

**1<sup>ST</sup> Atlantic Surety Company**

Raleigh, North Carolina

**Report on Examination**

As of December 31, 2017

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May 28, 2019

Honorable Mike Causey  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

**1<sup>ST</sup> Atlantic Surety Company**

(hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 333 Fayetteville Street, Suite 1500, Raleigh, North Carolina 27601. The following report on examination is respectfully submitted.

**SCOPE OF THE EXAMINATION**

This examination covers the period from January 1, 2014, to December 31, 2017, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2013.

This examination was performed using the Department’s modified risk-focused examination approach. The primary purpose of a modified risk-focused examination is to review and evaluate an insurer’s business processes to assist in assessing and monitoring its current financial condition and prospective solvency. As part of this process, the examination identifies and evaluates significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the modified risk-focused examination process. The key functional activities identified are Cash and Investments, Premiums and Underwriting, Losses and Reserves, Capital Management, Related Party and Reinsurance. The examination process includes assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with GS Chapter 58 and evaluating management’s compliance with Statements of Statutory Accounting Principles (“SSAP”). This examination does not attest to the fair presentation of the financial statements included herein. If during

the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to the Company.

The Company's Annual Statements, workpapers, and the independent audit workpapers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Carr, Riggs & Ingram, LLC of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2017.

## SUMMARY OF SIGNIFICANT FINDINGS

1. The Company had several affiliated agreements that should have been filed with the Department for review and approval at least 30 days before the transactions occurred. Examiners discovered that the Company executed and operated under the following agreements without the Department's approval: 1) Management Services Agreement with 1<sup>st</sup> Atlantic Advisors, LLC, effective July 30, 2013; 2) General Agency Agreement with 1<sup>st</sup> Atlantic Surety Services, Inc., effective April 1, 2017; 3) Consulting Contract with JHI, Inc., effective September 1, 2013; 4) Producer Agreement with C.L. Collins Bonding, effective July 23, 2015; and 5) Executing Agent Agreement with ACE Bail Bonding, effective August 1, 2013. The Company is directed to submit all active affiliated agreements to the Department for review and approval and to comply with GS § 58-19-30(b)4 and GS § 58-34-10 by submitting all related party agreements and management contracts to the Department for prior approval.
2. Conflict of interest forms were not executed annually by all officers and directors of the Company for the years 2014, 2015 and 2017. The Company is directed to execute conflict of interest forms annually pursuant to North Carolina Administrative Code Title 11 Chapter 11C.0117.
3. The Company has a consulting contract with JHI, Inc., which is owned by a director and transacts business with bail bond agencies. Under the consulting contract terms with JHI, Inc., the Company made commission payments based on 10% of the premiums generated by bail bond agents secured and appointed with the Company as a result of the director's efforts to promote the insurance services of the Company. This is a violation of GS § 58-7-140, which states "No officer or other person whose duty it is to determine the character of the risk, and upon whose decision the application shall be accepted or rejected by an insurance company, shall receive as any part of his compensation a commission upon the premiums, but his compensation shall be a fixed salary and

such share in the net profits as the directors may determine.” The Company is directed to comply with GS § 58-7-140.

4. The Company improperly omitted information in Note 10(d) of its 2017 Notes to Financial Statements by not disclosing multiple related party transactions. The Company is directed to ensure accurate financial disclosures in future filings with the Department, pursuant to the NAIC Annual Statement (“AS”) Instructions and GS § 58-2-165(c).
5. The Company did not properly report assets as nonadmitted at December 31, 2017, pursuant to the AS Instructions. The Company incorrectly reported a net receivable from its affiliate of \$80,799 on its 2017 AS Assets page and should have reported a gross receivable amount totaling \$112,667, with the \$29,077 over ninety days past due nonadmitted. The Company is directed to provide accurate financial reporting in future filings with the Department, pursuant to the NAIC AS Instructions and GS § 58-2-165(c).
6. The Company repurchased and retired 187,060 shares of preferred stock, issued 1,870,600 of Series B common stock, and then repurchased 247,500 of Series B common stock in 2017. The Company did not seek prior approval from the Department for this transaction, which is a violation of GS § 58-7-130. Any future distributions require prior Department approval and requests for such distributions must comply with GS § 58-19-25(d) and GS § 58-19-30(c) as outlined in GS § 58-7-130(e).
7. The Company contributed \$30,110 in the form of real estate to Capital Diamond Group, LLC on March 13, 2017. The Company was unaware that this transaction converted the Company to a holding company, requiring the Company to register with the Department for forming a holding company as part of GS § 58-19-25 (b). The Company is directed to comply with GS § 58-19-25 (b) in future filings.
8. Various reporting errors were noted in the Company’s 2017 AS, including but not limited to, incorrectly reporting a real estate property in Schedule BA, which should have been reported on Schedule A, and incorrectly reporting Build-Up-Fund (“BUF”) accounts as cash, which should have been reported as other than invested assets. No adjustments were made as there is no impact to the Company’s surplus and net income. The Company is directed to ensure that all amounts and footnotes reported are correct pursuant to GS § 58-2-165(c) in future filings.
9. The Company did not maintain any fidelity bond coverage from January 1, 2014, through December 31, 2017. The NAIC Financial Condition Examiners Handbook’s recommended minimum range for the Company’s fidelity bond coverage is \$75,000 to \$100,000. We recommend that the Company maintain fidelity bond coverage for no less than the minimum recommended by the NAIC.
10. The Company did not provide notice to the Department of guaranteed loans obtained by its subsidiaries, Capital Atlantic Group, LLC and Capital Diamond Group, LLC in 2017, that exceeded one-half percent of admitted assets or ten percent of the Company’s surplus as of the preceding December 31. The Company is directed to ensure that all future guarantees are submitted to the Department for approval pursuant to GS § 58-19-30 (b)(5).

## COMPANY HISTORY

The Company was incorporated on April 19, 2013 and became licensed to write bail bonds by the state of North Carolina on August 1, 2013. The Company is a property and casualty insurance company which commenced business on September 14, 2013. The purpose of the Company is to engage in fidelity and surety insurance business as authorized and defined by GS § 58-7-15 (16) and the duration of the Company shall be perpetual.

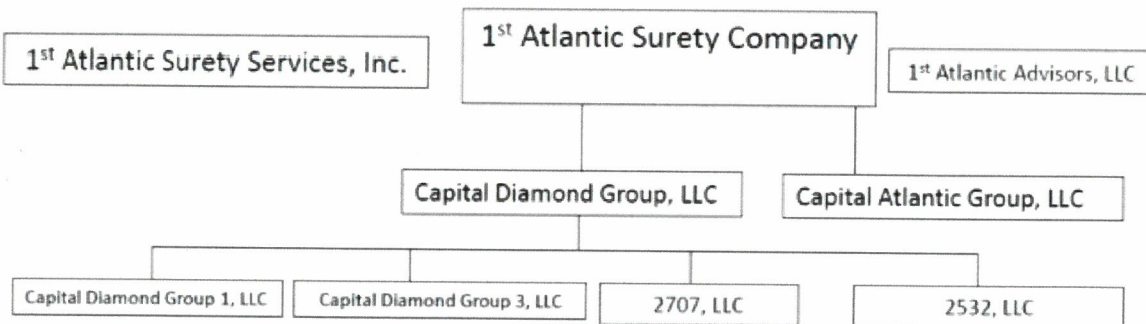
## CORPORATE ORGANIZATION

The Company is an insurance holding company as defined in GS § 58-19. The Company has two subsidiary limited liability companies (“LLCs”): Capital Atlantic Group, LLC and Capital Diamond Group, LLC. The Company’s subsidiary, Capital Diamond Group LLC, owns four LLCs: Capital Diamond Group 1, LLC; Capital Diamond Group 3, LLC; 2707, LLC; and 2532, LLC. In addition, the Company has two affiliated entities, 1st Atlantic Advisors, LLC and 1st Atlantic Surety Services, Inc, due to common ownership.

The Company contributed \$411,878 in the form of cash to Capital Atlantic Group, LLC on November 30, 2017, and \$30,110 in the form of real estate to Capital Diamond Group, LLC on March 13, 2017.

## ORGANIZATIONAL CHART

The following is an organizational chart of the Company, its subsidiaries and other affiliated companies as of December 31, 2017:



Ownership flows from top to bottom so a connected box above owns the connected entity below

## CAPITAL STOCK

At December 31, 2013, the Company had 100,000 shares of Class A \$1 par value common stock outstanding and 250,000 shares of \$10 par value preferred stock outstanding. In 2014, the Company began purchasing back and retiring its preferred stock, issuing common stock equal to the amount of the retired preferred stock, and subsequently purchasing common shares to service the debt of the initial \$2.5 million loan acquired by 1<sup>st</sup> Atlantic Advisors, LLC, an affiliated entity.

The Company purchased back and retired 20,000 shares of Class A common stock and 2,100 shares of preferred stock in 2014. In 2015, the Company purchased back and retired 10,000 shares of Class A common stock and 26,450 shares of preferred stock. In 2016, the Company purchased back and retired 34,390 shares of \$10 par value preferred stock and issued 7,500 shares of Class A common stock leaving 187,060 shares of preferred stock and 77,500 shares of Class A common stock outstanding at December 31, 2016.

In 2017, the Company purchased back and retired the remaining 187,060 shares of preferred stock, issued 807,800 shares of \$2 par value Class B nonvoting common stock and increased the number of Class A common stock issued by 7,500 shares.

As of December 31, 2017, capitalization of the Company consisted of the following:

<b>Class A Common Stock</b>	<b>Value</b>
Number of authorized shares	100,000
Number of shares issued and outstanding	85,000
Total common capital stock	\$85,000
Par value per share	\$1.00

<b>Class B Common Stock</b>	<b>Value</b>
Number of authorized common capital shares	900,000
Number of shares issued and outstanding	807,800
Total common capital stock	\$1,615,600
Par value per share	\$2.00

The Company has no preferred stock outstanding at December 31, 2017.

## SHAREHOLDERS AND VOTING RIGHTS

At December 31, 2017, the shareholders of the Company and their respective voting right percentages were as follows:

<b>Name</b>	<b>Number of Shares (Class A)</b>	<b>Voting Right</b>
Derrick Harrington	27,500	32.40%
Shannon Collins	20,000	23.50%
Andrew White	27,500	32.40%
The Eastern Trust	10,000	11.80%

<b>Name</b>	<b>Number of Shares (Class B)</b>	<b>Voting Right</b>
Derrick Harrington	403,900	0%
Andrew White	403,900	0%

### **1st Atlantic Surety Services, LLC**

At December 31, 2017, the shareholders of 1st Atlantic Surety Services, Inc. and their respective voting right percentages were as follows:

<b>Name</b>	<b>Number of Shares</b>	<b>Voting Right</b>
Andrew White	30 shares	30%
Gerald Spence	30 shares	30%
Derrick Harrington	40 shares	40%

### **1st Atlantic Advisors, LLC**

At December 31, 2017, the shareholders of 1st Atlantic Advisors, LLC and their respective voting right percentages were as follows:

<b>Name</b>	<b>Voting Right</b>
Andrew White	50% voting ownership
Derrick Harrington	50% voting ownership



# MANAGEMENT AND CONTROL

## CORPORATE GOVERNANCE

### Shareholders

The Company's bylaws provide that an annual meeting of the shareholders be held at such time and place as the Board of the Directors ("Board") may appoint. Special meetings of the shareholders may be called at any time by the chairman of the Board, the president, the Board pursuant to a resolution adopted by a majority of the total number of authorized directors, or by the holders of shares entitled to cast not less than 10% of the votes at the meeting, and shall be held at such place, on such date, and at such time as the Board shall fix.

### Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be no less than five and no more than twelve. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the shareholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2017:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Derrick D. Harrington	Raleigh, NC	President and Owner of ACE Bail Bonding
Andrew B. White	Raleigh, NC	Chief Financial Officer/Treasurer
Antwan J. Thornton	Raleigh, NC	Chief Legal Officer
Kevin L. Rudolph	Raleigh, NC	Business Development, Ambtra, Inc.
Gerald A. Spence	Raleigh, NC	Director and Owner of JHI, Inc.

As of December 31, 2017, directors served on committees established by the Board as follows:

#### Audit Committee

Andrew B. White, Chair  
Derrick D. Harrington  
Gerald A. Spence  
Antwan J. Thornton

#### Investment Committee

Andrew B. White, Chair  
Derrick D. Harrington  
Kevin L. Rudolph  
Gerald A. Spence

## **Officers**

The Board, at its annual meeting, elects these officers: Chief Executive Officer, the President, one or more Vice Presidents, the Secretary, the Chief Financial Officer, the Treasurer and the Controller. The following individuals served as officers of the Company as of December 31, 2017:

<b>Name</b>	<b>Title</b>
Derrick D. Harrington	President
Andrew B. White	Chief Financial Officer/Treasurer
Antwan J. Thornton	Chief Legal Officer

## **CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Company does not have a Code of Conduct policy. The Company's Conflict of Interest Policy requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company was not in compliance with its policy and procedures for disclosure of conflicts of interest. (Refer to the Summary of Significant Findings.)

## **CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events and that the directors approved these transactions and events.

The Company's Articles of Incorporation ("Articles") and bylaws were reviewed for any changes during the period under examination. On April 11, 2017, the Company's Board approved an amendment to replace paragraph 7 of the Articles in its entirety to change the 1,000,000 shares of authorized of common stock to 100,000 shares of Class A voting common stock and 900,000 shares of Class B nonvoting common stock. The Company is authorized to issue 4,000,000 shares of capital stock, 3,000,000 of which are designated as Preferred Stock. The total number of authorized shares of capital stock and the preferred stock did not change with the amendment.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company did not have any fidelity bond coverage for the period under examination. (Refer to the Summary of Significant Findings)

## **RELATED PARTY AGREEMENTS**

### Management Agreement

The Company had a management services agreement with 1st Atlantic Advisors, LLC, an affiliated entity with common interest and management. 1st Atlantic Advisors, LLC provided operations management, financial management advice, compliance management and marketing advice. The agreement was effective on July 30, 2013 and was terminated on April 1, 2017. Under this agreement, the Company paid management fees totaling \$63,000 and \$209,000 for 2017 and 2016, respectively.

### General Agency Agreement

The Company has an exclusive general agency agreement, effective April 1, 2017, with 1st Atlantic Surety Services, Inc., an affiliated entity with common interest and management. 1st Atlantic Surety Services, Inc. provides applications, issues and delivers bail bonds on behalf of the Company, secures bail bond collateral, maintains and delivers documents, records and reports related to the bail bond business as required by law, and makes documents available for inspection by the Company. 1<sup>st</sup> Atlantic Surety Services, Inc. retains a portion of the premiums written by bail bond agents based on the terms specified in producer agreements with each agent. This general agency agreement provides that 1<sup>st</sup> Atlantic Surety Services, Inc. remit to the Company 0.25% of every \$1,000 retained by 1<sup>st</sup> Atlantic Surety Services, Inc.

### Consulting Contract

The Company has a consulting contract with JHI, Inc., which is owned by Gerald Spence, a director on the Company's Board. JHI, Inc. promotes the insurance services of the Company to bail bond agents. The Company pays JHI, Inc. a monthly consulting fee based on the premiums generated by the bail bond agents secured and appointed with the Company as a result of the director's efforts. The contract became effective September 1, 2013. Under this contract, the Company paid commissions totaling \$26,457 and \$95,801 in 2017 and 2016, respectively.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in North Carolina and does not write business in any other state. The Company provides surety coverage in the form of bail bonds utilizing its general agency relationship with 1<sup>st</sup> Atlantic Surety Services, Inc., agencies owned by its own officers and directors, and a network of independent licensed bail bond agents.

## TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended December 31, 2017:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2017	\$4,094,995	\$2,380,429	\$829,586	\$1,163,969	\$659,618
2016	\$4,046,893	\$2,067,054	\$1,323,467	\$1,313,629	\$136,373
2015	\$3,701,653	\$2,281,874	\$1,147,527	\$1,058,341	\$(43,131)
2014	\$3,231,571	\$2,493,530	\$761,873	\$576,128	\$88,446
2013	\$2,652,850	\$2,494,762	\$61,936	\$12,322	(\$152,953)

## ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2017 were reviewed and certified by the Company's Appointed Actuary, Ben Silberstein, ACAS, FCAS, MAAA of AJA Risk Management Consultants, Inc. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the Company's reserve on the loss and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Company.

## REINSURANCE PROGRAM OVERVIEW

The Company does not have any reinsurance contracts. The Company minimizes its losses by using BUF accounts. A BUF account is a reserve account where a deposit is made by a bail bond agent based on a contract with the Company. The funds are held in trust for the bail bond agent by the Company in a separate account in a financial institution. While the Company holds the BUF account in trust, the funds in the account are the individual bail bond agent's funds. The Company may use funds held in the BUF account to pay legal fees incurred to recover defendants, forfeiture notices and other recovery expenses.

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2017. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2016, are unexamined and are presented for comparative purposes only.

**1<sup>ST</sup> Atlantic Surety Company**  
**Statutory Statement of Admitted Assets**  
**December 31, 2017**

	<b>2017</b>	<b>2016</b> <i>(unexamined)</i>
Common stocks	\$30,544	\$0
Real estate properties held for production of income	-	29,009
Cash and cash equivalents	3,558,694	3,953,548
Other invested assets	410,729	-
<b>Total cash and invested assets</b>	<b>3,999,967</b>	<b>3,982,557</b>
Investment income due and accrued	1,234	2,172
Current federal income tax recoverable	2,027	-
Net deferred tax asset	-	35,299
Receivables for parent, subsidiaries and affiliates	80,799	-
Premium tax recoverable	10,968	26,865
<b>Total admitted assets</b>	<b>\$4,094,995</b>	<b>\$4,046,893</b>

**1<sup>ST</sup> Atlantic Surety Company**  
**Statutory Statement of Liabilities, Surplus and Other Funds**  
**December 31, 2017**

	<b>2017</b>	<b>2016</b> <i>(unexamined)</i>
Losses	\$180,616	\$149,360
Other expenses	4,141	68,556
Current federal income tax	-	52,275
Unearned premiums	-	334,383
Advance premium	1,685	150,000
Amounts withheld or retained by Company for account of others	1,527,474	1,224,615
Deposit payable	650	650
<b>Total Liabilities</b>	<b>1,714,566</b>	<b>1,979,839</b>
Common stock	1,700,600	77,500
Unassigned funds	679,829	118,954
<b>Total Surplus</b>	<b>2,380,429</b>	<b>2,067,054</b>
<b>Total Liabilities and Surplus</b>	<b>\$4,094,995</b>	<b>\$4,046,893</b>

**1<sup>ST</sup> Atlantic Surety Company**  
**Statutory Statement of Operations**  
**December 31, 2017**

	2017	2016 <i>(unexamined)</i>
<b>Underwriting Income</b>		
Premiums earned	\$1,163,969	\$1,313,629
<b>Deductions</b>		
Losses incurred	95,641	62,087
Other underwriting expenses incurred	417,834	1,034,645
Total underwriting deductions	513,475	1,096,732
Net underwriting gain	650,494	216,897
<b>Investment Income</b>		
Net investment income earned	9,760	835
Net realized capital gains	62	-
Net investment gain	9,822	835
Federal income taxes incurred	698	81,359
<b>Net Income</b>	<b>\$659,618</b>	<b>\$136,373</b>



