

# *The State of Royal Neighbors of America*

## **The State of Royal Neighbors of America as of December 31, 2008**

### **Audit Committee Report to Members, May 2009**

*The Audit  
Committee  
is comprised  
of four  
independent  
board  
members:*

**Chairperson –**

V. Sue Molina

Dr. Joyce Elam

Patricia Gibford

Dr. Benet Spence

The Royal Neighbors of America Audit Committee operates under a written charter adopted by the Board of Directors, and is responsible for overseeing the Society's financial reporting process on behalf of the Board of Directors and Society members. This responsibility is accomplished by following a detailed work plan of activities. Management is responsible for Royal Neighbors' financial statements and the financial reporting process, including internal controls. The Society's independent auditors are responsible for performing an independent audit of Royal Neighbors' financial statements in accordance with applicable regulatory accounting principles.

The Audit Committee's responsibility is to monitor and oversee these processes. In this context, the Audit Committee is authorized, among other things, to approve and retain the independent auditors to conduct the annual audit of the Society's financial books and records, review the proposed scope and results of the audit, review and pre-approve the independent auditor's audit and non-audit services rendered, approve the audit fees to be paid, review and approve related party transactions, recognize and prevent prohibited non-audit services by Royal Neighbors' independent auditors, review the annual operating expense budget proposed by management, and establish procedures for complaints received by the Society regarding accounting matters.

The Audit Committee was formed in September 2004 and meets at least quarterly through the year. The Committee meets with representatives of management and the independent public accountants to review matters of a material nature related to auditing, financial reporting, internal controls, and audit results. For 2008, the Audit Committee retained the firm of Kerber, Eck & Braeckel, and LLP (KEB) as Royal Neighbors' independent auditors.

The Audit Committee is comprised of four independent board members. They are: Chairperson V. Sue Molina, Dr. Joyce Elam, Patricia Gibford, and Dr. Benet Spence.



# Royal Neighbors Financial Statement Summary

(dollars in thousands)

## Balance Sheet

	2008	2007
Investments including bonds, common stocks, and mortgage loans	\$ 623,329	639,366
Real estate	6,475	6,773
Contract loans	14,225	14,118
Cash and short-term investments	9,932	7,778
Other assets	17,640	15,189
<b>Total admitted assets</b>	<b>\$ 671,601</b>	<b>683,224</b>
Insurance reserves and claims	\$ 429,272	413,594
Other liabilities	28,826	25,271
<b>Total reserves and liabilities</b>	<b>\$ 458,098</b>	<b>438,865</b>
Certificateholders' surplus:		
Fraternal fund	\$ 88,523	87,190
Unassigned surplus	124,980	157,169
<b>Total certificateholders' surplus</b>	<b>213,503</b>	<b>244,359</b>
<b>Total insurance reserves, liabilities, and surplus</b>	<b>\$ 671,601</b>	<b>683,224</b>

## Income Statement

Premium income, net of reinsurance	\$ 57,214	50,448
Investment income	36,727	36,732
Reinsurance allowances and miscellaneous income	26,310	30,009
<b>Total income</b>	<b>120,251</b>	<b>117,189</b>
Benefits paid or provided	58,994	50,259
Commissions	25,431	22,796
General and administrative expenses	23,983	22,015
Net income (loss) before net realized capital gains (losses)	11,843	22,119
Net realized capital gains (losses)	(1,429)	13,197
<b>Net income (loss)</b>	<b>\$ 10,414</b>	<b>35,316</b>

## Philanthropic Expenses (actual dollars)

In 2008, 27 new national scholarships were awarded, valued at	\$82,500
We paid 73 scholarships totaling	\$163,750
Fraternal Support	\$1,254,745
Nation of Neighbors <sup>SM</sup> Program	\$413,046

## Royal Neighbors Foundation (actual dollars)

Contributions from Royal Neighbors	\$210,000
Contributions from other sources	\$27,022
Benefits paid out (Heroes at Home, Disaster Relief, State Scholarships, etc.)	\$92,665



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[www.royalneighbors.org](http://www.royalneighbors.org)

# Management's Report to the Membership

## Product options available

- Whole Life
- Single Premium Whole Life
- Simplified Issue Whole Life
- Graded Death Benefit Whole Life
- Level Premium Term Life
- Universal Life
- Single Premium Immediate Annuity
- Flexible Premium Deferred Annuity
- Traditional Individual Retirement Annuity
- Roth Individual Retirement Annuity
- Single Premium Deferred Annuity
- Medicare Supplement

These insurance products are not available in all states.

Please call: (866) 845-6665 for more information, or visit us at [www.royalneighbors.org](http://www.royalneighbors.org)



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	December 31	
	2008	2007
	(dollars in thousands)	
Insurance in force face amount	<b>2.2 billion</b>	2.0 billion
Admitted assets	<b>\$671,601</b>	\$683,224
Certificateholders' surplus	<b>213,503</b>	244,359
Premium income, net of reinsurance	<b>57,186</b>	50,449
Net income	<b>10,414</b>	35,316

In its 114th year, Royal Neighbors is pleased to report another successful financial year. Our financial position is strong with assets of \$671.6 million and surplus of \$213.5 million, resulting in a surplus ratio of 31.8%, which is significantly above the industry benchmark of 8.6%.

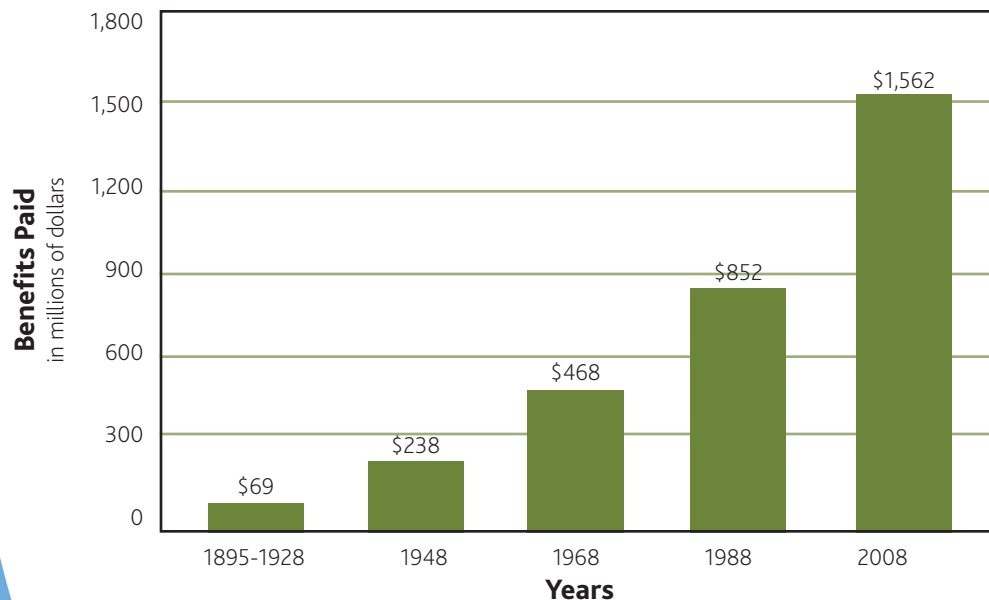
Net income for 2008 was \$10.4 million. Premium income, before reinsurance, increased \$3.2 million to \$130.8 million. New sales in 2008 resulted in more than \$26.4 million of annuity premium and \$8.3 million of annualized life premium. This growth was accomplished while management continued its efforts to monitor and control operating expenses as illustrated by the 2008 expense to premium ratio of 17.8%.

The 2008 financial year was indeed a successful one and we are more excited than ever about the future of Royal Neighbors. The Royal Neighbors leadership team remains committed to a responsible growth strategy that benefits all members and to continuously executing against our long-standing commitment of neighbors helping neighbors.

# Since 1895, Royal Neighbors of America has been paying and/or providing insurance benefits to members and their beneficiaries

This chart illustrates the cumulative amounts that have been paid or provided at selected intervals during that time. There are many ways in which our members receive these benefits, including death benefits, interest earned, and refunds. We are very proud to report that over the last 114 years benefits paid to members have grown from \$69 million in the first 33 years to more than \$1.5 billion. In the last 20 years alone, the benefits to our members have nearly doubled. We believe this record of performance demonstrates the enduring financial strength of the Society as well as our commitment to honor the promises made in the insurance contracts held by our members.

Insurance benefits paid to members have nearly doubled over the last 20 years



Royal Neighbors is rated A- (Excellent) by the A.M. Best Company. (4th highest out of 15th possible)



**Royal Neighbors opens new office**  
Mesa, Arizona, is the site of a new branch office of Royal Neighbors. It joins Austin, Texas, as a branch and Rock Island, Illinois, as the Home Office.