

*The PROVIDENT LOAN
SOCIETY of NEW YORK*



121st ANNUAL REPORT - 2015

TABLE OF CONTENTS

TRUSTEES OF THE SOCIETY	3
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
INDEPENDENT AUDITORS' REPORT	24
ANALYSIS OF LOANS MADE	25
AUCTION SALE ANALYSIS	25
STATEMENT OF TRANSACTIONS	26
UNIQUE INSTITUTION	27
BRANCH LOANING OFFICES	31

STATEMENT OF FINANCIAL POSITION

December 31,

	2015	2014
ASSETS		
Cash	\$ 1,541,612	\$ 1,621,337
Loans on pledged articles – net (Note 6)	14,878,813	15,729,522
Accrued interest on loans	1,381,877	1,464,167
Fees receivable	154,961	183,465
Prepaid insurance	78,290	247,875
Security deposit (Note 4)	108,000	147,373
Deferred charges and sundry assets	203,509	159,399
Fixed assets – net, including asset acquired under capital leases of \$9,703 in 2015 and \$12,475 in 2014 (Note 3)	1,296,035	1,122,451
Leasehold Interest in Equipment - Net (Notes 3 and 8)	<u>14,850</u>	<u>19,098</u>
Total assets	<u>\$ 19,657,947</u>	<u>\$ 20,694,687</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Liabilities:		
Bank loans payable (Note 11)	\$ 4,950,000	\$ 4,559,014
Excess of proceeds from auction sales over loans (Note 5)	833,581	1,227,239
Security deposit payable (Note 4)	108,000	147,373
Accrued pension benefit obligation (Note 7)	666,223	866,271
Liability for postretirement welfare benefits (Note 7)	1,544,250	1,362,772
Liability under capital lease (Note 8)	24,960	30,791
Sundry accruals and payables	<u>210,913</u>	<u>361,136</u>
Total Liabilities	8,337,927	8,554,596
Unrestricted net assets:		
Undesignated	14,914,124	15,618,493
Retirement benefits not yet recognized in operating expenses (Note 7)	<u>(3,594,104)</u>	<u>(3,478,402)</u>
Total unrestricted net assets	11,320,020	12,140,091
Total Liabilities and Unrestricted Net Assets	<u>\$ 19,657,947</u>	<u>\$ 20,694,687</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

	Year ended December 31,	
	2015	2014
Changes in Unrestricted Net Assets:		
Operating and other revenue:		
Interest earned on loans	\$ 4,492,044	\$ 4,782,248
Fees income	484,301	431,988
Interest earned on money market accounts	443	574
Rental income	74,145	257,397
Other income	2,785	=
Income from air rights (Note 9)	<u>195,000</u>	<u>195,000</u>
Total unrestricted operating revenue and support	5,248,718	5,667,207
Operating Expenses (Note 12):		
Salaries	2,416,290	2,258,653
Employee health and life insurance benefits	395,730	357,431
Pension and other postretirement benefit plans (Note 7)	311,528	238,823
Interest on bank loans	188,229	159,853
General expenses	1,059,094	1,147,280
Advertising	689,126	712,287
Real estate and other taxes	479,551	419,479
Rent and maintenance (Note 8)	210,507	213,991
Auction sale losses and legal claims provision (Note 6)	94,054	66,227
Lease provision (note 10)	884	(14,226)
Depreciation and amortization (Note 3)	<u>108,094</u>	<u>55,186</u>
Total operating expenses	5,953,087	5,614,984
Result of operations	(704,369)	52,223
Change in pension and other postretirement related charges other than net periodic costs (Note 7)	<u>(115,702)</u>	<u>(922,542)</u>
Change in unrestricted net assets	(820,071)	(870,319)
Unrestricted Net Assets: Beginning	<u>12,140,091</u>	<u>13,010,410</u>
Ending	<u>\$11,320,020</u>	<u>\$12,140,091</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