**1<sup>ST</sup> Atlantic Surety Company**  
**Statutory Statement of Capital and Surplus**  
**December 31, 2017**

	<b>2017</b>	<b>2016</b> <i>(unexamined)</i>
Surplus, beginning of year	\$2,067,054	\$2,281,876
Surplus increases (decreases):		
Net income	659,618	136,373
Change in net unrealized capital (losses)	(10,705)	-
Change in net deferred income tax	(46,699)	12,442
Change in non-admitted assets	(41,339)	(27,237)
Capital changes paid-in	(247,500)	(336,400)
Change in surplus as regards policyholders for the year	313,375	(214,822)
<b>Surplus, end of year</b>	<b>\$2,380,429</b>	<b>\$2,067,054</b>

**1<sup>st</sup> Atlantic Surety Company**  
**Statutory Statement of Cash Flow**  
**December 31, 2017**

	<b>2017</b>	<b>2016</b> <i>(unexamined)</i>
<b>Cash From (Used By) Operations</b>		
Premiums collected net of reinsurance	\$686,006	\$1,393,732
Net investment income	11,103	164
<b>Total</b>	<b>697,109</b>	<b>1,393,896</b>
Benefit and loss related payments	(64,385)	(54,717)
Commissions, expenses paid and aggregate write-ins	(482,249)	(986,103)
Federal income taxes paid	(55,000)	(57,105)
<b>Total</b>	<b>(601,634)</b>	<b>(1,097,925)</b>
<b>Net cash from (used by) operations</b>	<b>95,475</b>	<b>295,971</b>
<b>Cash From (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	32,153	1,580
Cost of investments acquired	(487,504)	(30,588)
<b>Net cash from (used by) investments</b>	<b>(455,351)</b>	<b>(29,008)</b>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Capital and paid in surplus, less treasury stock	(247,500)	(336,400)
Other cash provided	212,522	353,085
<b>Net cash from (used by) financing and miscellaneous sources</b>	<b>(34,978)</b>	<b>16,685</b>
<b>Reconciliation of Cash and Cash Equivalents</b>		
Net change in cash and cash equivalents	(394,854)	283,648
Cash and cash equivalents, beginning of year	3,953,548	3,669,900
<b>Cash and cash equivalents, end of year</b>	<b>\$3,558,694</b>	<b>\$3,953,548</b>

## COMMENTS ON FINANCIAL STATEMENTS

### Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

**Common stocks:** Carried at fair value except for investments in stock of subsidiaries, which are carried at a value determined under the equity method.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

**Premiums:** Premium written is reflected net of commissions retained by agents. Bail bond policies do not have an official expiration date; as such, direct written premium is earned at the date the policy is issued and the bond is effective. Expenses incurred in connection with acquiring new business, including acquisition costs, are charged to operations as incurred.

**Unpaid loss & loss adjustment expense:** Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported.

### Analysis of Assets:

The following represents an analysis of the Company's net admitted assets at December 31, 2017:

	Assets	Assets Nonadmitted	Net Admitted Assets
Common stocks	\$30,544		\$30,544
Cash and cash equivalents	3,558,694		3,558,694
Other invested assets	442,766	32,037	410,729
<b>Total cash and invested assets</b>	<b>4,032,004</b>	<b>32,037</b>	<b>3,999,967</b>
Investment income due and accrued	1,234		1,234
Current federal income tax recoverable	2,027		2,027
Net deferred tax asset	2,248	2,248	-
Receivables from parent, subsidiaries	80,799		80,799
Prepaid expenses	6,439	6,439	-
Security deposit	16,532	16,532	-
Premium tax recoverable	10,968		10,968
Amounts recoverable-insurance losses	29,076	29,076	-
<b>Total admitted assets</b>	<b>\$4,181,327</b>	<b>\$86,332</b>	<b>\$4,094,995</b>

### **Reinsurance Activity:**

The Company does not have any reinsurance contracts.

### **Summary of Reserves:**

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2017	2016
Reserve for losses and loss adjustment expenses, beginning of year	\$149,360	\$141,990
<b>Add:</b>		
Provision for losses and loss adjustment expenses, current year	90,000	80,000
Change in estimated losses and loss adjustment expenses, prior years	5,641	(17,913)
<b>Total incurred</b>	<b>95,641</b>	<b>62,087</b>
<b>Deduct:</b>		
Losses and loss adjustment expenses paid, current year	-	12,000
Losses and loss adjustment expenses paid, prior year	64,385	42,717
<b>Total paid</b>	<b>64,385</b>	<b>54,717</b>
Reserve for losses and loss adjustment expenses, end of year	180,616	149,360
Increase in reserve for losses and loss adjustment expenses	\$31,256	\$7,370

Reserves for incurred losses attributable to insured events of prior year increased by \$5,641 and decreased by approximately \$17,913 during the year ended December 31, 2017 and 2016, respectively, as a result of ongoing analyses of recent loss development trends.

### **Capital and Surplus:**

The following, in conjunction with the Statutory Statement of Capital and Surplus, represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2013:

	2015	2014	2013
Surplus, beginning of year	\$2,493,530	\$2,494,762	\$0
Surplus increases (decreases):			
Net income (loss)	43,131	88,446	(152,953)
Change in net deferred income tax	15,645	(30,807)	51,669
Change in non-admitted assets	4,070	(17,870)	(3,956)
Pain in capital	(274,500)	(41,000)	2,600,000
Change in surplus as regards policyholders for the year	(211,654)	(1,232)	2,494,762
Surplus, end of year	\$2,281,876	\$2,493,530	\$2,494,762

### **Contingencies and Commitments:**

The Company does not have any pending legal proceedings arising from litigation, income taxes or other matters that could have a material effect on the financial position of the Company.

The Company has guaranteed loans obtained by Capital Atlantic Group, LLC and Capital Diamond Group, LLC in 2017. These loans are collateralized by the respective properties within each limited liability company. (See Summary of Significant Findings.)

## **SUBSEQUENT EVENTS**

The Company terminated its general agency agreement with 1<sup>st</sup> Atlantic Surety Services, Inc. effective December 31, 2018.

In 2018, the Company purchased back and retired 110,011 shares of Series B common stock. The Company did not seek prior approval from the Department before making this transaction. This transaction is in violation of GS § 58-7-130. Further distributions will require prior Department approval and requests for such distributions must comply with GS § 58-19-25(d) and GS § 58-19-30(c) as outlined in GS § 58-7-130(e).

In 2018, Capital Atlantic Group, LLC and three subsidiaries of Capital Diamond Group, LLC were liquidated by the Company. Capital Diamond Group, LLC was the only remaining wholly owned subsidiary of the Company and 2532, LLC was the only remaining subsidiary of Capital Diamond Group, LLC as of December 31, 2018.

On May 1, 2019, the Company's Board approved an amendment to its Articles to replace paragraph 7 of the Articles in its entirety to increase the authorized shares of Class A Voting Common Stock from 100,000 to 200,000 and to decrease the authorized shares of Class B Nonvoting Common Stock from 900,000 to 800,000. The Company is authorized to issue 4,000,000 shares of capital stock, 3,000,000 of which are designated as Preferred Stock. The total number of authorized shares of capital and preferred stock did not change with the amendment. The amendment was approved by the Department on May 5, 2019 and will become effective when certified by the North Carolina Secretary of State.

**1<sup>ST</sup> Atlantic Surety Company**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2017**

Andrew B. White, Chief Financial Officer/Treasurer  
333 Fayetteville Street, Suite 1500  
Raleigh, NC 27601

Derrick D. Harrington, President  
333 Fayetteville Street, Suite 1500  
Raleigh, NC 27601

## CONCLUSION

The examination procedures, described herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$1,250,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



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Ke Xu, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

May 28, 2019

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Keith Greene, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature:

Keith Greene  
Keith Greene

Date:

5/28/19

Sworn and subscribed before me this 28<sup>th</sup> day of May, 2019.

Notary Public Signature:

Jameka N Bell

Notary Public Seal:

