



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
CHILDREN'S AID SOCIETY

CONDITION:

DECEMBER 31, 2018

DATE OF REPORT:

OCTOBER 18, 2019

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

CHILDREN'S AID SOCIETY

AS OF

DECEMBER 31, 2018

DATE OF REPORT:

OCTOBER 18, 2019

EXAMINER:

ADELIA GBADAMOSI

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Fund	4
	A. History	4
	B. Services	4
	C. Corporate governance	4
4.	Significant financial information	5
5.	Treatment of annuitants	6
6.	Subsequent events	7
7.	Prior report summary and conclusions	7
8.	Summary and conclusions	8



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Linda A. Lacewell
Superintendent

February 6, 2020

Honorable Linda A. Lacewell
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31900, dated May 16, 2019 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Children's Aid Society, hereinafter referred to as "the Fund," at its home office located at 711 Third Avenue, Suite 700, New York, NY 10017.

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 examiner recommends that the board of trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes. (See item 3C of this report)

The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms which were not approved by the Superintendent. The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued. (See item 5 of this report)

The Fund was underfunded by \$397,034, as of December 31, 2018.

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2013. This examination covers the period from January 1, 2014 through December 31, 2018. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2018 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, 2018 to determine whether the Fund's filed 2018 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 violation and recommendations contained in the prior report on examination. The results of such review are contained in item 7 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

A. History

The Children's Aid Society (the "Society") is organized for the purpose of improving the condition of disadvantaged children in New York City and to provide services for individuals with mental or developmental impairments. The Society has been issuing gift annuity agreements since 1996. A special permit was granted to the Society by the Department on April 2, 1999, for the purpose of issuing gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

B. Services

Bank of New York Mellon ("BNY Mellon") is the Fund's custodian and investment manager. BNY Mellon performs administrative services on behalf of the Fund, including accounting and tax reporting, issuing payments to beneficiaries and preparing annual state filings in New York and New Jersey. The Fund performs the responsibilities of gift sourcing, calculation of the annuity amount, the preparation of contracts and direct contact with donors.

C. Corporate Governance

The management of the Society and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to no fewer than fifteen (15) and no more than thirty-eight (38) voting trustees. As of December 31, 2018, the board consisted of twenty seven regular voting trustees and fifteen non-voting trustees. The trustees elect the Chairman, one or more Vice Chairmen, a Secretary, a Treasurer and other assistants as they deem appropriate. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

The examiner reviewed the Investment Committee minutes to determine whether the Investment Committee approved the purchases and sales of investments during the examination period. 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 trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.

4. SIGNIFICANT FINANCIAL INFORMATION

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

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2018</u>	<u>(Decrease)</u>
Admitted assets	<u>\$3,969,409</u>	<u>\$1,545,407</u>	<u>\$(2,424,002)</u>
Liabilities	<u>\$2,386,439</u>	<u>\$1,765,855</u>	<u>\$ (620,584)</u>
Minimum required surplus	\$ 238,644	\$ 176,585	\$ (62,059)
Unassigned funds (surplus)	<u>1,344,327</u>	<u>(397,033)</u>	<u>(1,741,360)</u>
Total surplus	<u>\$1,582,970</u>	<u>\$ (220,448)</u>	<u>\$(1,803,418)</u>
Total liabilities and surplus	<u>\$3,969,409</u>	<u>\$1,545,407</u>	<u>\$(2,424,002)</u>

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force and due to the Fund's decision to limit the issue of new charitable gift annuities. Annuities decreased from 27 with annual payment amounts of \$513,055 as of December 31, 2014 to a total of 20 with annual payment amounts of \$504,412 as of December 31, 2018.

The Fund's admitted assets, as of December 31, 2018, were invested mainly in bonds (98.46%). All bonds held were investment grade.

5. 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 4 newly issued gift annuities by the Fund during the examination period noted that they contained form numbers that differed from those approved by the Superintendent.

The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms which were not approved by the Superintendent. The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued.

6. SUBSEQUENT EVENTS

Department's review of the 2018 filed annual statement revealed that the Fund was underfunded by \$397,034. The Fund deposited \$600,000 to the bank account on February 12, 2019. The Fund provided supporting bank documents for the deposit to the Department.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation and recommendations 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 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.</p> <p>The Fund maintained signed statements from the board members indicating that they received and read the prior report on examination.</p>
B	<p>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.</p> <p>The Fund obtained and maintained the signature of each board member indicating that they received and read the prior report on examination.</p>
C	<p>The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.</p> <p>The Fund obtained copies of the death certificates of annuitants for annuity contracts terminated.</p>

8. 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 examiner recommends that the board of trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.	4
B	The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms which were not approved by the Superintendent.	6
C	The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued.	6
D	The Fund was underfunded by \$397,034, as of December 31, 2018.	7

Respectfully submitted,

/s/
Adelia Gbadamosi
Senior Insurance Examiner

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

ADELIA GBADAMOSI, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/s/
Adelia Gbadamosi

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31900

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, LINDA A. LACEWELL, 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:

ADELIA GBADAMOSI

as a proper person to examine the affairs of the

SEGREGATED GIFT ANNUITY FUND OF THE CHILDREN'S AID SOCIETY

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

FUND

with such other information as she 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 16th day of May, 2019

*LINDA A. LACEWELL
Acting Superintendent of Financial Services*

By:

Mark McLeod

**MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU**