	Years ended December 31,	
	2015	2014
Cash flows from operating activities:	\$(820,071)	\$(870,319)
Change in unrestricted net assets		
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	108,094	55,186
Reserve for loan loss and lease provision	31,301	(21,226)
Loan disbursements	(4,794,883)	(5,256,668)
Loan receipts	5,647,291	6,500,167
Change pension and other postretirement related charges other than net period cost	(115,702)	(922,542)
Changes in operating assets and liabilities:		
Decrease (increase) in fees receivable	28,504	121,354
Decrease (increase) in accrued interest on loans	82,290	86,734
Decrease (increase) in deferred charges, sundry assets and prepaid insurance	92,475	(129,086)
Increase in excess of proceeds from auction sales over loans	(393,658)	(274,449)
(Decrease) increase in sundry accruals and other payables	(150,223)	109,419
(Decrease) increase in accrued pension benefit obligation	(231,791)	1,691,961
Increase (decrease) in liability for postretirement welfare benefits	<u>328,923</u>	<u>(148,563)</u>
Net cash used in operating activities:	(187,450)	941,968
Cash used in investing activities:		
Purchase of fixed assets	(277,430)	(132,323)
Net cash used in investing activities	(277,430)	(132,323)
Cash flows from financing activities:		
Principal payments on capital lease	(5,831)	(2,935)
Proceeds from bank loans	1,300,000	5,159,014
Principal payments on bank loans	<u>(909,014)</u>	<u>(5,300,000)</u>
Net cash used in financing activities:	385,155	(143,921)
Net change in cash	(79,725)	655,724
Cash: Beginning	<u>1,621,337</u>	<u>955,613</u>
Ending	<u>\$ 1,541,612</u>	<u>\$ 1,621,337</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 185,871</u>	<u>\$ 148,647</u>
Supplemental schedule of noncash investing and financing activities		
Equipment funded by capital lease	\$ -	\$33,726
Total loans granted including renewals	<u>\$ 28,232,944</u>	<u>\$ 33,411,402</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. ORGANIZATION

The Provident Loan Society of New York (the “Society”) was organized in the early 1890s as an organization where people in need could borrow funds. The Society is entitled to act as a pawnbroker and is subject to all of the provisions of the laws of New York State concerning pawnbrokers, except that it is not required to obtain a license or file a bond. Its objective is to provide dignified low-cost loan facilities to all person who desire to borrow money principally on mounted diamonds and gold jewelry.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – Assets and liabilities, and revenue and expenses are recognized on the accrual basis of accounting in conformity and accounting principles generally accepted in the United States of America for not-for-profit organizations.

Use of Estimates – The preparation of the Society’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash – The Society maintains cash bank accounts which, at times, may exceed federally insured limits. The Society has not experienced any losses in such accounts.

Fees Receivable – The Society charges processing and storage fees for collateral items when new loans are issued. The fees are not required to be paid until the loan is repaid. These fees are accrued when new loans are issued.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets – The Society capitalizes all assets with a cost of \$2,500 or more. Fixed assets have been stated at cost less accumulated depreciation and amortization. Depreciation of building and equipment is provided over the estimated useful lives of the assets which approximate 15 years and 5 years, respectively, on a straight-line basis. Leasehold improvements are amortized over the lesser of the related useful life of the asset or the lease term.

Loans on Pledged Articles – All loans are advanced for a term of six months. The Society reduces the possibility that a loan loss may occur generally by limiting the amount loaned to substantially less than 100% of the estimated auction value of the collateral for most loans. In accordance with New York law, the Society accrues interest for no more than fifteen months after a loan is initiated or renewed. Collateral is offered for auction generally within six months of the expiration date of the related loan.

Advertising and Promotional Costs – Advertising and promotional costs are charged to operations when incurred.

Loan Losses – Loan losses are recorded when a sale of collateral at auction earns less than the value of the loan, including accrued interest. In addition, management evaluates loan balances at year-end to determine if an additional loan loss reserve is necessary. Loan loss reserves are provided by management and based on the history of loan losses. The loan loss reserve for December 31, 2015 and 2014 is \$111,301 and \$113,000, respectively.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value – The Society applies Accounting Standards Codification (ASC) 820-10, Fair Value Measurements, which provides a framework for measuring fair value under accounting principles generally accepted in the United States and applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Society uses various methods including market, income and cost approaches. Based on these approaches, the Society often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Society utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Society is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets such as the New York Stock Exchange.

