



**REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
NORTH SHORE ANIMAL LEAGUE AMERICA, INC.**

AS OF December 31, 2020

EXAMINER: Ashok Reddy

DATE OF REPORT: March 30, 2022

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

NORTH SHORE ANIMAL LEAGUE AMERICA, INC.

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

November 4, 2022

Honorable Adrienne A. Harris
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 32226, dated March 16, 2022, and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the North Shore Animal League America, Inc. The Fund's home office is located at 750 Port Washington Boulevard, Port Washington, NY 11050.

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

1. EXECUTIVE SUMMARY

The examiner recommends that the Fund adopt an Investment Strategy Statement. Such a Statement should refer to the prudent investor standard as defined in Estates, Powers and Trusts Law § 11-2.3, which standard, as specified in New York Insurance Law § 1110(b), governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives. (See item 4A 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 according to the Department's instructions. (See item 7 of this report)

2. SCOPE OF EXAMINATION

This Scope of Examination summarizes the nature of the Superintendent of the Department of Financial Services' ("Department" or "DFS") examination and assessment of the North Shore Animal League Segregated Annuity Fund (the "Fund") through which North Shore Animal League (the "Organization") provides annuity benefits.

The prior examination was conducted as of December 31, 2015. This examination covers the period from January 1, 2016, through December 31, 2020. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2020, but prior to the date of this report (i.e., the completion date of the examination).

This report outlines DFS's supervisory expectations or priorities and articulates DFS's general views regarding the exceptional circumstances where the Organization or Fund, in relation to their annuity activities, could have better adhered to statutory standards and guidance or practices or methods of dealing that are regularly observed among similar circumstances.

The Fund is subject to the solvency and examination requirements of New York Insurance Law § 1110 and of New York Insurance Law articles 1, 2, 3, 25, and 74.

The investment of the Fund's required admitted assets is subject to N.Y. Estates, Powers and Trust Law § 11-2.3. The investment of the remainder of the Fund's admitted assets is subject to N.Y. Not-for-Profit Corporation Law Article 5-a. Both establish that the trustees are to invest the assets consistent with prudent person standards.

The examination comprised a verification of assets and liabilities as of December 31, 2020, to determine whether the Fund's filed 2020 annual statement, as filed, 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.

3. DESCRIPTION OF FUND

A. History

The North Shore Animal League America, Inc. is organized: to provide, promote and advance the humane protection, care and treatment of animals by any and all means; to foster kindness to animals and to promote their welfare in every manner possible by humane education and otherwise; to purchase, publish, print and circulate literature to promote kindness to animals and the work of the Organization. The Organization established the Fund to issue gift annuity agreements in return for gifts from donors in 1995. The Superintendent of Insurance granted to the Organization a Charitable Annuity Society special permit on February 2, 2006.

B. Structure

The management of the organization and the Fund and all of its affairs and property are entrusted to a board of directors. All operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund.

C. Assets under the Board of Trustees

As of the December 31, 2019 IRS Form 990, the Organization's Board of Trustees oversaw an endowment comprising \$52,043,744 in total assets. The Fund, as of December 31, 2020, held total admitted assets of \$2,142,221.

D. Third-Party Payment Service Provider

PG Calc Incorporated provides administrative services on behalf of the Fund, including account calculations, the maintenance of an annuitant database and the processing of annuity payments and forms, including Form 1099 and 1096 Transmittal Forms. Arden Trust provides custodial and investment services pursuant to a managing agent and custody agreement on behalf of the Fund. The Fund maintains an account at Morgan Stanley Smith Barney when funds are needed for annuity payments.

4. INVESTMENT REVIEW

A. Investment Strategy Statement

New York Estate Powers and Trust Law § 11-2.3(b)(3)(A) requires trustees to “pursue an overall investment strategy to enable the trustee[s] to make appropriate present and future distributions to or for the benefit of the beneficiaries under the governing instrument, in accordance with risk and return objectives reasonably suited to the entire portfolio.”

New York Not-for-Profit Corporation Law § 552(e)(2) calls for “an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.” New York Not-for-Profit Corporation Law § 552(f) states that each “institution shall adopt a written investment policy setting forth guidelines on investments ... and delegation of management and investment functions in accord with the standards of this article.”

The examiner’s review revealed the Fund’s board of directors failed to adopt a written Investment Strategy Statement (“ISS”). Such a statement should be reviewed at least annually to determine compliance.

The examiner recommends that the Fund adopt an Investment Strategy Statement. Such a Statement should refer to the prudent investor standard as defined in Estates, Powers and Trusts Law § 11-2.3, which standard, as specified in New York Insurance Law § 1110(b), governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS’s risk, return, and time horizon objectives.

5. ASSETS AND LIABILITIES SUMMARY

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>2015</u>	<u>December 31,</u> <u>2020</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$2,535,714</u>	<u>\$2,142,221</u>	<u>\$(393,492)</u>
Liabilities	<u>\$1,169,885</u>	<u>\$ 589,469</u>	<u>\$(580,415)</u>
Minimum required fund balance	\$ 116,988	\$ 58,947	\$ (58,042)
Excess fund balance (surplus)	<u>1,248,841</u>	<u>1,493,805</u>	<u>244,964</u>
Total annuity fund balance	<u>\$1,365,829</u>	<u>\$1,552,752</u>	<u>\$ 186,922</u>
Total liabilities and annuity fund balance	<u>\$2,535,714</u>	<u>\$2,142,221</u>	<u>\$(393,493)</u>

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 74 with annual payment amounts of \$171,561 as of December 31, 2015, to a total of 38 with annual payment amounts of \$72,458 as of December 31, 2020.

The increase in annuity fund balance is attributable primarily to investment gains.

The Fund's admitted assets, as of December 31, 2020, were mainly invested in equity securities (77.78%), and bonds (16.72%). All bonds held were investment grade.

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 Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2020, for Schedule A - Part 3 - Common Stocks state, in part:

“IMPORTANT NOTE: Mutual funds (funds that invest in stocks, bonds, options or currencies) are to be reported in Schedule A – Part 3 - Common Stocks.”

The Fund incorrectly reported market value of bonds of \$358,199 in its 2020 Annual Statement, namely Schedule A. The examiner determined that the Fund erroneously reported in Schedule A, Part 1 of its 2020 Annual Statement the mutual funds referenced as money market mutual funds in the table below:

Name of bond mutual fund	Market value
Doubleline Core Fixed Income I	\$ 69,229.00
Large Cap Value FD #60	\$ 288,970.18
Total market value	\$ 358,199.18

The Fund therefore should have reported common stocks of \$2,024,457 in Schedule A - Part 3 - common stocks and bonds of \$0 in Schedule A, Part 1 of its 2020 Annual Statement.

The examiner recommends that the Fund prepare its annual statements according to the Department’s instructions.

8. SUMMARY AND CONCLUSIONS

Following are the recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Fund adopt an Investment Strategy Statement. Such a Statement should refer to the prudent investor standard as defined in Estates, Powers and Trusts Law § 11-2.3, which standard, as specified in New York Insurance Law § 1110(b), governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives.	5
B	The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.	8

Respectfully submitted,

_____/s/
Ashok Reddy
Senior Examiner

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

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

_____/s/
Ashok Reddy

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 32226

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ADRIENNE A. HARRIS, 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:

ASHOK REDDY

as a proper person to examine the affairs of the

***SEGREGATED GIFT ANNUITY FUND OF THE
NORTH SHORE ANIMAL LEAGUE AMERICA, INC.***

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 March, 2022

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:



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

