



I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused 1st Atlantic Surety Company as of December 31, 2022 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 8th day of April, 2024.



Mike Causey
Commissioner of Insurance

Monique D. Smith, CPA, CFE, CIA
Deputy Commissioner
Financial Examination Division

1st Atlantic Surety Company

Raleigh, North Carolina

Report on Examination

As of December 31, 2022

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March 8, 2024

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

1st Atlantic Surety Company

(hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 1033 Wade Avenue, Suite 200, Raleigh, North Carolina. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2018, to December 31, 2022, 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, 2017.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating 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 risk-focused examination process and the following key functional activities were identified:

Pricing and Underwriting
Claims Handling & Reserving
Related Parties
Investments
Capital & Surplus

This may include 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 statutory accounting principles. 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 insurer 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 separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers 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). Strickland Hardee, PLLC of Lexington, North Carolina, the designated independent public accountant of the Company, issued an unmodified opinion for years ended December 31, 2021, and 2022. Carr, Riggs and Ingram, LLP of Raleigh, North Carolina, the Company's former designated independent public accountant, issued an unmodified opinion for each year from the year ended December 31, 2018, through the year ended December 31, 2020.

SUMMARY OF SIGNIFICANT FINDINGS

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

- a. Based on information provided by the Company in 2019, the Department informed the Company in 2019 that it was not subject to the Insurance Holding Company Act specified in GS 58-19. However, since that time, the Department determined that in accordance with GS 58-19-5 common control, ownership, and voting rights of 1st Atlantic Surety Services, 1st Atlantic Advisors and the Company as of December 31, 2022, constitutes an insurance holding company system, and the Company is directed to comply with GS 58-19 on a going forward basis.
- b. The Company incorrectly reported real estate property occupied by the Company on line 4.1 of its 2022 Annual Statement of \$38,626 by applying the 1% of admitted assets limitation for real estate held for investment pursuant to GS 58-7-187(c)2. The net admitted value for real estate property occupied by the Company is calculated using the Company's actual cost less encumbrances and depreciation which totaled \$155,260 at December 31, 2022, resulting in real estate being materially understated by \$116,634 at year end. The Company is directed to ensure accurate financial reporting in future filings submitted to the Department in accordance with GS 58-2-165(c).
- c. The Company did not have a recent appraisal for one real estate property in Henderson, North Carolina reported as held for the production of income with a net admitted value of \$38,626, of the \$70,222 total amount reported on line 4.2 of its 2022 Annual Statement. The Company reported a date for this property's last appraisal of September 5, 2018, on its 2022 Annual Statement Schedule A, which was the date of acquisition; however, the appraisal provided to the Department was dated July 15, 2016. The Statement of Statutory Accounting Principles ("SSAP") No. 40R paragraph 14 requires an appraisal to be maintained that is no more than five years old as of the reporting date. No examination adjustment is proposed as amount is considered immaterial. In addition, the Company appears to have incorrectly reported the adjusted carrying value of this property on its 2022 Annual Statement Schedule A. The Company is directed to maintain appraisals no more than five years old as of the reporting date, pursuant to SSAP 40R, paragraph 14 and to ensure accurate financial reporting in future filings submitted to the Department in accordance with GS 58-2-165(c). (Refer to Subsequent Events)
- d. The Company incorrectly reported one real estate property in Durham, North Carolina reported as held for the production of income with a net admitted value of \$31,596, of the \$70,222 total amount reported on line 4.2 of its 2022 Annual Statement for vacant land owned which produces no income but was improved by the demolition of an existing building. The Company reported a date for the property's last appraisal of September 5, 2018, on its 2022 Annual Statement Schedule A; however, the appraisal provided to the Department is dated September 20, 2017. The Company is directed to properly report the total value of this land as real estate properties held for sale on Annual Statement line 4.3 pursuant to the SSAP 40R, paragraph 17 and to ensure accurate financial reporting in future filings submitted to the Department in accordance with GS 58-2-165(c).
- e. The Company reported a fully not admitted asset for an outstanding loan totaling \$21,229 due from one of its directors as of December 31, 2022. This is a violation of GS 58-7-200(c), which states: "No insurer shall directly or indirectly lend its funds to, any of its directors, officers, controlling stockholders, or any other person in which an officer, director, or controlling stockholder is substantially interested, nor shall any director, officer, or controlling stockholder directly or indirectly accept the funds." The Company is directed to comply with GS 58-7-200(c) and immediately collect the funds loaned. (Refer to Subsequent Events)

- f. The Company’s Audit Committee included two members which were not properly elected to the Board of Directors (“Board”) as of December 31, 2022. This is a violation of GS 58-10-245(c), which requires each member of the Audit Committee to be a member of the Board of the insurer or a member of the Board of an entity elected pursuant to GS 58-10-245(f) and GS 58-10-190(3). The Company is directed to comply with 58-10-245(c). (Refer to Subsequent Events)
- g. The Company appointed Gerald Spence as a Vice President of Marketing on March 30, 2021; however, Mr. Spence is not an employee of the Company and there is no executed agreement governing the services being provided by Mr. Spence which include marketing, sales, and promotion of the Company’s surety coverage for bond agents. Prior notice of a transaction including, but not limited to, service contracts shall be filed with the Commissioner in accordance with GS 58-19-30, and at a minimum, identify the person providing services to the Company and specify the services in accordance with GS 58-19-30(b)(4)(a). The Company is directed to comply with the requirements of GS 58-19-30(b), which requires the Company to notify the Department in writing at least 30 days prior to entering into affiliated transactions by filing a Form D. (Refer to Subsequent Events)
- h. The Company appointed Andrew Bodane as Chief Financial Officer (“CFO”) on August 12, 2020, and appointed Terri Rowland, a director, to the Audit Committee on July 13, 2021. In subsequent filings of its Corporate Governance Annual Disclosure to the Department, the Company failed to disclose the individuals serving in the appointed positions pursuant to GS 58-10-755(a)(1). The Company is directed to ensure accurate reporting to the Department in future filings pursuant to GS 58-10-755(a)(1). (Refer to Subsequent Events)

COMPANY HISTORY

The Company was incorporated on April 19, 2013, and commenced business on August 1, 2013, with 1 million shares of common stock authorized and 3 million shares of preferred stock authorized. The purpose of the Company is to engage in surety bail bond 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.

Since the Company’s inception, all shares of the Company’s outstanding common stock have been issued to Derrick Harrington, Andrew White, Shannon Collins, and The Eastern Trust, which is owned by Gerald Spence. (Refer to Shareholders and Voting Rights)