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or that can be derived principally from or corroborated observable market data.

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

For the fiscal year ended December 31, 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes: The Society is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code and from state income taxes.

The Society recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Management evaluated the Society's tax positions and concluded that the Society had taken no uncertain tax positions that require adjustment to the financial statements. Generally, the Society is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2010, which is the standard statute of limitations look-back period.

Subsequent Events: The Society evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was May 17, 2016 for these financial statements.

Note 3. FIXED ASSETS

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 is \$108,094 and \$55,186, respectively. Depreciation expense of \$7,020 on assets under capital lease and leasehold interest in equipment is included with depreciation expense on owned assets in 2015.

The components of fixed assets are as follows:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$1,472,294	\$1,454,115
Equipment	646,868	579,751
Leasehold improvements	152,168	152,168
Software development	31,500	31,500
Construction in progress	<u>276,893</u>	<u>84,759</u>
	2,579,723	2,302,293
Lease accumulated depreciation and amortization	<u>(1,646,813)</u>	<u>(1,538,719)</u>
Building, equipment and leasehold improvements – net	932,910	763,574
Land	<u>377,975</u>	<u>377,975</u>
	<u>\$ 1,310,885</u>	<u>\$ 1,141,549</u>

Included in equipment as of December 31, 2014 are costs of approximately \$35,000, with accumulated depreciation of approximately \$3,500 on assets acquired under capital leases.

Note 4. SECURITY DEPOSITS

Security deposits are invested in money market funds and marketable bonds measured at fair value. At December 31, 2014 and 2013, all such items were recorded at fair value based on quoted market prices in active markets for identical assets (Level 1).

	<u>2015</u>	<u>2014</u>
Money market fund	<u>\$ 108,000</u>	<u>\$ 147,373</u>

Note 5. PROCEEDS FROM AUCTION SALES

The excess of proceeds from auction sales over loans is payable to the pledgors. If unclaimed, proceeds are remitted to New York State under the escheat laws. For the years ended December 31, 2015 and 2014 approximately \$351,000 and \$211,000 were remitted to New York State.

Note 6. LOANS ON PLEDGED ARTICLES

The Society advances loans which mature in six months or 180 days. The Society's interest rate policy is based on a simple-interest rate. The Society's interest rate policy states loans outstanding up to the day of maturity accrue interest at 26% per annum. All loans mature on the 180th day. After maturity, a loan accrues interest at a penalty rate of 48% per annum until the loan age reaches 455 days. After 455 days, the loan ceases to earn interest, as determined by New York State Law.

Below are the definitions based on the Society's policy:

- Current Loans– Loans outstanding for 180 days (6 months) or less earning 26% simple interest per annum.
- Past Due Loans– Loans outstanding for period greater than 180 days and less than 456 days earning 48% simple interest rate per annum; The penalty rate is applied only to those days outstanding beyond the maturity date.
- Max Loans – Loans outstanding for a period greater than 455 days; These loans do not accrue interest after the 455th day in accordance with New York State law.

An aging analysis, as of December 31, 2015 and 2014 is as follows:

Note 6. LOANS ON PLEDGED ARTICLES (continued)

	1-180 Days <u>Current</u>	181-455 Days <u>Past Due</u>	Over 455 Days (Max) <u>Past Due</u>	<u>Total</u>
<u>2015</u>				
Loans on pledged articles	\$12,334,436	\$2,641,503	\$14,175	\$14,990,114
<u>2014</u>				
Loans on pledged articles	\$13,118,920	\$2,669,202	\$54,400	\$15,842,522

Loans on pledged articles are assessed for credit quality at the point of origination based on the auction value of the items presented. Thereafter, based on the age of the loan, when payment is not received the loan items are scheduled for sale at auction in accord with a pre-determined sale schedule. Items may be withdrawn from a sale based on the loan break-even amount and customer's request for additional time coupled with a promise to pay.

