

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

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 9, 2009

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

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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, 2008, of the financial condition and corporate affairs of:

**MAIN STREET AMERICA ASSURANCE COMPANY
4601 TOUCHTON ROAD EAST, STE. 3400
JACKSONVILLE, FLORIDA 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, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on July 20, 2009 to July 24, 2009. The fieldwork commenced on July 20, 2009, and concluded as of November 9, 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.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk, and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, and increased focus on and increased substantive testing of accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

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, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2007, along with resulting action taken by the Company.

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 690.138.001, Florida Administrative Code. **Resolution:** The Board of Directors minutes included a review of the December 31, 2007 examination report.

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 (MSA 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 writes 21 lines of business in 16 states. The Company only wrote a minor amount of Federal Flood, Workers' Compensation, Fidelity and Surety insurance in Florida in 2008.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

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	

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., (MSAH) who owned 100% of the stock issued by the Company, who in turn was 100% owned by Main Street America Financial Corp. (NSAFC) 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.

	2008	2007
Premiums Earned	0	0
Net Underwriting Gain/(Loss)	0	0
Net Income/(Loss)	(9,510,668)	76,030,392
Total Assets	115,132,309	116,831,149
Total Liabilities	16,743,883	15,982,484
Surplus As Regards Policyholders	98,388,426	100,848,665

Dividends to Stockholders

The Company did not distribute any dividends to stockholders during the period under examination.

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, 2008, 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 Group

The Board (Board) 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 were the principal internal board committees and their members as of December 31, 2008:

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

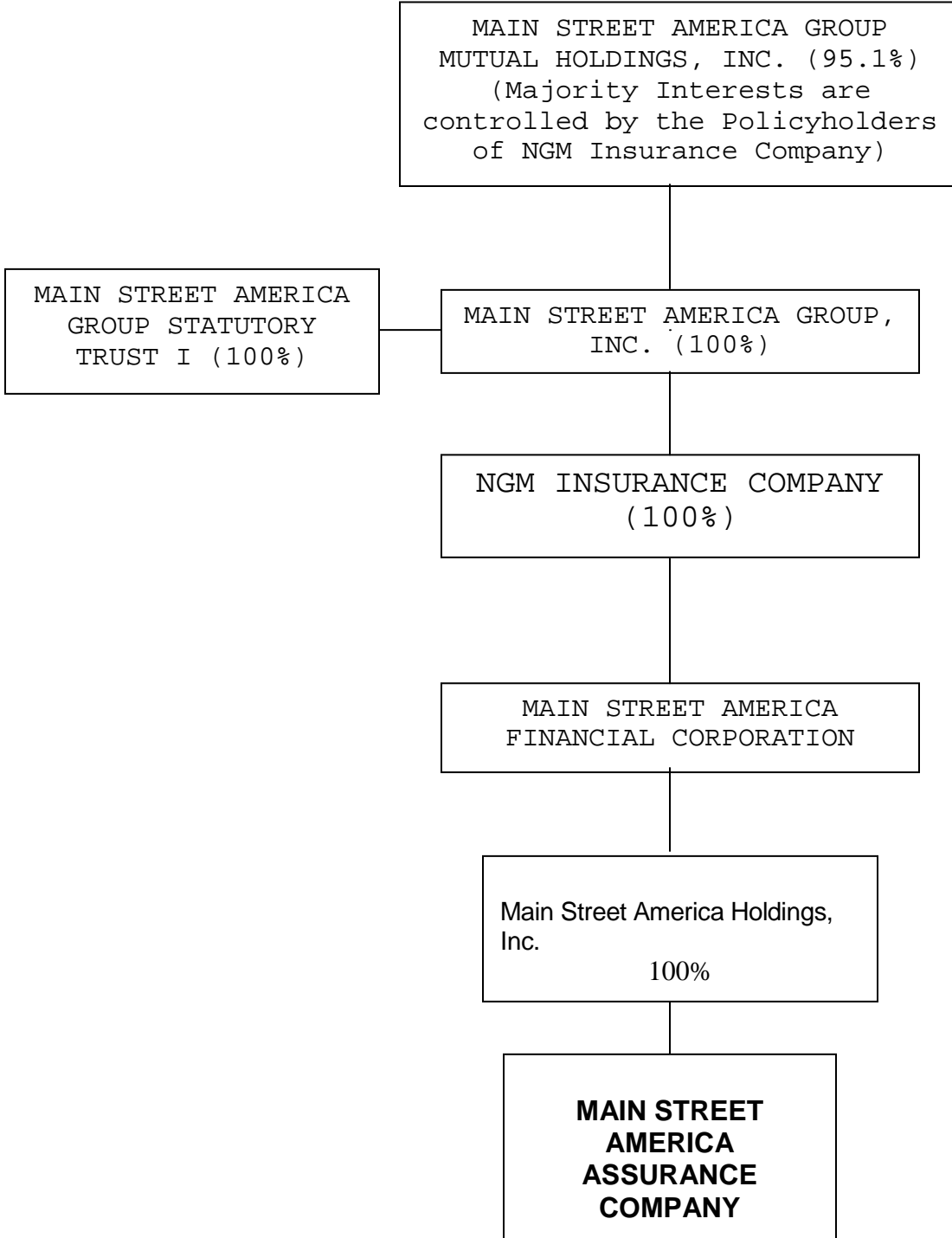
AFFILIATED COMPANIES

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 February 13, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

**MAIN STREET ASSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2008



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. The agreement was also amended in 2008 to include Great Lakes Casualty Insurance Company, which was acquired in a transaction that closed on October 1, 2008.

Cost Sharing Agreement

Effective January 1, 1996, the Company entered into an intercompany expense allocation agreement with its subsidiaries 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 \$20,000,000 with a deductible of \$150,000 per loss, an amount considered adequate 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:

State	Description	Maturity Date	Interest Rate	Par Value	Market Value
FL	Oregon Pension	6/30/2028	5.55%	\$ 855,000	\$ 821,339
FL	US Treasury	11/15/2016	7.50%	\$ 500,000	\$ 681,953
Total Florida Deposits				\$ 1,355,000	\$ 1,503,292
DE	Oregon Pension	6/30/2028	5.55%	\$ 100,000	\$ 96,063
GA	Oregon Pension	6/30/2028	5.55%	\$ 85,000	\$ 81,654
MA	Oregon Pension	6/30/2028	5.55%	\$ 60,000	\$ 57,638
MA	Oregon Pension	6/30/2028	5.55%	\$ 150,000	\$ 144,095
NC	US Treasury	11/15/2006	7.50%	\$ 325,000	\$ 443,726
NH	Oregon Pension	6/30/2028	5.55%	\$ 1,000,000	\$ 960,630
VA	Oregon Pension	6/30/2028	5.55%	\$ 250,000	\$ 240,158
Total Other Deposits				\$ 1,970,000	\$ 2,023,964
Total Special Deposits				\$ 3,325,000	\$ 3,527,256

Territory

The Company was authorized to transact insurance business in following 16 states:

Delaware	North Carolina
Florida	Pennsylvania
Georgia	Rhode Island
Maine	South Carolina
Maryland	Tennessee
Massachusetts	Vermont

New Hampshire
New York

Virginia
Connecticut

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) 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.

Assumed

The Company did not assume any business during the period under examination.

Ceded

The Company ceded 100% of its direct business to the reinsurance pool.

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, FL. This examination was conducted in Jacksonville, FL and Keene, NH.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008, 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 Company had a custodial agreement for the safekeeping of the securities in compliance with Rule 690-143.042, Florida Administrative Code.

Managing General Agent Agreement

The Company was not party to any Managing General Agent Agreement.

Independent Auditor Agreement

The Company had an agreement with Ernst & Young, LLP, to perform an audit of its statutory financial statements.

Information Technology Report

Interactive Solutions Inc. performed an evaluation 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.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$103,322,899		\$103,322,899
Stocks:			
Preferred	0		0
Common	1,000,000		1,000,000
Mortgage loans on real estate			
First liens	0		0
Real Estate:			
Properties occupied by Company	0		0
Cash:	2,442,586		2,442,586
Other investmented assets	2,702,904		2,702,904
Receivable for securities	4,098,113		4,098,113
Agents' Balances:			
Uncollected premium	0		0
Deferred premium	0		0
Reinsurance recoverable	0		0
EDP Equipment	0		0
Interest and dividend income due & accrued	1,432,466		1,432,466
Receivable from parents, subsidiaries and affiliates	133,341		133,341
Net deferred tax assets	0		0
Equities and deposits in pools and associations	0		0
Aggregate write-in for other than invested assets	0		0
	<hr/>		
Totals	\$115,132,309	\$0	\$115,132,309

MAIN STREET AMERICA ASSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$0		\$0
Loss adjustment expenses	0		0
Commission payable	0		0
Other expenses	0		0
Taxes, licenses and fees	0		0
Unearned premium	0		0
Current federal income taxes	9,173,362		9,173,362
Net deferred tax liability	3,615,335		3,615,335
Provision for reinsurance	0		0
Drafts outstanding	0		0
Payable to parent, subsidiaries and affiliates	0		0
Payable for securities	3,917,750		3,917,750
Aggregate write-ins for liabilities	37,436		37,436
<hr/>			
Total Liabilities	\$16,743,883		\$16,743,883
Common capital stock	\$7,500,000		\$500,000
Surplus notes	0		0
Gross paid in and contributed surplus	78,122,131		78,122,131
Unassigned funds (surplus)	12,766,295		12,766,295
<hr/>			
Surplus as regards policyholders	\$98,388,426		\$98,388,426
<hr/>			
Total liabilities, surplus and other funds	\$115,132,309		\$115,132,309

MAIN STREET AMERICA ASSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$0
	Deductions:	
Losses incurred		0
Loss expenses incurred		0
Other underwriting expenses incurred		0
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$0
Net underwriting gain or (loss)		\$0

Investment Income

Net investment income earned		\$3,806,318
Net realized capital gains or (losses)		(9,624,940)
Net investment gain or (loss)		(\$5,818,622)

Other Income

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

Net income before dividends to policyholders and before federal & foreign income taxes		(\$5,818,622)
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$5,818,622)
Federal & foreign income taxes		3,692,046
Net Income		(\$9,510,668)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$100,848,665
Net Income		(\$9,510,668)
Net unrealized capital gains or losses		0
Change in net unrealized foreign exchange capital gains		9,387,354
Change in net deferred income tax		(2,344,434)
Change in non-admitted assets		7,509
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
Dividends to stockholders		0
Change in surplus as regards policyholders for the year		(\$2,460,239)
Surplus as regards policyholders, December 31 current year		\$98,388,426

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$0

The Company ceded 100% of written business into the reinsurance pool established through a quota share reinsurance agreement among affiliated companies. No losses and loss adjustment reserve was established.

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, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The actuary Brett Miller, FCAS, MAAA, Merlinos & Associates, performed an actuarial review of the provision for all unpaid loss and loss expense obligations of the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$98,388,426, 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 STREETAMERICA ASSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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, 2008, per Annual Statement	\$98,388,426
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2008, Per Examination			<u><u>\$98,388,426</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company took the necessary actions to comply with the recommendations made in the 2007 examination report issued by the Office.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

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, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$98,388,426, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned Donald W. Sirois CFE, CPA, Invotex Group, Director, JunJie Pan CFE, CPA, CPCU, Invotex Group, Senior Consultant, Ron W. Pusz, Jr., Invotex Group, Senior Consultant, and Jerry Golden, Financial Examiner/Analyst II, Exam Manager participated in the examination. We also recognize the participation of Interactive Solutions, LLC, which conducted the IT review and Merlinos & Associates for the actuarial review in the examination.

Respectfully submitted,

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