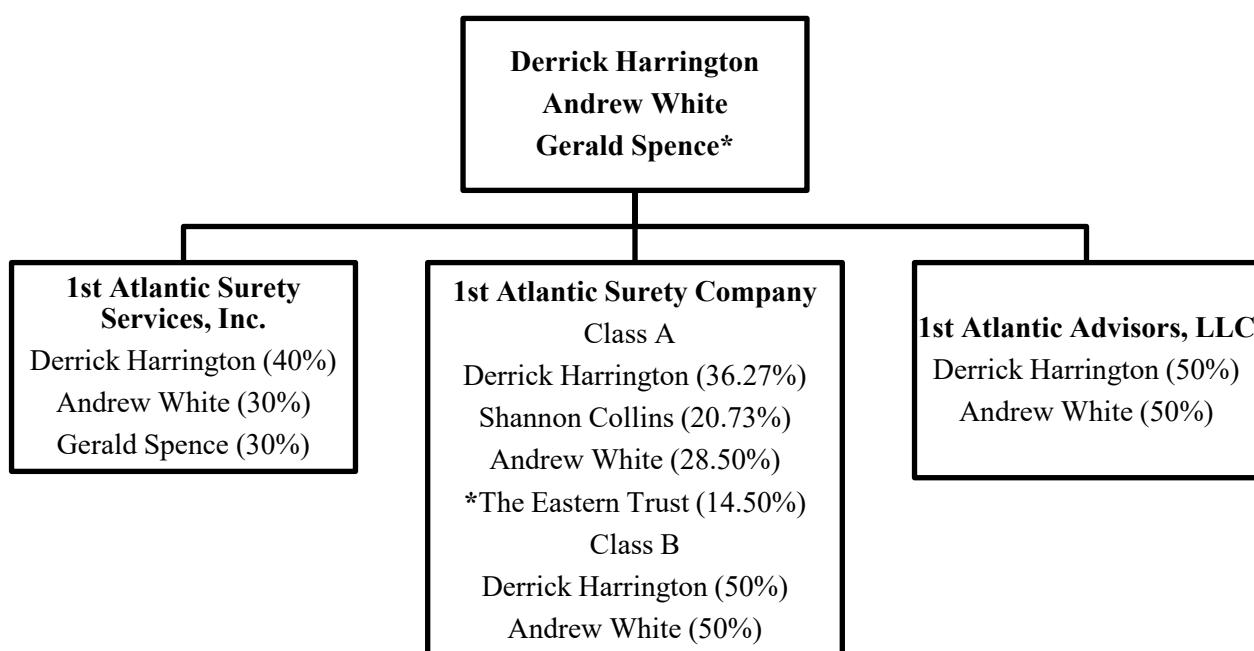
In 2017, the Company had two affiliated entities, 1st Atlantic Advisors, LLC and 1st Atlantic Surety Services, Inc, due to common ownership, and two wholly owned subsidiary limited liability companies (“LLCs”): Capital Atlantic Group, LLC and Capital Diamond Group, LLC. The Company’s subsidiary, Capital Diamond Group LLC, owned four LLCs: Capital Diamond Group 1, LLC; Capital Diamond Group 3, LLC; 2707, LLC; and 2532, LLC. 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.

Effective September 30, 2019, the Company dissolved Capital Atlantic Group, LLC and Capital Diamond, LLC and all assets under the LLCs were transferred to Company.

As of December 31, 2022, 1st Atlantic Advisors, LLC and 1st Atlantic Surety Services, Inc remain affiliated with the Company by common ownership. (Refer to Organizational Chart) 1st Atlantic Surety Services, Inc. does not provide any services to the Company, however, 1st Atlantic Advisors, LLC provides the Company with financial management, compliance support, in-house legal counsel, strategic planning, loss mitigation support, management consulting, financial planning and marketing advice. (Refer to Related Party Agreements)

ORGANIZATIONAL CHART

The following is a summarized organizational chart of the Company and its affiliated companies as of December 31, 2022:



CAPITAL STOCK

In 2018, the Company purchased back and retired 110,011 shares of Class B \$2 par non-voting common stock, resulting in a reduction in common capital stock totaling \$220,022.

On May 1, 2019, the Company amended its articles of incorporation to change the make-up of its 4,000,000 authorized shares of common and preferred stock by 1) increasing the number of its authorized shares of \$1 par value Class A voting common stock from 100,000 to 200,000 shares; 2) reducing the par value of its Class B common stock from \$2 to \$1 per share; 3) reducing the number of authorized shares of Class B non-voting common stock from 900,000 to 800,000 shares; and 4) maintaining 3,000,000 shares of \$10 par value preferred stock.

In 2019, the Company purchased back and retired 114,437 shares of Class B \$1 par non-voting common stock at \$2.75 per share, resulting in a reduction in common capital stock totaling \$114,437 and a reduction in gross paid in and contributed surplus totaling \$200,265.

In July of 2021, Derrick Harrington and The Eastern Trust, which is owned by Gerald Spence, purchased an additional 7,500 and 4,000 shares, respectively, of Class A common stock.

As of December 31, 2022, the Company's capitalization consisted of the following:

Class A Common Stock	Value
Number of authorized common capital shares	200,000
Number of shares issued and outstanding	96,500
Total common capital stock	\$96,500
Par value per share	\$1

Class B Common Stock	Value
Number of authorized common capital shares	800,000
Number of shares issued and outstanding	583,352
Total common capital stock	\$583,352
Par value per share	\$1

The Company had no preferred stock outstanding at December 31, 2022.

At December 31, 2022, the Company reported \$497,524 in gross paid-in and contributed surplus and \$670,512 in unassigned funds.

SHAREHOLDERS AND VOTING RIGHTS

At December 31, 2022, the shareholders of the Company and their respective voting right percentages were as follows:

Name	Number of Shares (Class A)	Voting Right
Derrick Harrington	35,000	36.27%
Shannon Collins	20,000	20.73%
Andrew White	27,500	28.50%
The Eastern Trust	14,000	14.50%

Name	Number of Shares (Class B)	Voting Right
Derrick Harrington	291,676	0%
Andrew White	291,676	0%

1st Atlantic Advisors, LLC

At December 31, 2022, the shareholders of 1st Atlantic Advisors, LLC and their respective voting right percentages were as follows:

Name	Voting Right
Andrew White	50% voting ownership
Derrick Harrington	50% voting ownership

1st Atlantic Surety Services, Inc.

At December 31, 2022, the shareholders of 1st Atlantic Surety Services, Inc. and their respective voting right percentages were as follows:

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

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of the Company. Under the insurance regulations of North Carolina, the maximum amount of ordinary dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Any amounts in excess of this are considered extraordinary. The Company paid no dividends in years 2018 through 2022.

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 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, 2022:

Name	Location	Principal Occupation
Terri Rowland	Raleigh, North Carolina	Manager-In-Charge at Seacoast Property Management, Rentals & Relocation
Derrick D. Harrington	Raleigh, North Carolina	President of 1 st Atlantic Surety and Owner of ACE Bail Bonding
Aubrey Temple	Raleigh, North Carolina	Insurance Agent with Primerica
Antwan J. Thornton	Raleigh, North Carolina	Chief Legal Officer of 1 st Atlantic Surety
Gerald A. Spence	Raleigh, North Carolina	Vice president of Marketing for 1 st Atlantic Surety

The Board established an Audit Committee and an Investment Committee to act on behalf of the Company. (Refer to the Summary of Significant Findings)

The following individuals served on committees as of December 31, 2022:

Audit Committee

Derrick D. Harrington, Chair
Andrew Bodane
Gerald A. Spence
Nathan Garrett
Antwan Thornton
Terri Rowland

Investment Committee

Derrick D. Harrington, Chair
Andrew Bodane
Gerald A. Spence
Aubrey Temple

Officers

The bylaws provide that the Board at its annual meeting, will elect officers of the Company. The officers of the Company can include a Chief Executive Officer, President, one or more Vice Presidents, Secretary, Chief Financial Officer, Treasurer, and Controller. The Board may assign such additional titles to one or more of the officers as it shall deem appropriate. (Refer to the Summary of Significant Findings)

The following individuals served as officers of the Company as of December 31, 2022:

Name	Title
Derrick D. Harrington	President
Antwan J. Thornton	Chief Legal Officer
Andrew Bodane	Chief Financial Officer

CODE OF CONDUCT AND CONFLICT OF INTEREST

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 complied with its policy and procedures for disclosure of conflicts of interest.

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 and bylaws were reviewed for any changes during the period under examination. The Company's Board amended its articles of incorporation on May 1, 2019, to change 1,000,000 shares of authorized of common stock to 200,000 shares of Class A voting common stock and 800,000 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.

The Department noted there were no changes to the Company's bylaws during the period under examination.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2022 Annual Statement Schedule E, Part 3 contains a complete description of the Company's North Carolina statutory deposit.

FIDELITY BONDS AND OTHER INSURANCE

The Company has fidelity bond coverage totaling \$75,000, which meets the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company has a business policy with The Hartford, which covers risks in the normal course of business, including terrorism, the Company's home office building, business liability, and other risks.

RELATED PARTY AGREEMENTS

The Company has a management services agreement with 1st Atlantic Advisors, LLC, an affiliated entity with common interest and management. This agreement was effective September 1, 2019, whereby 1st Atlantic Advisors, LLC provides financial management, compliance support, in-house legal counsel, strategic planning, loss mitigation support, management consulting, financial planning, and marketing advice. Under this agreement, the Company paid fees totaling \$101,500 and \$114,000 in 2022 and 2021, respectively.

The Company had a consulting services agreement with B2B CFO Partners, LLC, effective July 14, 2020, under which the Company was provided a Chief Financial Officer to perform various financial consulting services. in exchange for an hourly fee of \$225. Under this agreement, the Company paid fees totaling \$7,000 and \$49,795 in 2022 and 2021, respectively. This agreement was terminated effective January 30, 2022.

The Company has a consulting services agreement with CFO Business Solutions, LLC,” effective January 31, 2022, under which the Company is provided a Chief Financial Officer to perform various financial advisory and financial consulting services in exchange for a monthly fee of \$3,500. Under this agreement, the Company paid fees totaling \$44,950 in 2022. This agreement replaced the Company’s agreement with B2B CFO Partners, LLC.

TERRITORY AND PLAN OF OPERATION

The Company is a property and casualty insurance company which became licensed to write surety coverage in the form of bail bonds in North Carolina on August 1, 2013. A bail bond provides a financial guarantee that a defendant will appear in court until their criminal case is adjudicated. The Company writes criminal bonds only; no federal or immigration bonds are written.

The Company utilizes a network of independently licensed bail bond agents who underwrite the bonds by securing the release of a defendant and ensuring the defendant’s appearance in court. The Company issues bail bonding powers to licensed bail bondsmen who have been previously screened and approved by the Company.

The Company serves as the guarantor on the bonds and is indemnified from loss by the bond agent in accordance with the Company’s executed contract with the directly appointed bail bond agent or his/her bail bond agency. In the event that a defendant fails to appear in court prior to the case being adjudicated, the Company pursues recovery from the bail bond agency after a Bond Forfeiture Notice is received from the court requesting payment of the amount of the bond plus interest and court costs.

At December 31, 2022, the Company was licensed only in North Carolina.

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, 2022:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income (Loss)
2022	\$3,892,511	\$1,847,888	\$1,195,531	\$1,195,531	(\$50,454)
2021	\$4,081,951	\$1,885,246	\$1,580,256	\$1,580,256	\$222,427
2020	\$4,152,117	\$1,648,486	\$1,107,553	\$1,107,553	(\$67,165)
2019	\$4,129,083	\$1,810,250	\$1,210,616	\$1,210,616	(\$101,510)
2018	\$4,486,455	\$2,162,781	\$395,846	\$395,846	\$166,086

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 2022 were reviewed and certified by the Company's Appointed Actuary, Ben Silberstein, ACAS, MAAA, FCA of AJA Risk Management Consultants, Inc. Actuarial opinions regarding the Company's reserves for losses 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 losses and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserve on the losses and loss adjustment expenses 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 losses and loss expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

The Company does not have any reinsurance contracts. The Company minimizes losses by using Build-Up-Fund ('BUF') accounts established for each directly appointed bail bond agent or for his/her agency. A BUF account is a reserve account in which a deposit is made by a bail bond agent based on a contract with the Company. The funds are held in a 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 or agency'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. The Company reported BUF accounts totaling \$1,517,066 and \$1,503,313 at December 31, 2022 and 2021, respectively.

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, 2022. 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, 2021, are unexamined and are presented for comparative purposes only.

1st Atlantic Surety Company
Statutory Statement of Admitted Assets
December 31, 2022

	2022	2021 <i>(unexamined)</i>
Bonds	\$10,500	\$ 10,500
Real estate properties occupied by company	38,626	43,674
Real estate properties held for production of income	70,222	69,015
Real estate properties held for sale	-	23,042
Cash and short-term investments	2,226,949	2,429,675
Total cash and invested assets	2,346,297	2,575,906
Investment income due and accrued	3,785	13
Premiums and agents' balances in course of collection	25,363	2,719
Agent BUF accounts	1,517,066	1,503,313
Total Admitted Assets	\$3,892,511	\$4,081,951

1st Atlantic Surety Company
Statutory Statement of Liabilities, Capital, and Surplus
December 31, 2022

	2022	2021 <i>(unexamined)</i>
Losses	\$204,003	\$231,768
Other expenses	100,240	124,146
Taxes, licenses and fees	60,173	53,020
Current federal income tax	24,270	27,763
Borrowed money	138,221	155,641
Advance premium	-	100,000
Amounts withheld or retained by Company for account of others	-	404
Agent BUF liability	1,517,066	1,503,313
Deposit payable	650	650
Total liabilities	2,044,623	2,196,705
Common capital stock	679,852	679,852
Gross paid in and contributed surplus	497,524	497,524
Unassigned funds	670,512	707,870
Total capital and surplus	1,847,888	1,885,246
Total Liabilities, Capital, and Surplus	\$3,892,511	\$4,081,951

1st Atlantic Surety Company
Statutory Statement of Income
December 31, 2022

	2022	2021 <i>(unexamined)</i>
Underwriting Income		
Premiums Earned	\$1,195,531	\$1,580,256
Deductions		
Losses incurred	94,791	228,528
Other underwriting expenses incurred	1,162,575	1,244,993
Total underwriting deductions	1,257,366	1,473,521
Net underwriting gain(loss)	(61,835)	106,735
Investment Income		
Net investment income earned	(27,497)	(121,509)
Net realized capital gains	24,666	350,739
Net investment gain(loss)	(2,831)	229,230
Other Income		
Net gain (loss) from agents' or premium balances charged off	10,719	(113,538)
Total other income(loss)	10,719	(113,538)
Federal income taxes incurred	(3,493)	-
Net Income (Loss)	(\$50,454)	\$222,427

1st Atlantic Surety Company
Statutory Statement of Capital and Surplus
December 31, 2022

	2022	2021 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 1,885,246	\$1,648,486
Capital and surplus increases(decreases):		
Net income(loss)	(50,454)	222,427
Change in non-admitted assets	13,096	2,833
Surplus adjustments to paid-in capital	-	11,500
Change in capital and surplus as regards policyholders for the year	(37,358)	236,760
Capital and surplus, end of year	\$1,847,888	\$1,885,246

1st Atlantic Surety Company
Statutory Statement of Cash Flow
December 31, 2022

	2022	2021 <i>(unexamined)</i>
Cash Used By Operations		
Premiums collected net of reinsurance	\$1,095,135	\$1,541,075
Net investment income	1,624	(98,274)
Miscellaneous income	10,719	(113,538)
Total	1,107,478	1,329,263
Benefit and loss related payments	122,556	187,678
Commissions, expenses paid and aggregate write-ins	1,179,328	1,278,295
Federal income taxes paid	-	630
Total	1,301,884	1,466,603
Net cash used by operations	(194,406)	(137,340)
Cash From Investments		
Proceeds from investments sold, matured, or repaid	134,976	607,887
Cost of investments acquired	119,134	237,765
Net cash from investments	15,842	370,122
Cash From (Used By) Financing and Miscellaneous Sources		
Cash from capital and paid-in surplus	-	11,500
Borrowed funds	(17,420)	(53,498)
Other cash (applied) provided	(6,742)	48,692
Net cash from (used by) financing and miscellaneous sources	(24,162)	6,694
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	(202,726)	239,476
Cash and short-term investments, beginning of year	2,429,675	2,190,199
Cash and short-term investments, end of year	\$2,226,949	\$2,429,675

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:

Bonds: Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific 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.

Non-admitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "non-admitted" and are charges against surplus.

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.

Real Estate:

On December 31, 2020, the Company purchased property to be used as its main administrative and statutory home office in Raleigh, North Carolina for approximately \$1.2 million. The Company maintains a mortgage on the property and its adjusted book value totaled \$155,260, net of encumbrances, at December 31, 2022.