The following table represents the credit risk category of loans on pledged articles as of December 31, 2015 and 2014 based on payment activity:

	<u>2015</u>	<u>2014</u>
Performing	\$ 14,975,939	\$ 15,788,122
Nonperforming	14,175	54,400
	<u>\$14,990,114</u>	<u>\$15,842,522</u>

The following schedule illustrates a summary of the Society's loans on pledged articles as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Loans on pledged articles, gross	\$14,990,114	\$15,842,522
Less allowance for loan losses	(111,301)	(113,000)
Loans on pledged articles, net	<u>\$14,878,813</u>	<u>\$15,729,522</u>

The following schedule illustrates the composition of the allowance for loans on pledged articles as of December 31, 2014 and 2013:

	<u>2015</u>	<u>2014</u>
Allowances for loan losses on pledged articles:		
Balance, beginning of the year	\$ 113,000	\$ 120,000
Write-off against allowance	(95,753)	(73,227)
Provision charged to expenses	94,054	66,227
Balance, end of the year	<u>\$ 111,301</u>	<u>\$ 113,000</u>

Note 7. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Society maintains a defined benefit pension plan covering substantially all of its employees, and life insurance benefits and contributory group medical benefits for all full-time employees who retire from the Society after active service. The pension plan assets are held in an immediate participation guarantee contract, which is administered by the Metropolitan Life Insurance Company (“MetLife”). Dividends and credits become part of the pension plan assets as they are earned. Effective December 31, 2003, the Society froze the existing retirement plan and no additional benefits will accrue in that plan. As a result of freezing the retirement plan, the benefit obligation at December 31, 2003 was reduced by \$1,066,086 at that date.

The following table summarizes the benefit obligations, fair value of assets and funded status over the two-year period ended December 31, 2015 and 2014:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$8,780,075	\$7,859,964	\$1,362,772	\$1,423,039
Service costs				
including expenses	33,171	25,831	29,487	22,239
Interest cost	298,823	342,524	45,354	51,511
Actuarial loss/(gain)	(439,527)	1,095,237	142,233	(93,508)
Benefits payments and expected expenses	<u>(557,745)</u>	<u>(543,481)</u>	<u>(35,596)</u>	<u>(40,509)</u>
Benefit obligation at end of year	<u>8,114,797</u>	<u>8,780,075</u>	<u>1,544,250</u>	<u>1,362,772</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	8,115,986	7,674,816	-	-
Actual return on plan asset	(85,606)	491,991	-	-
Employer contributions	208,022	500,000	35,596	40,509
Benefit payments and actual expenses	<u>(558,435)</u>	<u>(550,821)</u>	<u>(35,596)</u>	<u>(40,509)</u>
Fair value of plan assets at end of year	<u>7,679,967</u>	<u>8,115,986</u>	-	-
Funded status, end of year	<u>\$(434,830)</u>	<u>\$(664,089)</u>	<u>\$(1,544,250)</u>	<u>\$(1,362,772)</u>

**Note 7. PENSION AND OTHER POSTRETIREMENT
BENEFIT PLANS (continued)**

The estimated net gain (loss), transition asset (obligation), and and prior service credit (cost) for the plan that will be amortized from accumulated change in unrestricted net assets into net periodic pension cost over the next fiscal year are \$(233,000), \$0, and \$0, respectively. The estimated net gain (loss), transition asset (obligation), and prior service credit (cost) for the plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are (\$3,000), \$0, and \$5,000, respectively.

Change in pension and other postretirement changes other than net periodic cost recognized in the changes in net assets is \$115,702 and \$922,542 for the years ended December 31, 2015 and 2014, respectively.

	Pension benefits		Postretirement benefits	
	2015	2014	2015	2014
Weighted-average assumptions as of December 31:				
Discount rate	4.00%	3.50%	4.00%	3.50%
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	N/A	N/A	3.50%	4.00%

For the fiscal year end December 31, 2014 pension expense, the mortality table was changed from the Combined RP2000 Annuitant and Non-Annuitant Mortality Table projected with Scale AA to 2013 with additional 7 year and 15 year projections included for Annuitants and Non-Annuitants respectively, for males and females as of December 31, 2013 to the Combined RP2000 Annuitant and Non-Annuitant Mortality Table projected with Scale AA to 2014 with additional 7 year and 15 year projections included for Annuitants and Non-Annuitants respectively, for males and females as of December 31, 2014.

The projected benefit obligation was actuarially determined using an assumed discount rate of 3.50% and 4.50% as of December 31, 2014 and 2013. The assumed rate of future increases in healthcare in 2015

**Note 7. PENSION AND OTHER POSTRETIREMENT
BENEFIT PLANS (continued)**

was 5.40% and 5.80% and is expected to gradually decrease to 5.50% for pre-Medicare and decrease to 5.40% for Medicare eligible after 2019.

The effect of a one-percentage-point increase in the assumed healthcare cost trend rates for each future year on the accumulated postretirement benefit obligation for healthcare benefits and the aggregate of the service and interest cost components of net periodic postretirement healthcare benefit cost as of December 31, 2015 is as follows:

	Accumulated Postretirement Benefit Obligation	Service and Interest Cost
At trend	\$ 1,544,250	\$ 74,841
At trend + 1 %	1,690,765	82,759
Dollar impact	146,515	7,918
Percentage impact	9.49%	10.58%
At trend - 1 %	1,420,362	68,308
Dollar impact	(123,888)	(6,533)
Percentage impact	(8.02%)	(8.73%)

The Society's overall investment strategy is to achieve a mix of approximately 75% of investments for long-term growth and 25% for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are 54% equity securities, 40% fixed income, and 5% for real estate securities. Investments are invested in commingled separate accounts of MetLife. The underlying investments are primarily invested in equity securities, fixed income securities and real estate securities. Commingled separate funds are valued at net asset value reporting daily by MetLife.

The Society's pension plan assets at December 31, 2015 and 2014, by asset category, are as follows:

Note 7. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)

Asset Category	2015 Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$60,067	\$60,067	\$ -	\$ -
Commingled Separate Accounts ^(a) :				
Large Cap Core	1,349,767	-	1,349,767	-
TCW Large Cap Value	833,080		833,080	
Broad Market Account	1,039,581	-	1,039,581	-
Real Estate Securities	415,007	-	415,007	-
Small Cap	415,536	-	415,536	-
International Equity Fund	459,692	-	459,692	-
Intermediate Duration Alliance Fund	1,184,375	-	1,184,375	-
Large Cap Growth	469,259	-	469,259	-
Mid Cap Index	422,717	-	422,717	-
Emerging Markets Fund	1,030,886	-	1,030,886	-
Total	\$ 7,679,967	\$ 60,067	\$ 7,619,900	\$ -

(a) All commingled separate accounts can be redeemed within one day's notice.

Asset Category	2014 Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$60,015	\$60,015	\$ -	\$ -
Commingled Separate Accounts ^(a) :				
Large Cap Core	1,373,163	-	1,373,163	-
Broad Market Account	925,331	-	925,331	-
Value Account	1,088,410	-	1,088,410	-
Real Estate Securities	428,330	-	428,330	-
Small Cap	455,317	-	455,317	-
International Equity Fund	515,482	-	515,482	-
Intermediate Duration Alliance Fund	1,269,567	-	1,269,567	-
Large Cap Growth	473,584	-	473,584	-
Mid Cap Index	451,884	-	451,884	-
Emerging Markets Fund	1,074,903	-	1,074,903	-
Total	\$ 8,115,986	\$ 60,015	\$ 8,055,971	\$ -

(a) All commingled separate account can be redeemed within one day's notice.

**Note 7. PENSION AND OTHER POSTRETIREMENT
BENEFIT PLANS (continued)**

The Society's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by major asset categories.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is periodically reviewed by the Society. The policy is established and administered in a manner that is compliant at all times with applicable government regulations.

The Society does not expect to contribute to its defined benefit pension plan in 2016.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year ending December 31,	Pension Benefits	Postretirement Benefits
2016	\$ 525,426	\$ 56,086
2017	517,322	52,259
2018	503,678	58,806
2019	514,805	70,625
2020	500,578	77,789
2021-2025	2,457,046	597,475

Effective January 1, 2004, the Society adopted a defined contribution plan covering substantially all its employees. Contributions to the defined contribution plan totaled \$231,393 and \$202,182 in 2015 and 2014, respectively.

