New Mexico Property Insurance Program
Financial Statements
December 31, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

Governing Committee
New Mexico Property Insurance Program

We have audited the accompanying statements of assets, liabilities, and net assets (modified cash basis) of New Mexico Property Insurance Program (a nonprofit organization) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and other changes in net assets (modified cash basis) for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of New Mexico Property Insurance Program as of December 31, 2008 and 2007, and its revenues, expenses, and other changes in net assets for the years then ended, on the basis of accounting described in Note 1.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Note 4 - Liability for Losses and Loss-Adjustment Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

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New Mexico Property Insurance Program
Statements of Assets, Liabilities, and Net Assets
(Modified Cash Basis)
December 31, 2008 and 2007

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 4,169,260	$ 4,961,028
Investments, at cost		
Common stock	11,418	11,418
Mutual funds	4,068,994	3,992,135
Deferred annuity	1,225,965	1,131,374
Total investments	5,306,377	5,134,927
Employee advance	30	-
Prepaid rent	-	2,465
Total current assets	9,475,667	10,098,420
Deposits	2,157	2,157
Total assets	$ 9,477,824	$ 10,100,577
Liabilities and Net Assets		
Current liabilities		
Payroll taxes payable	$ 5,117	$ 3,353
Other payroll withholdings	515	227
Total current liabilities/total liabilities	5,632	3,580
Net assets, unrestricted	9,472,192	10,096,997
Total liabilities and net assets	$ 9,477,824	$ 10,100,577

See accompanying notes to financial statements.

New Mexico Property Insurance Program
Statements of Revenues, Expenses, and Other Changes in Net Assets (Modified Cash Basis)
Years Ended December 31, 2008 and 2007

	2008	2007
Revenues		
Premiums assumed	$ 3,517,809	$ 3,720,982
Investment return	308,367	502,001
Total revenues	3,826,176	4,222,983
Expenses		
Program services		
Losses and loss adjustment expenses	3,289,013	4,998,819
Servicing insurer fee	468,339	494,637
Total program services	3,757,352	5,493,456
Supporting services		
Producer fees	365,036	372,098
General and administrative		
Salaries	127,917	120,471
Payroll taxes	9,743	9,689
Retirement plan	3,793	5,087
Other employee benefits	21,119	23,681
ISO subscription fees	9,982	7,402
Property Insurance Plan Service Office fees	6,000	6,750
Computer services	8,800	10,560
Accounting and auditing	3,339	9,592
Legal	43,128	21,189
Rent	35,974	29,374
Telephone	6,936	7,994
Postage	2,473	1,840
Office supplies	3,557	2,897
Insurance and bonds	1,734	1,944
Travel	18,231	13,500
Meetings	6,409	4,443
Equipment	7,630	3,070
Remodeling	5,675	-
Miscellaneous	6,153	3,464
Total general and administrative	328,593	282,947
Total supporting services	693,629	655,045
Total expenses	4,450,981	6,148,501
Change in net assets	(624,805)	(1,925,518)
Net assets, unrestricted, beginning of year	10,096,997	12,022,515
Net assets, unrestricted, end of year	$ 9,472,192	$ 10,096,997

See accompanying notes to financial statements.

New Mexico Property Insurance Program
Notes to Financial Statements
December 31, 2008 and 2007

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of activities

New Mexico Property Insurance Program ("the Program") is an unincorporated nonprofit association established in 1969 pursuant to New Mexico state law to provide essential property insurance to responsible and qualified applicants in New Mexico who are unable to secure such insurance in the normal markets. All insurers writing essential property insurance in New Mexico are required to be members of the Program. The Program acts as an underwriter and uses a servicing insurer, reinsuring the policies issued by that insurer. If the Program sustains losses in excess of available funds, the deficiency may be funded by its members through assessments. There were no such assessments in 2008 or 2007.

Basis of accounting

The Program prepares its financial statements on a modified cash basis of accounting, which recognizes revenues when received rather than when earned, and expenses when cash is disbursed rather than when the obligations are incurred. Consequently, unearned premiums assumed that are returned to the servicing insurer upon cancellation of the servicing insurer's policies are recognized as reductions of premiums assumed upon disbursement. Claims expenses are generally incurred, paid, and reported in a period after the associated premiums assumed are recorded as revenue. Investment activity is recorded upon receipt or disbursement of cash.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

The Program considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments are carried at cost under the modified cash basis of accounting.

Restricted amounts

There are no temporary or permanent restrictions on net assets.

NOTE 2 – CASH AND CASH EQUIVALENTS

The amounts held in a checking account, under a repurchase agreement, and a certificate of

NOTE 2 – CASH AND CASH EQUIVALENTS – Continued

deposit at one New Mexico bank exceed the Federal Deposit Insurance Corporation insurance limits of $250,000 and $100,000 at December 31, 2008 and 2007, respectively, by $1,223,914 and $2,264,067, respectively. Certificates of deposit at two other banks exceed the FDIC insurance limits by $1,277,610 and $919,835 at December 31, 2008, and $1,369,786 and $1,030,617 at December 31, 2007.

The repurchase agreement requires the underlying securities to be direct obligations of, or fully guaranteed by, the United States or any of its agencies, or United States agency-issued mortgage-backed securities. Balances under the agreement are $247,078 and $1,219,781 at December 31, 2008 and 2007, respectively.

Certificates of deposit held at December 31, 2008, mature as follows:

January 4, 2009	$ 1,527,610
January 8, 2009	1,169,835
March 24, 2009	1,137,835
	$ 3,835,280

NOTE 3 – INVESTMENTS

Common stock has a carrying amount of $11,418 and fair values of $11,037 and $33,663 at December 31, 2008 and 2007, respectively.

Mutual funds are fixed income funds with costs and fair values as follows:

	Cost	Fair Value
December 31, 2008:		
Fidelity Advisor Floating Rate High Income Fund	$ 1,913,006	$ 1,483,101
Fidelity Advisor Short Fixed Income Fund	1,089,507	996,663
Oppenheimer Strategic Income Fund	533,058	420,184
Oppenheimer U.S. Government Trust Fund	531,577	497,637
Other	1,846	3,029
	$ 4,068,994	$ 3,400,614
December 31, 2007:		
Fidelity Advisor Floating Rate High Income Fund	$ 1,829,534	$ 1,783,583
Fidelity Advisor Mortgage Securities Fund	899,512	839,079
Fidelity Advisor Short Fixed Income Fund	1,261,757	1,225,484
Other	1,332	1
	$ 3,992,135	$ 3,848,147

NOTE 3 – INVESTMENTS – Continued

SFAS No. 157, *Fair Value Measurements,* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. Fair values disclosed above for the Program's securities are determined from quoted market prices, which are Level 1 inputs.

The deferred annuity contract was issued on June 18, 2003. The Program is the owner and the Plan Supervisor is the annuitant. The Program will receive a monthly annuity beginning starting on June 18, 2050. If the annuitant dies before that start date, the Program will receive a death benefit equal to the account value on the date of death. The contract may be surrendered before the annuity starting date for its cash surrender value. The annuity has cash surrender values of $1,225,965 and $1,131,374 and account values of $1,225,965 and $1,184,685 at December 31, 2008 and 2007, respectively. The difference between the 2007 values is a withdrawal charge. The charge is 7% of the amount over 10% of the account balance withdrawn in the first three years, 6% in the fourth year, 5% in the fifth year, and 0% after five years. Interest is credited daily at rates declared by the insurance company, but no less than 3% on the first $50,000 of account value and 3.5% on the account value over $50,000. Those minimums rates are in effect for the contract years ending June 17, 2009 and 2008.

Investment return is comprised of the following for the years ended December 31:

	2008	2007
Interest	$ 136,461	$ 229,231
Dividends	174,672	246,704
Annuity earnings	94,591	48,328
Net realized losses	(97,357)	(22,262)
	$ 308,367	$ 502,001

NOTE 4 – LIABILITY FOR LOSSES AND LOSS-ADJUSTMENT EXPENSES - Unaudited

Management estimates that the liabilities for losses and loss-adjustment expenses, including losses incurred but not reported, are approximately $471,675 and $1,310,395 at December 31, 2008 and 2007, respectively. The estimates are based upon specific claim reserves of $7,330 and $80,006 as of August 31, 2009 and 2008, respectively, and payments of $464,345 and $1,230,389 through August 2009 and 2008, respectively. The ultimate liabilities may be more or less than the amounts estimated; the estimates may change as claims are being adjusted.

NOTE 5 – LEASE COMMITMENT

The Program leases office space under an agreement that expires on December 31, 2010. Lease payments include base rent and common area maintenance. Remaining base rent obligations are $30,509 in 2009 and $31,341 in 2010. Lease expense is $35,974 in 2008 and $29,374 in 2007.

NOTE 6 – 401(A) EMPLOYEE SAVINGS PLAN

The Program maintains a 401(a) employee savings plan that permits employer contributions of 75% of an employee's contribution up to 6% of the employee's annual salary. Employees qualify for enrollment upon completion of one year of continuous service. The Program's contributions were $2,294 and $3,751 for the years ended December 31, 2008 and 2007, respectively.

NOTE 7 – RELATED PARTY INVESTMENTS

At December 31, 2008, the Program owns certificates of deposit of $2,697,446 and investments of $5,294,959 issued or held by companies related to insurance companies represented on the Governing Committee of the Program. Income from these investments is $268,509 in 2008.

At December 31, 2007, the Program owns certificates of deposit of $2,600,403 and investments of $5,123,509 issued or held by companies related to insurance companies represented on the Governing Committee of the Program. Income from these investments is $436,007 in 2007.

NOTE 8 – INCOME TAXES

The Program is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code.