



**EXAMINATION REPORT
OF
AVATAR PROPERTY & CASUALTY
INSURANCE COMPANY**

NAIC Company Code: 13139

**Tampa, Florida
as of
December 31, 2016**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	0
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAMINATION FINDINGS	2
PREVIOUS EXAMINATION FINDINGS	4
COMPANY HISTORY	4
GENERAL	4
DIVIDENDS	5
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	5
SURPLUS NOTES	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS	5
MANAGEMENT AND CONTROL.....	6
CORPORATE GOVERNANCE	6
HOLDING COMPANY SYSTEM.....	8
MANAGING GENERAL AGENT AGREEMENT.....	8
INVESTMENT ADVISORY AGREEMENT	10
ORGANIZATIONAL CHART	11
ORGANIZATIONAL CHART	12
ACCOUNTS AND RECORDS	13
FIDELITY BOND	13
CORPORATE RECORDS REVIEW.....	13
CONFLICT OF INTEREST	13
CUSTODIAL AGREEMENT	14
INDEPENDENT AUDITOR AGREEMENT	14
TERRITORY AND PLAN OF OPERATIONS.....	14
TREATMENT OF POLICYHOLDERS	14
REINSURANCE.....	15
REINSURANCE ASSUMED.....	15
REINSURANCE CEDED.....	15
INFORMATION TECHNOLOGY REPORT	16
STATUTORY DEPOSITS	16
FINANCIAL STATEMENTS.....	17
ASSETS.....	18
LIABILITIES, SURPLUS AND OTHER FUNDS	19
RECONCILIATION OF CAPITAL AND SURPLUS.....	21
ANALYSIS OF CHANGES IN FINANCIAL STATEMENT RESULTING FROM THE EXAMINATION	22
COMMENTS ON FINANCIAL STATEMENT ITEMS	23
ASSETS.....	23
LIABILITIES	23
CAPITAL AND SURPLUS	24

SUBSEQUENT EVENTS.....	25
ACQUISITION OF ELEMENTS PROPERTY INSURANCE HOLDINGS, LLC	25
SUMMARY OF RECOMMENDATIONS.....	26
HOLDING COMPANY REGISTRATION STATEMENT.....	26
AUDITED FINANCIAL STATEMENTS.....	26
DESIGNATION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT	26
AFFILIATED COMMISSIONS.....	26
AFFILIATED CAPTIVE FILINGS.....	26
COMMISSIONS PAYABLE	26
NON-ADMITTED PREMIUMS RECEIVABLE.....	27
RELATED PARTY DISCLOSURES	27
INCURRED CLAIMS EXPENSES	27
CLAIMS HANDLING AND ACCOUNTING.....	27
CLAIMS ADJUSTING	27
CONCLUSION.....	28

October 31, 2018

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners ("NAIC"), we have conducted an examination as of December 31, 2016, of the financial condition and corporate affairs of

Avatar Property & Casualty Insurance Company
1101 E Cumberland Avenue
Tampa, Florida 33602

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2012, through December 31, 2016, and commenced with planning at the Florida Office of Insurance Regulation ("Office") on July 11, 2017, to July 14, 2017. The fieldwork commenced on July 11, 2017, and concluded as of May 31, 2018. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2011, through December 31, 2011.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed 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. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles ("SSAP").

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of significant findings of fact (material adverse findings, significant non-compliance findings, such as non-compliance with state laws, SSAPs, annual financial statement instructions or material changes in the financial statements. Some of the findings noted during this examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

Holding Company Registration Statement

The Company was in non-compliance with Section 628.801, Florida Statutes, by not timely filing their 2014 Holding Company Registration Statements.

Audited Financial Statements

The Company was in non-compliance with Section 624.424 (8), Florida Statutes, by not filing their 2015 and 2016 audited financial statements timely with the Office.

Designation of Independent Certified Public Accountant

The Company was in non-compliance with Rule 69O-137.002(6), Florida Administrative Code, by not filing their 2014, 2015 and 2016 independent certified public accountant ("CPA") awareness letters timely with the Office.

Affiliated Commissions

The Company was in non-compliance with Consent Order 93101-07-CO paragraph 18 by entering into and paying commissions to an affiliate through a Producer Agreement without the Office's prior approval.

Affiliated Captive Filings

The Company was in non-compliance with Sections 624.424 (11) (b)(1) and (b)(3), Florida Statutes, by not filing their 2015 and 2016 Captive's Supplemental Financial Disclosure Forms and their 2014, 2015 and 2016 Captive's Statement of Actuarial Opinion timely with the Office.

Commissions Payable

The Company was in non-compliance with Rule 69O-137.001, Florida Administrative Code by not recording commission expense and commissions payable when incurred.

Non-admitted Premiums Receivable

The Company was in non-compliance with Rule 69O-138.024, Florida Administrative Code by not aging their uncollected premiums on a per policy basis and by not reporting any statutory non-admitted premiums receivable.

Related Party Disclosures

The Company was in non-compliance with Rule 69O-137.001(4)(a), Florida Administrative Code by not fully disclosing in the Notes to the Financial Statement or in Schedule Y, Part 2, the value of the compensation paid to its affiliate.

Incurred Claims Expenses

The Company was in non-compliance with Rule 69O-137.001, Florida Administrative Code by not properly recording claims related legal expenses in their Annual Statement when incurred.

Claims Handling and Accounting

The Company was in non-compliance with Rule 69O-137.001, Florida Administrative Code by not properly recording incurred loss and loss adjustment expense in their Annual Statement.

Claims Adjusting

The Company violated Consent Order 93101-07-CO by not providing the Office with a Managing General Agency agreement that included claims adjusting services and proper recording of these fees.

Loss Reserves and Incurred Losses

The Company's case loss reserves and case loss adjustment expenses at December 31, 2016, were understated \$990,480. The Company's incurred but not reported (IBNR) loss and loss adjustment expenses at December 31, 2016, were understated \$167,000.

Previous Examination Findings

The following is a summary of significant regulatory information disclosed in the prior examination report as of December 31, 2011, along with resulting action taken by the Company in connection therewith.

Written Premium

The Company did not include all fees and assessments charged in consideration for an insurance contract as written premium in accordance with Section 627.403, Florida Statutes. The Company did not include the required \$25 Managing General Agent ("MGA") policy fee ("MGA Fee") as written premium. In addition, the Company's "MGA Agreement" with Avatar Management, LLC ("AM") did not include a reference and a requirement for receipt of the \$25 MGA Fee.

Resolution: The Company included the MGA Fee as written premiums, however, the Company did not amend their MGA Agreement. The Company amended their MGA Agreement in 2017 to include the MGA Fee per the prior examination report.

COMPANY HISTORY

General

The Company was incorporated in Florida on January 30, 2008, and commenced business on April 14, 2008.

Avatar Partners, LP, a holding company domiciled in Delaware, owned one hundred percent (100%) of the stock issued by the Company.

Dividends

In accordance with Section 628.371, Florida Statutes, the Company declared and paid a dividend to Avatar Partners, LP, the "Parent" and lone stockholder on February 8, 2012, in the amount of \$500,000.

Capital Stock and Capital Contributions

As of December 31, 2016, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Surplus Notes

The Company issued a \$3,000,000 subordinated surplus debenture ("Surplus Note") to Avatar Partners, LP on February 6, 2015, that matures February 6, 2020. The Surplus Note accrues interest annually at the rate of eight and a half percent (8.5%) of the outstanding balance and payments are due quarterly, subject to prior approval by the Office. During 2015 and 2016, Surplus Note interest payments were made without the Office's prior written approval as required by SSAP 41 paragraph 3(d) and as stipulated per the Surplus Note agreement.

Subsequent Event: During 2017, the Company began requesting prior approval for the payment of interest on their surplus notes as required by SSAP and the surplus note agreement.

Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

Subsequent Event: Effective May 18, 2017, pursuant to Consent Order 208254-17-CO, Avatar Partners, LP acquired one hundred percent (100%) of the membership interests of Elements Property Insurance Holdings, LLC, which is the sole owner of Elements Property Insurance Company, Elements Property Insurance Managers, LLC, and Elementary Insurance Agency, LLC.

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. The Directors serving as of December 31, 2016, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
Hitesh Prabhudas Adhia ¹	Tampa, Florida	President, Avatar Property & Casualty Insurance Company
Mark Cecil Shealy	Jacksonville Beach, Florida	Chief Financial Officer, Avatar Property & Casualty Insurance Company
Manubhai Chaganlal Karia	Dover, Delaware	Professor
Stuart Thomas Wheeler	Gainesville, Florida	Retired
Kiranbhai Chhotbhai Patel	Tampa, Florida	Physician
Michael Picton Rudd	Ft. Lauderdale, Florida	Lawyer

¹ Chairperson

In accordance with the Company's Bylaws, the Board of Directors ("Board") appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
Hitesh Prabhudas Adhia	Tampa, Florida	President, Chief Executive Officer
Mark Cecil Shealy	Jacksonville Beach, Florida	Chief Financial Officer
Christine Marie Mellon	Tampa, Florida	Secretary, Chief Accounting Officer

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes. The following are the Audit Committee members as of December 31, 2016:

Audit Committee

Name	City, State	Title, Company Name
Manubhai Chaganlal Karia ¹	Dover, Delaware	Professor
Stuart Thomas Wheeler	Gainesville, Florida	Retired
Kiranbhai Chhotbhai Patel	Tampa, Florida	Physician
Michael Picton Rudd	Ft. Lauderdale, Florida	Lawyer

¹ Chairperson

Audit Committee

Name	City, State	Title, Company Name
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Manubhai Chaganlal Karia ¹	Dover, Delaware	Professor
Stuart Thomas Wheeler	Gainesville, Florida	Retired
Kiranbhai Chhotbhai Patel	Tampa, Florida	Physician
Michael Picton Rudd	Ft. Lauderdale, Florida	Lawyer

¹ Chairperson

Holding Company System

The Company was a member of an insurance holding company system. The Company's Holding Company Registration Statements for 2012, 2013 and 2014 were not filed timely and the Company was not in compliance with Statutes Section 628.801, Florida Statutes. For the period ended December 31, 2016, the Company's Holding Company Registration Statement was filed with the Office on February 28, 2017, and amended on May 17, 2017 and October 11, 2017, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The following agreements were in effect between the Company and its affiliates:

Managing General Agent Agreement

The Company entered into a Managing General Agent Agreement ("MGA Agreement") with AM effective February 22, 2008. AM provides the Company claims payment, underwriting, premium collection, customer service, data processing and accounting services for a fee of fifteen percent (15%) of earned premium. The fixed fee does not cover any other costs, fees or expenses, including but not limited to marketing, legal costs, annual audit costs, director and officer liability coverage and other insurance coverage as well as any extraordinary items. Any non-covered costs incurred by AM on behalf of the Company are passed directly through to the Company.

The MGA Agreement did not include reference to the MGA fee. The contract, as written, does not spell out responsibility for a particular function, specify the division of responsibilities, and contain the minimum provisions listed in 626.7451 Florida Statutes.

Subsequent Event: The Company's MGA Agreement was amended effective September 25, 2017. The amended agreement addressed the MGA fee. The Office approved the amended agreement on October 5, 2017. The amended agreement did not address the additional fee for claims adjusting services.

The MGA Agreement states that the Company is responsible to provide other services and performing other functions, including claims adjusting. However, the Company included these fees in the MGA fees and paid AM for claims adjusting services. The Company was in non-compliance with the provisions of the MGA Agreement.

The Company did not properly record total compensation incurred to AM pursuant to the MGA Agreement in the Company's Annual Statement pursuant to SSAP 25 and the NAIC's Annual Statement instructions. The Company was in non-compliance with Rule 69O-137.001(4)(a), Florida Administrative Code and SSAP 25 by not fully disclosing in the Notes to the Financial Statement or in Schedule Y, Part 2, the value of the compensation paid to its affiliate.

Producer Agreement

The Company entered into a Producer Agreement with AM on April 4, 2008. The Company appoints and gives authority to AM to receive applications for homeowner insurance coverage underwritten by Company. Company also gives authority to AM to collect, receive and record receipt for premium and to provide such usual and customary services of an insurance agent on all contracts of insurance accepted by Company. AM shall be entitled to receive and the Company agrees to pay as full compensation a commission on the "net premiums" written and submitted to Company. The commission is ten percent (10%) on new and renewal premiums. AM shall refund to Company commissions on cancelled policies and on reductions in premiums at the same rate at which such commissions are originally paid. Effective April 20, 2015, the Producer Agreement was amended to allow for the inclusion of commercial property insurance.

The Producer Agreement was not filed as required by Consent Order 93101-7-CO paragraph 18(s).

Transactions were not disclosed as required by Rule 69O-137.001(4)(a), Florida Administrative Code. The Company did not disclose commissions through the Producer Agreement in the Company's 2016 Annual Statement.

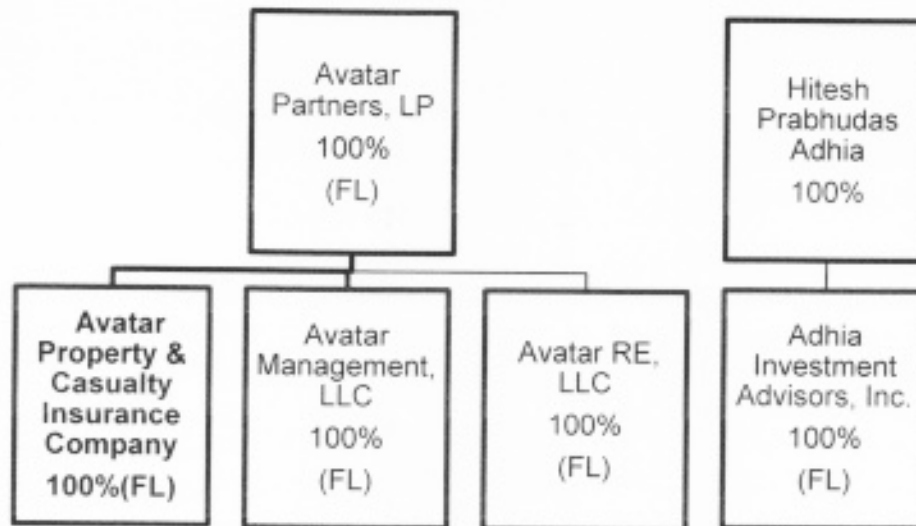
Subsequent Event: The Company filed the Producer Agreement with AM on March 27, 2018. The Company withdrew the filing on April 27, 2018. On May 31, 2018, the Company filed a Producer Agreement for Elementary Insurance Agency. The Office approved the agreement on June 5, 2018.

Investment Advisory Agreement

The Company entered into an Investment Advisory Agreement with Adhia Investment Advisors, Inc., ("AIA") on June 15, 2010. AIA is owned and operated by Hitesh Adhia, the Company's President. Pursuant to the agreement, AIA manages the investment and reinvestment of Company assets for the period and term of the agreement. The agreement was effective from the date of signing and automatically renews every two (2) years. The Company compensates AIA less than one percent (1%) based on the type and amount of assets managed. The fees incurred during 2016 were \$126,471.

Schedule Y of the Company's 2016 Annual Statement provided a list of all related companies of the holding company group. An organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page.

Avatar Property and Casualty Insurance Company
Organizational Chart
December 31, 2016

