

*The PROVIDENT LOAN  
SOCIETY of NEW YORK*



**124<sup>th</sup> ANNUAL REPORT - 2018**

## **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	25
ANALYSIS OF LOANS MADE	27
AUCTION SALE ANALYSIS	27
STATEMENT OF TRANSACTIONS	28
UNIQUE INSTITUTION	29
BRANCH LOANING OFFICES	33



**STATEMENT OF FINANCIAL POSITION**

**December 31,**

**2018                      2017**

**ASSETS**

Cash	\$ 2,622,672	\$ 1,309,977
Loans on pledged articles – net (Note 6)	11,402,851	12,628,472
Accrued interest on loans	1,106,492	1,172,044
Fees receivable	158,855	173,826
Prepaid insurance	119,221	132,265
Security deposit (Note 4)	228,630	107,700
Air rights receivable – net (Note 9)	-	744,628
Deferred charges and sundry assets	190,419	130,915
Fixed assets – net, including asset acquired under capital leases of \$3,505 in 2018 and \$10,520 in 2017 (Notes 4 and 9)	1,235,937	1,276,568
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<b>Total assets</b>	<b>\$ 17,216,298</b>	<b>\$ 17,676,395</b>
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**LIABILITIES AND UNRESTRICTED NET ASSETS**

<b>Liabilities:</b>		
Bank loans payable (Note 10)	\$ 2,100,000	\$ 3,000,000
Excess of proceeds from auction sales over loans (Note 5)	463,006	508,756
Security deposit payable (Note 4)	228,630	132,875
Accrued pension benefit obligation (Note 7)	501,355	862,362
Liability for postretirement welfare benefits (Note 7)	1,147,807	1,370,333
Liability under capital lease (Note 8)	3,870	11,568
Sundry accruals and payables	226,105	253,738
Severance payable	-	206,006
<b>Total Liabilities</b>	<hr style="border-top: 1px solid black;"/> <b>4,670,773</b>	<hr style="border-top: 1px solid black;"/> <b>6,345,638</b>
 <b>Unrestricted net assets:</b>		
Undesignated	15,666,771	14,802,710
Retirement benefits not yet recognized in operating expenses (Note 7)	(3,121,246)	(3,471,953)
<b>Total unrestricted net assets</b>	<hr style="border-top: 1px solid black;"/> <b>12,545,525</b>	<hr style="border-top: 1px solid black;"/> <b>11,330,757</b>
 <b>Total Liabilities and Unrestricted Net Assets</b>	 <hr style="border-top: 1px solid black;"/> <b>\$ 17,216,298</b>	 <hr style="border-top: 1px solid black;"/> <b>\$ 17,676,395</b>
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*See notes to financial statements.*

## STATEMENT OF ACTIVITIES

	Year ended December 31,	
	2018	2017
Changes in Unrestricted Net Assets:		
Operating and other revenue:		
Interest earned on loans	\$ 3,518,507	\$ 3,861,233
Fees income	521,236	575,542
Interest earned on money market accounts	2,102	486
Rental income	12,516	12,516
Income from air rights (Note 10)	<u>949,628</u>	<u>949,628</u>
<b>Total operating revenue and support</b>	5,707,962	5,399,405
Operating Expenses (Note 12):		
Salaries	1,908,617	2,032,638
Employee health and life insurance benefits	256,864	231,387
Pension and other postretirement benefit plans (Note 8)	257,078	174,886
Interest on bank loans	152,942	161,253
General expenses	928,222	1,003,317
Legal expenses	115,874	326,898
Advertising	311,612	393,815
Real estate and other taxes	476,267	464,845
Rent and maintenance (Note 9)	239,401	178,463
Auction sale losses and legal claims provision (Note 7)	94,053	100,079
Depreciation and amortization (Note 4)	<u>92,192</u>	<u>95,236</u>
<b>Total operating expenses</b>	4,833,122	5,162,817
<b>Result of operations</b>	874,840	236,588
Nonoperating expenses:		
Severance	-	(206,006)
Change in pension and other postretirement related charges other than net periodic costs (Note 7)	<u>339,928</u>	<u>385,365</u>
<b>Total nonoperating revenue (expenses)</b>	<u>339,928</u>	<u>179,359</u>
<b>Change in unrestricted net assets without donor restrictions</b>	1,214,768	415,947
Unrestricted Net Assets: Beginning	<u>11,330,757</u>	<u>10,914,810</u>
Ending	<u>\$12,545,525</u>	<u>\$11,330,757</u>

*See notes to financial statements.*

## STATEMENT OF CASH FLOWS

	Years ended December 31,	
	2018	2017
Cash flows from operating activities:	\$415,947	\$415,947
Change in unrestricted net assets		
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	92,192	95,236
Reserve for loan loss and lease provision	94,053	90,000
Loan disbursements	(3,549,867)	(4,308,286)
Loan receipts	4,681,435	5,314,713
Change pension and other postretirement related charges other than net period cost	339,928	540,632
Changes in operating assets and liabilities:		
Decrease (increase) in fees receivable	14,971	20,254
Decrease (increase) in accrued interest on loans	65,552	95,671
Increase in air rights receivable	744,132	(744,628)
Increase (decrease) in deferred charges, sundry assets, security deposits and prepaid insurance	(167,390)	20,144
(Increase) decrease in rent receivable	(150,725)	(496)
Decrease in excess of proceeds from auction sales over loans	(45,750)	(76,840)
Increase in sundry accruals, security deposit and other payables	68,122	45,813
Decrease (increase) in severance payables	(206,006)	206,006
Decrease in accrued pension benefit obligation	(501,505)	(933,936)
Decrease in liability for postretirement welfare benefits	<u>(421,956)</u>	<u>(3,121)</u>
<b>Net cash provided by operating activities:</b>	<u>2,271,954</u>	<u>777,109</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(51,561)</u>	<u>(145,092)</u>
<b>Net cash used in investing activities</b>	<u>(51,561)</u>	<u>(145,092)</u>
Cash flows from financing activities:		
Principal payments on capital lease	(7,698)	(7,006)
Principal payments on bank loans	<u>(900,000)</u>	<u>(1,000,000)</u>
<b>Net cash used in financing activities:</b>	<u>(907,698)</u>	<u>(1,007,006)</u>
<b>Net change in cash</b>	1,312,695	1,684,966
Cash: Beginning	<u>1,309,977</u>	<u>1,684,966</u>
Ending	<u>\$ 2,622,672</u>	<u>\$ 1,309,977</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for interest	<u>\$ 166,611</u>	<u>\$ 162,695</u>
Total loans granted including renewals	<u>\$ 21,423,818</u>	<u>\$ 24,228,743</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 (U.S. GAAP) 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 \$1,000 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. Depreciation expense on assets acquired under capital leasehold interest in equipment is included with depreciation expense on owned assets.

**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, 2018 and 2017 is \$98,000 and \$90,000, respectively.

**Fair Value** – The Society applies Accounting Standards Codification (ASC) 820-10, Fair Value Measurement, which provides a framework for measuring fair value under U.S. GAAP 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

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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. 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, 2018, 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

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

inputs due to the limited market activity of the instrument.

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.

The Society incurred \$9,787 of unrelated income tax expense related to the Tax Cuts and Jobs Act applicable to exempt organizations. This Act requires tax exempt employers to recognize unrelated business income for expenses paid or incurred after December 31, 2017, for qualified transportation benefits. The Society paid this expense in full on May 10, 2019.

Management evaluated the Society's tax positions and concluded that the Society had taken no uncertain tax positions that require adjustments to the financial statements.

Reclassifications: Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation. These reclassifications had no effect on the previously reported change in net assets or net assets.

Recent adopted pronouncement: In August, 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this Asu make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The adoption of this Statement changed net assets classifications from three classes to two classes, and required additional disclosure on liquidity, and functional expense. The liquidity and functional expense disclosures can be found at Note 3 and 12, respectively.

## **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recent accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015014 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. The Society has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The standard is effective on December 15, 2019, with early adoption permitted. The Society is in the process of evaluating the impact of this new guidance.