Note 8. LEASE OBLIGATION

The Society opened its Bay Ridge office on May 19, 1986. In 2006, the lease on the property was extended, to expire in 2012. In April 2012, the Society signed a new lease that extended this lease to expire on April 30, 2022. Rent expense was \$84,002 and \$84,000 for the years ended December 31, 2015 and 2014, respectively. The future minimum rental payments for the years ending December 31 are as follows:

<u>Year ending December 31,</u>	
2016	\$ 82,000
2017	84,000
2018	88,000
2019	90,000
2020	94,000
Thereafter	128,000
Total future minimum payments required	<u>\$ 566,000</u>

The Society acquired equipment during 2014 which are classified as capital leases. The leased equipment is amortized on a straight line basis over 5 years. Total accumulated amortization related to the leased equipment is \$10,530 and \$3,510 at December 31, 2015 and 2014, respectively. The interest rates related to the lease obligation are 4% (incremental borrowing rate) and 12.4% (imputed interest rate). The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of December 31, 2015.

<u>Year ending December 31,</u>	
2016	8,412
2017	8,412
2018	8,412
2019	<u>3,951</u>
Total minimum lease payments	29,187
Less the amount representing interest	<u>(4,227)</u>
Present value of minimum lease payments	<u>\$ 24,960</u>

Note 9. INCOME FROM AIR RIGHTS

The Society has agreements leasing its air rights over its Executive Office Building and the Lenox Hill Office. At December 31, 2015 and 2014, rental income was billed at the annual rate of \$197,785 and \$195,000, respectively. The lease for the Lenox Hill Office resets as a result of reappraisals every ten years. The next appraisal is due in 2017.

Note 10. INCOME FROM OPERATING LEASE AGREEMENTS

The Society had an operating lease agreement with a tenant at its executive office building. The tenant lease agreement expired July 31, 2012. As of December 31, 2014, the previous tenant no longer remains on premise. The outstanding and past due amounts owed by the previous tenant are \$53,023 at December 31, 2014. The Society has recorded a lease loss provision of \$33,000 at December 31, 2014. The outstanding and past due amounts as of December 31, 2014 were 100% written off against the allowance, less the security deposit.

During the year ending December 31, 2014, the Society entered into another operating lease agreement with a tenant at its executive office building. The term of the lease is for one and a half years. The basic rental fee for tenancy is \$9,813 per month. Total rental income recognized during the years ended December 31, 2015 and 2014 was \$74,145 and \$83,413, respectively. As of December 31, 2015, the lease was not renewed and the Society no longer has any tenants.

Note 11. BANK LOANS PAYABLE

The Society entered into a line of credit during 2014 for \$7,500,000. The Society had an outstanding bank borrowing of approximately \$4,950,000 and \$4,600,000 as of December 31, 2015 and 2014, respectively. Interest on the line of credit is 4.25% and 4.00% as of December 31, 2015 and 2014. The Society agrees to maintain an average compensating balance of \$500,000 pursuant to this line of credit. This line of credit matures on October 1, 2016. The Society violated a financial covenant during 2015 and obtained a waiver for the violation through December 31, 2015.

The line of credit has covenants requiring the Society to maintain certain unrestricted net asset balances, maintain a certain total liabilities to unrestricted net assets ratio and maintain a minimum profitability of greater than \$0.

Borrowings are all considered short-term. There are no significant restrictions on the Society's assets.

Note 12. OPERATING EXPENSES

Total operating expenses consist of the following for the year ended December 31:

	<u>2015</u>	<u>2014</u>
Program Services	\$3,568,481	\$3,510,371
Management and general	2,284,606	2,104,613
	<u>\$5,953,087</u>	<u>\$5,614,984</u>

INDEPENDENT AUDITOR'S REPORT

To the Trustees of
The Provident Loan Society of New York
New York, New York

Report on the Financial Statements

We have audited the accompanying statements of financial position of The Provident Loan Society of New York (the "Society") as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Society as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US, LLP

New York, New York
May 17, 2016

ANALYSIS OF LOANS MADE

2015

Amounts (inclusive)	Total number of loans	Percentages of totals	
\$1 to \$49	424	1.4% of loans were for less than \$50	1.4%
\$5 to \$124	2,129	8.5% of loans were for less than \$125	7.1%
\$125 to \$199	2,367	16.4% of loans were for less than \$200	7.9%
\$200 to \$499	8,834	45.7% of loans were for less than \$500	29.3%
\$500 to \$749	4,893	61.9% of loans were for less than \$750	16.2%
\$750 to \$999	2,744	71% of loans were for less than \$1000	9.1%
\$1,000 to \$1,999	5,548	89.4% of loans were for less than \$2,000	18.4%
\$2,000 and Over	3,189		10.6%
Total	30,128		100%

AUCTION SALE ANALYSIS

	2015	2014
Loans sold (number)	1,259	1,554
Loans sold (principal)	\$1,101,981	\$1,275,609
Accrued interest & fees thereon	\$454,965	\$510,062
Total amount due society	\$1,556,946	\$1,785,469
Surplus realized for borrowers	\$379,837	\$469,572
Loss sustained by society	\$95,753	\$72,397

STATEMENT OF TRANSACTIONS

	2015	2014
New loans made:		
Number	5,154	5,777
Amount	\$4,702,290	\$5,130,140
Average	\$912	\$888
Loans made upon increase of principal*:		
Number	209	214
Amount	\$315,350	\$430,864
Loans made upon part payment of principal:		
Number	1,644	1,670
Amount	\$1,682,265	1,670,629
Loans made upon payment of interest only:		
Number	23,121	24,744
Amount	\$21,533,039	\$22,674,724
<hr/>		
Total loans made:		
Number	30,128	32,408
Amount	\$28,232,944	\$29,906,357
<hr/>		
Loans paid in full:		
Number	4,973	5,431
Amount	\$4,061,331	\$4,722,456
Loans paid by increase of principal*:		
Number	209	217
Amount	\$222,757	\$304,336
Loans sold:		
Number	1,259	1,554
Amount	\$1,101,981	\$1,275,609
Loans paid upon part payment of principal**:		
Number	1,644	1,670
Amount	\$2,166,244	\$2,172,731
Loans paid by payment of interest only:		
Number	23,121	24,744
Amount	\$21,533,039	\$22,674,724
<hr/>		
Total loans paid and sold:		
Number	31,206	33,616
Amount	\$29,085,352	\$31,149,856
<hr/>		
*Increases granted	\$92,593	\$126,528
**Part payments received	\$483,979	\$502,102

THE PROVIDENT LOAN SOCIETY OF NEW YORK

A UNIQUE INSTITUTION

In the strictest sense of the term, The Provident Loan Society of New York is unique. It is a corporation – without stockholders – not operated for profit – operated to aid those in need, the loan of money on the pledge of personal property.

ORIGIN

The Society was organized during one of the most severe money panics in our history. In the early 1890's misery and destitution was the order of the day. For much of the population of New York City there were no opportunities for employment. Relief agencies were unable to give anything approximating adequate help. There was no agency available where people in need could borrow small sums to tide them over periods of stress at rates that were not extortionate and ruinous.

In an article appearing in the "Charities Review" of that time, published by the Charity Organization Society of the City of New York (now the Community Service Society of New York), Mr. Alfred Bishop Mason suggested that the group of men to which he belonged should unite "to lend money at low rates on good security." He said

"There is no merchant in this community who would not be driven into bankruptcy if his unsecured bills payable bore the rate of interest which the poor have to pay on the most undoubted security. Borrowing is often the greatest necessity; let the Anglo-Saxons learn from the Latins and build up in New York a Monte-de-Piete where it shall not be shame and ruin to borrow, and where self-respect need not make part of every pledge."

A little over two years after this article was published, The Provident Loan Society of New York, through the efforts of its incorporators, was organized by special act of the legislature of the State of New York.

INCORPORATION

The act incorporating the Society constituted as a body corporate Otto T. Bannard, Charles C. Beaman, Henry R. Beekman, William L. Bull, Frederic R. Coudert, Charles F. Cox, John D. Crimmins, R. Fulton Cutting, Robert W. deforest, William E. Dodge, Charles S. Fairchild, David H. Greer, Abram S. Hewitt, James J. Higginson, Adrian Iselin, Jr., D. Willis James, John S. Kennedy, Seth Low, Solomon Loeb, Alfred B. Mason, Victor Morawetz, J. Pierpont Morgan, Oswald Ottendorfer, Jacob H. Schiff, Gustav H. Schwab, Charles S. Smith, James Speyer, Walter Stanton, J. Kennedy Tod, Abraham Wolff, and Cornelius Vanderbilt and their associates and successors under the name The Provident Loan Society of New York.

“for the purpose of aiding such persons as said Society shall deem in need of pecuniary assistance, by loans of money at interest, upon the pledge or mortgage of personal property.”

The act further provided

“said Society shall be entitled to act as pawnbroker and shall be subject to and entitles to all the benefits of the provisions of the laws of this State concerning pawnbrokers, except that it shall not be required to obtain a license of file a bond.”

The devotion of the founders to the purpose of the Society is shown anew in connection with the financing of the Society. In this panic period money was most difficult to procure for any purpose; there was not much available for a corporation

organized for charitable purposes. Its founders advanced to the Society whatever they could afford to give out of their own capital – and received in exchange therefore Certificated of Contribution. Such a Certificate gave neither voting rights nor the right to share in the surplus of the Society. It merely acknowledged receipt of a contribution. The holder had the right to receive interest on his contribution for any one year, not in excess of 6%, but that could be paid only out of earnings and only on the vote of the trustees. To meet the tremendous demand, the founders endorsed the notes of the Society, lending their credit. Their reputation have standing to the Society, so that many made subscriptions. At one time these outstanding Certificates of Contribution amounted to \$22,500,000. As soon as the trustees determined that these funds were no longer needed for the operation of the Society they directed that all outstanding Certificates of Contribution should be repaid. Accordingly Certificate holders were notified that the Society would repay all Certificates on September 30, 1944, at which time interest thereon would cease. This was accomplished.

OPERATION

The unique “business” of The Provident Loan Society is managed by a board of twelve to fifteen trustees, each of whom must be a member of the Society. The founders set high objectives and standards of conduct. The purpose of the undertaking was not only to make loans to those in need of such help at the lowest practicable cost, but also to exercise the utmost regard for the moral and legal rights of borrowers. Further, the project should be self-sustaining and no trustee of the Society should receive any compensation for his services or any profit other than lawful interest on money loaned to it. To persist in these fundamental objectives, to perpetuate the aims of the founders, and to safeguard the philanthropic character of the institution has been the continuing function of succeeding boards of trustees.

In recent years the Society has served approximately 30,000 people annually and in time of economic strife has

served an estimated 700,000 people in a single year. In 2015, forty-six percent of all loans made by the Society were for amounts less than \$500. Approximately twenty-nine percent of loans made were for amounts in excess of \$1000.

Today the Society make loans upon diamond and gold jewelry, silverware, etc., and maintains five offices throughout the City of New York.

The Society has always been a unique institution, but with the repayment of all of its Certificated of Contribution, its unique character became all the more striking. We now have an institution, a social agency in corporate form financed out of surplus earnings accumulated gradually over more than a century, conducted wholly in the public interest without private funds either invested or contributed and, if the Society is ever dissolved its net assets will be returned to the community by distribution to charities, in accordance with its constitution.

The Provident Loan Society of New York was born in an emergency but was designed and planned for permanent service. This service was – and is – to meet and serve a social need, and that need must vary with circumstances. However much it rises and falls from time to time, that need is the measure of the Society's undertaking.

THE PROVIDENT LOAN SOCIETY OF NEW YORK

Executive Offices

346 PARK AVENUE SOUTH
NEW YORK, NY 10010
Telephone: 212-685-0380

BRANCH LOANING OFFICES

Manhattan

346 PARK AVENUE SOUTH CORNER EAST 25TH STREET
180 EAST 72ND STREET NEAR THIRD AVENUE

Bronx

2573 DECATUR AVENUE CORNER 193RD STREET
1 BLOCK FROM FORDHAM RD.

Brooklyn

7804 FIFTH AVENUE BAY RIDGE

Queens

136-48 39TH AVENUE NEAR MAIN STREET, FLUSHING

