

REPORT ON TARGET EXAMINATION
OF
MAIN STREET AMERICA ASSURANCE
COMPANY
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 30, 2009

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Honorable Scott Richardson
Secretary, Southeastern Zone, NAIC
Director of Insurance
South Carolina Department of Insurance
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

Honorable Alfred W. Gross
Chairman, NAIC Financial Condition (E) Committee
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
PO Box 1157
Richmond, Virginia 23218

Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, 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, 2007, of the financial condition and corporate affairs of:

**MAIN STREET AMERICA ASSURANCE COMPANY
4601 TOUCHTON ROAD EAST, SUITE 3400
JACKSONVILLE, FL 32246**

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, 2007 through December 31, 2007. This was the second examination of the Company by representatives of the Florida Office of Insurance Regulation (Office) since the Company redomesticated to Florida in 2005. This examination commenced, with planning at the Office, on July 7, 2008. The fieldwork commenced on September 15, 2008, and was concluded as of January 30, 2009.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

This is a Limited Scope Financial Examination as defined in Section 624.316, Florida Statutes, to the extent directed by the Florida Office as set forth in the Scope of Services Addendum Regarding the Financial Examination of NGM Insurance Company. The examination emphasis was directed to the following areas:

Actuarial

Information Technology

Reinsurance – Transfer of Risk

Investments – Confirmation of Invested Assets

Florida Specific Compliance Testing

Verification of the Status of Prior Examination Report and Management Letter Findings

Testing of the Company's Compliance with the Provisions of the Initial Licensing Application

The examination included a review of the corporate records and other selected records deemed pertinent to the Limited Scope of the Examination. In addition, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no items of interest or corrective action to be taken by the Company with regards to the previous examination.

HISTORY

General

The Company was incorporated in New Hampshire on December 22, 1986, and commenced business on that date as Presidential Property and Casualty Insurance Company. The name was changed to Main Street America Assurance Company (MSAAC), on November 25, 1987. On June 6, 2005, the Company was domiciled in the State of Florida.

Main Street America Group was initiated in 1986 with the creation of the Main Street America Financial Corporation (MSAFC), which is wholly owned by National Grange Mutual Insurance Company.

The Company was a party to Consent Order No. 77686-05-CO filed May 26, 2005, No. 83599-05 filed October 7, 2005, and No. 83360-05 filed October 7, 2005, with the Office, regarding the redomestication to Florida with the application for the issuance of Certificates of Authority. The Company was in compliance with all issued Consent Orders.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Fire	Private Passenger automobile liability
Allied Lines	Commercial automobile liability
Farmowners multi peril	PPA physical damage
Homeowners multi peril	Commercial automobile physical damage
Commercial multi peril	Fidelity
Inland marine	Surety
Ocean marine	Glass
Workers' compensation	Burglary and theft
Other Liability	Mobile home multi peril
Boiler and machinery	Mobile Home Physical Damage
Multi peril crop	

The Company had not written insurance coverage in the previous three years in the lines of business of Ocean Marine, Glass, Boiler and Machinery, Other Liability, Mobile Home Multi Peril, Mobile Home Physical Damage and Multi Peril Crop. Since the Company assumed these lines of business from the pool, but did not write direct business, the Office allowed the Company to retain these lines of business in its certificate of authority.

On September 14, 2007, Article II, Sections I and II of the bylaws were amended by action of the Board of Directors. On December 7, 2007, Article II, Section II of the bylaws was amended by action of the Board of Directors. The shareholders approved the actions of the Board of Directors at the Annual Meeting on March 14, 2008. The amended bylaws were filed with the OIR and properly disclosed in the General Interrogatories of the annual statement.

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	150,000
Number of shares issued and outstanding	75,000
Total common capital stock	\$7,500,000
Par value per share	\$100

Control of the Company was maintained by its parent, Main Street America Holdings, Inc., who owned 100% of the stock issued by the Company, who in turn was 100% owned by Main Street America Financial Corp., who in turn was 100% owned by the policyholders of NGM Insurance Company.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2007	2006
Premiums Earned	0	448,325,613
Net Underwriting Gain/(Loss)	0	13,815,722
Net Income	76,030,392	35,999,444
Total Assets	116,831,149	834,117,447
Total Liabilities	15,982,484	589,024,457
Surplus As Regards Policyholders	100,848,665	245,092,990

The Company cedes all premiums to NGM Insurance Company.

Dividends to Stockholders

The Company declared and paid dividends to its stockholder in 2007 in the amount of \$170,000,000. This dividend was an extraordinary dividend approved by the Office on December 7, 2007.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

Directors

Name and Location	Principal Occupation
Terry Lawrence Baxter Lyme, NH	Director, Folksamerica Corporation
Cotton Mather Cleveland New London, NH	President, Mather Associates
John Adrian Delaney Neptune Beach, FL	President, University of North Florida
Albert Henry Elfner, III Boston, MA	Retired
David Freeman Canton, CT	President, Lydall Corporation
William Dawson Gunter, Jr. Tallahassee, FL	CEO, Rogers, Gunter, Vaughn Insurance Co.
Karl Thomas Kemp Hanover, NH	Retired
Philip Donald Koerner Tipp City, OH	Insurance Executive
James Everitt Morley, Jr. Annapolis, MD	President, National Association for College and University Business Officers
Barbara Dunbar Stewart Atlanta, GA	President, Stewart Economics, Inc.
Melvin Lewis Temales Miami, FL	Vice President, University of Miami
Thomas Mark Van Berkel Ponte Vedra Beach, FL	President, Main Street America Assurance Company

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Thomas Van Berkel	CEO
Susan Mack	Secretary
Edward Kuhl	Treasurer

The Company's Board of Directors appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal Board committees and their members as of December 31, 2007:

Executive Committee	Audit Committee	Finance Committee
Thomas M. Van Berkel ¹	James E. Morley, Jr. ¹	Albert H Elfner, III ¹
William D. Gunter, Jr.	Terry L. Baxter	Philip D. Koerner
Barbara D. Stewart	Cotton M. Cleveland	Barbara D. Stewart
James E. Morley, Jr.	David (NMN) Freeman	William D. Gunter, Jr.
	Melvin L. Temares	John A. Delaney

¹ Chairman

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. Except as noted below, the recorded minutes of the Board of Directors adequately documented its meetings and approval of Company

transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

The Board of Directors minutes did not reflect a review of the December 31, 2006, examination report as specified in the NAIC Financial Examiners Handbook, Part 1, Section V, Part C, Section 3d, and as adopted by Section 624.316(1) (c), Florida Statutes and Rule 69O.138.001, Florida Administrative Code.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures.

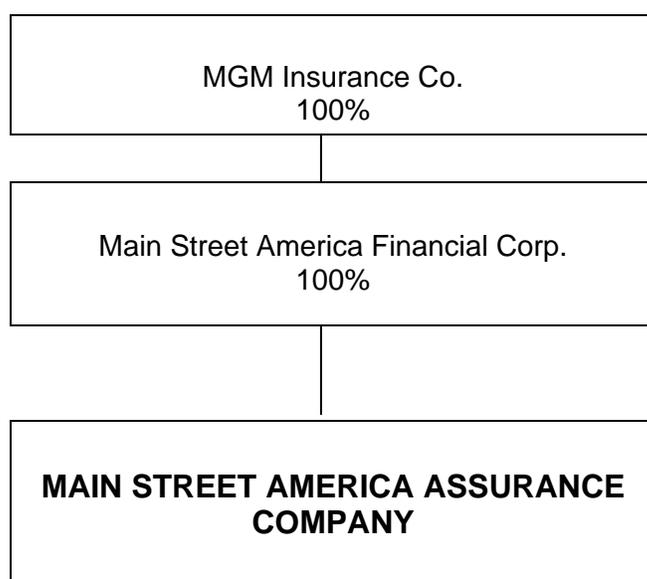
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The holding company registration statement for the period covered by this examination was filed with the State of Florida February 15, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**MAIN STREET AMERICA ASSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Tax Allocation Agreement

The Company's federal income tax return was combined with MSAH, MSAAC, MSA Group and Main Street America Capital Corporation. The method of allocation between the companies was subject to a written agreement dated March 30, 1998, and was approved by the Board of Directors. Allocation was based upon separate return calculations with current credit for net losses recoverable on a consolidated basis. The agreement was amended on October 27, 2005, to include Mutual Holdings and MSA Group as parties to the agreement.

Cost Sharing Agreement

Effective January 1, 1996, the Company entered into an intercompany expense allocation agreement with its affiliates to provide administrative and managerial services. Indirect costs were allocated based upon a uniform and reasonable basis for all affiliated companies. On a quarterly basis, the Company furnished all affiliated companies with an accounting of costs and expenses paid on behalf of each affiliate in the agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$150,000 per loss, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC Financial Condition Examiners Handbook. The Company had other property and liability insurance coverage necessary for the operation of the business.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was a member of a group of companies which share employees and underwriting results under a pooling agreement. The Company has a noncontributory defined benefit pension plan covering substantially all employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and also with other states in which the Company does business:

State	Description	Maturity Date	Interest Rate	Par Value	Market Value
FL	Oregon Pension	6/30/2028	5.55%	\$ 855,000	\$ 867,363
FL	US Treasury	11/15/2016	7.50%	500,000	627,615
Total Florida Deposits				\$ 1,355,000	\$ 1,494,978
DE	Oregon Pension	6/30/2028	5.55%	\$ 100,000	\$ 101,446
GA	Oregon Pension	6/30/2028	5.55%	85,000	86,229
MA	Oregon Pension	6/30/2028	5.55%	60,000	60,868
MA	Oregon Pension	6/30/2028	5.55%	150,000	152,169
NC	US Treasury	11/15/2006	7.50%	325,000	407,950
NH	Oregon Pension	6/30/2028	5.55%	1,000,000	1,014,460
VA	Oregon Pension	6/30/2028	5.55%	250,000	253,615
Total Other Deposits				\$ 1,970,000	\$ 2,076,737
Total Special Deposits				\$ 3,325,000	\$ 3,571,715

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance business in the following 15 states:

Delaware
Florida
Georgia
Maine
Maryland
Massachusetts
New Hampshire
New York

North Carolina
Pennsylvania
Rhode Island
South Carolina
Tennessee
Vermont
Virginia

Treatment of Policyholders

The Company maintained procedures and records for complaints received in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company adopted and implemented procedures for proper investigation of claims as required by Section 626.9541 (1) (i) 3a, Florida Statutes.

REINSURANCE

On January 1, 2007, the reinsurance pooling agreement between NGM and its subsidiaries was changed to an intercompany quota share reinsurance agreement. Under the terms of this agreement there was a pooling of all companies' direct and assumed business which was 100% assumed by NGM and no amount ceded back to the other insurers.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The reinsurance contracts were reviewed during the examination for transfer of risks. The examiner met with the Company's reinsurance manager, reviewed the CPA workpapers and other pertinent documents and noted no concerns.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida. This examination was conducted in Jacksonville, FL and Keene, New Hampshire.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007 and 2006, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The December 31, 2006 examination noted that the Company had a custodial agreement with State Street Bank and Trust Company effective November 1, 1989 that failed to comply with Rule 69O-143.042,(2)(i), Florida Administrative Code, which states that the custodian shall provide, upon written request from the Office or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms ORI-D0-341 (A), (B), or (C) or substantially similar forms with respect to custodied securities. The Company provided an amended custodial agreement dated August 6, 2007, which complied with Rule 69O-143.042,(2)(i), Florida Administrative Code.

Managing General Agent Agreement

The Company had no Managing General Agent or Agreement.

Independent Auditor Agreement

The Company had an agreement with Ernst & Young, LLP to perform an audit of its statutory financial statements for the years 2007 and 2006.

Information Technology Report

An IT review was performed by INS Services, Inc., during this examination.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

MAIN STREET AMERICA ASSURANCE COMPANY
Assets
DECEMBER 31, 2007

	Per Company	Examination	Per Examination
		Adjustments	
Bonds	\$88,999,935		\$88,999,935
Stocks: Common	1,000,000		1,000,000
Cash and short-term investments	815,166		815,166
Other invested assets	531,878		531,878
Receivable for securities	121,279		121,279
Investment income due and accrued	1,389,350		1,389,350
Current federal and foreign income tax recoverable and interest thereon	23,973,541		0
			<u>23,973,541</u>
Totals	\$116,831,149		\$116,831,149

