PEN AMERICAN CENTER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
551 FIFTH AVENUE - SUITE 400, NEW YORK, NY 10176
212-697-2299 FAX: 212-949-1768

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, 2018 and 2017, and the related statements of activities, functional expenses 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.

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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, 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.

Lutz + Carr, LLP

New York, New York
September 26, 2019

PEN AMERICAN CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018				2017			
		With Donor Restrictions				With Donor Restrictions		
	Without Donor Restrictions	Time and Purpose Restrictions	Perpetual in Nature	Total	Without Donor Restrictions	Time and Purpose Restrictions	Perpetual in Nature	Total
Assets								
Cash and cash equivalents (Notes 1b and 4)	$ -	$ 2,022,602	$ -	$ 2,022,602	$ -	$ 2,111,754	$ -	$2,111,754
Contributions receivable (Notes 1c and 5)	253,438	2,654,383	-	2,907,821	387,578	1,737,440	-	2,125,018
Prepaid expenses and other current assets	111,149	-	-	111,149	75,347	-	-	75,347
Investments (Notes 1d and 6)	3,253,788	670,144	818,480	4,742,412	2,177,708	815,687	818,480	3,811,875
Interfund receivable (payable)	(789,530)	789,530	-	-	(223,987)	223,987	-	-
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 8)	290,696	-	-	290,696	292,119	-	-	292,119
Security deposits	90,171	-	-	90,171	83,456	-	-	83,456
Total Assets	$ 3,209,712	$ 6,136,659	$ 818,480	$10,164,851	$ 2,792,221	$ 4,888,868	$ 818,480	$8,499,569
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	$ 174,885	$ -	$ -	$ 174,885	$ 237,683	$ -	$ -	$ 237,683
Accrued vacation	90,378	-	-	90,378	68,851	-	-	68,851
Grants payable (Note 1f)	72,901	-	-	72,901	125,400	-	-	125,400
Deferred rent (Note 1g)	135,325	-	-	135,325	144,436	-	-	144,436
Total Liabilities	473,489	-	-	473,489	576,370	-	-	576,370
Commitments and Contingency (Notes 9 and 10)								
Net Assets								
Without Donor Restrictions								
Board designated reserves (Note 3a)	1,475,797	-	-	1,475,797	1,504,331	-	-	1,504,331
Other	1,260,426	-	-	1,260,426	711,520	-	-	711,520
With Donor Restrictions								
Time and purpose restrictions (Notes 3b and 7)	-	6,136,659	-	6,136,659	-	4,888,868	-	4,888,868
Perpetual in nature (Notes 3b and 7)	-	-	818,480	818,480	-	-	818,480	818,480
Total Net Assets	2,736,223	6,136,659	818,480	9,691,362	2,215,851	4,888,868	818,480	7,923,199
Total Liabilities and Net Assets	$ 3,209,712	$ 6,136,659	$ 818,480	$10,164,851	$ 2,792,221	$ 4,888,868	$ 818,480	$8,499,569

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
		With Donor Restrictions				With Donor Restrictions		
	Without Donor Restrictions	Time and Purpose Restrictions	Perpetual in Nature	Total	Without Donor Restrictions	Time and Purpose Restrictions	Perpetual in Nature	Total
Revenue, Gains and Other Support								
Contributions	$ 3,065,471	$ 3,724,339	$ -	$6,789,810	$ 2,238,345	$ 2,565,439	$ -	$4,803,784
Fundraising benefit events	2,872,774	-	-	2,872,774	2,411,782	-	-	2,411,782
Less: Direct benefit expenses	(506,791)	-	-	(506,791)	(425,944)	-	-	(425,944)
Donated services (Note 11)	164,599	-	-	164,599	297,340	-	-	297,340
Membership fees	348,541	-	-	348,541	286,682	-	-	286,682
Ticketing and other sales	317,956	-	-	317,956	251,628	-	-	251,628
Net investment income - operating (Note 6)	(28,488)	-	-	(28,488)	26,566	-	-	26,566
Other income	37,708	-	-	37,708	13,795	-	-	13,795
Net assets released from restrictions								
Grants and contributions	2,331,005	(2,331,005)	-	-	1,940,770	(1,940,770)	-	-
Net investment income - endowed awards	76,000	(76,000)	-	-	66,500	(66,500)	-	-
Total Revenue, Gains and Other Support	8,678,775	1,317,334	-	9,996,109	7,107,464	558,169	-	7,665,633
Expenses								
Program Services	6,487,422	-	-	6,487,422	5,189,134	-	-	5,189,134
Supporting Services								
Management and general	934,017	-	-	934,017	730,094	-	-	730,094
Fundraising	818,897	-	-	818,897	797,126	-	-	797,126
Total Expenses Before Depreciation and Amortization	8,240,336	-	-	8,240,336	6,716,354	-	-	6,716,354
Increase in Net Assets Before Depreciation and Amortization and Items Below	438,439	1,317,334	-	1,755,773	391,110	558,169	-	949,279
Depreciation and amortization expense	(103,285)	-	-	(103,285)	(47,644)	-	-	(47,644)
Increase in Net Assets Before Items Below	335,154	1,317,334	-	1,652,488	343,466	558,169	-	901,635
Net investment income - endowments and reserves (Note 6)	(28,534)	(69,543)	-	(98,077)	158,041	207,187	-	365,228
Net assets assumed from PEN Center USA West (Note 12)	213,752	-	-	213,752	-	-	-	-
Increase in net assets	520,372	1,247,791	-	1,768,163	501,507	765,356	-	1,266,863
Net assets, beginning of year	2,215,851	4,888,868	818,480	7,923,199	1,714,344	4,123,512	818,480	6,656,336
Net Assets, End of Year	$ 2,736,223	$ 6,136,659	$ 818,480	$9,691,362	$ 2,215,851	$ 4,888,868	$ 818,480	$7,923,199

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Free Expression Programs	Literary and Festival	National	Communications	Total Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total	Total Expenses
Salaries, payroll taxes, employee benefits and payroll service fee	$1,124,511	$ 856,732	$ 953,024	$ 255,907	$3,190,174	$ 323,286	$ 522,479	$ 845,765	$4,035,939
Program consultants	138,633	304,886	70,422	64,587	578,528	2,332	12,395	14,727	593,255
Event and development consultants	-	-	-	-	-	-	61,787	61,787	61,787
Professional and administrative fees	75,821	625	20,430	130,967	227,843	340,537	145	340,682	568,525
Rent, insurance and occupancy	125,230	95,340	120,467	30,271	371,308	70,712	58,370	129,082	500,390
Supplies and office expense	3,267	3,233	12,773	2,266	21,539	37,311	6,518	43,829	65,368
Telephone and information technology	9,054	56,270	11,352	75,301	151,977	15,378	5,689	21,067	173,044
Publications, design, printing and postage	8,231	91,207	65,840	2,538	167,816	32,512	56,736	89,248	257,064
Awards, grants and other support	276,779	366,349	88,905	-	732,033	-	-	-	732,033
Event and conference expense	39,521	274,267	89,112	-	402,900	21,187	28,744	49,931	452,831
Travel	209,368	118,570	85,638	4,335	417,911	49,289	34,425	83,714	501,625
Book purchases and distribution	181	6,045	381	766	7,373	-	-	-	7,373
Other program expenses	35,690	33,708	90,906	7,372	167,676	-	-	-	167,676
Other administrative expenses	2,463	28,261	19,620	-	50,344	41,473	31,609	73,082	123,426
Depreciation and amortization	28,839	21,971	24,222	6,563	81,595	8,291	13,399	21,690	103,285
Total Expenses	2,077,588	2,257,464	1,653,092	580,873	6,569,017	942,308	832,296	1,774,604	8,343,621
Less: Depreciation and amortization expense, shown separately in the statement of activities	(28,839)	(21,971)	(24,222)	(6,563)	(81,595)	(8,291)	(13,399)	(21,690)	(103,285)
Total Expenses, included in the expense section of the statement of activities	$2,048,749	$ 2,235,493	$1,628,870	$ 574,310	$6,487,422	$ 934,017	$ 818,897	$1,752,914	$8,240,336

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Free Expression Programs	Literary and Festival	National	Total Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total	Total Expenses
Salaries, payroll taxes, employee benefits and payroll service fee	$1,040,937	$ 743,065	$ 653,600	$2,437,602	$ 214,077	$ 456,935	$ 671,012	$3,108,614
Program consultants	168,856	276,788	170,681	616,325	1,175	136,291	137,466	753,791
Event and development consultants	-	-	-	-	-	22,144	22,144	22,144
Professional and administrative fees	66,987	11,566	9,072	87,625	336,858	10,556	347,414	435,039
Rent, insurance and occupancy	144,015	102,804	90,426	337,245	29,619	63,218	92,837	430,082
Supplies and office expense	24,471	15,350	16,121	55,942	22,513	16,894	39,407	95,349
Telephone and information technology	7,937	28,013	78,995	114,945	11,303	5,041	16,344	131,289
Publications, design, printing and postage	23,215	112,293	31,496	167,004	15,788	59,693	75,481	242,485
Awards, grants and other support	279,130	333,748	56,970	669,848	-	-	-	669,848
Event and conference expense	16,820	157,486	15,754	190,060	12,873	5,555	18,428	208,488
Travel	134,913	109,424	37,164	281,501	59,048	18,323	77,371	358,872
Book purchases and distribution	46	69,921	332	70,299	153	574	727	71,026
Other program expenses	75,247	24,614	17,870	117,731	-	-	-	117,731
Other administrative expenses	2,351	29,767	10,889	43,007	26,687	1,902	28,589	71,596
Depreciation and amortization	15,954	11,389	10,017	37,360	3,281	7,003	10,284	47,644
Total Expenses	2,000,879	2,026,228	1,199,387	5,226,494	733,375	804,129	1,537,504	6,763,998
Less: Depreciation and amortization expense, shown separately in the statement of activities	(15,954)	(11,389)	(10,017)	(37,360)	(3,281)	(7,003)	(10,284)	(47,644)
Total Expenses, included in the expense section of the statement of activities	$1,984,925	$ 2,014,839	$1,189,370	$5,189,134	$ 730,094	$ 797,126	$1,527,220	$6,716,354

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Increase in net assets	$1,768,163	$1,266,863
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	103,285	47,644
Realized gain on sale of investments	(19,492)	(42,592)
Unrealized (gain) loss on sale of investments	254,777	(283,312)
Increase in:		
Contributions receivable	(782,803)	(447,754)
Prepaid expenses and other current assets	(35,802)	(11,463)
Security deposits	(6,715)	(4,268)
Increase (decrease) in:		
Accounts payable and accrued expenses	(62,798)	79,016
Salaries and payroll taxes payable	-	(95,558)
Accrued vacation	21,527	34,363
Grants payable	(52,499)	43,325
Refundable advance	-	(4,821)
Deferred rent	(9,111)	18,610
Net Cash Provided By Operating Activities	1,178,532	600,053
Cash Flows From Investing Activities		
Acquisition of property and equipment	(101,862)	(115,247)
Purchases of investments	(1,266,940)	(318,160)
Sales of investments	101,118	64,119
Net Cash Used By Investing Activities	(1,267,684)	(369,288)
Net increase (decrease) in cash and cash equivalents	(89,152)	230,765
Cash and cash equivalents, beginning of year	2,111,754	1,880,989
Cash and Cash Equivalents, End of Year	$2,022,602	$2,111,754

	2018	2017
Noncash Transaction - Assumption of Net Assets of PEN Center USA West (Note 12)		
Property and equipment	$ 70,741	$ -
Contributions receivable	24,925	-
Security deposits	4,212	-
Accounts payable	(17,153)	-
	$ 82,725	$ -

See notes to financial statements.

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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 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
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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

c - Contributions (continued)
PEN uses the allowance method to determine uncollectible contributions receivable. 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. Interest, dividends, and realized and unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the income is recognized. All other donor restricted gains and other investment income are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

h - Financial Statement Presentation
The financial statements of PEN have been prepared in accordance with U.S. generally accepted accounting principles, which require PEN to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of PEN. These net assets may be used at the discretion of PEN's management and board of directors.

Net Assets With Donor Restrictions
Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of PEN or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

i - Functional Allocation of Expenses
The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses are applied directly to programs where applicable or allocated on a reasonable and consistent basis. A substantial portion of PEN's expenses are directly related to program activities. The expenses that are allocated include depreciation, interest, insurance, general office expenses, and occupancy costs, which are allocated based on employee time and effort.

j - 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.

k - 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.

l - Subsequent Events
PEN has evaluated subsequent events through September 26, 2019, the date that the financial statements are considered available to be issued.

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

m - New Accounting Pronouncement
In 2018, PEN adopted Accounting Standards Update (ASU) No. 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 classes of net assets 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; (d) modifying the presentation of underwater endowment funds and related disclosures; and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. As permitted under the ASU in the year of adoption, PEN opted to not disclose liquidity and availability information for 2017.

n - Recent Accounting Pronouncements
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.

Note 2 - Information Regarding Liquidity and Availability

PEN manages a balanced budget each fiscal year attributable to annual revenues necessary to meet the cash needs of the organization’s future expenditures. The annual revenue consists mainly of contribution revenue raised along with other sources earned during the current year. General expenditures are comprised of expenses related to ongoing program projects, general and administrative expenses, and fundraising activities created to support these projects.

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 2 - Information Regarding Liquidity and Availability (continued)

PEN manages its liquidity regularly with a policy structured to ensure it adheres to its operating needs and other commitments and obligations while simultaneously maximizing its investments of excess available funds. PEN maintains liquid financial assets on an ongoing basis sufficient to cover 120 days of general expenditures. The organization has a policy structured to have management regularly prepare cash flow projections determining its liquidity needs. In addition, as part of its liquidity management, PEN invests financial assets in excess of daily requirements in money market funds and various short-term investments.

PEN's financial assets as of December 31, 2018, and those available within one year to meet cash needs for general expenditures are summarized as follows:

Financial Assets at Year-End:	
Cash and cash equivalents	$2,022,602
Contributions receivable	2,907,821
Investments	4,742,412
Total Financial Assets	9,672,835
Less: Amounts Not Available to be Used Within One Year:	
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(5,466,515)
Plus: Net assets with donor restrictions expected to be met in less than one year	3,428,857
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(1,488,624)
Plus: Amounts appropriated for use within one year	75,500
Board designated reserves	(1,475,797)
Financial Assets Available to Meet General Expenditures Within One Year	$4,746,256

In addition to these financial assets available within one year, PEN's board designated reserve could be made available at any time to meet cash needs for general expenditures at the discretion of the board.

Note 3 - Net Assets

a - Board Designated Reserves

A portion of PEN's investment portfolio without donor restrictions was established as a board designated reserve in prior years, and specific amounts have been added to the reserve at the discretion of the Board of Trustees. 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.

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 3 - Net Assets (continued)

a - Board Designated Reserves (continued)
Net investment income (loss) for the years ended December 31, 2018 and 2017 of $(28,534) and $158,041, respectively, was allocated to these reserves.

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

	2018	2017
Board designated reserves	$1,351,979	$1,374,554
Faith Sale Memorial Fund - Writers' Fund reserves	123,818	129,777
	$1,475,797	$1,504,331

b - Net Assets with Donor Restrictions
Net assets with donor restrictions are designated for future programs and periods as follows:

	2018	2017
Subject to Expenditure for Specified Purpose:		
Free expression	$2,816,341	$2,287,418
Literary awards	1,414,954	1,430,954
Branches	475,000	5,338
Festival	320,248	299,499
CRM system	160,000	-
	5,186,543	4,023,209
Subject to expenditure for specified periods	279,972	49,972
Endowments Subject to Spending Policy and Appropriation:		
Investment income above original gift amount:		
The Phyllis Reynolds Naylor Working Writer Fellowship	197,646	217,095
Other awards	472,498	598,592
	670,144	815,687
Investment in Perpetuity:		
The Barbara Goldsmith Freedom to Write Award	35,000	35,000
The Arthur Miller Freedom to Write Endowment	47,000	47,000
Endowment for Literary Translation	736,480	736,480
	818,480	818,480
Total Endowments	1,488,624	1,634,167
Total Net Assets With Donor Restrictions	$6,955,139	$5,707,348

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 4 - 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 5 - Contributions Receivable

Contributions receivable as of December 31 are due as follows:

	2018	2017
Within one year	$2,543,543	$1,742,983
In one to five years	395,000	400,000
	2,938,543	2,142,983
Discount to present value	(30,722)	(17,965)
	$2,907,821	$2,125,018

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

Note 6 - Investments

Investments at December 31, 2018 and 2017, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 839,445	$ 839,445	$ 666,520	$ 666,520
Mutual Funds:				
Fixed income	2,232,709	2,159,868	1,183,518	1,159,945
Domestic equities	1,060,492	1,473,139	1,054,924	1,611,606
International equities	260,758	268,865	244,961	314,542
Corporate stock	1,095	1,095	59,262	59,262
	$4,394,499	$4,742,412	$3,209,185	$3,811,875

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 6 - Investments (continued)

Net investment income (loss) for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018	2017
Interest and dividends	$ 108,720	$ 65,890
Realized gain on sale of investments	19,492	42,592
Unrealized gain (loss) on investments	(254,777)	283,312
Net Investment Income (Loss)	$(126,565)	$391,794

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

	2018	2017
Without Donor Restrictions		
Operating	$ (28,488)	$ 26,566
Board designated reserves	(28,534)	158,041
With donor restrictions	(69,543)	207,187
	$(126,565)	$391,794

Note 7 - Endowment Funds

PEN's endowment consists of several individual donor-restricted funds established for a variety of purposes. Its endowment includes both the donor-restricted endowment funds and endowment funds restricted by donors to provide for term endowments to fund certain award programs (Note 3b). 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 donor-restricted for investment in perpetuity as (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 for investment in perpetuity is classified as investment income above original gift amount until those amounts are appropriated for expenditure by PEN.

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 7 - Endowment Funds (continued)

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:

	2018	2017
Investment income above original gift amount	$ 670,144	$ 815,687
Investment in perpetuity	818,480	818,480
Total Endowment Funds	$1,488,624	$1,634,167

Changes in endowment funds for the years ended December 31, 2018 and 2017 are summarized as follows:

	2018		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	$815,687	$818,480	$1,634,167
Net investment loss	(69,543)	-	(69,543)
Appropriation of endowment assets for expenditure	(76,000)	-	(76,000)
Endowment Funds, End of Year	$670,144	$818,480	$1,488,624

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 7 - Endowment Funds (continued)

	2017		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	$675,000	$818,480	$1,493,480
Net investment loss	207,187	-	207,187
Appropriation of endowment assets for expenditure	(66,500)	-	(66,500)
Endowment Funds, End of Year	$815,687	$818,480	$1,634,167

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 net assets with donor restrictions as of December 31, 2018 and 2017.

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.

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.

PEN AMERICAN CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

Note 8 - Property and Equipment

Property and equipment consist of the following at December 31:

	Life	2018	2017
Leasehold improvements	Life of lease	$ 768,216	$514,988
Furniture, fixtures and equipment	5 years	285,880	200,384
Website	3 years	221,277	221,277
		1,275,373	936,649
Less: Accumulated depreciation		(984,677)	(644,530)
		$ 290,696	$292,119

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 $90,415 and $82,615 for the years ended December 31, 2018 and 2017, 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:

Year Ending December 31,	
2019	$346,210
2020	356,596
2021	368,397
2022	382,758
2023	394,241
Thereafter, through March 31, 2024	100,761

Rent expense for the years ended December 31, 2018 and 2017 was $399,077 and $370,462, respectively.

Note 10 - Commitments and Contingency (continued)

b - In March 2018, in accordance with the agreement between PEN and PEN Center West USA ("PEN West"), further described in Note 12, PEN assumed PEN West's lease for office space in Los Angeles under a lease agreement which expires February 29, 2020. PEN's minimum annual obligation under this lease agreement is as follows:

Year ending December 31, 2019	$55,616
Thereafter, through February 29, 2020	9,300

c - PEN has entered into an employment contract with an officer through January 2022 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.

d - Government supported programs are subject to audit by the granting agency.

Note 11 - Donated Services

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

	2018	2017
Legal services	$111,149	$131,992
Website development	-	69,761
Books	-	58,437
Advertising	29,500	37,150
Other professional services	23,950	-
	$164,599	$297,340

Note 12 - Net Assets Assumed

On March 1 2018, PEN entered into an agreement with PEN Center USA West ("PEN West") to become its sole member. PEN assumed PEN West's net assets and converted PEN West's memberships to become members of PEN. Employees of PEN West became employees of PEN. PEN will directly receive certain revenues of PEN West, and will become obligated for certain direct expenses of PEN West, and will effectively assume a substantial portion of PEN West's program activities. PEN West will continue to receive only certain revenue and incur only a limited amount of expenses on an annual basis.

The following table summarizes the amount of the assets acquired and the liabilities assumed that were recognized at the date of the agreement:

Cash	$131,027
Contributions receivable	24,925
Fixed assets	70,741
Security deposits	4,212
Accounts payable	(17,153)
Net Assets Assumed	$213,752