



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
WORD OF LIFE FELLOWSHIP, INC.

CONDITION:

DECEMBER 31, 2013

DATE OF REPORT:

NOVEMBER 17, 2014

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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OF THE

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EXAMINER:

PHILIP YOUSSEF

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

May 24, 2018

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31173, dated May 8, 2014 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Word of Life Fellowship, Inc., hereinafter referred to as “the Fund”. The Fund’s home office is located at 71 Olmstedville Road, Pottersville, New York 12860.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination. This is a repeat violation. The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination. This is a repeat recommendation. (See item 4 of this report)

The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the Investment Strategy Statement's ("ISS") risk, return, and time horizon parameters. (See item 5 of this report)

The examiner's review of the Fund's treatment of annuitants did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Fund. (See item 6 of this report)

The examiner recommends that the Fund prepare its annual statements in accordance with the Department's instructions. (See item 7 of this report)

The examiner recommends that the Fund exercise due care in the preparation of its annual statements and supporting schedules. This is a repeat recommendation. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2013. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2013 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2013 to determine whether the Fund's filed 2013 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification. The examiner also reviewed the corrective actions taken by the Fund with respect to the violations, recommendations and comments contained in the prior report on examination. The results of such review are contained in item 8 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations, or rules or which require explanation or description.

3. DESCRIPTION OF FUND

The Word of Life Fellowship, Inc. (the “Corporation”) was organized for the purpose of spreading the gospel of Jesus Christ throughout the United States of America and other countries. The Corporation has been issuing gift annuity agreements since 1995. A special permit was granted to the Corporation by the New York State Insurance Department on October 29, 1998, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law. The Fund manages all operations related to the issuance, maintenance and settlement of annuity agreements.

Glens Falls National Bank and Trust Company is the Fund’s custodian and investment manager.

The management of the Corporation and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to 35 regular voting trustees. As of December 31, 2013, the board consisted of 26 trustees. The trustees elect a president and vice-president, who shall be members of the board, and a secretary, treasurer and assistant secretary who are not required to be members of the board. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

4. CORPORATE GOVERNANCE

Section 312(b) of the New York Insurance Law states, in part:

“(b) A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report....”

The Fund failed to obtain and maintain statements signed by each board member indicating that they received and read the prior report on examination.

The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination. This is a repeat violation. The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination. This is a repeat recommendation.

5. SIGNIFICANT FINANCIAL INFORMATION

The following summary table indicates the growth (decline) in various categories of the Fund's assets, liabilities, and fund balance during the period under review:

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	\$ <u>1,659,895</u>	\$ <u>1,608,177*</u>	\$ <u>(51,718)</u>
Liabilities	\$ <u>1,762,756</u>	\$ <u>1,463,788*</u>	\$ <u>(298,968)</u>
Minimum required fund balance	\$ 176,276	\$ 142,933	\$ (33,343)
Excess fund balance (surplus)	<u>(279,137)</u>	<u>1,456*</u>	<u>280,593</u>
Total annuity fund balance	\$ <u>(102,861)</u>	\$ <u>144,389*</u>	\$ <u>247,250</u>
Total liabilities and annuity fund balance	\$ <u>1,659,895</u>	\$ <u>1,608,177*</u>	\$ <u>(51,718)</u>

Note: Amounts denoted with an asterisk were determined during the examination. See item 7 of this report.

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 107 with annual payment amounts of \$254,615 as of December 31, 2008 to a total of 106 with annual payment amounts of \$176,802 as of December 31, 2013.

The increase in annuity fund balance from \$(102,861) to \$144,389 is a result of mortality gains resulting from the death of annuitants.

The Fund's admitted assets, as of December 31, 2013, were invested mainly in bonds (68.72%) and common stocks (25.33%). All bonds held were investment grade.

Section 1409(a) of the New York Insurance Law states,

“(a) Except as more specifically provided in this chapter, no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.”

According to the 2013 annual statement, the Fund reported 18.7% invested in the securities of Vanguard 500 Index Fund #1340. The Fund's current concentration could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in this fund.

Based upon the concentration in the above mutual fund, the examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters. A trustee using reasonable care, skill and caution should diversify the Fund's assets. A diversification is proper when it disperses the investments' risks consistent with the Investment Strategy Statement's risk, return, and time horizon objectives, and the various risks in the portfolio offset each other. Section 1409 of the New York Insurance Law is instructive. Limiting exposure to any assets of any one institution to ten percent of admitted assets would reasonably assure that the risks in the investment in that institution are offset by the rest of the portfolio.

6. TREATMENT OF ANNUITANTS

The examiner reviewed a sample of annuity files to determine whether the annuitants were treated fairly and in accordance with the provisions of the annuity agreements. The examination also consisted of a review of the various controls involved, a check of the accuracy of the computations and the tracing of accounting data to the books of account. Based upon the sample reviewed, no significant findings were noted.

7. ANNUAL STATEMENT REPORTING

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement, namely the instructions for line 4 ("market value of money market mutual funds") for the Assets page state, in part:

"Line 4 'Current Year' Column: Should agree with the total of Schedule B, Column 5."

The Fund reported "cash on deposit" of \$84,222 in its 2013 Annual Statement of which \$72,925 was invested in "GFNB Money Market Savings Fund." The examiner's review revealed that the \$72,925 invested in the "GFNB Money Market Savings Fund" is instead a money market mutual fund. From a review of the custodial confirmation, the examiner determined that the Fund should therefore have reported "market value of money market mutual funds" of \$72,925 for line 4 in its Assets page and in Column 5 of Schedule B. As reported in the Annual Statement, the effect of the misstatements is that the Fund overstated "cash on deposit" by \$72,925 and understated "market value of money market mutual funds" by \$72,925 as of December 31, 2013.

The examiner recommends that the Fund prepare its annual statements in accordance with the Department's instructions.

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement, namely the instructions for line items for miscellaneous assets for the 2013 annual statements state:

"Line 8 'Current Year' Column: Report additional assets at Lines 8.1, 8.2, etc. that were not reported at Lines 1 through 7. Additional Lines may be inserted, if needed (e.g., 8.5, 8.6, etc.). 'Prior Year' Column: Report prior year's miscellaneous assets."

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement, namely the instructions for line items for miscellaneous liabilities for the 2013 annual statements state:

“Line 18 ‘Current Year’ Column: Report each individual source at Lines 18.1, 18.2, etc. Additional Lines may be inserted, if needed (e.g., 18.5, 18.6, etc.). ‘Prior Year’ Column: Report prior year’s total miscellaneous liabilities.

The Fund reported as a miscellaneous asset at line item 8.1, an amount for “in transit to corporation” of \$(34,460) in its 2013 Annual Statement. The examiner determined that the Fund should instead have reported this negative amount as a miscellaneous liability. The effect is that the Fund understated admitted assets by \$34,460 and understated total liabilities by the same amount.

During the course of the examination, the examiner discovered four checks that did not clear the bank as of the examination date, totaling \$636.44. Of those four checks, three were never cashed and one was cashed shortly after the examination date. The Fund stated that it reissued the three checks that were never cashed. Of the three checks reissued, all three were subsequently cashed. The Fund contacted the annuitants identified as the checks’ payees, as part of the process of researching the uncashed checks. The examiner determined that the Fund should have been more diligent in identifying stale checks and taking follow-up action. These actions will be reviewed as part of the next examination.

The examiner recommends that the Fund exercise due care in the preparation of its annual statements and supporting schedules. This is a repeat recommendation.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Fund in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner was unable to verify that the amount of \$91,866 reported in the Fund's 2004 annual statement as an in transit from the Corporation was an asset of the Fund.</p> <p>The examiner was able to verify that the amount of \$10,000 reported in the Fund's 2013 Annual Statement as an in transit to investment was an asset of the Fund.</p>
B	<p>The examiner was unable to verify that the amount of \$302,526 reported in the Fund's 2008 annual statement as a receivable from funds of the Corporation was an asset of the Fund.</p> <p>The examiner's review revealed that Fund did not report this receivable in the 2013 annual statement.</p>
C	<p>The examiner recommends that the Fund maintain documentation supporting all of the amounts reported in its filed annual statements. This is a repeat recommendation.</p> <p>The Fund maintained documentation supporting all of the amounts reported in its 2013 Annual Statement.</p>
D	<p>The Fund violated Section 1110(b) of the New York Insurance Law by failing to maintain admitted assets at least equal to 110% of the amount of reserves on its outstanding agreements. This is a repeat violation.</p> <p>The Fund reported sufficient admitted assets as of December 31, 2013.</p>
E	<p>The examiner recommends that the Fund maintain admitted assets at least equal to 110% of the amount of reserves on its outstanding agreements.</p> <p>The Fund reported sufficient admitted assets as of December 31, 2013.</p>

<u>Item</u>	<u>Description</u>
F	The examiner recommends that the Fund exercise due care in the preparation of its annual statements and supporting schedules.
	A similar recommendation is contained in this report. (See item 7 of this report)
G	The Fund violated Section 1110(a) of the New York Insurance Law by not submitting the amended policy forms to the Superintendent.
	The Fund filed its amended policy forms and submitted the forms to the Superintendent. The Fund used policy forms that are on file with the Superintendent.
H	The examiner recommends that the Fund submit to the Superintendent any gift annuity agreement forms used during the examination period, or subsequent to that period, that differ from the forms previously submitted by the Fund to the Superintendent.
	The Fund filed its amended policy forms and submitted the forms to the Superintendent. The Fund used policy forms that are on file with the Superintendent.
I	The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain statements signed by its board members indicating that they received and read the prior report on examination.
	The Fund failed to maintain statements signed by its board members indicating that they received and read the prior report on examination. Thus, this is a repeat violation. (See item 4 of this report)
J	The examiner recommends that the Fund maintain statements signed by its board members indicating that they received and read the prior report on examination.
	The Fund failed to maintain statements signed by its board members indicating that they received and read the prior report on examination. This is a repeat recommendation. (See item 4 of this report)

9. SUMMARY AND CONCLUSIONS

Following are the violation, recommendations and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements signed from the board members indicating that they received and read the prior report on examination. This is a repeat violation.	5
B	The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination. This is a repeat recommendation.	5
C	The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters.	7
D	The examiner recommends that the Fund prepare its annual statements in accordance with the Department's instructions.	9
E	The examiner recommends that the Fund exercise due care in the preparation of its annual statements and supporting schedules. This is a repeat recommendation.	10

Respectfully submitted,

_____/s/
Philip Youssef
Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Philip Youssef, being duly sworn, deposes and says that the foregoing report, subscribed by him,
is true to the best of his knowledge and belief.

_____/s/
Philip Youssef

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31173

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

PHILIP YOUSSEF

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
WORD OF LIFE FELLOWSHIP, INC.**

and to make a report to me in writing of the condition of said

FUND

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York

this 8th day of May, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:


MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU

