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**GCU**

**2015 Annual  
Financial Report**





# ANNUAL FINANCIAL REPORT

## DECEMBER 31, 2015

Today as I am preparing my article it is a bright and sunny day here in Western Pennsylvania as it has such a spring day feel to it. The landscape is starting to change as the daffodils are sprouting, the forsythia bushes are blooming, the trees are budding and the grass is turning green as nature is starting to wake up from its winter slumber. Such an amazing transformation! Despite all of the incredible science and technology in today's world, there is no better architect, engineer or contractor than our Lord and Savior. Nature is truly a masterpiece of its own! Spring is definitely in the air as Punxsutawney Phil was right on target predicting an early spring this year to the delight of everyone!

As your Board has made changes to our executive staff, I am delighted to present for your review the 2015 Annual Report of the GCU which includes a comparative of the balance sheet, income statement, comparative summary and change in surplus for the fiscal years 2015 versus 2014. Also presented is a report on the GCU Holding Company and subsidiaries.

The GCU's asset base for year end 2015 stands at \$1.355 billion reflecting a \$158 million increase compared to 2014 year-end total of \$1.197 billion. We are in the process of finalizing our first quarter 2016 results and this trend continues with a steady increase in our asset growth. We are forecasting that the GCU will attain \$1.5 billion in total assets for year-end 2016, a halfway point in reaching \$2 billion, another milestone in the history of our society. This achievement is a tribute to our current members and the many generations before us that have supported the mission, vision and goals of the GCU over the last 124 years! We thank you.

The majority of assets consists of bonds totaling \$1.261 billion with 93.7% of the bond portfolio of investment grade quality as rated by the NAIC (National Association of Insur-

ance Commissioners). In addition \$66.4 million or 5.3% of the bond portfolio contains medium to low quality bonds. We continually monitor each below investment grade position within our investment portfolio as currently there are no concerns of any holding going into default. The average quality of the GCU's portfolio is BBB+ with duration (risk) at 8.9. The average years to maturity is 17.84. The bond portfolio

is made up of primarily investment grade corporate bonds.

The GCU's investment portfolio also contains \$21.4 million in preferred stocks, \$4.6 million in common stock and \$7.6 million of GCU Holding Company stock. Equities account for .36% of the GCU's portfolio excluding GCU Holding Company stock. We will continue to monitor and liquidate our equity positions where appropriate.

Total income for 2015 as recorded was \$318.1 million compared to \$235 million recorded in 2014. This increase is due to the \$76.4 million increase in annuity premium and a \$6.9 million increase in net investment income in comparing 2015 to 2014.

Our solvency ratios of 107.2% and 109.8% including IMR (Interest Maintenance Reserve) and AVR (Asset Valuation



**George N. Juba**  
President/CEO

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### FINANCIAL REPORT FOR THE YEAR 2015

#### Four Year Comparative Summary

*Year Ended December 31*

	2015	2014	2013	2012
Assets.....	\$ 1.355 Bil	\$ 1.197 Bil	\$ 1.080 Bil	\$ 977.2 Mil
Total Income.....	318.0 Mil	235.0 Mil	215.2 Mil	217.6 Mil
Total Operating Expense .....	295.8 Mil	215.4 Mil	196.7 Mil	205.2 Mil
Reserve Change - Life and Annuities .....	131.0 Mil	97.0 Mil	84.2 Mil	110.5 Mil
Income from Operations .....	22.3 Mil	19.6 Mil	18.5 Mil	12.4 Mil
Refunds to Members .....	(256,199)	(341,293)	(220,268)	(211,807)
Capital Gains (Losses) .....	21,926	(1,076,551)	230,595	60,328
Net Income (Loss).....	22,063,543	18,166,287	18,521,243	12,190,406
Reserve - Interest Maintenance .....	16,735,318	16,113,913	14,129,373	9,822,748
Reserve - Asset Valuation .....	13,217,553	11,663,823	9,942,522	9,498,454
Surplus (Net Worth) .....	90,739,736	71,825,430	50,492,229	37,168,179

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Reserve) reflect a very stable and sound balance sheet position.

Annuity premiums totaled \$239.6 million which is a \$76.4 million increase over 2014's total of \$163.2 million. Our various annuity products continue to attract an average of \$19.9 million per month of first year and renewal deposits.

Life premium totaled \$3.2 million in 2015 compared to \$2.2 million generated in 2014. Although we fell short in meeting our 2015 Business Plan goal of securing \$4 million, we will be aggressively focusing on increasing our life business in a gradual and systematic manner.

Net investment income increased \$6.9 million in 2015 and totaled \$71.8 million. This increase is primarily due to our increased asset base and the excellent yield being generated within our investment portfolio. We continue to experience a low interest rate environment, enabling our annuity rates to be very competitive within the fixed annuity marketplace while maintaining a very good spread between our average annuity crediting rate and average return on our investments.

Other income totaled \$3.5 million in 2015 compared to \$4.8 million recorded in 2014. Other income consists primarily of \$2.7 million release from our interest maintenance reserve which is the current and previous year's capital gains on the sale of securities and \$770,308 in pension fund income.

Total operating expenses in 2015 were recorded at \$263.7 million excluding annuity exchange expense of \$32.1 million as compared to 2014 operating expenses of \$196.4 million. The primary reason for this increase was due to a \$31.7 million increase in annuity benefits paid, a \$2.4 million increase in commission expense due to increased annuity sales, \$33.9 million increase in reserves and a \$332,000 increase in general insurance expenses. The increased expenses were offset by a decrease in life death benefits paid of \$1 million.

General insurance expenses increased \$476,000 due to additional salaries and wages incurred for increases in staffing requirements keeping in line with our continued growth in our business to better serve our members and agents, upgrades to our information technology, increased actuarial fees associated with the review of each of our life insurance products offered, the actuarial processes required for the implementation of the GCU's Medicare Supplement Plan, the increased overall cost of doing business and improvements to the Home Office that included roof and siding replacement, office additions and the installation of an elevator. A majority of the renovation expenses were recorded as an expense rather than depreciating them over their useful life due to the very profitable year experienced.

As I have commented in many of my articles and presentations, our fraternal side's strength and success is dependent upon our financial stability. The GCU's fraternal expenses in 2015 once again totaled in excess of \$1.3 million in support

of various GCU fraternal activities. The GCU continues to fund many programs which include our Matching Funds and Fraternal Grants. GCU's fraternal outreach provides financial assistance to the SS. Cyril & Methodius Byzantine Catholic Seminary, various organizations and individuals, to our lodges and districts, and to academic and athletic scholarships. The GCU continues to provide financial support of the many recreational programs sponsored each year by the Home Office, our lodges and districts. These include our national bowling & golf tournaments, Byzantine Catholic Family Days at various amusement parks, our annual art and photo contests and many locally sponsored golf and bowling tournaments. The GCU continues its mission of providing financial and volunteer support to many individuals, charities, churches and communities at large.

Life and annuity reserves for 2015 increased \$136.1 million primarily due to the increased volume of annuity business. Reserves are a function of life and annuity premiums and claims.

Net income from operations after refunds and capital gains totaled \$22.1 million compared to \$18.2 million in 2014. This increase is primarily due to increased net investment income.

Net capital gains recorded in 2015 totaled \$21,926 resulting from the liquidation of common stock positions within the investment portfolio.

Surplus for year end 2015 totals \$90.7 million reflecting an \$18.9 million or 26.3% increase as presented on the reconciliation of surplus report. The primary impact upon surplus in 2015 was net income of \$22.1 million and adjustments for the remaining lien balance of \$3.6 million and the release of the voluntary reserves of \$5 million recorded in 2014. Negative effects upon surplus included an increase to the Asset Valuation Reserve (AVR) of \$1.6 million due to our increase in investments and GCU Holding Company losses of \$849,000. Surplus would exceed \$120.7 million if our Asset Valuation Reserve (AVR) and Interest Maintenance Reserve (IMR) were included.

The GCU Holding Company and its subsidiaries realized a net loss of \$710,297 in 2015 compared to a net loss of \$914,617 in 2014.

GCU Real Estate Company, Inc. recorded a net loss of \$19,070. The continued financial improvement to the GCU Real Estate Company, Inc. is primarily due to the aid of four lot sales and rental income on two rental properties and a cell tower located on property owned by the real estate company. We continue to experience a stronger local housing market as twelve lot and carriage home sales were recorded over the last two years. The Board of Directors is in the process of securing a real estate developer to complete the carriage home development at Pinehurst Village and to develop other parcels of property for single and multi-family housing. We will continue

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to implement various strategies in consultation with our real estate broker to attract more prospective homebuyers to our development and to increase exposure of our single family and overall development to prospective buyers in the market.

I am pleased to report that Seven Oaks Country Club, Inc. once again experienced substantial membership growth in 2015 despite the still sluggish economy and downturn in the golf industry. Legendary Golf Marketing and Management, Inc. continues to provide consultation and assistance in generating new memberships and increased revenues in each area of the Club's operation. Seven Oaks was once again Legendary's most successful private club client in 2015 with 150 new memberships being recruited, experiencing positive membership growth over the last four years. We continue to experience new members to date in 2016 with many leads from individuals interested in membership. Seven Oaks Country Club, Inc. generated a net loss before depreciation of \$361,450 which reflects continued financial improvement in 2015. Costs continue to be monitored to reduce operating expense without sacrificing service and quality expected within a private club environment, which accounts for the reduced operating loss in 2015. Over the last 24 months many programs were developed and implemented to market memberships and various events introduced that will have a positive effect upon the Club financially.

In addition, we are very confident that Shell Chemical will construct an ethane cracker plant located within four miles of Seven Oaks Country Club and our real estate development. Shell has already expended millions of dollars in infrastructure costs to ready the site for the construction of the plant. This initiative will

have a most positive effect upon the economy of Beaver County and surrounding communities and will have a substantial impact upon the real estate development and Seven Oaks.

We remain very optimistic on the continued financial improvement to the GCU Holding Company, Inc. based upon our experience, forecasts and results over the last few years.

The 42<sup>nd</sup> National Convention of the GCU is quickly approaching. The Tropicana Hotel and Resort in Atlantic City, New Jersey is hosting this event on June 27, 28 and 29. Meetings have been conducted within our lodges and districts to elect delegates and alternates. The Credential Committee's meeting took place on April 7 for the review and approval of the delegates elected. Additional information regarding transportation and lodging will be available to the approved delegates as well in the coming weeks. Pre-Convention meetings will also be conducted to inform the delegates of the various matters that will be on the Convention agenda. The theme of our 42<sup>nd</sup> Convention is "Remembering Our Past, Embracing the Present, Preparing for Our Future."

In closing, on behalf of the Board of Directors, our executive officers and general counsel, I thank each of our members and agents for your continued support of the GCU. We value our relationship with you and appreciate the trust and confidence you have placed in our society in caring for your life insurance and investment needs. Our appreciation to our department managers and support staff that plays such an important role in our society's success. As always, please contact me with any questions or concerns.



# ANNUAL FINANCIAL REPORT

## GCU BALANCE SHEET COMPARISON

	Year Ended December 31		
	2015	2014	Difference
<b>Assets</b>			
Bonds.....	\$1,268,001	\$1,117,473	\$150,528
Preferred Stocks.....	21,413	25,661	(4,248)
Common Stocks.....	12,314	13,185	(871)
Cash//Short Term Investments.....	30,815	20,936	9,879
Mortgages.....	1,120	862	258
Certificate Loans.....	659	674	(15)
Real Estate			
Beaver Home Office.....	401	453	(52)
Policy Lien.....	—	—	—
Investment Income Due & Accrued.....	19,501	17,229	2,272
Other.....	703	164	539
Total Assets.....	<u>\$1,354,927</u>	<u>\$1,196,637</u>	<u>\$158,290</u>
Percentage Total Change Year to Year.....	13.2%	10.7%	
<b>Liabilities</b>			
Life Reserve Fund.....	\$ 64,806	\$ 63,205	\$ 1,601
Annuity Reserve Fund.....	1,159,428	1,024,979	134,449
Accident & Health Reserve.....	9	0	9
Employee Pension Fund.....	6,548	6,051	497
Convention Reserve.....	406	307	99
Advance Premium & Future Refund Reserves.....	341	334	7
Accounts Payable.....	375	251	124
Refund Accumulations.....	1,378	1,367	11
Overfunded Pension.....	893	540	353
Asset Valuation Reserve-AVR.....	13,217	11,664	1,553
Interest Maintenance Reserve-IMR.....	16,736	16,114	622
Other.....	50	—	50
Total Liabilities.....	<u>\$1,264,187</u>	<u>\$1,124,812</u>	<u>\$139,375</u>
Surplus Fund.....	<u>90,740</u>	<u>71,825</u>	<u>18,915</u>
Total Liabilities & Surplus.....	<u>\$1,354,927</u>	<u>\$1,196,637</u>	<u>\$158,290</u>
Normal Solvency.....	107.2%	106.0%	
New Solvency Ratio*.....	109.8%	108.3%	

\*Adds IMR & AVR to surplus because it's future profits.

## GCU SUBSIDIARY OPERATIONS - YEAR 2015

	GCU Holding & Subsidiaries	GCU Holding Co.	GCU Real Estate Co.	Seven Oaks Country Club	GCU Agency Inc.
Beginning Net Worth.....	\$7,635,240	\$393,717	\$2,394,158	\$4,793,067	\$54,298
Prior Period Adjustment.....	(\$138,913)			(\$138,913)	
Profit or (Loss) for Year.....	(710,297)	(45,302)	(19,070)	(646,524)	599
Capital Infusion.....	940,500	—	10,000	930,500	—
Year-end Net Worth.....	<u>\$7,726,530</u>	<u>\$348,415</u>	<u>\$2,385,088</u>	<u>\$4,938,130</u>	<u>\$54,897</u>

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## GCU INCOME STATEMENT COMPARISON

Year Ended December 31

INCOME	2015	2014	Difference
Life Premium.....	\$ 3,185,204	\$ 2,227,865	\$ 957,339
Annuity Premium.....	207,467,654	144,109,118	63,358,536
Annuity Exchanges .....	<u>32,134,235</u>	<u>19,048,916</u>	<u>13,085,319</u>
Accident & Health .....	20,248	—	20,248
Sub Total.....	242,807,341	165,385,899	77,421,442
Net Investment Income.....	71,778,773	64,871,864	6,906,909
Amortization of Interest Maintenance Reserve .....	2,726,856	2,636,293	90,563
Other .....	<u>784,109</u>	<u>2,143,531</u>	<u>(1,359,422)</u>
Total Income.....	\$318,097,079	\$235,037,587	\$83,059,492
<b>Expenses</b>			
Death Benefits .....	\$ 2,336,035	\$ 3,269,700	\$ (933,665)
Annuity Benefits Paid.....	115,345,220	83,695,142	31,650,078
Annuity Exchanges .....	32,134,235	19,048,916	13,085,319
Surrender Benefits .....	1,242,015	1,222,379	19,636
Accident & Health Benefits Paid.....	12,034	—	12,034
Commissions.....	6,577,420	4,156,142	2,421,278
General Insurance Exp.....	6,397,100	5,921,131	475,969
Insurance, Taxes, Licenses and Fees .....	438,903	582,836	(143,933)
Pension Benefits Paid .....	272,721	447,243	(174,522)
Interest on Contract and Deposit Type Accounts.....	<u>66,623</u>	<u>62,967</u>	<u>3,656</u>
Sub-Total .....	<u>\$164,822,306</u>	<u>\$118,406,456</u>	<u>\$46,415,850</u>
Reserves.....	<u>130,976,957</u>	<u>97,047,000</u>	<u>33,929,957</u>
Total Expenses.....	<u>\$295,799,263</u>	<u>\$215,453,456</u>	<u>\$80,345,807</u>
Net Gain/Loss from Operations before Refunds .....	<u>22,297,816</u>	<u>19,584,131</u>	<u>2,713,685</u>
Refunds to Members .....	256,199	341,293	(85,094)
Net Gain/Loss from Operations after Refunds .....	<u>22,041,617</u>	<u>19,242,838</u>	<u>2,798,779</u>
Net Capital Gains (Losses) .....	<u>21,926</u>	<u>(1,076,551)</u>	<u>1,098,477</u>
Net Income/Loss.....	<u>\$ 22,063,543</u>	<u>\$ 18,166,287</u>	<u>\$ 3,897,256</u>

## GCU Surplus Comparison

Year Ended December 31

	2015	2014	Difference
Beginning Surplus .....	\$71,825,430	\$50,492,229	\$21,333,201
Net Income/(loss).....	22,063,543	18,166,287	3,897,256
Change in Unrealized Gain/(Loss).....	(393,429)	329,698	(723,127)
GCU Holding Company & Other .....	(849,210)	(914,617)	65,407
Changes in Non-Admitted Assets .....	(352,869)	4,113,489	(4,466,358)
Changes in Lien.....	—	(3,640,354)	3,640,354
Changes in Asset Valuation Reserve.....	(1,553,729)	(1,721,302)	167,573
Voluntary Reserve Funds Released.....	—	5,000,000	(5,000,000)
Net Change in Surplus .....	18,914,306	21,333,201	(2,418,895)
Ending Surplus.....	\$90,739,736	\$71,825,430	\$18,914,306

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## General Insurance Expense

Year Ended December 31

	2015	2014	Difference
Rent .....	\$ 94,000	\$ 94,000	\$ —
Salaries & Wages.....	2,517,013	2,319,602	197,411
Employee Benefits .....	386,666	295,361	91,305
Employee Pension Expense .....	400,000	400,000	—
Legal Fees & Expenses.....	2,100	6,836	(4,736)
Settlement/Medical Examination Fees .....	32,624	14,672	17,952
Fees-CPS, Actuarial.....	449,759	247,852	201,907
Board Meeting Expenses/Travel .....	105,117	97,893	7,224
Advertising .....	15,875	8,084	7,791
Postage & Phone.....	203,553	208,018	(4,465)
Printing & Stationary .....	114,108	142,299	(28,191)
Depreciation of Furniture/Equip.....	93,220	140,418	(47,198)
Rental of Equipment .....	145,827	181,445	(35,618)
Books and Periodicals .....	1,885	3,605	(1,720)
Bureau and Association Dues.....	72,997	53,999	18,998
Insurance Fees.....	106,606	118,434	(11,828)
Sundry General Expenses .....	149,243	189,610	(40,367)
Official Publication .....	51,438	55,818	(4,380)
Future Convention Reserves .....	101,751	100,000	1,751
Field Expense Allowance .....	54,710	90,395	(35,685)
Fraternal Activities.....	792,220	754,539	37,681
Data Processing Supplies/Exp. ....	396,454	331,988	64,466
Marketing Consultant Fees and Exp.....	<u>109,934</u>	<u>66,263</u>	<u>43,671</u>
Total.....	\$6,397,100	\$5,921,131	\$475,969