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 August 28, 2019 for these financial statements.

**Note 3. LIQUIDITY DISCLOSURE**

As part of the Society’s liquidity management, it has a policy to maintain sufficient financial assets for general expenditures, liabilities, and other obligations as they come due. The Society maintains up to \$70,000 in each of its retail location to fund its loans. Cash levels are reviewed on a weekly basis to determine if a deposit or withdrawal of funds is necessary. In order to manage unanticipated liquidity needs, the Society has committed a line of credit in the amount of \$4,500,000, which it could draw upon. The Society experiences influxes of cash three times a year due to its auction sales that occurs every four months. After each sale, financial assets are reviewed to ensure sufficient liquidity to meet current expenditures and obligations.

Total assets, at December 31, 2018	\$ 17,216,298
Less non-financial assets:	
Prepaid Insurance	119,221
Deferred charges and sundry assets	190,419
Fixed assets – net	<u>1,235,937</u>
Financial assets, at December 31, 2018	15,670,721
Less those unavailable for general expenditures within one year due to contractual restrictions:	
Receivables related to pledged articles	11,500,851
Deposits with banks securing line of credit	500,000
Security deposits securing leases	<u>228,630</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 3,441,240</u>

As part of the Society’s liquidity management, it has policy to maintain sufficient financial assets for general expenditures, liabilities, and other obligations as they come due. The Society maintains up to \$70,000 in each of its retail locations to fund its loans. Cash levels are reviewed on a weekly basis to determine if a deposit or withdrawal of funds is necessary. In order to manage unanticipated liquidity needs, the Society has committed lines of credit in the amount of

### Note 3. LIQUIDITY DISCLOSURE (continued)

\$4,500,000, which it could draw upon. The Society experiences huge influxes of cash three times a year due to its auction sales that occurs every four months. After each sale, financial assets are reviewed to ensure sufficient liquidity to meet our current expenditures and obligations.

### Note 4. FIXED ASSETS

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 is \$92,192 and \$95,236, respectively. Depreciation expense of \$7,015 on assets under capital lease and leasehold interest in equipment is included with depreciation expense on owned assets in 2018 and 2017, respectively. The components of fixed assets are as follows:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$1,657,955	\$1,609,032
Equipment	666,605	663,967
Leasehold improvements	152,168	152,168
Software development	31,500	31,500
Construction in progress	<u>287,678</u>	<u>287,678</u>
	2,795,906	2,744,345
Lease accumulated depreciation and amortization	<u>(1,937,944)</u>	<u>(1,845,752)</u>
Building, equipment and leasehold improvements – net	857,962	898,593
Land	<u>377,975</u>	<u>377,975</u>
	<u>\$ 1,235,937</u>	<u>\$ 1,276,568</u>

Included in equipment as of December 31, 2018 and 2017 are costs of approximately \$35,000, with accumulated depreciation of approximately \$31,600 and \$24,600, respectively, on assets acquired under capital leases.

### Note 5. SECURITY DEPOSITS

Security deposits are invested in money market funds and marketable bonds measured at fair value. At December 31, 2017 and 2016, all such items were recorded at fair value based on quoted market prices in active markets for identical assets (Level 1).

	<u>2018</u>	<u>2017</u>
Money market fund	\$ 107,700	\$ 107,861
	120,792	-
	<u>\$ 228,630</u>	<u>\$ 107,700</u>

## Note 6. 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. During the years ended December 31, 2018 and 2017, approximately \$110,770 and \$152,000, respectively, were remitted to New York State.

## Note 7. 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, 2018 and 2017 is as follows:

	1-180 Days Current	181-455 Days Past Due	Over 455 Days (Max) Past Due	Total
<b>2018</b>				
Loans on pledged articles	\$9,430,483	\$2,030,200	\$40,168	\$11,500,851
<b>2017</b>				
Loans on pledged articles	\$10,644,276	\$2,067,996	\$6,200	\$12,718,472

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 accordance with a pre-determined sale schedule. Items may be

## Note 7. LOANS ON PLEDGED ARTICLES (continued)

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, 2018 and 2017 based on payment activity:

	2018	2017
Performing	\$ 11,460,683	\$ 12,712,272
Nonperforming	40,168	6,200
	<u>\$11,500,851</u>	<u>\$12,718,472</u>

The following schedule illustrates a summary of the Society's loans on pledged articles as of December 31, 2018 and 2017:

	2018	2017
Loans on pledged articles, gross	\$11,500,851	\$12,718,472
Less allowance for loan losses	(98,000)	(90,000)
Loans on pledged articles, net	<u>\$11,402,851</u>	<u>\$12,628,472</u>

The following schedule illustrates the composition of the allowance for loans on pledged articles as of December 31, 2018 and 2017:

	2018	2017
Allowances for loan losses on pledged articles:		
Balance, beginning of the year	\$ 90,000	\$ 78,157
Write-off against allowance	((86,053)	(78,157)
Provision charged to expenses	94,053	90,000
Balance, end of the year	<u>\$ 98,000</u>	<u>\$ 90,000</u>

## Note 8. 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

**Note 8. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)**

benefits will accrue in that plan.

The following table summarizes the benefit obligations, fair value of assets and funded status over the two-year period ended December 31, 2018 and 2017:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Change in benefit obligation:				
Benefit obligation at beginning of year	\$8,765,508	\$8,840,607	\$1,370,333	\$1,286,870
Service costs				
including expenses	52,266	-	40,171	37,470
Interest cost	289,123	325,154	44,989	46,548
Actuarial (gain) loss	(770,361)	123,897	(244,419)	40,036
Benefits payments and expected expenses	(580,470)	(524,150)	(63,267)	(40,591)
Benefit obligation at end of year	<u>7,756,066</u>	<u>8,765,508</u>	<u>1,147,807</u>	<u>1,370,333</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	8,040,562	7,661,613	-	-
Actual return on plan asset	(340,740)	903,099	-	-
Employer contributions	300,000	-	63,267	40,591
Benefit payments and actual expenses	(580,470)	(524,150)	(63,267)	(40,591)
Fair value of plan assets at end of year	<u>7,419,352</u>	<u>8,040,562</u>	-	-
Funded status, end of year	<u>\$(336,714)</u>	<u>\$(724,946)</u>	<u>\$(1,147,807)</u>	<u>\$(1,370,333)</u>
December 31,				
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Amounts recognized as liabilities in the statement of financial position	<u>\$(336,714)</u>	<u>\$(724,946)</u>	<u>\$(1,147,807)</u>	<u>\$(1,370,333)</u>
Other amounts recognized in other comprehensive income				
Prior service (cost) credit	\$ -	\$ -	\$403,506	\$ 436,440
Net loss (gain)	<u>(3,396,082)</u>	<u>(3,544,402)</u>	<u>(128,670)</u>	<u>(389,687)</u>
Net amount recognized	<u>\$(3,396,082)</u>	<u>\$(3,544,402)</u>	<u>\$ 274,836</u>	<u>\$46,753</u>
Components of net periodic cost				
Service cost	\$52,266	\$ -	\$40,171	\$37,470
Net periodic cost*	<u>52,266</u>	<u>-</u>	<u>40,171</u>	<u>\$37,470</u>
Changes in pension and postretirement costs other than net periodic costs:				
Net (gain) loss	115,656	(262,763)	(244,419)	40,036
Interest cost	289,123	325,154	44,989	46,548
Expected return on plan assets	(545,277)	(516,439)	-	-
Net other than periodic cost (benefit)	(140,498)	(454,048)	(199,430)	86,584
Net cost (benefit)	\$ (88,232)	\$_(454,048)	\$ (159,259)	\$ 124,054

**Note 8. PENSION AND OTHER POSTRETIREMENT  
BENEFIT PLANS (continued)**

\*In 2017, the Society adopted ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs*. This Statement required the reclassification of certain components of the net period cost (benefit) to be reclassified to the changes in pension and postretirement costs other than net period benefit costs.