MAIN STREET AMERICA ASSURANCE COMPANY
Liabilities, Surplus and Other Funds
DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Net deferred tax liability	\$10,658,254		\$10,658,254
Payable to parent, subsidiaries and affiliates	5,280,129		5,280,129
Aggregate write-ins for liabilities	<u>44,101</u>		<u>44,101</u>
Total Liabilities	\$15,982,484		\$15,982,484
Common capital stock	\$7,500,000		\$7,500,000
Gross paid in and contributed surplus	78,122,131		78,122,131
Unassigned funds (surplus)	<u>15,226,534</u>		<u>15,226,534</u>
Surplus as regards policyholders	<u>\$100,848,665</u>		<u>\$100,848,665</u>
Total liabilities, surplus and other funds	<u><u>\$116,831,149</u></u>		<u><u>\$116,831,149</u></u>

MAIN STREET AMERICA ASSURANCE COMPANY
Statement of Income
DECEMBER 31, 2007
Underwriting Income

Premiums earned	\$0
Deductions:	
Total underwriting deductions	\$0
Net underwriting gain or (loss)	\$0

Investment Income

Net investment income earned	\$11,350,296
Net realized capital gains or (losses)	37,614,941
Net investment gain or (loss)	\$48,965,237

Net income before dividends to policyholders and before federal and foreign income taxes	\$48,965,237
Dividends to policyholders	0

Net Income, after dividends to policyholders, but before federal and foreign income taxes	\$48,965,237
Federal and foreign income taxes	(27,065,155)

Net Income	\$76,030,392
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Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$245,092,990
Net Income	76,030,392
Net unrealized capital gains or losses	(30,000,243)
Change in net unrealized foreign exchange gain	(7,824)
Change in net deferred income tax	(29,762,294)
Change in non-admitted assets	9,495,644
Dividends to stockholders	(170,000,000)
Change in surplus as regards policyholders for the year	(144,244,325)
Surplus as regards policyholders, December 31 current year	\$100,848,665

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 0

Mr. Edward P. Lotkowski, FCAS, Vice President and Chief Actuary of the Company, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Actuarial Review

The Office contracted with an independent actuary, Mr. James R. Neidermyer, FCAS, MAAA, INS Consultants, Inc., to perform an actuarial review. The independent actuary found the Company's carried gross and net loss and loss adjustment expense reserves to be reasonably stated.

Capital and Surplus

The amount reported by the Company of \$100,848,665, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**MAIN STREET AMERICA ASSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

The following is a reconciliation of Surplus as Regards Policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2007, per Annual Statement	\$100,848,665
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<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
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ASSETS:

No adjustment.

LIABILITIES:

No adjustment.

Net Change in Surplus:	0
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Surplus as Regards Policyholders December 31, 2007, Per Examination	\$100,848,665
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SUMMARY OF FINDINGS

Current examination comments and corrective action

Corporate Records

The Board of Directors minutes did not reflect a review of the December 31, 2006, examination report as specified in the NAIC Financial Examiners Handbook, Part 1, Section V, Part C, Section 3d, and as adopted by Section 624.316(1) (c), Florida Statutes, and Rule 69O.138.001, Florida Administrative Code.

We recommend that the Board of Directors take the necessary steps to comply with Section 624.316(1)(c), Florida Statutes, Rule 69O.138.001, Florida Administrative Code, the NAIC Examiners Handbook, Part 1, Section V., to review the December 31, 2006, examination report and future reports. Such review should be included in the minutes of the Board of Directors.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Main Street America Assurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as Regards Policyholders was \$100,848,665, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned Barry Armstrong, CPA, CFE, Supervising Examiner, INS Regulatory Insurance Services, Inc.; Patricia Casey Davis, CPA, CFE, Supervising Examiner, INS Regulatory Insurance Services, Inc.; and Robert C. Murphy, CFE, CIE, FLMI, Examiner INS Regulatory Insurance Services, Inc. participated in the examination.

Also, contributing to this examination for the actuarial review was James R. Neidermyer, FCAS, MAAA, of INS Consultants, Inc.; and INS Services, Inc., which conducted the IT review of the examination.

Respectfully submitted,

Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation