue my work with Florida Lawyers Mutual as your newly elected President, effective April 1, 2022. I know you all join me in saluting my predecessor, William E. Loucks, and thanking him for his many years of outstanding service in helping to make Florida Lawyers Mutual a long-trusted provider of superior liability protections and legendary member service. As I enter this new role, I invite you to contact me at [cathys@flmic.com](mailto:cathys@flmic.com) to share your thoughts on what Florida Lawyers Mutual is doing well and how we can serve you better. We are here for you.



With warm regards and gratitude for your continued loyalty as Florida Lawyers Mutual members,

**Cathleen M. Sargent, Esq.**

President / CEO

\* Your Board of Directors has declared a dividend in the amount of 8% of the premium paid to the Company during the prior policy year to those members who will hold an active policy on April 1, 2022, and who paid a full year premium for that prior policy. Dividends are paid at the sole discretion of the Company's Board of Directors. This year's dividend does not guarantee the payment or amount of future dividends.

## OFFICERS & DIRECTORS

### OFFICERS

**Ray Ferrero, Jr., Chairman**

Nova Southeastern University, Ft. Lauderdale

**Cathleen M. Sargent, President / CEO\***

Florida Lawyers Mutual Insurance Company, Windermere

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

Tallahassee

**Ava Doppelt, Secretary**

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

**Philip A. Disque, Treasurer / CFO**

Powers & Disque, Chartered, Ft. Lauderdale

### DIRECTORS

**Ramon Abadin**

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

**Kimberly A. Bald**

Harlee & 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**

Orange City

**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**

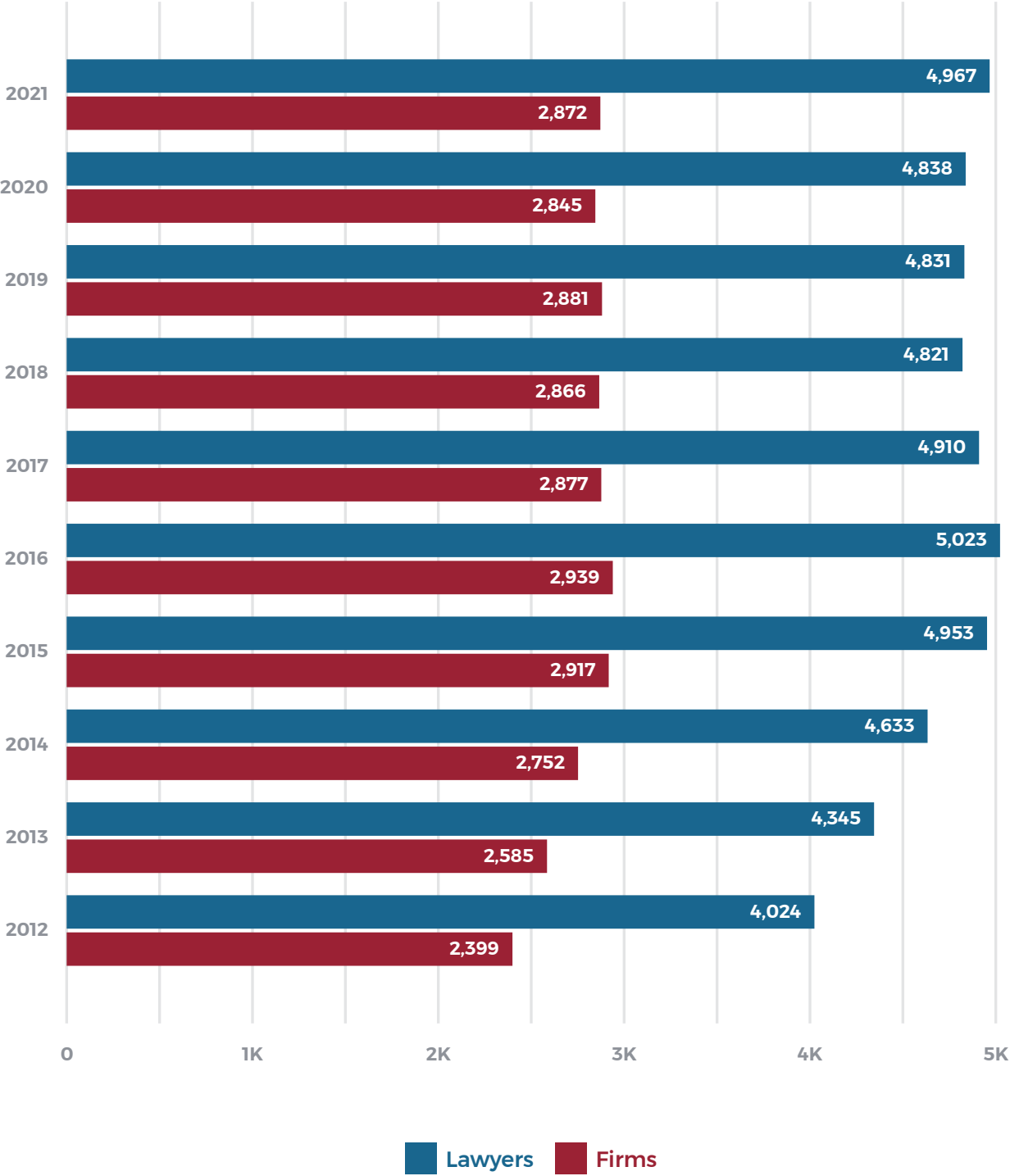
Tampa, Director Emeritus

\*Ms. Sargent succeeds William E. Loucks as President / CEO of Florida Lawyers Mutual effective April 1, 2022. Mr. Loucks remains on the Board of Directors.

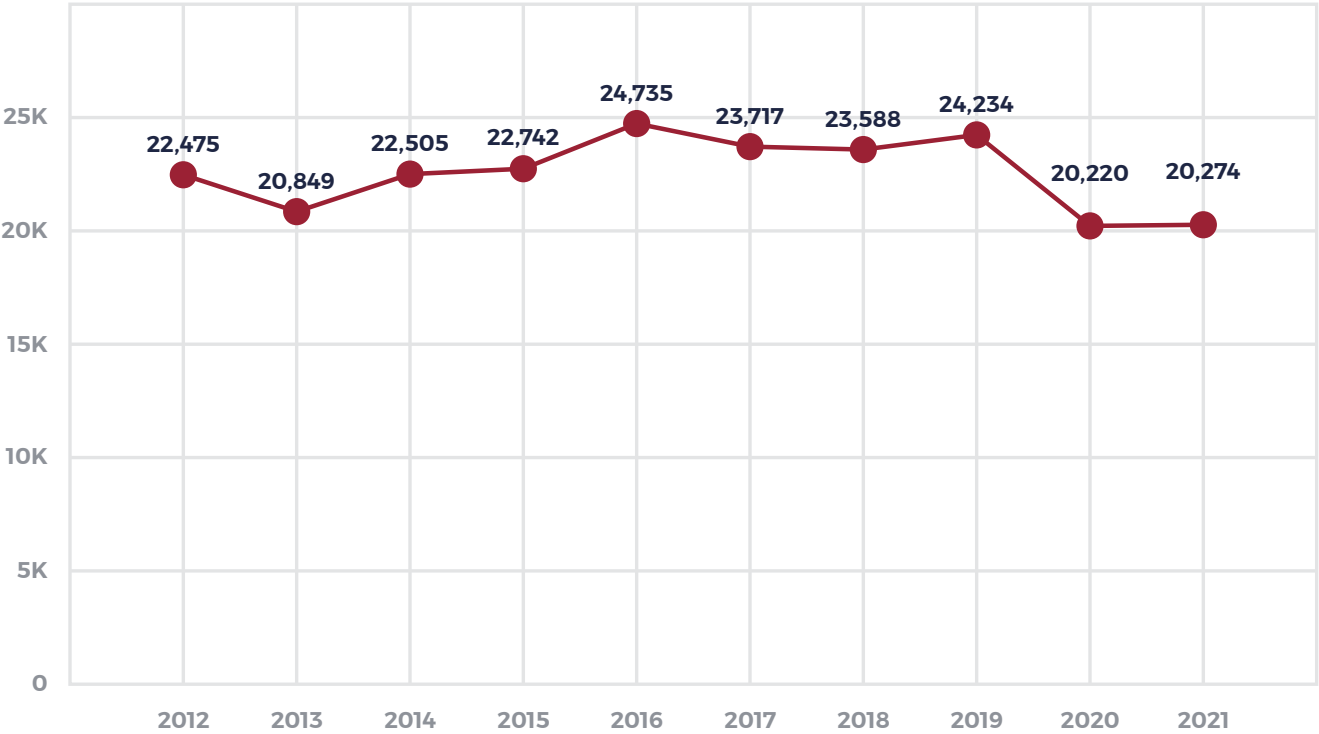
\*\*Mr. Bookman passed away in December 2020. Florida Lawyers Mutual remembers him and honors his years of passionate service.

\*\*\*Mr. Lytal retired from the Board of Directors in June 2021.

INSURED LAWYERS AND FIRMS

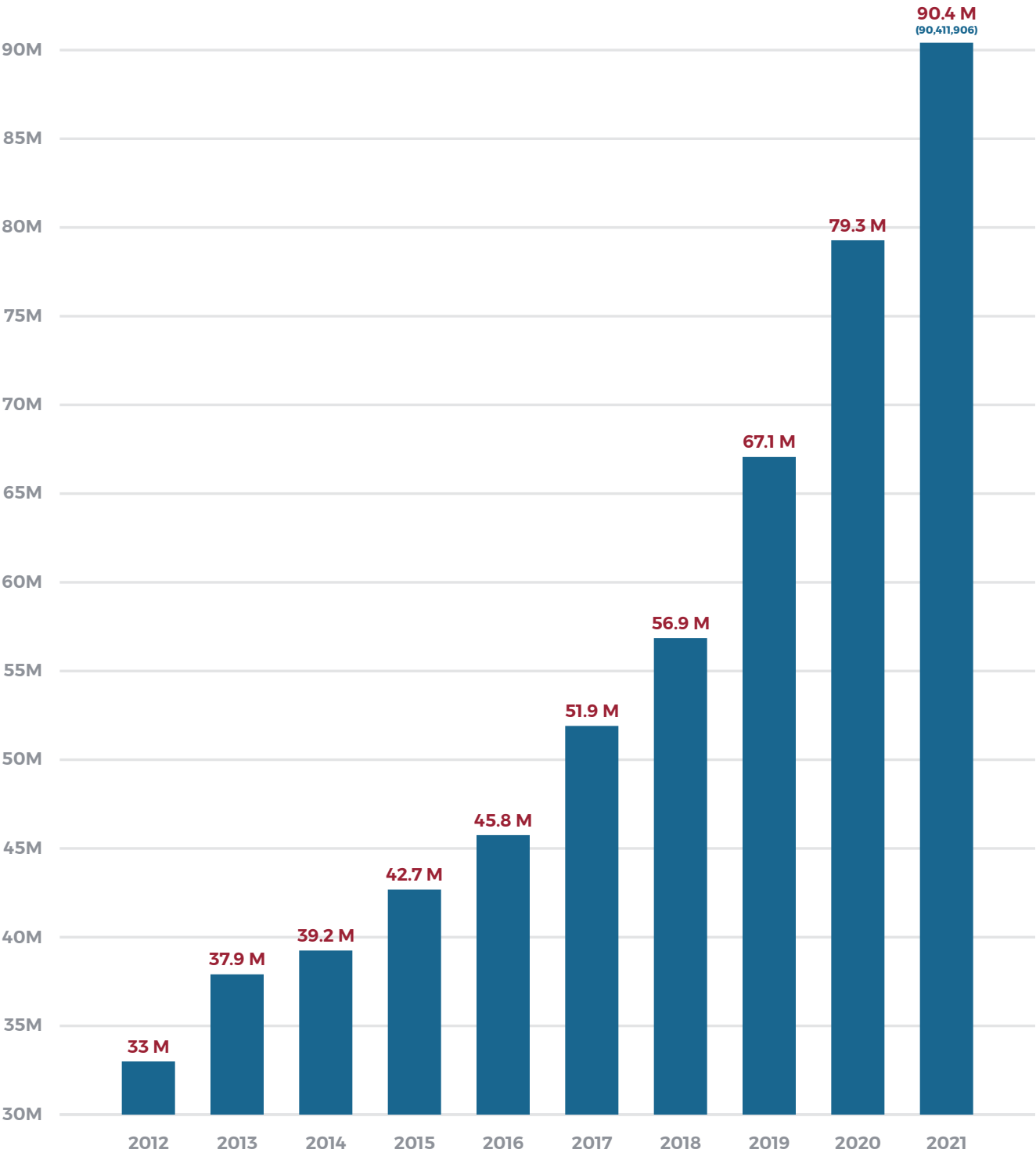


STATUTORY NET CLAIMS RESERVES

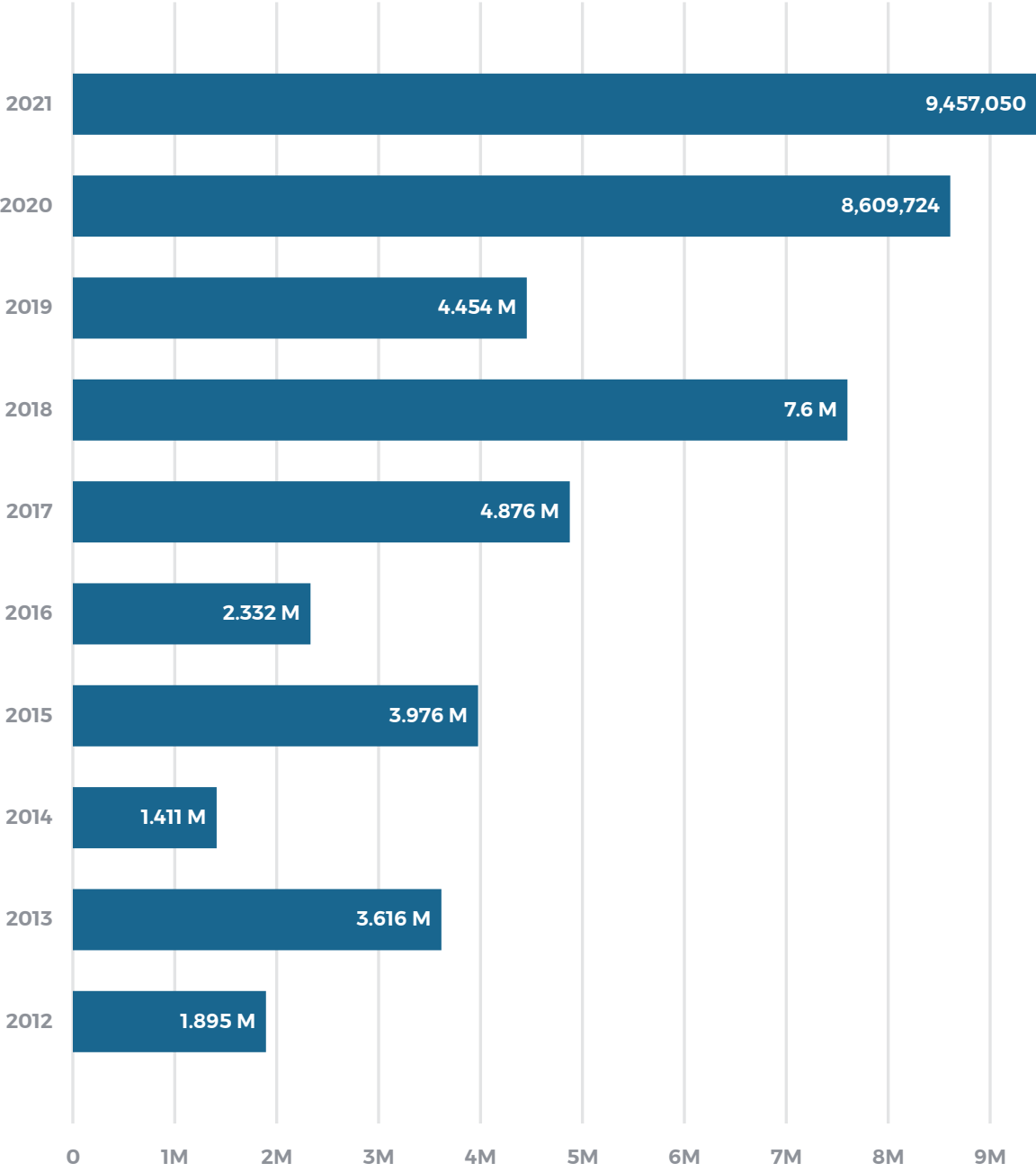




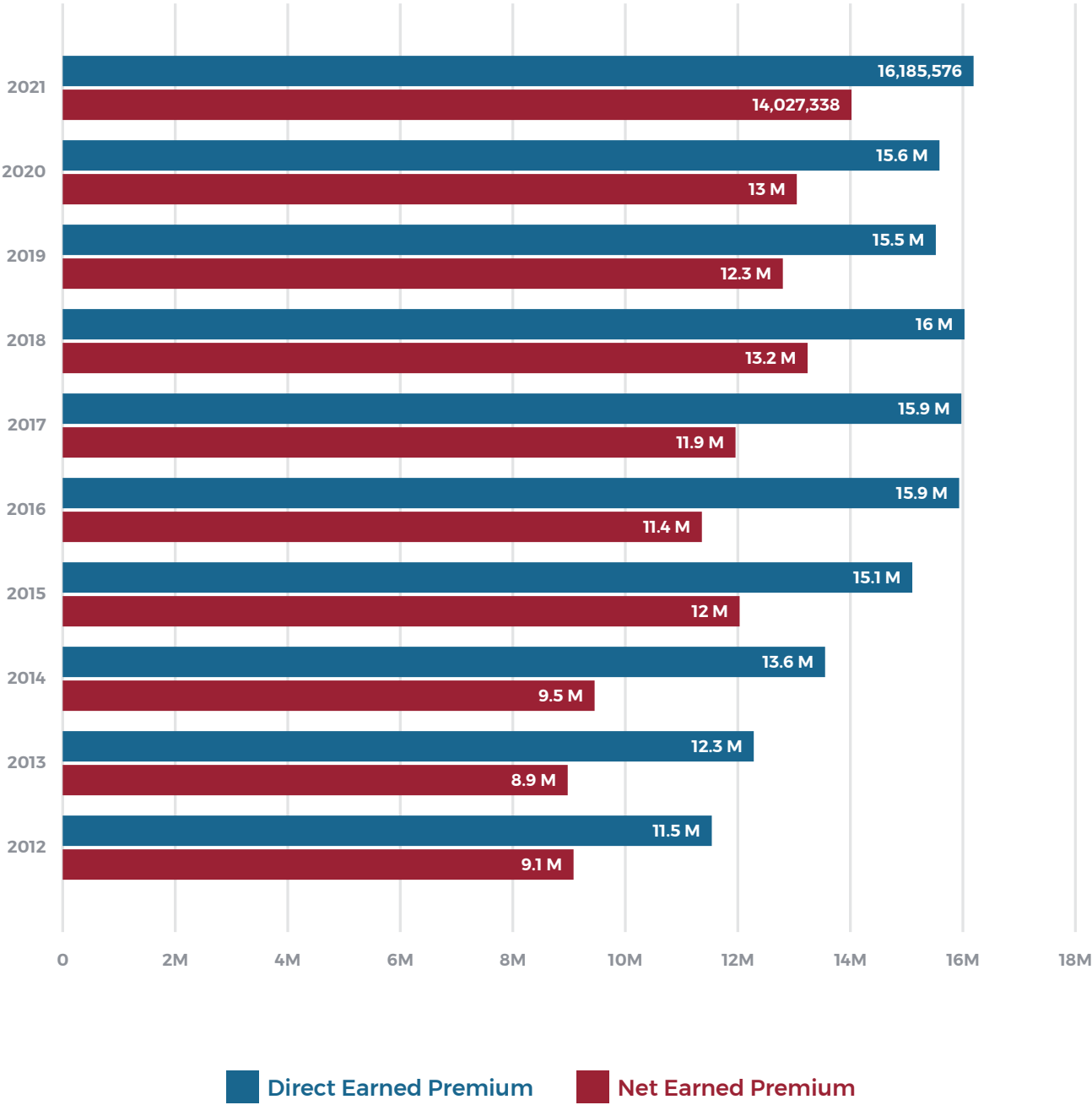
STATUTORY SURPLUS



STATUTORY NET INCOME



STATUTORY DIRECT EARNED PREMIUM  
AND NET EARNED PREMIUM







# 2021

## ***INDEPENDENT AUDITOR'S REPORT***

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY

STATUTORY FINANCIAL STATEMENTS

December 31, 2021 and 2020



Strohm Ballweg

CPAs • ADVISORS • CONSULTANTS

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
TABLE OF CONTENTS  
December 31, 2021 and 2020

---

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statutory balance sheets	4
Statutory statements of income	5
Statutory statements of changes in surplus	6
Statutory statements of cash flows	7
Notes to statutory financial statements	8

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Statutory Financial Statements

#### *Opinions*

We have audited the statutory financial statements of Florida Lawyers Mutual Insurance Company (the Company), which are comprised of the statutory balance sheets as of December 31, 2021 and 2020, 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.

#### *Unmodified Opinion on Regulatory Basis of Accounting*

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

#### *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 section of our report, the statutory financial statements 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, 2021 and 2020, or the results of its operations or its cash flows thereof for the years then ended.

#### *Basis for Opinions*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 statutory financial statements, the Company prepared these statutory financial statements using 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. The effects on the statutory financial statements of the variances between these statutory accounting practices 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 and pervasive.

### *Responsibilities of Management for the Statutory 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 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 statutory financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statutory financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the statutory financial statements are issued.

### *Auditor's Responsibilities for the Audit of the Statutory Financial Statements*

Our objectives are to obtain reasonable assurance about whether the statutory financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory financial statements.

- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Strohm Ballweg, LLP

Madison, Wisconsin  
February 21, 2022



FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
STATUTORY BALANCE SHEETS  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>ADMITTED ASSETS</b>		
Cash and invested assets:		
Bonds	\$ 60,361,863	\$ 56,906,557
Preferred stocks	461,109	-
Common stocks and mutual funds	50,395,935	41,915,491
Real estate, occupied by the Company	1,043,702	1,073,357
Cash, cash equivalents, and short-term investments	13,307,459	13,559,414
Other invested assets	<u>317,417</u>	<u>-</u>
Cash and invested assets	125,887,485	113,454,819
Uncollected premiums	1,487,549	1,453,566
Due from reinsurers	6	4,627
Investment income due and accrued	392,760	446,476
Federal income tax recoverable	-	197,213
State income tax recoverable	<u>50,748</u>	<u>70,336</u>
Total admitted assets	<u>\$ 127,818,548</u>	<u>\$ 115,627,037</u>
<b>LIABILITIES AND SURPLUS</b>		
Liabilities:		
Unpaid losses, net of reinsurance	\$ 11,191,006	\$ 10,291,886
Unpaid loss adjustment expenses (LAE), net of reinsurance	9,082,510	9,927,716
Unearned premiums, net of reinsurance	7,004,063	6,521,172