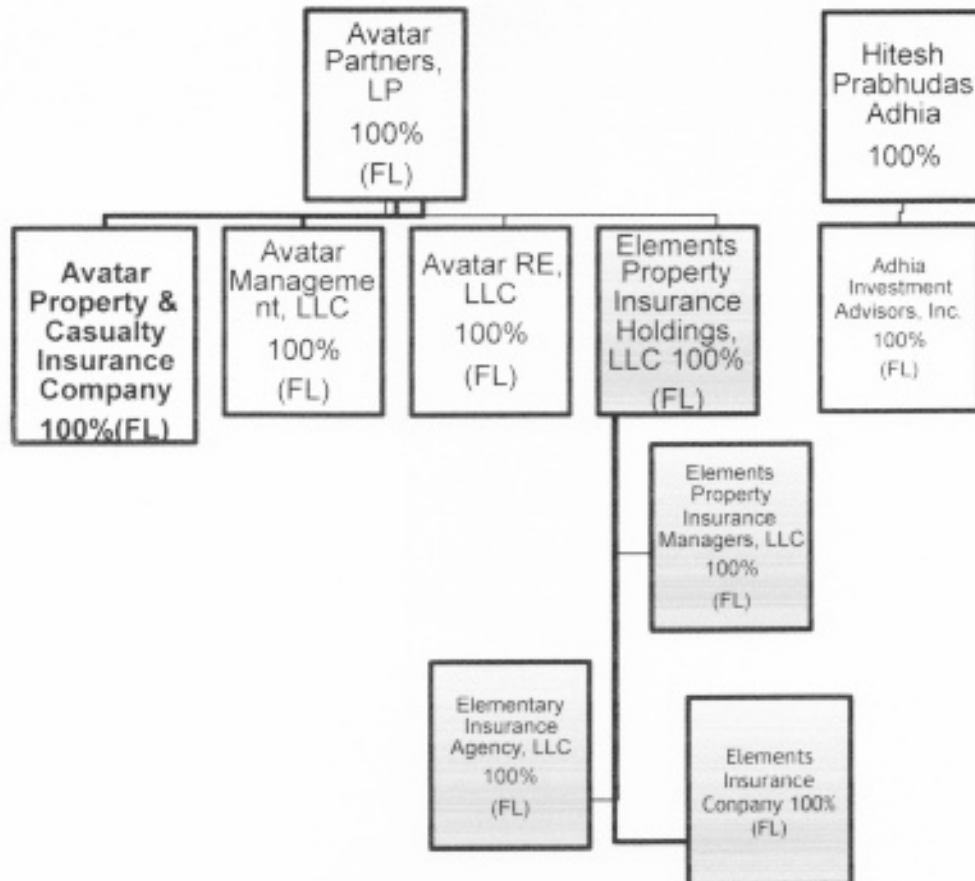


Subsequent Event: Effective May 18, 2017, pursuant to Consent Order 208254-17-CO, Avatar Partners, LP acquired one hundred percent (100%) of the membership interests of Elements Property Insurance Holdings, LLC, which is the sole owner of Elements Property Insurance Company, Elements Property Insurance Managers, LLC and Elements Insurance Agency, LLC.

Avatar Property and Casualty Insurance Company

Organizational Chart

May 18, 2017



ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tampa, Florida.

Fidelity Bond

The Company's fidelity bond coverage was not in compliance with Rule 69O-138.001, Florida Administrative Code and the Handbook recommended minimum fidelity bond coverage. According to the documentation provided, the fidelity bond coverage was \$250,000 at December 31, 2016; however, the NAIC's minimum recommended fidelity bond coverage was \$400,000 as of December 31, 2016.

Subsequent Event: During the Examination, the Company increased their fidelity bond coverage to meet the NAIC's minimum recommended coverage.

Corporate Records Review

The minutes of the Shareholder, Board and Audit Committee were reviewed for the period under examination. The minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with Section 607.1601, Florida Statutes, including the authorization of investments, as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring disclosure of conflicts of interest based upon the occurrence of a conflicting event. The Company's conflict of interest policy did not require periodic disclosures in accordance with the Handbook as adopted by Rule 69O-138.001, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with the Bank of New York Mellon, entered into on September 17, 2010. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, Berkower LLC (formerly Demetrius Berkower LLC), audited the Company's statutory basis financial statements annually for the years 2012, 2013, 2014, 2015 and 2016. The Company's 2015 and 2016 audited financial statements were not filed timely with the Office pursuant Section 624.424(8), Florida Statutes. The Company was in non-compliance with Rule 69O-137.002(6), Florida Administrative Code, by not filing their 2014, 2015 and 2016 CPA awareness letters timely with the Office. Supporting workpapers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

The Company was authorized to transact insurance in Florida on January 10, 2008, and is currently authorized for the following coverages as of December 31, 2016:

Fire	Homeowners Multi-Peril	Commercial Multi-Peril
Other Liability	Burglary and Theft	Mobile Home Multi-Peril
Mobile Home Physical Damage		

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)(3)(a), Florida Statutes. The Company maintained a claims procedure

manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(j), Florida Statutes.

REINSURANCE

Reinsurance Assumed

The Company participated in the Citizens Property Insurance Corporation ("Citizens") takeout program 2013, 2014, 2015 and 2016. During the examination period, the Company reported the Citizens takeout policies as direct business in the Annual Statement. The Company did not report the Citizens business as assumed reinsurance, pursuant to Rule 69O-137.001, Florida Administrative Code.

Subsequent Event: On March 8, 2018, the Company filed their 2017 Annual Financial Statement reporting the Citizens business as assumed reinsurance in accordance with Rule 69O-137.001, Florida Administrative Code.

Reinsurance Ceded

The Company's reinsurance agreements complied with Rule 69O-137.001, Florida Administrative Code with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information.

The Company was in non-compliance with Sections 624.424 (11) (b)(1) and (b)(3), Florida Statutes, by not filing their 2015 and 2016 Captive's Supplemental Financial Disclosure Forms and their 2014, 2015, and 2016 Captive's Statement of Actuarial Opinion timely with the Office.

The Company ceded catastrophe risks on an excess of loss ("XOL") basis to the Florida Hurricane Catastrophe Fund ("FHCF") and other reinsurers through the private markets.

Non-catastrophic, high-value property exposures have been reinsured through facultative reinsurance agreements. Non-catastrophic commercial liability risks have been reinsured through multi-layer facultative reinsurance agreements.

INFORMATION TECHNOLOGY REPORT

Kevin Ralston, CISA, IT Specialist, of INS Services, Inc. performed the review of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

State	Description	Par Value	Market Value
FL	Cash	\$ 356,705	\$ 356,705
TOTAL FLORIDA DEPOSITS		<u>\$ 356,705</u>	<u>\$ 356,705</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 356,705</u>	<u>\$ 356,705</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages.

Avatar Property & Casualty Insurance Company

Assets

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Bonds	\$36,783,643		\$36,783,643
Stocks:			
Common stocks	2,881,154		2,881,154
Cash, cash equivalents and short-term investments	4,435,823		4,435,823
Investment income due and accrued	291,216		291,216
Premiums and Considerations:			
Uncollected premiums and agents' balances in the course of collection	3,726,015		3,726,015
Current federal and foreign income tax recoverable and interest thereon	281,852		281,852
Net deferred tax asset	1,000,388		1,000,388
Aggregate write-ins for other-than-invested assets	<u>205,259</u>	<u></u>	<u>205,259</u>
Total	<u>\$49,605,350</u>	<u></u>	<u>\$49,605,350</u>

Avatar Property & Casualty Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Losses	\$5,425,849	\$1,157,480	\$6,583,329
Loss adjustment expenses	2,695,953		2,695,953
Commissions payable, contingent commissions and other similar charges	190,608		190,608
Other expenses	40,543		40,543
Taxes, licenses and fees	0		0
Unearned premiums	13,143,619		13,143,619
Advance premium	482,536		482,536
Ceded reinsurance premiums payable	1,087,568		1,087,568
Payable to parent, subsidiaries and affiliates	1,441,985		1,441,985
Aggregate write-ins for liabilities	<u>712,343</u>		<u>712,343</u>
Total liabilities	\$25,221,004	\$1,157,480	\$26,378,484
Common capital stock	\$1,000		\$1,000
Surplus notes	3,000,000		3,000,000
Gross paid in and contributed surplus	9,999,000		9,999,000
Unassigned funds (surplus)	<u>11,384,346</u>	<u>(1,157,480)</u>	<u>10,226,866</u>
Surplus as regards policyholders	<u>\$24,384,346</u>	<u>(\$1,157,480)</u>	<u>\$23,226,866</u>
Totals	<u>\$49,605,350</u>	<u>\$0</u>	<u>\$49,605,350</u>

Avatar Property & Casualty Insurance Company

Statement of Income

December 31, 2016

Underwriting Income

Premiums earned	\$18,392,304
Deductions:	
Losses incurred	\$5,749,516
Loss adjustment expenses incurred	2,424,991
Other underwriting expenses incurred	9,739,715
Aggregate write-ins for underwriting deductions	162,530
Total underwriting deductions	<u>\$18,076,752</u>
Net underwriting gain or (loss)	\$315,552

Investment Income

Net investment income earned	\$552,563
Net realized capital gains or (losses)	83,708
Net investment gain or (loss)	<u>\$636,271</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	32,445
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$32,445</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$984,268
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$984,268
Federal & foreign income taxes incurred	<u>264,115</u>
Net Income	<u>\$720,153</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$23,775,820
Net Income	\$720,153
Change in net unrealized capital gains or losses	210,895
Change in net deferred income tax	5,624
Change in non-admitted assets	(328,146)
Change in provision for reinsurance	0
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(1,157,480)
Change in surplus as regards policyholders for the year	<u>(\$548,954)</u>
Surplus as regards policyholders, December 31 current year	<u>\$23,226,866</u>

Avatar Property & Casualty Insurance Company
Reconciliation of Capital and Surplus
December 31, 2016

Capital/Surplus Change during Examination Period

Surplus at December 31, 2011, per Examination			\$13,489,230
	<u>Increase</u>	<u>Decrease</u>	
Net Income (Loss)	\$7,362,556		
Change in net unrealized capital gain	\$641,206		
Change in net deferred income tax	\$725,709		
Change in non-admitted assets		(\$334,354)	
Change in surplus notes	\$3,000,000		
Dividends to stockholders		(\$500,000)	
Examination adjustment		(\$1,157,480)	
Net increase (or decrease)			<u>\$9,737,637</u>
Surplus at December 31, 2016, per Examination			<u>\$23,226,866</u>

Avatar Property & Casualty Insurance Company
Analysis of Changes in Financial Statement Resulting from the Examination
December 31, 2016

Analysis of Changes in Surplus			
Surplus at December 31, 2016, per Annual Financial Statement	per		
			\$24,384,346
		<u>Increase</u>	<u>Decrease</u>
Unassigned Funds			(\$1,157,480)
Net increase (or decrease)			(\$1,157,480)
Surplus at December 31, 2016, after adjustment			\$23,226,866

COMMENTS ON FINANCIAL STATEMENT ITEMS

Assets

Bonds

The Company did not properly disclose their securities and investment interest details in Schedule D, Part 1, in accordance with Section 625.303, Florida Statutes, and the NAIC Annual Statement Instructions.

Subsequent Event: On March 8, 2018, the Company filed their 2017 Annual Financial Statement in accordance with Section 625.303, Florida Statutes and the NAIC Annual Statement Instructions.

Uncollected Premiums, Agents' Balances in the Course of Collection

The Company was in non-compliance with Rule 69O-138.024, Florida Administrative Code because they did not age uncollected premiums on a per policy basis, nor did they report any statutory non-admitted premiums receivable. However, the Company recorded an allowance for doubtful accounts that was reported in the Annual Statement page 2, column 1 Assets.

Liabilities

Losses and Loss Adjustment Expenses

Achille Sime Lanang, FIAF, FSA, MAAA, CERA, Principal/Chief Executive Officer, SL Financial, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office's consulting actuary, Nancy Lee Arico, ACAS, MAAA, of INS Consultants, Inc., reviewed the loss and loss adjustment expense workpapers provided by the Company. The Company's incurred but not reported (IBNR) loss reserves for loss and loss adjustment expenses were understated \$167,000.

The Company under reported case loss and case loss adjustment expense reserves in the amount of \$990,480. Exhibit O from the Handbook was used to derive the sample size and amount of the adjustment.

The Company did not properly record claims related legal expenses in their Annual Statement when incurred pursuant to Section 625.041, Florida Statutes.

The Company did not properly record incurred loss and loss adjustment expense in their Annual Statement in accordance with Section 625.041, Florida Statutes.

Commissions Payable

The Company recorded written, earned and unearned premiums. However, the Company did not record the corresponding incurred commissions expense and commissions payable in the December 31, 2016 Annual Statement, in accordance with Rule 69O-137.001, Florida Administrative Code.

Other Expenses

The Company did not record claims related to legal expenses incurred and invoiced in 2016 into their claims system until January 2017 and was not in compliance with SSAP 5 and SSAP 55.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$23,226,866 exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Acquisition of Elements Property Insurance Holdings, LLC

Effective May 18, 2017, pursuant to Consent Order 208254-17-CO, Avatar Partners, LP acquired one hundred percent (100%) of the membership interests of Elements Property Insurance Holdings, LLC, which is the sole owner of Elements Property Insurance Company, Elements Property Insurance Managers, LLC, and Elementary Insurance Agency, LLC.

SUMMARY OF RECOMMENDATIONS

Holding Company Registration Statement

We recommend that the Company submit their annual Holding Company Registration Statements timely in accordance with Section 628.801 Florida Statutes.

Audited Financial Statements

We recommend that the Company timely file their audited financial statements in accordance with Rule 69O-137.002(4), Florida Administrative Code.

Designation of Independent Certified Public Accountant

We recommend that the Company timely file their CPA awareness letters in accordance with Rule 69O-137.002(6), Florida Administrative Code.

Affiliated Commissions

We recommend that the Company obtain approval from the Office for affiliated agreements pursuant to Consent Order 93101-07-CO.

Affiliated Captive Filings

We recommend that the Company submit the Captive's Supplemental Financial Disclosure Form and Statement of Actuarial Opinion in accordance with Sections 624.424 (11)(b)(1) and (b) (3), Florida Statutes.

Commissions Payable

We recommend that the Company record commissions expense and the corresponding payable in the Annual Statement when incurred in accordance with Rule 69O-137.001, Florida Administrative Code.

Non-admitted Premiums Receivable

We recommend that the Company review the admissibility of their premiums receivable in accordance with Rule 69O-138.024, Florida Administrative Code and report any non-admitted amounts in page 2, column 2, line 15 accordingly.

Related Party Disclosures

We recommend that the Company disclose affiliated transactions in accordance with Rule 69O-137.001(4)(a), Florida Administrative Code.

Incurred Claims Expenses

We recommend that the Company develop claims handling best practices and oversight controls to ensure compliance with Rule 69O-137.001, Florida Administrative Code.

Claims Handling and Accounting

We recommend that the Company develop claims handling best practices and oversight controls to ensure compliance with Rule 69O-137.001, Florida Administrative Code.

Additionally, we recommend that the Company develop financial accounting controls to ensure that the claims data files and workpapers provided to their independent actuary and used to prepare the Annual Statement are reconciled to the claims system to verify the proper recording of incurred losses, paid losses and case reserves pursuant SSAP 55, paragraphs 4 and 6.

Claims Adjusting

We recommend that the Company requests the Office's approval for affiliated services agreements pursuant to Consent Order 93101-07-CO and properly record transactions based on the agreements.

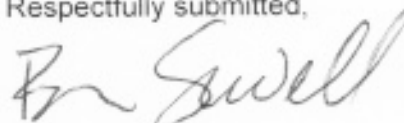
CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Avatar Property & Casualty Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards policyholders was \$23,226,866, which exceeded the minimum of \$10,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, James Robinson, CFE, Examiner-in-Charge of INS Regulatory Insurance Services, Inc. participated in the examination. Members of the Office who participated in the examination include Marie Stuhlmuller, Financial Examiner/Analyst Supervisor, Examination Manager and Christopher Brown, Financial Specialist, Participating Examiner. Additionally, David J. Macesic, ACAS, MAAA, Actuary and Nancy Arico, ACAS, MAAA, Actuary of INS Consultants, Inc. and Kevin Ralston, CISA, IT Specialist and Claude Granese, CPA, CISA, CRISC, CGMA, IT Specialist of INS Services, Inc., are recognized for participation in the examination.

Respectfully submitted,



Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation