

PEN AMERICAN CENTER, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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
October 4, 2017

PEN AMERICAN CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 3)	\$ -	\$ 1,880,989	\$ -	\$1,880,989	\$ 944,579	\$ 1,048,028	\$ -	\$1,992,607
Accounts receivable	49,318	-	-	49,318	24,166	-	-	24,166
Unconditional promises to give (Notes 1c and 4)	372,358	1,261,996	-	1,634,354	171,244	1,219,805	-	1,391,049
Prepaid expenses and other current assets	57,476	-	-	57,476	47,878	-	-	47,878
Investments (Notes 1d and 5)	1,738,450	675,000	818,480	3,231,930	469,895	619,621	818,480	1,907,996
Interfund receivable (payable)	(305,527)	305,527	-	-	-	-	-	-
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 7)	224,516	-	-	224,516	16,459	-	-	16,459
Security deposits	79,188	-	-	79,188	59,298	-	-	59,298
Total Assets	\$ 2,215,779	\$ 4,123,512	\$ 818,480	\$7,157,771	\$ 1,733,519	\$ 2,887,454	\$ 818,480	\$5,439,453
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 158,667	\$ -	\$ -	\$ 158,667	\$ 108,242	\$ -	\$ -	\$ 108,242
Salaries and payroll taxes payable	95,558	-	-	95,558	26,862	-	-	26,862
Accrued vacation	34,488	-	-	34,488	43,336	-	-	43,336
Grants payable (Note 1f)	82,075	-	-	82,075	83,575	-	-	83,575
Refundable advance (Note 8)	4,821	-	-	4,821	4,722	-	-	4,722
Deferred rent (Note 1g)	125,826	-	-	125,826	59,229	-	-	59,229
Total Liabilities	501,435	-	-	501,435	325,966	-	-	325,966
Commitments and Contingency (Notes 9 and 10)								
Net Assets, as restated (Note 13)								
Unrestricted								
Board designated reserves (Note 2a)	1,346,290	-	-	1,346,290	1,289,734	-	-	1,289,734
Other	368,054	-	-	368,054	140,168	-	-	140,168
Temporarily restricted (Notes 2b and 6)	-	4,123,512	-	4,123,512	-	2,865,105	-	2,865,105
Permanently restricted (Notes 2c and 6)	-	-	818,480	818,480	-	-	818,480	818,480
Total Net Assets	1,714,344	4,123,512	818,480	6,656,336	1,429,902	2,865,105	818,480	5,113,487
Total Liabilities and Net Assets	\$ 2,215,779	\$ 4,123,512	\$ 818,480	\$7,157,771	\$ 1,755,868	\$ 2,865,105	\$ 818,480	\$5,439,453

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support								
Contributions	\$ 1,852,709	\$ 2,823,911	\$ -	\$4,676,620	\$ 1,449,219	\$ 1,665,305	\$ -	\$3,114,524
Fundraising benefit events	1,936,482	-	-	1,936,482	1,613,889	-	-	1,613,889
Less: Direct benefit expenses	(382,542)	-	-	(382,542)	(344,244)	-	-	(344,244)
Donated services (Note 11)	29,287	-	-	29,287	5,000	-	-	5,000
Membership fees	318,615	-	-	318,615	312,060	-	-	312,060
Ticketing and other sales	140,815	-	-	140,815	116,688	-	-	116,688
Net investment income - operating (Note 5)	6,944	-	-	6,944	93	-	-	93
Other income	13,205	-	-	13,205	52,034	-	-	52,034
Net assets released from restrictions								
Grants and contributions	1,620,883	(1,620,883)	-	-	1,498,694	(1,498,694)	-	-
Net investment income - endowed awards	75,300	(75,300)	-	-	60,300	(60,300)	-	-
Total Revenue, Gains and Other Support	5,611,698	1,127,728	-	6,739,426	4,763,733	106,311	-	4,870,044
Expenses								
Program Services	4,027,366	-	-	4,027,366	3,436,641	-	-	3,436,641
Supporting Services								
Management and general	455,588	-	-	455,588	336,933	-	-	336,933
Fundraising	886,831	-	-	886,831	967,080	-	-	967,080
Total Expenses Before Depreciation and Amortization	5,369,785	-	-	5,369,785	4,740,654	-	-	4,740,654
Increase in Net Assets Before Depreciation and Amortization, and Net Investment Income (Loss) - Endowments and Reserves	241,913	1,127,728	-	1,369,641	23,079	106,311	-	129,390
Depreciation and amortization expense	(14,027)	-	-	(14,027)	(28,255)	-	-	(28,255)
Increase (Decrease) in Net Assets Before Net Investment Income (Loss) - Endowments and Reserves	227,886	1,127,728	-	1,355,614	(5,176)	106,311	-	101,135
Net investment income (loss) - endowments and reserves (Note 5)	56,556	130,679	-	187,235	(513)	(8,028)	-	(8,541)
Increase (decrease) in net assets	284,442	1,258,407	-	1,542,849	(5,689)	98,283	-	92,594
Net assets, beginning of year, as previously reported	1,407,553	2,539,446	818,480	4,765,479	1,435,591	2,766,822	818,480	5,020,893
Prior period adjustment (Note 13)	22,349	325,659	-	348,008	-	-	-	-
Net assets, beginning of year, as restated	1,429,902	2,865,105	818,480	5,113,487	1,435,591	2,766,822	818,480	5,020,893
Net Assets, End of Year	\$ 1,714,344	\$ 4,123,512	\$ 818,480	\$6,656,336	\$ 1,429,902	\$ 2,865,105	\$ 818,480	\$5,113,487

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Increase in net assets	\$1,542,849	\$ 92,594
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	14,027	28,255
Realized loss on sale of investments	2,185	426
Net unrealized (gain) loss on investments	(140,674)	41,567
(Increase) decrease in:		
Accounts receivable	(25,152)	(9,442)
Unconditional promises to give	(243,305)	696,273
Prepaid expenses and other current assets	(9,598)	34,181
Security deposits	(19,890)	(1,333)
Increase (decrease) in:		
Accounts payable and accrued expenses	50,425	(70,424)
Salaries and payroll taxes payable	68,696	(2,554)
Accrued vacation	(8,848)	13,243
Grants payable	(1,500)	(6,800)
Refundable advance	99	(40,411)
Deferred rent	66,597	33,465
Net Cash Provided By Operating Activities	<u>1,295,911</u>	<u>809,040</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(222,084)	-
Purchases of investments	(1,258,465)	(154,508)
Sales of investments	73,020	27,710
Net Cash Used By Investing Activities	<u>(1,407,529)</u>	<u>(126,798)</u>
Net increase (decrease) in cash and cash equivalents	(111,618)	682,242
Cash and cash equivalents, beginning of year	<u>1,992,607</u>	<u>1,310,365</u>
Cash and Cash Equivalents, End of Year	<u>\$1,880,989</u>	<u>\$1,992,607</u>

See notes to financial statements.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, 2016 AND 2015

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, 2016 AND 2015

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 - Subsequent Events

PEN has evaluated subsequent events through October 4, 2017, the date that the financial statements are considered available to be issued.

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, 2015, this amount is included in cash and cash equivalents, and was transferred to investments during 2016.

Net investment income (loss) for the years ended December 31, 2016 and 2015 of \$56,556 and \$(513), respectively, was allocated to these reserves.

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

	<u>2016</u>	<u>2015</u>
Board designated reserves	\$1,231,919	\$1,186,062
Faith Sale Memorial Fund - Writers' Fund reserves	<u>114,371</u>	<u>103,672</u>
	<u>\$1,346,290</u>	<u>\$1,289,734</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 2 - Restrictions on Assets (continued)

b - Temporarily Restricted Net Assets

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

	2016	2015
Temporarily Restricted Endowment Funds		
The Phyllis Reynolds Naylor Working Writer Fellowship	\$ 200,019	\$ 195,085
Other awards	474,981	424,536
	675,000	619,621
Grants and contributions for future programs and operations	3,448,512	2,245,484
	\$4,123,152	\$2,865,105

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	736,480	
		\$818,480

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.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 4 - Unconditional Promises to Give

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

	<u>2016</u>	<u>2015</u>
Within one year	\$1,304,445	\$1,174,252
In one to five years	<u>350,000</u>	<u>230,000</u>
	1,654,445	1,404,252
Discount to present value	<u>(20,091)</u>	<u>(13,203)</u>
	<u>\$1,634,354</u>	<u>\$1,391,049</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.

Note 5 - Investments

Investments at December 31, 2016 and 2015, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 409,862	\$ 409,862	\$ 300,655	\$ 300,655
Mutual Funds:				
Fixed income	1,154,920	1,122,409	662,920	643,545
Domestic equities	1,098,946	1,444,258	545,005	743,075
International equities	239,211	245,808	138,159	138,168
Corporate stock	<u>9,613</u>	<u>9,593</u>	<u>82,553</u>	<u>82,553</u>
	<u>\$2,912,552</u>	<u>\$3,231,930</u>	<u>\$1,729,292</u>	<u>\$1,907,996</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 5 - Investments (continued)

Net investment income (loss) for the years ended December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 55,690	\$33,545
Realized loss on sale of investments	(2,185)	(426)
Unrealized gain (loss) on investments	<u>140,674</u>	<u>(41,567)</u>
Net Investment Income (Loss)	<u>\$194,179</u>	<u>\$ (8,448)</u>

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

	<u>2016</u>	<u>2015</u>
Unrestricted		
Operating	\$ 6,944	\$ 93
Board designated reserves	130,679	(513)
Temporarily restricted	<u>56,556</u>	<u>(8,028)</u>
	<u>\$194,179</u>	<u>\$(8,448)</u>

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.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 6 - 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:

	<u>2016</u>	<u>2015</u>
Temporarily restricted	\$ 675,000	\$ 619,621
Permanently restricted	<u>818,480</u>	<u>818,480</u>
Total Endowment Funds	<u>\$1,493,480</u>	<u>\$1,438,101</u>

Changes in endowment funds for the years ended December 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$619,621	\$818,480	\$1,438,101
Net investment income	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>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 6 - Endowment Funds (continued)

	<u>2015</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$687,949	\$818,480	\$1,506,429
Net investment loss	(8,028)	-	(8,028)
Appropriation of endowment assets for expenditure	<u>(60,300)</u>	<u>-</u>	<u>(60,300)</u>
Endowment Funds, End of Year	<u>\$619,621</u>	<u>\$818,480</u>	<u>\$1,438,101</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, 2016 and 2015.

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, 2016 AND 2015

Note 7 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2016</u>	<u>2015</u>
Leasehold improvements	Life of lease	\$514,988	\$357,369
Furniture, fixtures and equipment	5 years	175,828	173,146
Website	3 years	<u>130,586</u>	<u>130,586</u>
		821,402	661,101
Less: Accumulated depreciation		<u>(596,886)</u>	<u>(644,642)</u>
		<u>\$224,516</u>	<u>\$ 16,459</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was \$14,027 and \$28,255, 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. As of December 31, 2016 and 2015, respectively, the balance of available funds was \$4,821 and \$4,722.

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 \$87,875 and \$76,279 for the years ended December 31, 2016 and 2015, respectively.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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>	
2017	\$326,336
2018	336,126
2019	346,210
2020	356,596
2021	368,397
Thereafter, through March 31, 2024	877,760

Rent expense for the years ended December 31, 2016 and 2015 was \$320,213 and \$286,015, 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.

Note 11 - Donated Services

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

	<u>2016</u>	<u>2015</u>
Advertising	\$20,757	\$ -
Professional services	<u>8,530</u>	<u>5,000</u>
	<u>\$29,287</u>	<u>\$5,000</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 - Prior Period Adjustment

As of December 31, 2015, net assets have been restated to reflect unrestricted contributions totaling \$22,349 and temporarily restricted contributions totaling \$325,659, which had not been previously recorded.

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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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, 2016 and 2015, and our report thereon dated October 4, 2017, 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, 2016 with comparative totals for 2015 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
October 4, 2017

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016 WITH COMPARATIVE TOTALS FOR 2015

	2016										
	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	\$ 618,160	\$ 400,049	\$151,124	\$158,626	\$278,400	\$ 137,726	\$ 80,653	\$36,441	\$49,571	\$ -	\$1,910,750
Program consultants	178,698	117,614	16,108	17,428	100,582	29,920	947	6,000	11,900	4,016	483,213
Event and development consultants	-	-	-	-	-	-	-	-	-	-	-
Professional and administrative fees	32,132	9,435	2,453	5,538	11,458	4,723	-	1,107	1,674	-	68,520
Rent, insurance and occupancy	86,423	53,104	19,690	21,649	38,969	19,373	10,081	5,135	6,727	73	261,224
Supplies and office expense	17,944	6,179	3,009	4,769	11,959	3,471	1,145	536	915	-	49,927
Telephone and information technology	9,099	36,507	392	1,243	103,533	3,006	1,327	342	290	-	155,739
Publications, design, printing and postage	29,996	61,691	14,330	9,360	12,725	16,920	2,569	8,644	17,769	228	174,232
Awards, grants and other support	138,733	-	199,779	-	100	-	36,570	5,500	-	58,300	438,982
Event and conference expense	12,474	97,570	13,449	13,965	10,100	20,664	6,411	1,718	447	154	176,952
Travel	114,600	89,950	938	11,658	8,030	10,443	34,033	302	541	446	270,941
Book purchases and distribution	-	399	-	-	-	-	1,235	-	-	-	1,634
Other program expenses	6,859	2,214	353	902	1,573	2,785	465	61	93	-	15,305
Other administrative expenses	4,662	7,809	379	2,672	1,717	1,805	464	175	264	-	19,947
Depreciation and amortization	3,236	2,094	791	830	1,458	721	422	191	260	-	10,003
Total Expenses	1,253,016	884,615	422,795	248,640	580,604	251,557	176,322	66,152	90,451	63,217	4,037,369
Less: Depreciation and amortization expense, shown separately in the statement of activities	(3,236)	(2,094)	(791)	(830)	(1,458)	(721)	(422)	(191)	(260)	-	(10,003)
Total Expenses, included in the expense section of the statement of activities, 2016	\$1,249,780	\$ 882,521	\$422,004	\$247,810	\$579,146	\$ 250,836	\$175,900	\$65,961	\$90,191	\$63,217	4,027,366
Total Expenses, included in the expense section of the statement of activities, 2015	\$ 972,828	\$ 812,339	\$305,231	\$194,949	\$399,349	\$ 324,272	\$194,436	\$64,453	\$98,136	\$70,648	3,436,641

See independent auditors' report on supplementary information.

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016 WITH COMPARATIVE TOTALS FOR 2015

	2016			Total Expenses	2015	
	Total Program Services (brought forward)	Supporting Services Management and General	Fundraising		Total	Total Expenses
Salaries, payroll taxes, employee benefits, and payroll service fee	\$1,910,750	\$ 237,672	\$ 531,076	\$ 768,748	\$2,679,498	\$2,346,524
Program consultants	483,213	31,188	54,394	85,582	568,795	376,464
Event and development consultants	-	-	74,564	74,564	74,564	87,988
Professional and administrative fees	68,520	69,710	27,627	97,337	165,857	167,066
Rent, insurance and occupancy	261,224	46,264	71,637	117,901	379,125	322,874
Supplies and office expense	49,927	18,734	10,078	28,812	78,739	41,874
Telephone and information technology	155,739	8,923	12,929	21,852	177,591	153,664
Publications, design, printing and postage	174,232	5,976	31,857	37,833	212,065	251,258
Awards, grants and other support	438,982	-	-	-	438,982	369,419
Event and conference expense	176,952	4,261	35,362	39,623	216,575	236,248
Travel	270,941	13,404	11,016	24,420	295,361	262,463
Book purchases and distribution	1,634	-	-	-	1,634	10,071
Other program expenses	15,305	5,871	20,045	25,916	41,221	51,687
Other administrative expenses	19,947	13,585	6,246	19,831	39,778	63,054
Depreciation and amortization	10,003	1,244	2,780	4,024	14,027	28,255
Total Expenses	4,037,369	456,832	889,611	1,346,443	5,383,812	4,768,909
Less: Depreciation and amortization expense, shown separately in the statement of activities	(10,003)	(1,244)	(2,780)	(4,024)	(14,027)	(28,255)
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>	
Total Expenses, included in the expense section of the statement of activities, 2015	<u>\$3,436,641</u>	<u>\$ 336,933</u>	<u>\$ 967,080</u>	<u>\$1,304,013</u>		<u>\$4,740,654</u>

See independent auditors' report on supplementary information.