



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
AMERICAN FRIENDS OF THE TEL AVIV UNIVERSITY, INC.

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

JULY 5, 2016

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

AMERICAN FRIENDS OF THE TEL AVIV UNIVERSITY, INC.

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EXAMINER:

HASAN AHMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

November 25, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31449, dated April 25, 2016 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the American Friends of the Tel Aviv University, Inc., hereinafter referred to as the “Fund,” at its home office located at 39 Broadway, Suite 1510, New York, NY 10006.

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. 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. (See item 4 of this report)

The examiner recommends that the board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes. (See item 4 of this report)

The examiner recommends that the Fund diversify its investment holdings. (See item 5 of this report)

The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that differed from the gift annuity agreement forms that were filed with the Superintendent. The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent. (See item 6 of this report)

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2015. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2015 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, 2015 to determine whether the Fund's filed 2015 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification. The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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 American Friends of the Tel Aviv University, Inc. (the “Corporation”) is organized to promote, encourage, aid and advance higher and secondary education, research and training in all branches of knowledge in Israel and elsewhere, and to aid in the maintenance and development of The Tel Aviv University in the State of Israel (the “University”), and for such purpose to create a University movement in America. As amended in the by-laws on December 15, 2011, the University’s name changed from American Friends of Tel Aviv University, Inc. to The Tel Aviv University in the State of Israel. Under the provisions of its by-laws, the University is permitted to issue gift annuity agreements and it has done so since December 20, 1996. A special permit was granted to the University by the Department on April 7, 2006, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

Some of the Fund’s financial functions were outsourced to PNC during the examination period. PNC performed the following functions: receiving of the gifts from annuitants and distribution of funds. The Fund solicits the gifts, prepares the annuity agreement and maintains the general ledger. PNC Bank is the Fund’s custodian and investment manager.

The management of the University and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors is limited to a minimum of 20 and a maximum of 50 elective directors. As of December 31, 2015, the board consisted of 45 directors. The Officers of the Corporation shall be a Chairman of the Board, a President/Chief Executive Officer, a Treasurer and a Secretary. The Chairman, the Secretary and the Treasurer shall be appointed from among the members of the board, as shall any Vice Chairmen. The nomination and election procedures of the directors and their term 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 examiner’s review of the board minutes for the examination period (2011-2015) revealed that the Fund failed to 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. 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.

The examiner reviewed the Investment Committee meeting minutes to determine if the Investment Committee approved the purchases and sales of investments during the examination period. The examiner’s review noted that the minutes did not contain any indication that the committee approved the purchases and sales of investments during the examination period.

The examiner recommends that the board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.

5. SIGNIFICANT FINANCIAL INFORMATION

The following table indicates the Fund's financial growth during the period under review:

	December 31, <u>2010</u>	December 31, <u>2015</u>	<u>Increase</u>
Admitted assets	<u>\$1,386,947</u>	<u>\$2,682,304</u>	<u>\$1,295,357</u>
Liabilities	<u>\$1,156,900</u>	<u>\$2,071,310</u>	<u>\$ 914,410</u>
Minimum required fund balance	\$ 115,690	\$ 207,131	\$ 91,441
Excess fund balance (surplus)	<u>114,357</u>	<u>403,863</u>	<u>289,506</u>
Total annuity fund balance	<u>\$ 230,047</u>	<u>\$ 610,994</u>	<u>\$ 380,947</u>
Total liabilities and annuity fund balance	<u>\$1,386,947</u>	<u>\$2,682,304</u>	<u>\$1,295,357</u>

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 30 with annual payment amounts of \$156,262 as of December 31, 2010 to a total of 33 with annual payment amounts of \$277,065 as of December 31, 2015.

The increase in assets and annuity fund balance is also attributable to an increase in the market value of investments in common stocks.

The Fund's admitted assets, as of December 31, 2015, were invested mainly in common stocks (97.63%).

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 2015 annual statement on file, the Fund reported: 14.72% invested in the securities of iShares Core S&P 500 Exchange Traded Fund (“ETF”); 13.70% invested in the

securities of BlackRock Total Return mutual fund; 13.62% invested in the securities of Dodge & Cox Income Fund mutual fund; 13.61% invested in the securities of PNC Total Return Advantage mutual fund; and 10.64% invested in the securities of PNC Ltd Maturity Bond Fund mutual fund. The Fund's current concentration in the five securities makes it highly unlikely that the Fund's other assets could provide a variability to offset the risks inherent in the five securities.

The examiner recommends that the Fund diversify its investment holdings. 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 ("ISS") 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. If the trustee has determined that it is in the interests of the beneficiaries not to diversify, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters.

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.

Section 1110(a) of the New York Insurance Law states, in part:

“. . . Every such corporation or association shall, before making such agreement, file with the superintendent copies of its forms of agreements with annuitants . . .”

The examiner’s review of a sample of five gift annuity agreements issued in New York during the examination period revealed that in two out of the five cases, the Fund used gift annuity agreement forms that differed from the gift annuity agreements filed with the Superintendent.

The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that differed from the gift annuity agreement forms that were filed with the Superintendent. The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent.

7. ANNUAL STATEMENT REPORTING

The examiner's review of the Fund's annual statements filed during the examination period (2011-2015), namely the Exhibit of Annuities In Force for the Fund's 2015 Annual Statement, revealed that the Fund overstated annualized payments at end of year by \$1,442 for the years 2012 through 2015.

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.

8. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations 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 from the board members indicating that they received and read the prior report on examination.	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.	5
C	The examiner recommends that the board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.	5
D	The examiner recommends that the Fund diversify its investment holdings.	7
E	The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that differed from the gift annuity agreement forms that were filed with the Superintendent.	8
F	The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent.	8
G	The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.	9

Respectfully submitted,

_____/s/
Hasan Ahmed
Insurance Examiner

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

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

_____/s/
Hasan Ahmed

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31449

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Acting 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:

HASAN AHMED

as a proper person to examine the affairs of the

***SEGREGATED GIFT ANNUITY FUND OF THE
AMERICAN FRIENDS OF THE TEL AVIV UNIVERSITY, 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 25th day of April, 2016

*MARIA T. VULLO
Acting Superintendent of Financial Services*

By:

Mark McLeod

***MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU***