Change in pension and other postretirement charges other than net periodic cost recognized in the changes in net assets is \$350,707 and \$538,216 for the years ended December 31, 2018 and 2017 respectively.

	Pension benefits		Postretirement benefits	
	2018	2017	2018	2017
Weighted-average assumptions as of December 31:				
Discount rate	4.16%	3.4%	3.16%	3.36%
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A%

The net pension cost was actuarially determined using an assumed discount rate of 3.4% and 3.8% as of December 31, 2018 and 2017, respectively. The assumed rate of future increases in healthcare is derived from the 2019 SOA Long Term Healthcare Cost Trends model developed by Professor Thomas Getzan. In 2018, the assumed rate of future increases was 5.40%.

For the year ended December 31, 2018, the mortality table was updated from the RP-2014 Healthy Annuitant Table projected using scale MP-2016 as of December 31, 2018.

The effect of a one-percentage-point increase and decrease 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, 2018 is as follows:

**Note 8. PENSION AND OTHER POSTRETIREMENT  
BENEFIT PLANS (continued)**

	Accumulated Postretirement Benefit Obligation	Service and Interest Cost
At trend	\$ 1,147,807	\$ 85,160
At trend + 1 %	1,213,443	91,029
Dollar impact	65,636	5,869
Percentage impact	5.72%	6.89%
At trend – 1 %	1,092,362	80,384
Dollar impact	(55,447)	(4,776)
Percentage impact	(4.83%)	(5.65%)

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, 5% for real estate securities, and 1% for other. 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, 2018 and 2017, by asset category, are as follows:

Asset Category	2018 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	\$57,701	\$ 57,701	\$ -	\$ -
Commingled Separate Accounts <sup>(a)</sup> :				
Large Cap Core	1,398,908	-	1,398,908	-
TCW Large Cap Value	344,785		344,785	
Broad Market Account	1,172,926	-	1,172,926	-
Small Cap	511,110	-	511,110	-
International Equity Fund	362,339	-	362,339	-
Intermediate Duration Alliance Fund	2,334,879	-	2,334,879	-
Large Cap Growth	350,303	-	350,303	-
Mid Cap Index	513,409	-	513,409	-
Emerging Markets Fund	372,992	-	372,992	-
<b>Total</b>	<b>\$ 7,419,352</b>	<b>\$ 57,701</b>	<b>\$ 7,361,651</b>	<b>\$ -</b>

**Note 8. PENSION AND OTHER POSTRETIREMENT  
BENEFIT PLANS (continued)**

Asset Category	2017 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	\$59,460	\$ 59,640	\$ -	\$ -
Commingled Separate Accounts <sup>(a)</sup> :				
Large Cap Core	1,697,776	-	1,697,776	-
TCW Large Cap Value	402,118		402,118	
Broad Market Account	1,125,889	-	1,125,889	-
Small Cap	604,788	-	604,788	-
International Equity Fund	439,227	-	439,227	-
Intermediate Duration Alliance Fund	2,221,760	-	2,221,760	-
Large Cap Growth	435,476	-	435,476	-
Mid Cap Index	623,205	-	623,205	-
Emerging Markets Fund	430,863	-	430,863	-
<b>Total</b>	<b>\$ 8,040,562</b>	<b>\$ 59,640</b>	<b>\$ 7,361,651</b>	<b>\$ -</b>

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

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.

**Note 8. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (continued)**

The Society plans to contribute \$100,000 to its defined benefit pension plan in 2019.

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

Year ending December 31,	Pension Benefits	Postretirement Benefits
2019	\$ 543,068	\$ 43,475
2020	523,513	49,734
2021	507,137	68,272
2022	494,954	72,267
2023	474,705	74,996
2024-2028	2,444,745	326,817

Effective January 1, 2004, the Society adopted a defined contribution plan covering substantially all its employees. Contributions to the defined contribution plan totaled \$164,641 and \$137,416 in 2018 and 2017, respectively, which are included in the accrued pension benefit obligation.

**Note 9. 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 \$84,001 for each of the years ended December 31, 2018 and 2017. The future minimum rental payments for the years ending December 31 are as follows:

Year ending December 31,	
2019	\$ 90,000
2020	94,000
2021	96,000
2022	32,000
Total future minimum payments required	\$ 312,000

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 \$31,576 and \$24,561 at December 31, 2018 and 2017, 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, 2018.

Year ending December 31,	
2019	3,952
Less the amount representing interest	(82)
Present value of minimum lease payments	\$ 3,870

### **Note 10. 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, 2018 and 2017, rental income was billed at the annual rate of \$1,285,250. The lease for the Lenox Hill Office resets as a result of reappraisals every ten years.

The Lenox Hill Office air rights payment was reset in 2017. The land value was reappraised to \$14,583,000, equivalent to payments of \$1,215,250 per annum or \$101,270 per month.

The Society entered litigation with the lessee and completed oral arguments as of January 31, 2018. On July 23, 2018, the Supreme Court of the State of New York came to a decision and judgment in favor of the Society. The Court determined the reappraisal of \$14,583,000, as per the terms of the lease, is final and binding. On August 3, 2018, the lessee paid in full the unpaid air rights receivable balance as of December 31, 2017, plus additional receivable balances accumulated from January 2018 and an additional 9% interest of approximately \$24,000 on all unpaid balances to date from the lessee. As of December 31, 2018, the lessee is current on payments and there is no air rights receivable.

As of January 25, 2019, 190 East 72<sup>nd</sup> Corp filed an official appeal. Both parties entered oral arguments on May 22, 2019. On June 18, 2019 the Court made a final decision and ruled in favor of the Society.

## **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 \$3,000,000 as of December 31, 2017. Interest on the line of credit was 5.25% as of December 31, 2017. The Society agrees to maintain an average compensating balance of \$500,000 pursuant to this line of credit.

The line of credit had 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. The bank agreed the Society violated a financial covenant during 2017 and provided a waived for the violation through December 31, 2017.

In June 2018, the Society agreed to refinance the line of credit of \$3,000,000 as a term loan with an annual interest rate of Prime plus 1.00%, with a floor of 3.00%. The interest on the term loan is 6.50% as of December 31, 2018. On February 6, 2019, the Society repaid the outstanding balance of \$2,100,000 and remaining interest of \$2,275.

In February 2019, the Society entered into a line of credit with another institution for \$4,500,000, with an initial draw of approximately \$2,115,000. The line of credit has a covenant requiring the Society to maintain a minimum unrestricted net asset of at least \$10,500,000. Unrestricted net assets are defined as net assets without donor restrictions.

## Note 12. OPERATING EXPENSES

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

Expense Classification	Program Service	Management and General Expenses	Total Expenses
Salaries	\$1,292,997	\$615,620	\$1,908,617
Employee health and life insurance benefits	182,857	74,007	256,864
Pension and other postretirement benefit plans	61,609	195,469	257,078
Interest on bank loans	152,942	-	152,942
General expenses	480,292	447,930	928,222
Legal expenses	-	115,874	115,874
Advertising	311,612	-	311,612
Real estate and other taxes	408,734	67,533	476,267
Rent and maintenance	200,204	39,197	239,401
Auction sale losses and legal claims provision	82,053	12,000	94,053
Depreciation and amortization	33,739	58,453	92,192
	<u>\$3,207,039</u>	<u>\$1,626,083</u>	<u>\$4,833,122</u>

The Society directly allocates expenses to program services & management as they are incurred. The allocations are consistently based on three methods, the office, personnel, or department methods. The most applicable method is applied based on the expense conditions. Such conditions may include but are not limited to: cost calculated by employee count, cost determined by location, cost determined by function, etc.

The following details the three allocation methods:

- 1) Office method – expenses for our local offices are allocated to Program Service, while expenses for executive office are allocated to Management.
- 2) Personnel method – expenses incurred or calculated for employees are allocated based on the office and department they service
- 3) Department method – expenses incurred by certain departments are allocated as follows:

## Note 12. OPERATING EXPENSES (continued)

Program Services: Operations, Audit, Appraisal, Auction Sales, Marketing, Purchasing, Executive Operations\*

Management and General: Administration, Human Resources, Building & Maintenance, Training & Development, Finance, Information Systems

\*80% of salary and employee benefit expenses are allocated to program services and 20% to management and general. The allocation is based on the time and effort spent on the function. All other expenses are allocated directly based on the function served.

The following are the allocation methods applied by expense classification:

- Salaries, employee health and life insurance benefits, pension and other postretirement benefit plans are allocated based on the personnel method, which is ultimately determined by the office and department the employee is assigned.
- Interest on bank loans is allocated based on the office method as our line of credit is used to fund loans issued by local offices.
- General expenses are allocated using all three methods, where the most appropriate method is applied based on the expense conditions.
- Legal expenses, real estate and other taxes, rent and maintenance and depreciation are allocated based on the department method.
- Advertising, auction sale losses and legal claims provision are allocated based on the department method. Nearly all advertisements are allocated to operations, whereas a limited amount of promotional items is charged to administration.
- Auction sale losses and legal claims provision are allocated based on the department method.

## 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, 2018 and 2017, 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, 2018 and 2017, 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.

**Emphasis of Matter**

As discussed in Notes 2, to the financial statements, the Society adopted Financial Accounting Standard Board (FASB) Accounting Standard Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets. The adoption was retrospectively applied to December 31, 2017; the earliest year presented. Our opinion is not modified with respect to this matter.

**RSM US, LLP**

New York, New York

August 28, 2019

## ANALYSIS OF LOANS MADE

**2018**

Amounts (inclusive)	Total number of loans	Percentages of totals	
\$1 to \$49	320	1.4% of loans were for less than \$50	1.4%
\$5 to \$124	1,557	8.3% of loans were for less than \$125	6.9%
\$125 to \$199	1,766	16.1% of loans were for less than \$200	7.8%
\$200 to \$499	6,740	46% of loans were for less than \$500	29.9%
\$500 to \$749	3,674	62.3% of loans were for less than \$750	16.3%
\$750 to \$999	2,045	71.3% of loans were for less than \$1000	9.0%
\$1,000 to \$1,999	4,034	89.2% of loans were for less than \$2,000	17.9%
\$2,000 and Over	2,434		10.8%
Total	22,570		100%

## AUCTION SALE ANALYSIS

	<b>2018</b>	<b>2017</b>
Loans sold (number)	802	971
Loans sold (principal)	\$721,428	\$840,285
Accrued interest & fees thereon	\$319,811	\$346,343
Total amount due society	\$1,041,234	\$1,186,628
Surplus realized for borrowers	\$299,147	\$341,607
Loss sustained by society	\$86,053	\$85,756

## STATEMENT OF TRANSACTIONS

	2018	2017
New loans made:		
Number	3,600	4,216
Amount	\$3,506,250	\$4,221,755
Average	\$974	\$1,001
Loans made upon increase of principal*:		
Number	96	126
Amount	\$134,946	\$236,707
Loans made upon part payment of principal:		
Number	1,505	1,550
Amount	\$1,445,719	\$1,457,354
Loans made upon payment of interest only:		
Number	17,369	19,372
Amount	\$16,336,903	\$18,312,927
<hr/>		
Total loans made:		
Number	22,570	25,264
Amount	\$21,423,818	\$24,228,743
<hr/>		
Loans paid in full:		
Number	4,105	4,539
Amount	\$3,634,010	\$4,086,743
Loans paid by increase of principal*:		
Number	96	126
Amount	\$91,329	\$150,176
Loans sold:		
Number	802	971
Amount	\$721,428	\$841,960
Loans paid upon part payment of principal**:		
Number	1,505	1,550
Amount	\$1,857,769	\$1,913,385
Loans paid by payment of interest only:		
Number	17,369	19,372
Amount	\$16,336,903	\$18,312,927
<hr/>		
Total loans paid and sold:		
Number	23,877	26,558
Amount	\$22,641,439	\$25,305,302
<hr/>		
*Increases granted	\$43,617	\$86,531
**Part payments received	\$412,050	\$456,031

## 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 2016, 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 makes 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

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## *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

# NOTES