Premiums received in advance	1,352,778	1,188,868
Ceded reinsurance premiums payable	646,748	749,996
Due to reinsurers	5,104,750	5,228,285
Provision for reinsurance	-	51,420
Net deferred tax liability	2,398,598	2,046,152
Federal income tax payable	208,751	-
Other liabilities	<u>417,438</u>	<u>344,400</u>
Total liabilities	<u>37,406,642</u>	<u>36,349,895</u>
Surplus:		
Contributed surplus	299,235	299,235
Unassigned surplus	<u>90,112,671</u>	<u>78,977,907</u>
Total surplus	<u>90,411,906</u>	<u>79,277,142</u>
Total liabilities and surplus	<u>\$ 127,818,548</u>	<u>\$ 115,627,037</u>

See Notes to Statutory Financial Statements.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
STATUTORY STATEMENTS OF INCOME  
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
UNDERWRITING OPERATIONS		
Net premiums earned:		
Direct premiums earned	\$ 16,185,576	\$ 15,584,921
Reinsurance ceded	<u>(2,158,238)</u>	<u>(2,536,073)</u>
	<u>14,027,338</u>	<u>13,048,848</u>
Net losses incurred:		
Direct losses incurred	6,432,352	(4,605,316)
Reinsurance recoveries	<u>(2,618,400)</u>	<u>4,880,591</u>
	<u>3,813,952</u>	<u>275,275</u>
Operating expenses incurred:		
Direct LAE	2,554,251	(1,096,856)
Reinsurance recoveries on LAE	(992,361)	2,618,115
Direct underwriting expenses	<u>5,091,128</u>	<u>4,036,114</u>
	<u>6,653,018</u>	<u>5,557,373</u>
Net underwriting gain	<u>3,560,368</u>	<u>7,216,200</u>
INVESTMENT AND OTHER INCOME		
Investment income earned	1,812,928	1,896,367
Investment expenses	(542,886)	(458,491)
Net realized capital gains, net of tax	5,745,818	1,710,959
Other income (expense)	<u>(135,730)</u>	<u>36,979</u>
Investment and other income	<u>6,880,130</u>	<u>3,185,814</u>
Net income before federal income tax expense	10,440,498	10,402,014
Federal income tax expense	<u>983,448</u>	<u>1,792,290</u>
Net income	<u>\$ 9,457,050</u>	<u>\$ 8,609,724</u>

See Notes to Statutory Financial Statements.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
STATUTORY STATEMENTS OF CHANGES IN SURPLUS  
Years Ended December 31, 2021 and 2020

---

	<u>2021</u>	<u>2020</u>
Surplus, beginning of year	<u>\$ 79,277,142</u>	<u>\$ 67,064,105</u>
Net income	9,457,050	8,609,724
Change in net unrealized capital gains, net of tax	1,497,518	3,722,366
Change in nonadmitted assets	83,147	(39,379)
Change in net deferred income tax	45,629	(29,685)
Change in provision for reinsurance	51,420	(49,989)
Net change in surplus	<u>11,134,764</u>	<u>12,213,037</u>
Surplus, end of year	<u>\$ 90,411,906</u>	<u>\$ 79,277,142</u>

---

See Notes to Statutory Financial Statements.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
STATUTORY STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash from operations:		
Net premiums collected	\$ 14,413,370	\$ 13,419,109
Net investment income received	1,713,547	1,812,882
Other income	(135,730)	36,979
Net losses paid	(2,910,211)	(2,157,918)
Operating expenses paid	(7,319,515)	(6,883,725)
Federal income taxes paid	(2,104,853)	(2,063,967)
Net cash from operations	<u>3,656,608</u>	<u>4,163,360</u>
Cash from investments:		
Proceeds from investments sold, matured, or repaid:		
Bonds	17,971,104	25,660,686
Stocks and mutual funds	15,874,978	6,101,391
Miscellaneous proceeds	29,678	14,536
	<u>33,875,760</u>	<u>31,776,613</u>
Cost of investments acquired:		
Bonds	(20,998,250)	(27,669,676)
Stocks and mutual funds	(16,466,699)	(4,393,621)
Other invested assets	(319,374)	-
	<u>(37,784,323)</u>	<u>(32,063,297)</u>
Net cash from investments	<u>(3,908,563)</u>	<u>(286,684)</u>
Net change in cash, cash equivalents, and short-term investments	(251,955)	3,876,676
Cash, cash equivalents, and short-term investments:		
Beginning of year	<u>13,559,414</u>	<u>9,682,738</u>
End of year	<u>\$ 13,307,459</u>	<u>\$ 13,559,414</u>

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, except for redeemable preferred stocks, which are generally recorded at amortized cost, 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, 2021, \$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.

Redeemable preferred stocks are generally carried at amortized cost; however, redeemable preferred stocks with an NAIC designation of 3 or lower are carried at the lower of cost or fair value. Perpetual preferred stocks are generally carried at fair value, not to exceed any currently effective call price.

Surplus debentures are included in other invested assets and are valued at amortized cost; however, surplus debentures with an NAIC designation of 3 or lower are carried at the lower of amortized cost or fair value.

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

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.

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 \$940,954 and \$938,019 at December 31, 2021 and 2020, 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, 2021, 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 \$1,043,702 and \$1,073,357 is recorded as an admitted asset at cost less accumulated depreciation of \$339,308 and \$309,653 at December 31, 2021 and 2020, 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 2021 and 2020.

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 21, 2022, which is the date the financial statements were available to be issued.

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
December 31, 2021 and 2020

Note 2 ~ Investments

The cost and fair value of investments at December 31, 2021 and 2020, were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2021</u>				
Bonds (at amortized cost):				
U.S. government	\$ 874,125	\$ 37,674	\$ -	\$ 911,799
Other governments	457,336	189	(3,766)	453,759
States, territories, and possessions	24,471,341	639,637	(91,819)	25,019,159
Corporate securities	28,709,040	2,657,494	(176,191)	31,190,343
Loan-backed securities	5,626,959	34,739	(46,124)	5,615,574
Hybrid securities	223,062	3,618	(519)	226,161
Total bonds	<u>60,361,863</u>	<u>3,373,351</u>	<u>(318,419)</u>	<u>63,416,795</u>
Preferred stocks	466,748	1,984	(7,423)	461,309
Common stocks and mutual funds (admitted)	<u>35,225,066</u>	<u>15,511,943</u>	<u>(341,074)</u>	<u>50,395,935</u>
	<u>\$ 96,053,677</u>	<u>\$ 18,887,278</u>	<u>\$ (666,916)</u>	<u>\$ 114,274,039</u>
<u>2020</u>				
Bonds (at amortized cost):				
U.S. government	\$ 584,429	\$ 68,259	\$ -	\$ 652,688
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	4,151,062	82,263	(10,062)	4,223,263
Total bonds	<u>56,906,557</u>	<u>4,244,180</u>	<u>(35,964)</u>	<u>61,114,773</u>
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>

The cumulative unrealized loss of \$666,916 as of December 31, 2021, consisted of \$28,572 of unrealized losses in a loss position for greater than 12 months and \$638,344 of unrealized losses in a loss position for less than 12 months. 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.

Note 2 ~ Investments (Continued)

The amortized cost and fair value of bonds (including short-term bonds) at December 31, 2021, 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	\$ 5,453,330	\$ 5,604,718
Due after one year through five years	29,360,675	32,026,824
Due after five years through ten years	18,938,977	19,300,277
Due after ten years	<u>7,008,881</u>	<u>6,884,976</u>
	<u>\$ 60,761,863</u>	<u>\$ 63,816,795</u>

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

	2021	2020
Gains on disposals	\$ 7,566,262	\$ 2,986,550
Losses on disposals	<u>(293,075)</u>	<u>(820,780)</u>
	7,273,187	2,165,770
Tax expense	<u>(1,527,369)</u>	<u>(454,811)</u>
Net realized capital gains	<u>\$ 5,745,818</u>	<u>\$ 1,710,959</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, 2021 and 2020.

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 and short-term investments: Comprised of actively traded U.S. Treasury notes and highly liquid debt instruments purchased with a remaining maturity of 1 year or less. Valuation is based on unadjusted quoted prices for identical assets in active markets that are accessible to the Company at the measurement date.

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.

Preferred stocks: Valuation is provided by a leading, nationally recognized provider of financial market data and analytics to price the Company's preferred stock holdings.

Other invested assets: Comprised of investments in surplus debentures and valuation is based on inputs including quoted prices for similar assets in inactive markets.

Financial Instruments Reported at Fair Value in the Statutory Balance Sheets. The following summarizes the assets measured at fair value as of December 31, 2021 and 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2021</u>				
Common stocks and mutual funds	\$ 50,395,935	\$ -	\$ -	\$ 50,395,935
Preferred stocks	-	446,012	-	446,012
	<u>\$ 50,395,935</u>	<u>\$ 446,012</u>	<u>\$ -</u>	<u>\$ 50,841,947</u>
<u>December 31, 2020</u>				
Common stocks and mutual funds	<u>\$ 41,915,491</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,915,491</u>

The Company does not have any liabilities measured at fair value at December 31, 2021 and 2020.



FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
December 31, 2021 and 2020

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, 2021 and 2020:

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
<u>December 31, 2021</u>					
Bonds	\$ 63,416,795	\$ 60,361,863	\$ 911,799	\$ 62,504,996	\$ -
Preferred stocks	461,309	461,109	-	461,309	-
Common stocks and mutual funds	50,395,935	50,395,935	50,395,935	-	-
Cash equivalents	3,724,140	3,724,140	3,724,140	-	-
Short-term investments	400,000	400,000	400,000	-	-
Other invested assets	315,615	317,417	-	315,615	-
	<u>\$ 118,713,794</u>	<u>\$ 115,660,464</u>	<u>\$ 55,431,874</u>	<u>\$ 63,281,920</u>	<u>\$ -</u>
<u>December 31, 2020</u>					
Bonds	\$ 62,114,711	\$ 57,906,495	\$ 1,652,625	\$ 60,462,086	\$ -
Common stocks and mutual funds	41,915,491	41,915,491	41,915,491	-	-
Cash equivalents	1,900,566	1,900,566	1,900,566	-	-
	<u>\$ 105,930,768</u>	<u>\$ 101,722,552</u>	<u>\$ 45,468,682</u>	<u>\$ 60,462,086</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, 2021 and 2020, is summarized as follows (000's omitted):

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 25,650	\$ 39,237
Less reinsurance recoverable	<u>5,430</u>	<u>15,003</u>
Net balance at January 1	<u>20,220</u>	<u>24,234</u>
Incurred related to:		
Current year	9,821	7,745
Prior years	<u>(4,445)</u>	<u>(5,948)</u>
Total incurred	<u>5,376</u>	<u>1,797</u>
Paid related to:		
Current year	1,869	1,178
Prior years	<u>3,453</u>	<u>4,633</u>
Total paid	<u>5,322</u>	<u>5,811</u>
Net balance at December 31	20,274	20,220
Plus reinsurance recoverable	<u>7,944</u>	<u>5,430</u>
Balance, end of year	<u>\$ 28,218</u>	<u>\$ 25,650</u>

As a result of changes in estimates of insured events in prior years, net loss and loss adjustment expenses incurred were decreased in 2021 and 2020 by approximately \$4,445,000 and \$5,948,000, 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
July 1, 2020 – June 30, 2021	\$500,000 plus 20 percent of next \$4,500,000
After July 1, 2021	\$500,000 plus 25 percent of next \$4,500,000

Note 4 ~ Reinsurance (Continued)

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>2021</u>	<u>2020</u>
Due from reinsurers	\$ -	\$ 5
Unpaid losses	5,040	3,271
Unpaid LAE	2,904	2,159
Unearned premiums	<u>1,176</u>	<u>1,191</u>
	<u>\$ 9,120</u>	<u>\$ 6,626</u>

At December 31, 2021, the Company had no unsecured aggregate recoverables for losses, loss adjustment expenses, and unearned premiums from individual reinsurers which exceed 3 percent of surplus.

