

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

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 25, 2008

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

Honorable Eleanor Kitzman
Secretary, Southeastern Zone, NAIC
Director of Insurance
300 Arbor Lake Drive
Suite 1200
Columbia, South Carolina 29223

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

Dear Sirs and Madam:

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, 2006, 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, 2006 through December 31, 2006. This is a first year examination by Florida. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on June 11, 2007, to June 15, 2007. The fieldwork commenced on June 21, 2007, and was concluded as of September 28, 2007. The examination was concluded on April 25, 2008.

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.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, 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 are deemed to require special explanation or description.

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 Company's name was changed to Main Street America Assurance Company 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 was wholly owned by National Grange Mutual Insurance Company (NGM). In addition, the Company, formerly known as the Presidential Property and Casualty Insurance Company, was incorporated as a stock New Hampshire domestic property and casualty insurer.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Fire	Private passenger automobile liability
Allied lines	Commercial automobile liability
Farmowners multi peril	Private passenger automobile 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 has not written insurance coverage in the last two 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 business from the pool, but not writing direct, the Office allowed the Company to retain these lines of business in its certificate of authority.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2006, 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., which owned 100% of the stock issued by the Company, which in turn was 100% owned by Main Street America Financial Corporation, which was in turn 95.1% owned by Main Street America Group Mutual Holdings, Inc., the ultimate parent and mutual holding company. The policyholders of NGM Insurance Company are the sole owners of Main Street America Group Mutual Holdings, Inc., and are the ultimate controlling persons.

Profitability of Company

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

	2006	2005
Premiums Earned	448,325,613	428,600,893
Net Underwriting Gain/(Loss)	13,815,722	(11,709,570)
Net Income	35,999,444	14,610,685
Total Assets	834,117,447	784,368,648
Total Liabilities	589,024,457	554,194,614
Surplus As Regards Policyholders	245,092,990	230,174,034

Dividends to Stockholders

The Company declared and paid dividends to its stockholder in 2006 in the amount of \$25,037,320.

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, 2006, were:

Directors

Name and Location	Principal Occupation
Terry Lawrence Baxter Lyme, NH	Retired
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 Temares 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 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, 2006:

Executive Committee

Thomas Mark Van Berkel¹
William Dawson Gunter, Jr.
James Everitt Morley, Jr.
Barbara Dunbar Stewart

¹ Chairman

Audit Committee

James Everitt Morley, Jr. ¹
Terry Lawrence Baxter
Cotton Mather Cleveland
David Freeman
Melvin Lewis Temares

Finance Committee

Albert Henry Elfner III ¹
John Adrian Delaney
William Dawson Gunter, Jr.
Philip Donald Koerner
Barbara Dunbar Stewart

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. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board 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.

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.

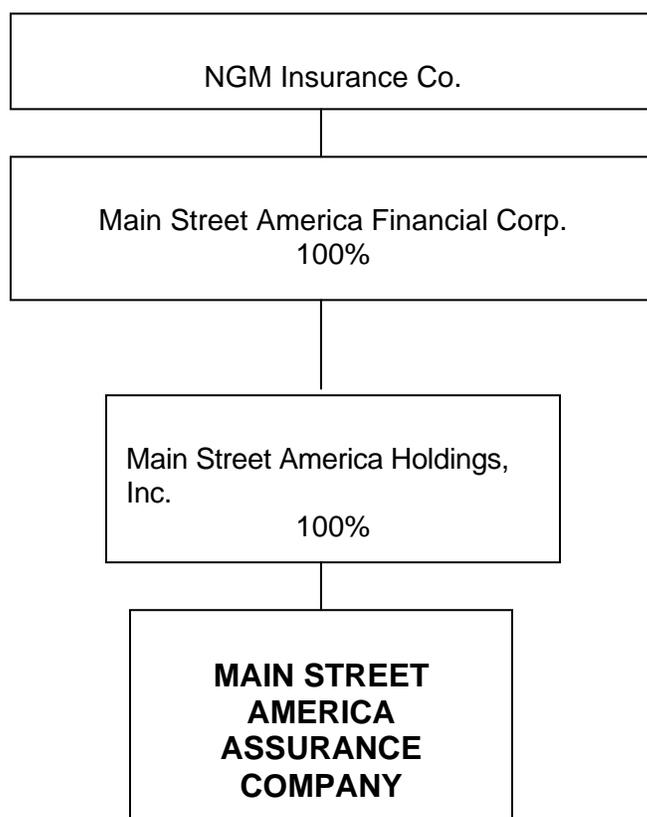
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on September 30, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**MAIN STREET AMERICA ASSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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

Cost Sharing Agreement

The Company was a party to a cost sharing agreement with NGM, the parent Company. The parent company provided administrative and managerial services. The costs were allocated as related to the subsidiaries portion of the overall profits contributed. On a quarterly basis, NGM provided the Company with an accounting of costs and expenses paid on behalf of each affiliate in the agreement.

Managing General Agent Agreement

The Company did not use the services of a managing general agent.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$150,000, 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 needed in the operation of the business.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company was a member of a group of companies, which shared employees and underwriting results under a pooling agreement. The Company had 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:

State	Description	Maturity Date	Interest Rate	Par Value	Market Value
FL	Oregon Pension	6/30/2028	5.55%	\$ 855,000	\$ 855,958
FL	US Treasury	11/15/2016	7.50%	500,000	607,578
Total Florida Deposits				<u>\$ 1,355,000</u>	<u>\$ 1,463,536</u>
DE	Oregon Pension	6/30/2028	5.55%	\$ 100,000	\$ 100,112
GA	Oregon Pension	6/30/2028	5.55%	85,000	85,095
MA	Oregon Pension	6/30/2028	5.55%	60,000	60,067
MA	Oregon Pension	6/30/2028	5.55%	150,000	150,168
NH	Oregon Pension	6/30/2028	5.55%	1,000,000	1,001,120
VA	Oregon Pension	6/30/2028	5.55%	250,000	250,280
Total Other Deposits				<u>\$ 1,645,000</u>	<u>\$ 1,646,842</u>
Total Special Deposits				<u>\$ 3,000,000</u>	<u>\$ 3,110,378</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized in accordance with Section 624.401(2), Florida Statutes, to transact insurance in the following states:

Delaware	Massachusetts	South Carolina
Florida	New Hampshire	Tennessee
Georgia	New York	Vermont
Maine	Pennsylvania	Virginia
Maryland	Rhode Island	

Treatment of Policyholders

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

REINSURANCE

Effective January 1, 1996, the Company entered into a pooling agreement with an affiliated group of insurance companies, of which NGM was the lead company. The agreement was amended on June 30, 1997. NGM had 40% of the pool, the Company had 55% and Old Dominion Insurance Company had 5%. All lines of business were subject to the pooling agreement. Cessions to non-affiliated reinsurers occurred prior to the pool. Schedule F provisions were not shared by pool members; write-offs of uncollectible reinsurance were shared in accordance with each companies pooling percentage. The reinsurance agreements reviewed were found to comply with NAIC

standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed 55% of the combined insurance business of the pool.

Ceded

The Company ceded 100% of its written business. The majority of the cession was to its parent, NGM.

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

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005 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's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with State Street Bank and Trust Company, dated November 1, 1989 that did not comply with Rule 69O-143.042 (j), Florida Administrative Code which states that the custodian shall provide, upon written request from the Insurance Director or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-DO-341 (A), (B), or (C) or substantially similar forms with respect to custodied securities.

Subsequent Event

The Company, provided an amended custodial agreement dated August 6, 2007, which complied with Rule 69O-143.142, (j), Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Ernst & Young, LLP to perform an audit of its statutory financial statements for the years 2006 and 2005.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$574,146,425		\$574,146,425
Stocks:			
Preferred	10,046,418		10,046,418
Common	87,001,129		87,001,129
Other invested assets	3		3
Receivable for securities	1,501,685		1,501,685
Cash	78,863		78,863
Cash equivalents	6,679,708		6,679,708
Agents' Balances:			
Uncollected premium	32,990,294		32,990,294
Deferred premium	91,300,073		91,300,073
Amounts recoverable from reinsurers	11,627		11,627
Funds held by reinsurance companies	1,448,620		1,448,620
Investment income			
due & accrued	6,145,684		6,145,684
Current federal income tax recoverable	1,510,915		1,510,915
Net deferred tax asset	18,625,795		18,625,795
Guaranty funds receivable	557,477		557,477
Receivable from parents, subsidiaries and affiliates	2,072,731		2,072,731
Totals	\$834,117,447		\$834,117,447

MAIN STREET AMERICA ASSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$265,553,398		\$265,553,398
Loss adjustment expenses	49,079,322		49,079,322
Commissions payable	12,355,112		12,355,112
Other expenses	7,920,560		7,920,560
Taxes, licenses and fees	6,972,898		6,972,898
Unearned premium	225,749,680		225,749,680
Advance premium	2,534,940		2,534,940
Drafts outstanding	13,505,486		13,505,486
Aggregate write-ins for liabilities	<u>5,353,061</u>		<u>5,353,061</u>
Total Liabilities	\$589,024,457		\$589,024,457
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>159,470,859</u>		<u>159,470,859</u>
Surplus as regards policyholders	<u>\$245,092,990</u>		<u>\$245,092,990</u>
Total liabilities, surplus and other funds	<u><u>\$834,117,447</u></u>		<u><u>\$834,117,447</u></u>

MAIN STREET AMERICA ASSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned	\$448,325,613
Deductions:	
Losses incurred	241,743,570
Loss expenses incurred	49,636,543
Other underwriting expenses incurred	143,129,778
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$434,509,891</u>
Net underwriting gain or (loss)	\$13,815,722

Investment Income

Net investment income earned	\$26,453,314
Net realized capital gains or (losses)	5,088,491
Net investment gain or (loss)	<u>\$31,541,805</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$1,392,694)
Finance and service charges not included in premiums	3,899,871
Aggregate write-ins for miscellaneous income	1,165,277
Total other income	<u>\$3,672,454</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$49,029,981
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$49,029,981
Federal & foreign income taxes	<u>13,030,537</u>
Net Income	\$35,999,444

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$230,174,034
Net Income	\$35,999,444
Net unrealized capital gains or losses	4,517,358
Change in non-admitted assets	(1,319,212)
Change in net deferred income tax	758,686
Dividends to stockholders	(25,037,320)
Change in surplus as regards policyholders for the year	\$14,918,956
Examination Adjustment	0
Surplus as regards policyholders, December 31 current year	<u><u>\$245,092,990</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$314,632,720

Mr. Edward P. Lotkowski, FCAS, MAAA, Vice President and Chief Actuary of the Company, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make 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, Pinnacle Actuarial Resources, Inc., to perform an actuarial review. The independent actuary reported that Net Loss and Loss Reserves as of December 31, 2006 were materially consistent with those of the Company actuary.

Capital and Surplus

The amount reported by the Company of \$245,092,990, exceeds 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, 2006

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, 2006, per Annual Statement	\$245,092,990
-----------------------------------------------------------------------------	---------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment.			\$0
LIABILITIES:			
No adjustment.			\$0
Net Change in Surplus:			\$0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$245,092,990

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest and corrective actions to be taken by the Company with regards to this examination.

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, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$245,092,990, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Roger Kelley, Financial Examiner/Analyst II, and Jay Ambler, Financial Examiner/Analyst II, James Collins, Reinsurance/Financial Specialist participated in the examination. Charles C. Emma, FCAS, MAAA and Deborah W. Price, FCAS, MAAA of Pinnacle Actuarial Resources, Inc. also contributed to this examination.

Respectfully submitted,

Mike Young
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Respectfully submitted,

Mary James, CFE, CPM
Financial Administrator
Florida Office of Insurance Regulation