

**PEN AMERICAN CENTER, INC.**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2017 AND 2016**

**PEN AMERICAN CENTER, INC.**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
PEN American Center, Inc.

We have audited the accompanying financial statements of PEN American Center, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, 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.

### **Auditors' 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 audits 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 auditors' 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 circumstances, 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 evaluating 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 PEN American Center, Inc. as of December 31, 2017 and 2016, 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.

*Lotz + Carr, LLP*

New York, New York  
August 9, 2018

## PEN AMERICAN CENTER, INC.

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Assets</b>								
Cash and cash equivalents (Notes 1b and 3)	\$ -	\$ 2,111,754	\$ -	\$2,111,754	\$ -	\$ 1,880,989	\$ -	\$1,880,989
Unconditional promises to give (Notes 1c and 4)	387,578	1,737,440	-	2,125,018	415,268	1,261,996	-	1,677,264
Prepaid expenses and other current assets	75,347	-	-	75,347	63,884	-	-	63,884
Investments (Notes 1d and 5)	2,177,708	815,687	818,480	3,811,875	1,738,450	675,000	818,480	3,231,930
Interfund receivable (payable)	(223,987)	223,987	-	-	(305,527)	305,527	-	-
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 7)	292,119	-	-	292,119	224,516	-	-	224,516
Security deposits	83,456	-	-	83,456	79,188	-	-	79,188
<b>Total Assets</b>	<b>\$ 2,792,221</b>	<b>\$ 4,888,868</b>	<b>\$ 818,480</b>	<b>\$8,499,569</b>	<b>\$ 2,215,779</b>	<b>\$ 4,123,512</b>	<b>\$ 818,480</b>	<b>\$7,157,771</b>
<b>Liabilities and Net Assets</b>								
Liabilities								
Accounts payable and accrued expenses	\$ 237,683	\$ -	\$ -	\$ 237,683	\$ 158,667	\$ -	\$ -	\$ 158,667
Salaries and payroll taxes payable	-	-	-	-	95,558	-	-	95,558
Accrued vacation	68,851	-	-	68,851	34,488	-	-	34,488
Grants payable (Note 1f)	125,400	-	-	125,400	82,075	-	-	82,075
Refundable advance (Note 8)	-	-	-	-	4,821	-	-	4,821
Deferred rent (Note 1g)	144,436	-	-	144,436	125,826	-	-	125,826
Total Liabilities	576,370	-	-	576,370	501,435	-	-	501,435
Commitments and Contingency (Notes 9 and 10)								
Net Assets								
Unrestricted								
Board designated reserves (Note 2a)	1,504,331	-	-	1,504,331	1,346,290	-	-	1,346,290
Other	711,520	-	-	711,520	368,054	-	-	368,054
Temporarily restricted (Notes 2b and 6)	-	4,888,868	-	4,888,868	-	4,123,512	-	4,123,512
Permanently restricted (Notes 2c and 6)	-	-	818,480	818,480	-	-	818,480	818,480
Total Net Assets	2,215,851	4,888,868	818,480	7,923,199	1,714,344	4,123,512	818,480	6,656,336
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,792,221</b>	<b>\$ 4,888,868</b>	<b>\$ 818,480</b>	<b>\$8,499,569</b>	<b>\$ 2,215,779</b>	<b>\$ 4,123,512</b>	<b>\$ 818,480</b>	<b>\$7,157,771</b>

See notes to financial statements.

## PEN AMERICAN CENTER, INC.

## STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue, Gains and Other Support</b>								
Contributions	\$ 2,238,345	\$ 2,565,439	\$ -	\$4,803,784	\$ 1,852,709	\$ 2,823,911	\$ -	\$4,676,620
Fundraising benefit events	2,411,782	-	-	2,411,782	1,936,482	-	-	1,936,482
Less: Direct benefit expenses	(425,944)	-	-	(425,944)	(382,542)	-	-	(382,542)
Donated services (Note 11)	297,340	-	-	297,340	29,287	-	-	29,287
Membership fees	286,682	-	-	286,682	318,615	-	-	318,615
Ticketing and other sales	251,628	-	-	251,628	140,815	-	-	140,815
Net investment income - operating (Note 5)	26,566	-	-	26,566	6,944	-	-	6,944
Other income	13,795	-	-	13,795	13,205	-	-	13,205
Net assets released from restrictions								
Grants and contributions	1,940,770	(1,940,770)	-	-	1,620,883	(1,620,883)	-	-
Net investment income - endowed awards	66,500	(66,500)	-	-	75,300	(75,300)	-	-
<b>Total Revenue, Gains and Other Support</b>	<b>7,107,464</b>	<b>558,169</b>	<b>-</b>	<b>7,665,633</b>	<b>5,611,698</b>	<b>1,127,728</b>	<b>-</b>	<b>6,739,426</b>
<b>Expenses</b>								
Program Services	5,189,134	-	-	5,189,134	4,027,366	-	-	4,027,366
Supporting Services								
Management and general	730,094	-	-	730,094	455,588	-	-	455,588
Fundraising	797,126	-	-	797,126	886,831	-	-	886,831
<b>Total Expenses Before Depreciation and Amortization</b>	<b>6,716,354</b>	<b>-</b>	<b>-</b>	<b>6,716,354</b>	<b>5,369,785</b>	<b>-</b>	<b>-</b>	<b>5,369,785</b>
Increase in Net Assets Before Depreciation and Amortization, and Net Investment Income - Endowments and Reserves	391,110	558,169	-	949,279	241,913	1,127,728	-	1,369,641
Depreciation and amortization expense	(47,644)	-	-	(47,644)	(14,027)	-	-	(14,027)
Increase in Net Assets Before Net Investment Income - Endowments and Reserves	343,466	558,169	-	901,635	227,886	1,127,728	-	1,355,614
Net investment income - endowments and reserves (Note 5)	158,041	207,187	-	365,228	56,556	130,679	-	187,235
Increase in net assets	501,507	765,356	-	1,266,863	284,442	1,258,407	-	1,542,849
Net assets, beginning of year	1,714,344	4,123,512	818,480	6,656,336	1,429,902	2,865,105	818,480	5,113,487
<b>Net Assets, End of Year</b>	<b>\$ 2,215,851</b>	<b>\$ 4,888,868</b>	<b>\$ 818,480</b>	<b>\$7,923,199</b>	<b>\$ 1,714,344</b>	<b>\$ 4,123,512</b>	<b>\$ 818,480</b>	<b>\$6,656,336</b>

See notes to financial statements.

## PEN AMERICAN CENTER, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$1,266,863	\$1,542,849
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	47,644	14,027
Realized (gain) loss on sale of investments	(42,592)	2,185
Net unrealized gain on investments	(283,312)	(140,674)
Increase in:		
Unconditional promises to give	(447,754)	(272,249)
Prepaid expenses and other current assets	(11,463)	(5,806)
Security deposits	(4,268)	(19,890)
Increase (decrease) in:		
Accounts payable and accrued expenses	79,016	50,425
Salaries and payroll taxes payable	(95,558)	68,696
Accrued vacation	34,363	(8,848)
Grants payable	43,325	(1,500)
Refundable advance	(4,821)	99
Deferred rent	18,610	66,597
Net Cash Provided By Operating Activities	<u>600,053</u>	<u>1,295,911</u>
<b>Cash Flows From Investing Activities</b>		
Acquisition of property and equipment	(115,247)	(222,084)
Purchases of investments	(318,160)	(1,258,465)
Sales of investments	64,119	73,020
Net Cash Used By Investing Activities	<u>(369,288)</u>	<u>(1,407,529)</u>
Net increase (decrease) in cash and cash equivalents	230,765	(111,618)
Cash and cash equivalents, beginning of year	<u>1,880,989</u>	<u>1,992,607</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$2,111,754</u></u>	<u><u>\$1,880,989</u></u>

See notes to financial statements.

**PEN AMERICAN CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization and Summary of Significant Accounting Policies**

**a - Organization**

PEN American Center, Inc. ("PEN") is an organization of writers and other literary professionals working to advance literature and defend free expression. PEN stands at the intersection of literature and human rights to protect open expression in the United States and worldwide. PEN champions the freedom to write, recognizing the power of the word to transform the world. PEN's mission is to unite writers and their allies to celebrate creative expression and defend the liberties that make it possible.

PEN is the largest of more than 100 centers of PEN International. For more than 90 years, PEN has been working together with its colleagues in the international PEN community to ensure that people everywhere have the freedom to create literature, to convey information and ideas, to express their views, and to make it possible for everyone to access the views, ideas, and literatures of others. In doing so, PEN is building on a tradition begun in the years following World War I and carried forward by thousands of American writers.

PEN's membership is a nationwide community of more than 4,400 novelists, journalists, editors, poets, essayists, playwrights, publishers, translators, agents, and other professionals, and an even larger network of devoted readers and supporters who join with them to carry out PEN's mission.

PEN's programs reach out to the world and into diverse communities within this country. They promote writing and literature at every level and are founded on the belief that free expression is an essential component of every healthy society. PEN's main programs are Free Expression, PEN World Voices Festival, Public Programs, Prison Writing, Literary Awards, Membership, Content and Outreach, PEN America Journal, PEN Branches, the Translation and Children's/Young Adult Book Committees, and the Writers' Fund.

**b - Cash and Cash Equivalents**

For purposes of the statement of cash flows, PEN considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less, to be cash equivalents, except for cash and short-term investments managed by PEN's investment managers as part of their long-term investment strategies.

**c - Contributions and Unconditional Promises to Give**

Contributions are recognized when the donor makes a promise to give to PEN, that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.



**PEN AMERICAN CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

c - Contributions and Unconditional Promises to Give (continued)

PEN uses the allowance method to determine uncollectible promises to give. The allowance, if any, is based on prior years' experience and management's analysis of specific promises made.

d - Investments

PEN reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities. Interest, gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

Generally accepted accounting principles establish a fair value measurement hierarchy that prioritizes the inputs to valuation techniques. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. PEN uses the higher priority valuation techniques based on available inputs to measure fair values. The fair value of PEN's investments is measured using quoted prices in active markets, which are Level 1 inputs.

e - Property and Equipment

Property and equipment are recorded at acquisition cost and depreciated over the estimated useful life of the asset.

f - Grants Payable

Grants are accrued at the time authorized and awarded.

g - Deferred Rent

The aggregate of the total minimum lease payments is amortized on the straight-line basis over the term of the lease. The difference between the straight-line expense and amounts paid in accordance with the terms of its leases is recorded as deferred rent.

h - Financial Statement Presentation

PEN reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**PEN AMERICAN CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

i - Tax Status

PEN American Center, Inc. is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

j - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

k - Prior Year Information

For purposes of comparison, certain 2016 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2017.

l - Subsequent Events

PEN has evaluated subsequent events through August 9, 2018, the date that the financial statements are considered available to be issued.

m - Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities."* The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two net asset classes now entitled "net assets without donor restrictions" and "net assets with donor restrictions;" (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. PEN is currently evaluating the impact of ASU 2016-14 on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *"Leases (Topic 842)."* The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than 12 months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. PEN is currently evaluating the impact of ASU 2016-02 on its financial statements.

**PEN AMERICAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 2 - Restrictions on Assets**

**a - Board Designated Reserves**

The unrestricted portion of PEN's investment portfolio was established as a board designated reserve. Certain amounts have been designated by the Board of Trustees as the Faith Sale Memorial Fund to use for the work of PEN Writers' Fund in accordance with a spending policy.

In addition, during 2014, \$990,800 was raised from an auction of donated historic books, and additional contributed revenue. Of this amount, \$12,000 was allocated to 2014 operations, and the remaining \$978,800 was designated by the Board of Trustees and added to the Board reserves. As of December 31, 2017 and 2016, this amount is included in investments on PEN's statements of financial position.

Net investment income for the years ended December 31, 2017 and 2016 of \$158,041 and \$56,556, respectively, was allocated to these reserves.

At December 31, board designated reserves are summarized as follows:

	<u><b>2017</b></u>	<u><b>2016</b></u>
Board designated reserves	\$1,374,554	\$1,231,919
Faith Sale Memorial Fund - Writers' Fund reserves	<u>129,777</u>	<u>114,371</u>
	<u><b>\$1,504,331</b></u>	<u><b>\$1,346,290</b></u>

**b - Temporarily Restricted Net Assets**

Temporarily restricted net assets are designated for future programs and periods as follows:

	<u><b>2017</b></u>	<u><b>2016</b></u>
Temporarily Restricted Endowment Funds		
The Phyllis Reynolds Naylor Working Writer Fellowship	\$ 217,095	\$ 200,019
Other awards	<u>598,592</u>	<u>474,981</u>
	815,687	675,000
Grants and contributions for future programs and operations	<u>4,073,181</u>	<u>3,448,512</u>
	<u><b>\$4,888,868</b></u>	<u><b>\$4,123,512</b></u>

**PEN AMERICAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 2 - Restrictions on Assets (continued)**

c - Permanently Restricted Net Assets

Permanently restricted net assets are restricted by the donors for use as endowment funds. The income earned on the principal is restricted to use in the following programs:

The Barbara Goldsmith Freedom to Write Award	\$ 35,000
The Arthur Miller Freedom to Write Endowment	47,000
Endowment for Literary Translation	<u>736,480</u>
	<u>\$818,480</u>

**Note 3 - Concentration of Credit Risk**

PEN maintains cash balances at multiple financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$250,000.

**Note 4 - Unconditional Promises to Give**

Unconditional promises to give as of December 31 are due as follows:

	<u>2017</u>	<u>2016</u>
Within one year	\$1,742,983	\$1,347,355
In one to five years	<u>400,000</u>	<u>350,000</u>
	2,142,983	1,697,355
Discount to present value	<u>(17,965)</u>	<u>(20,091)</u>
	<u>\$2,125,018</u>	<u>\$1,677,264</u>

Unconditional promises to give due after one year are discounted to net present value using a rate of 3%. Uncollectible promises to give are expected to be insignificant.

**PEN AMERICAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 5 - Investments**

Investments at December 31, 2017 and 2016, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 666,520	\$ 666,520	\$ 409,862	\$ 409,862
Mutual Funds:				
Fixed income	1,183,518	1,159,945	1,154,920	1,122,409
Domestic equities	1,054,924	1,611,606	1,098,946	1,444,258
International equities	244,961	314,542	239,211	245,808
Corporate stock	<u>59,262</u>	<u>59,262</u>	<u>9,613</u>	<u>9,593</u>
	<u>\$3,209,185</u>	<u>\$3,811,875</u>	<u>\$2,912,552</u>	<u>\$3,231,930</u>

Net investment income for the years ended December 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 65,890	\$ 55,690
Realized gain (loss) on sale of investments	42,592	(2,185)
Unrealized gain on investments	<u>283,312</u>	<u>140,674</u>
Net Investment Income	<u>\$391,794</u>	<u>\$194,179</u>

Net investment income (loss) has been allocated as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted		
Operating	\$ 26,566	\$ 6,944
Board designated reserves	158,041	130,679
Temporarily restricted	<u>207,187</u>	<u>56,556</u>
	<u>\$391,794</u>	<u>\$194,179</u>

## PEN AMERICAN CENTER, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

**Note 6 - Endowment Funds**

PEN's endowment consists of several individual donor-restricted funds established for a variety of purposes. Its endowment includes both the permanently restricted endowment funds described in Note 2c and temporarily restricted endowment funds restricted by donors to provide for term endowments to fund certain award programs (Note 2b). Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Consistent with the New York State Not-for-profit Corporation Law, and the New York State Prudent Management of Institutional Funds Act ("NYPMIFA"), PEN classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by PEN.

In accordance with NYPMIFA, PEN considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of PEN and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of PEN;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on PEN; and
- (viii) the investment policy of PEN

PEN's invested endowment funds composition, all of which are donor-restricted endowment funds, are summarized as follows:

	<u>2017</u>	<u>2016</u>
Temporarily restricted	\$ 815,687	\$ 675,000
Permanently restricted	<u>818,480</u>	<u>818,480</u>
Total Endowment Funds	<u>\$1,634,167</u>	<u>\$1,493,480</u>

**PEN AMERICAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 6 - Endowment Funds (continued)**

Changes in endowment funds for the years ended December 31, 2017 and 2016 are summarized as follows:

	<b>2017</b>		
	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Endowment funds, beginning of year	\$675,000	\$818,480	\$1,493,480
Net investment income	207,187	-	207,187
Appropriation of endowment assets for expenditure	<u>(66,500)</u>	<u>-</u>	<u>(66,500)</u>
Endowment Funds, End of Year	<u>\$815,687</u>	<u>\$818,480</u>	<u>\$1,634,167</u>

  

	<b>2016</b>		
	<b><u>Temporarily Restricted</u></b>	<b><u>Permanently Restricted</u></b>	<b><u>Total</u></b>
Endowment funds, beginning of year	\$619,621	\$818,480	\$1,438,101
Net investment loss	130,679	-	130,679
Appropriation of endowment assets for expenditure	<u>(75,300)</u>	<u>-</u>	<u>(75,300)</u>
Endowment Funds, End of Year	<u>\$675,000</u>	<u>\$818,480</u>	<u>\$1,493,480</u>

The fair value of assets associated with individual donor restricted endowment funds may fall below the level required to be retained as a fund of perpetual duration. There were no deficiencies of this nature reported in unrestricted net assets as of December 31, 2017 and 2016.

PEN's investment and spending policies for endowment assets attempt to provide a predictable stream of funding for programs and awards supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

PEN targets a diversified asset allocation that, under normal market conditions, places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**PEN AMERICAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

**Note 6 - Endowment Funds (continued)**

The endowment assets are invested with target asset class allocations of 55% in equities that are intended to exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk, and 45% in fixed income instruments to reduce overall portfolio risk and to preserve capital.

For endowment funds without specified spending policies, PEN has a policy of appropriating for distribution each year up to 5% of the three-year rolling average of the value of endowment funds as of the prior calendar year-end.

PEN's Finance Committee periodically reviews the investment portfolio on behalf of the Board of Trustees and makes adjustments which it deems appropriate.

**Note 7 - Property and Equipment**

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
Leasehold improvements	Life of lease	\$514,988	\$514,988
Furniture, fixtures and equipment	5 years	200,384	175,828
Website	3 years	<u>221,277</u>	<u>130,586</u>
		936,649	821,402
Less: Accumulated depreciation		<u>(644,530)</u>	<u>(596,886)</u>
		<u>\$292,119</u>	<u>\$224,516</u>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 was \$47,644 and \$14,027, respectively.

**Note 8 - Refundable Advance**

The Organization received \$50,000 to establish a restricted earmarked fund account for the purpose of funding certain costs incurred towards the PEN Transaction Digital Publication Project. Under certain circumstances, these funds may be distributed to another organization determined by the funder.

During 2017, the remaining balance of this fund, totaling \$4,821, was transferred to another organization at the direction of the funder.



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**Note 9 - Defined Contribution Plan**

PEN participates in a 403(b) tax deferred annuity plan. PEN contributes 3% of an eligible employee's salary to the plan. Total expense under the plan was \$82,615 and \$87,875 for the years ended December 31, 2017 and 2016, respectively.

**Note 10 - Commitments and Contingency**

- a - PEN occupies its office space under a lease agreement which expires March 31, 2024. PEN's minimum annual obligation under this lease agreement (exclusive of the effect of real estate tax and tenant operating cost escalation clauses) is as follows:

<u>Year Ending December 31,</u>	
2018	\$336,126
2019	346,210
2020	356,596
2021	368,397
2022	382,758
Thereafter, through March 31, 2024	495,022

Rent expense for the years ended December 31, 2017 and 2016 was \$370,462 and \$320,213, respectively.

- b - PEN has entered into an employment contract with an officer through February 2019 that provides for a minimum annual salary, with stated annual increases, and incentives based on total revenues and achieving an annual operating surplus. The contract also includes provisions for the payment of severance compensation in the event of termination without cause.
- c - Government supported programs are subject to audit by the granting agency.

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**Note 11 - Donated Services**

The Organization received the following donated services for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Legal services	\$131,992	\$ -
Website development	69,761	-
Books	58,437	-
Advertising	37,150	20,757
Other professional services	<u>-</u>	<u>8,530</u>
	<u>\$297,340</u>	<u>\$29,287</u>

**Note 12 - Functional Allocation of Expenses**

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 13 - Subsequent Event**

In 2018, PEN entered into an agreement with PEN Center USA West ("PEN LA") to become its sole member. Pursuant to the terms of the agreement, PEN will assume PEN LA's net assets of approximately \$100,000 and will convert PEN LA's memberships to become members of PEN. Employees of PEN LA will become employees of PEN. PEN will directly receive certain revenues of PEN LA, and will become obligated for certain direct expenses of PEN LA, and will effectively assume the substantial portion of PEN LA's program activities. PEN LA will continue to receive only certain revenue and incur only a limited amount of expenses on an annual basis.

## **SUPPLEMENTARY INFORMATION**



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## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

To the Board of Trustees of  
PEN American Center, Inc.

We have audited the financial statements of PEN American Center, Inc. as of and for the years ended December 31, 2017 and 2016, and our report thereon dated August 9, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2017 with comparative totals for 2016 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Lutz + Carr, LLP*

New York, New York  
August 9, 2018

## PEN AMERICAN CENTER, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017										
	Free Expression Programs	PEN World Voices Festival of International Literature	Literary Awards	Public Programs	Content and Outreach	Membership	Branches	Prison Writing	PEN America Journal	Writers Fund	Total Program Services (carried forward)
Salaries, payroll taxes, employee benefits and payroll service fee	\$1,040,937	\$ 341,861	\$135,820	\$218,868	\$425,931	\$ 171,752	\$ 55,917	\$32,282	\$14,234	\$ -	\$2,437,602
Program consultants	162,071	129,915	37,133	61,211	143,446	18,409	8,826	13,000	35,529	6,785	616,325
Event and development consultants	-	-	-	-	-	-	-	-	-	-	-
Professional and administrative fees	66,987	5,498	1,220	3,227	6,334	2,738	-	645	976	-	87,625
Rent, insurance and occupancy	144,015	47,297	18,791	30,281	58,928	23,762	7,736	4,466	1,969	-	337,245
Supplies and office expense	24,422	7,200	1,644	4,712	9,338	6,054	729	714	1,080	49	55,942
Telephone and information technology	6,937	19,581	4,720	3,341	76,479	1,501	1,015	142	229	1,000	114,945
Publications, design, printing and postage	23,215	64,192	12,592	12,431	13,535	16,718	1,243	3,584	19,494	-	167,004
Awards, grants and other support	201,680	99	316,801	375	-	22,970	34,000	16,473	-	77,450	669,848
Event and conference expense	16,776	107,378	14,815	35,203	1,779	9,831	4,144	36	54	44	190,060
Travel	134,774	82,603	10,244	15,955	6,681	26,385	4,098	280	342	139	281,501
Book purchases and distribution	46	58,502	-	11,419	-	-	332	-	-	-	70,299
Other program expenses	75,247	20,951	3,143	490	8,407	8,944	519	12	18	-	117,731
Other administrative expenses	2,351	25,681	(44)	4,067	247	9,082	1,560	4	59	-	43,007
Depreciation and amortization	15,954	5,240	2,082	3,354	6,528	2,632	857	495	218	-	37,360
Total Expenses	1,915,412	915,998	558,961	404,934	757,633	320,778	120,976	72,133	74,202	85,467	5,226,494
Less: Depreciation and amortization expense, shown separately in the statement of activities	(15,954)	(5,240)	(2,082)	(3,354)	(6,528)	(2,632)	(857)	(495)	(218)	-	(37,360)
Total Expenses, included in the expense section of the statement of activities, 2017	<u>\$1,899,458</u>	<u>\$ 910,758</u>	<u>\$556,879</u>	<u>\$401,580</u>	<u>\$751,105</u>	<u>\$ 318,146</u>	<u>\$120,119</u>	<u>\$71,638</u>	<u>\$73,984</u>	<u>\$85,467</u>	<u>5,189,134</u>
Total Expenses, included in the expense section of the statement of activities, 2016	<u>\$1,249,780</u>	<u>\$ 882,521</u>	<u>\$422,004</u>	<u>\$247,810</u>	<u>\$579,146</u>	<u>\$ 250,836</u>	<u>\$175,900</u>	<u>\$65,961</u>	<u>\$90,191</u>	<u>\$63,217</u>	<u>4,027,366</u>

See independent auditors' report on supplementary information.

## PEN AMERICAN CENTER, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

## YEAR ENDED DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017				2016	
	Total Program Services (brought forward)	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries, payroll taxes, employee benefits, and payroll service fee	\$2,437,602	\$ 214,077	\$ 456,935	\$ 671,012	\$3,108,614	\$2,679,498
Program consultants	616,325	1,175	136,291	137,466	753,791	568,795
Event and development consultants	-	-	22,144	22,144	22,144	74,564
Professional and administrative fees	87,625	336,858	10,556	347,414	435,039	165,857
Rent, insurance and occupancy	337,245	29,619	63,218	92,837	430,082	379,125
Supplies and office expense	55,942	22,513	16,894	39,407	95,349	78,739
Telephone and information technology	114,945	11,303	5,041	16,344	131,289	177,591
Publications, design, printing and postage	167,004	15,788	59,693	75,481	242,485	212,065
Awards, grants and other support	669,848	-	-	-	669,848	438,982
Event and conference expense	190,060	12,873	5,555	18,428	208,488	216,575
Travel	281,501	59,048	18,323	77,371	358,872	295,361
Book purchases and distribution	70,299	153	574	727	71,026	1,634
Other program expenses	117,731	-	-	-	117,731	41,221
Other administrative expenses	43,007	26,687	1,902	28,589	71,596	39,778
Depreciation and amortization	37,360	3,281	7,003	10,284	47,644	14,027
Total Expenses	5,226,494	733,375	804,129	1,537,504	6,763,998	5,383,812
Less: Depreciation and amortization expense, shown separately in the statement of activities	(37,360)	(3,281)	(7,003)	(10,284)	(47,644)	(14,027)
Total Expenses, included in the expense section of the statement of activities, 2017	<u>\$5,189,134</u>	<u>\$ 730,094</u>	<u>\$ 797,126</u>	<u>\$1,527,220</u>	<u>\$6,716,354</u>	
Total Expenses, included in the expense section of the statement of activities, 2016	<u>\$4,027,366</u>	<u>\$ 455,588</u>	<u>\$ 886,831</u>	<u>\$1,342,419</u>		<u>\$5,369,785</u>

See independent auditors' report on supplementary information.