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, 2021 and 2020, due to the following:

	<u>2021</u>	<u>2020</u>
Computed expected federal income tax	\$ 2,513,252	\$ 2,279,933
Increase (decrease) in taxes resulting from:		
Discounting of unpaid losses and LAE	13,246	(54,274)
Unearned and advance premium adjustment	27,166	13,341
Tax-exempt interest	(10,214)	(14,192)
Dividends received deduction	(39,912)	(31,844)
Other – net	<u>7,279</u>	<u>54,137</u>
Federal income tax expense	<u>\$ 2,510,817</u>	<u>\$ 2,247,101</u>

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
December 31, 2021 and 2020

Note 5 ~ Income Taxes (Continued)

The components of the net deferred tax asset (liability) at December 31, 2021 and 2020, were as follows:

	Ordinary	Capital	Total
<u>2021</u>			
Gross deferred tax assets	\$ 918,083	\$ 779	\$ 918,862
Statutory valuation allowance	-	-	-
	<u>918,083</u>	<u>779</u>	<u>918,862</u>
Deferred tax asset nonadmitted	-	-	-
	<u>918,083</u>	<u>779</u>	<u>918,862</u>
Deferred tax liability	<u>(82,399)</u>	<u>(3,235,061)</u>	<u>(3,317,460)</u>
	<u>\$ 835,684</u>	<u>\$ (3,234,282)</u>	<u>\$ (2,398,598)</u>
<u>2020</u>			
Gross deferred tax assets	\$ 893,053	\$ -	\$ 893,053
Statutory valuation allowance	-	-	-
	<u>893,053</u>	<u>-</u>	<u>893,053</u>
Deferred tax asset nonadmitted	-	-	-
	<u>893,053</u>	<u>-</u>	<u>893,053</u>
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>

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
December 31, 2021 and 2020

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>
<u>2021</u>			
11a. Ability to recover taxes paid in prior years	\$ 565,246	\$ -	\$ 565,246
11b. Expected to be realized, after application of threshold limitations	-	-	-
11c. Offset of deferred tax liabilities	<u>352,837</u>	<u>779</u>	<u>353,616</u>
	<u>\$ 918,083</u>	<u>\$ 779</u>	<u>\$ 918,862</u>
<u>2020</u>			
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>
		<u>2021</u>	<u>2020</u>
Ratio Used to Determine Recovery Period and Threshold Limitation amount under paragraph 11b		1,398%	1,229%
Amount of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation under paragraph 11b		\$ 90,411,906	\$ 79,277,142

FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
December 31, 2021 and 2020

Note 5 ~ Income Taxes (Continued)

The major components of current income taxes incurred and net deferred tax assets (liabilities) as of December 31, 2021 and 2020, were as follows:

	2021	2020	Change
Current income tax:			
Federal	\$ 983,448	\$ 1,792,290	\$ (808,842)
Federal income tax on net capital gains	1,527,369	454,811	1,072,558
Federal and foreign income taxes incurred	<u>2,510,817</u>	<u>2,247,101</u>	<u>263,716</u>
Deferred tax assets:			
Unpaid loss and LAE	347,559	354,913	(7,354)
Unearned and advance premiums	350,987	323,822	27,165
Net unrealized capital losses	779	-	779
Nonadmitted assets	198,650	198,034	616
Other	20,887	16,284	4,603
Total deferred tax assets	<u>918,862</u>	<u>893,053</u>	<u>25,809</u>
Nonadmitted deferred tax assets	-	-	-
Total admitted deferred tax assets	<u>918,862</u>	<u>893,053</u>	<u>25,809</u>
Deferred tax liabilities:			
Unpaid loss and LAE	(82,399)	(102,997)	20,598
Net unrealized capital gains	(3,235,061)	(2,836,208)	(398,853)
Total deferred tax liabilities	<u>(3,317,460)</u>	<u>(2,939,205)</u>	<u>(378,255)</u>
Net deferred tax asset (liability)	<u>\$ (2,398,598)</u>	<u>\$ (2,046,152)</u>	<u>\$ (352,446)</u>

As of December 31, 2021, 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 \$2,508,749 and \$2,204,853, respectively.

The Company also pays Florida income and franchise taxes at a rate of 3.54 percent and 4.5 percent of Florida taxable income for the years ended December 31, 2021 and 2020, respectively. Included in direct underwriting expenses incurred is \$437,746 and \$388,830 of Florida state income and franchise taxes for the years ended December 31, 2021 and 2020, 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 \$62,031 for 2021 and \$58,585 for 2020.

Note 7 ~ 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, 2021, 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:

	<u>2021</u>	<u>2020</u>
Net unrealized capital gains	\$ 15,401,344	\$ 13,505,752
Nonadmitted assets	(1,119,623)	(1,202,770)
Provision for reinsurance	-	(51,420)



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

**I N S U R A N C E   C O M P A N Y**

 LAWYERS PROFESSIONAL LIABILITY INSURANCE **CREATED BY THE FLORIDA BAR** 