The Company sold real estate property classified as held for sale in 2022 for a total of \$134,976 and recognized a gain on the sale of \$24,666. At December 31, 2022, the Company owns a total of three real estate properties, including the property occupied as its home office. (Refer to Summary of Significant Findings)

Analysis of Assets:

The following represents an analysis of the Company's net admitted assets:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$10,500	-	\$10,500
Properties occupied by the company	155,260	116,634	38,626
Properties held for production of income	99,550	29,328	70,222
Cash and short-term investments	2,226,949	-	2,226,949
Total cash and invested assets	2,492,259	145,962	2,346,297
Investment income due and accrued	3,785	-	3,785
Premiums and agents' balances in course of collection	30,241	4,878	25,363
Furniture and equipment	10,483	10,483	-
Receivable from parent, subsidiaries, and affiliates	28,229	28,229	-
Agent BUF accounts	1,517,066	-	1,517,066
Security deposits	5,000	5,000	-
Total admitted assets	\$4,087,063	\$194,552	\$3,892,511

Summary of Reserves:

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

	2022	2021
Reserve for losses and loss adjustment expenses, beginning of year	\$ 231,768	\$211,022
Add:		
Provision for losses and loss adjustment expenses, current year	133,00	170,999
Change in estimated losses and loss adjustment expenses, prior years	(38,209)	57,529
Total incurred	94,791	228,528
Deduct:		
Losses and loss adjustment expenses paid, current year	21,600	52,623
Losses and loss adjustment expenses paid, prior year	100,956	155,159
Total paid	122,556	207,782
Reserve for losses and loss adjustment expenses, end of year	204,003	231,768
Increase in reserve for losses and loss adjustment expenses	(\$27,765)	\$20,746

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, 2017:

	2020	2019	2018
Capital and surplus, beginning of year	\$1,810,250	\$2,162,777	\$2,380,427
Capital and surplus increases (decreases):			
Net income(loss)	(67,165)	(101,510)	166,086
Change in net unrealized capital gain (loss)	-	(22,006)	(46,880)
Change in net deferred income tax	-	-	(2,248)
Change in non-admitted assets	(96,450)	86,887	(114,586)
Capital adjustments to paid-in	-	(114,437)	(917,811)
Surplus adjustments to paid-in	-	(200,265)	697,789
Other	1,851	(1,196)	-
Change in surplus as regards policyholders for the year	(161,764)	(352,527)	(217,650)
Capital and surplus, end of year	\$1,648,486	\$1,810,250	\$2,162,777

Paycheck Protection Program:

The Company received a loan totaling \$59,972 during 2020 pursuant to the Paycheck Protection Program, which was established as part of the Coronavirus Aid, Relief and Economic Security Act and is administrated through the Small Business Administration. The program allows for the loan to be forgivable after a covered period of either eight or twenty-four weeks as long as the borrower maintains its payroll levels and uses the proceeds for eligible expenses. During 2021, the Company met the loan forgiveness requirements and applied for forgiveness and the loan was fully forgiven by the federal government.

SUBSEQUENT EVENTS

In 2023, the Company received payments totaling \$2,825 from one of its directors in relation to the non-admitted receivable for an outstanding loan totaling \$21,229 at year-end. The outstanding loan from the director is in violation of GS 58-7-200(c) until fully repaid.

On December 6, 2023, the Company's Board held a meeting and the following actions were approved by the Board:

- (1) The Company executed a service contract with Gerald Spence, effective December 7, 2023, for sales, marketing and promotion services provided to the Company in exchange for a monthly fee of \$8,500 per month.
- (2) Audit Committee members Andrew Bodane and Nathan Garrett resigned from the Audit Committee effective December 6, 2023.
- (3) Andrew Bodane was appointed as the Company's Chief Financial Officer and the Board voted to backdate his appointment to January of 2022.

In January 2024, the Company requested an appraisal for one real estate property in Henderson, North Carolina held for production of income with a net admitted value of \$38,626 as reported in the 2022 Annual Statement. The property appraised for \$130,000 according to the appraisal report dated February 2, 2024.

On March 4, 2024, the Company submitted a Form D and its affiliated service contract with Gerald Spence to the Department for review.

1st Atlantic Surety Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2022

Derrick D. Harrington, President
1033 Wade Avenue, Suite 200
Raleigh, North Carolina 27605

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,



Monique D. Smith, CPA, CFE, CIA
Deputy Commissioner
North Carolina Department of Insurance

March 8, 2024

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Keith Greene, Supervising Examiner, 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 Date: 3/8/2024

Sworn and subscribed before me this 8 day of March, 2024.

Notary Public Signature: Jessica N Vaughan Notary Public Seal:

