

PEN AMERICAN CENTER, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018



LUTZ AND GARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of PEN American Center, Inc. (a not-for-profit corporation), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of PEN American Center, Inc. as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the consolidated financial statements, in March 2020, the United States of America declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. As a result, PEN American Center, Inc. has suspended some of its program activities at the direction of state and local government authorities. Our opinion is not modified with respect to this matter.

Lotz + Carr, LLP

New York, New York
June 5, 2020

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	2019				2018			
	Without Donor Restrictions	With Donor Restrictions Time and Purpose Restrictions	Perpetual in Nature	Total	Without Donor Restrictions	With Donor Restrictions Time and Purpose Restrictions	Perpetual in Nature	Total
Assets								
Cash and cash equivalents (Notes 1c and 4)	\$ -	\$ 4,244,419	\$ -	\$ 4,244,419	\$ -	\$ 2,022,602	\$ -	\$ 2,022,602
Contributions receivable (Notes 1d and 5)	530,981	2,434,092	-	2,965,073	253,438	2,654,383	-	2,907,821
Prepaid expenses and other current assets	190,765	-	-	190,765	111,149	-	-	111,149
Investments (Notes 1e and 6)	3,699,212	896,620	818,480	5,414,312	3,253,788	670,144	818,480	4,742,412
Interfund receivable (payable)	(208,854)	208,854	-	-	(789,530)	789,530	-	-
Property and equipment, at cost, net of accumulated depreciation and amortization (Notes 1f and 8)	252,085	-	-	252,085	290,696	-	-	290,696
Security deposits	108,071	-	-	108,071	90,171	-	-	90,171
Total Assets	\$ 4,572,260	\$ 7,783,985	\$ 818,480	\$13,174,725	\$ 3,209,712	\$ 6,136,659	\$ 818,480	\$10,164,851
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 251,043	\$ -	\$ -	\$ 251,043	\$ 174,885	\$ -	\$ -	\$ 174,885
Accrued vacation	189,571	-	-	189,571	90,378	-	-	90,378
Grants payable (Note 1g)	71,251	-	-	71,251	72,901	-	-	72,901
Deferred rent (Note 1h)	117,067	-	-	117,067	135,325	-	-	135,325
Total Liabilities	628,932	-	-	628,932	473,489	-	-	473,489
Commitments and Contingency (Notes 9, 10 and 13)								
Net Assets								
Without Donor Restrictions								
Board designated reserves (Note 3a)	1,756,624	-	-	1,756,624	1,475,797	-	-	1,475,797
Other	2,186,704	-	-	2,186,704	1,260,426	-	-	1,260,426
With Donor Restrictions								
Time and purpose restrictions (Notes 3b and 7)	-	7,783,985	-	7,783,985	-	6,136,659	-	6,136,659
Perpetual in nature (Notes 3b and 7)	-	-	818,480	818,480	-	-	818,480	818,480
Total Net Assets	3,943,328	7,783,985	818,480	12,545,793	2,736,223	6,136,659	818,480	9,691,362
Total Liabilities and Net Assets	\$ 4,572,260	\$ 7,783,985	\$ 818,480	\$13,174,725	\$ 3,209,712	\$ 6,136,659	\$ 818,480	\$10,164,851

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	Without Donor Restrictions	With Donor Restrictions Time and Purpose Restrictions	Perpetual in Nature	Total	Without Donor Restrictions	With Donor Restrictions Time and Purpose Restrictions	Perpetual in Nature	Total
Revenue, Gains and Other Support								
Contributions	\$ 3,700,887	\$ 4,796,248	\$ -	\$ 8,497,135	\$ 3,065,471	\$ 3,724,339	\$ -	\$6,789,810
Return of prior year grant funds	(73,305)	-	-	(73,305)	-	-	-	-
Fundraising benefit events	3,283,301	-	-	3,283,301	2,872,774	-	-	2,872,774
Less: Direct benefit expenses	(585,193)	-	-	(585,193)	(506,791)	-	-	(506,791)
Donated services (Note 11)	409,620	-	-	409,620	164,599	-	-	164,599
Membership fees	402,109	-	-	402,109	348,541	-	-	348,541
Ticketing and other sales	142,837	-	-	142,837	317,956	-	-	317,956
Net investment income - operating (Note 6)	54,393	-	-	54,393	(28,488)	-	-	(28,488)
Other income	45,363	-	-	45,363	37,708	-	-	37,708
Net assets released from restrictions								
Grants and contributions	3,375,398	(3,375,398)	-	-	2,331,005	(2,331,005)	-	-
Net investment income - endowed awards	71,100	(71,100)	-	-	76,000	(76,000)	-	-
Total Revenue, Gains and Other Support	10,826,510	1,349,750	-	12,176,260	8,678,775	1,317,334	-	9,996,109
Expenses								
Program Services	7,532,338	-	-	7,532,338	6,487,422	-	-	6,487,422
Supporting Services								
Management and general	1,210,009	-	-	1,210,009	934,017	-	-	934,017
Fundraising	1,037,072	-	-	1,037,072	818,897	-	-	818,897
Total Expenses Before Depreciation and Amortization	9,779,419	-	-	9,779,419	8,240,336	-	-	8,240,336
Increase in Net Assets Before Depreciation and Amortization and Items Below	1,047,091	1,349,750	-	2,396,841	438,439	1,317,334	-	1,755,773
Depreciation and amortization expense	(120,813)	-	-	(120,813)	(103,285)	-	-	(103,285)
Increase in Net Assets Before Items Below	926,278	1,349,750	-	2,276,028	335,154	1,317,334	-	1,652,488
Net investment income - endowments and reserves (Note 6)	280,827	297,576	-	578,403	(28,534)	(69,543)	-	(98,077)
Net assets assumed from PEN Center USA West (Note 12)	-	-	-	-	213,752	-	-	213,752
Increase in net assets	1,207,105	1,647,326	-	2,854,431	520,372	1,247,791	-	1,768,163
Net assets, beginning of year	2,736,223	6,136,659	818,480	9,691,362	2,215,851	4,888,868	818,480	7,923,199
Net Assets, End of Year	\$ 3,943,328	\$ 7,783,985	\$ 818,480	\$12,545,793	\$ 2,736,223	\$ 6,136,659	\$ 818,480	\$9,691,362

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Free Expression Programs	Literary and Festival	National	Communications	Total Program Services	Supporting Services			Total Expenses
						Management and General	Fundraising	Total	
Salaries, payroll taxes, employee benefits and payroll service fee	\$1,487,179	\$1,011,160	\$1,025,035	\$ 392,080	\$3,915,454	\$ 489,711	\$ 685,056	\$1,174,767	\$5,090,221
Program consultants	218,441	276,713	99,131	85,770	680,055	4,851	79,599	84,450	764,505
Event and development consultants	-	-	-	-	-	-	38,035	38,035	38,035
Professional and administrative fees	25,608	5,954	13,141	134,554	179,257	498,723	1,800	500,523	679,780
Rent, insurance and occupancy	146,920	101,599	118,432	39,796	406,747	72,458	67,969	140,427	547,174
Supplies and office expense	5,921	7,713	9,718	1,927	25,279	54,753	6,474	61,227	86,506
Telephone and information technology	32,783	84,945	12,564	120,600	250,892	7,407	3,215	10,622	261,514
Publications, design, printing and postage	18,684	75,433	71,701	11,786	177,604	11,541	61,098	72,639	250,243
Awards, grants and other support	228,874	461,480	89,634	-	779,988	-	-	-	779,988
Event and conference expense	5,757	315,017	78,007	920	399,701	7,377	44,791	52,168	451,869
Travel	195,882	134,058	87,793	3,898	421,631	58,131	23,359	81,490	503,121
Book purchases and distribution	800	18,421	4,735	-	23,956	182	-	182	24,138
Other program expenses	23,454	103,250	95,323	2,618	224,645	-	-	-	224,645
Other administrative expenses	9,955	13,154	24,020	-	47,129	4,875	25,676	30,551	77,680
Depreciation and amortization	35,297	23,999	24,329	9,306	92,931	11,623	16,259	27,882	120,813
Total Expenses	2,435,555	2,632,896	1,753,563	803,255	7,625,269	1,221,632	1,053,331	2,274,963	9,900,232
Less: Depreciation and amortization expense, shown separately in the statement of activities	(35,297)	(23,999)	(24,329)	(9,306)	(92,931)	(11,623)	(16,259)	(27,882)	(120,813)
Total Expenses, included in the expense section of the statement of activities	<u>\$2,400,258</u>	<u>\$2,608,897</u>	<u>\$1,729,234</u>	<u>\$ 793,949</u>	<u>\$7,532,338</u>	<u>\$ 1,210,009</u>	<u>\$ 1,037,072</u>	<u>\$2,247,081</u>	<u>\$9,779,419</u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Free Expression Programs	Literary and Festival	National	Communications	Total Program Services	Supporting Services		Total Expenses	
						Management and General	Fundraising		
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	<u>\$2,048,749</u>	<u>\$2,235,493</u>	<u>\$1,628,870</u>	<u>\$ 574,310</u>	<u>\$6,487,422</u>	<u>\$ 934,017</u>	<u>\$ 818,897</u>	<u>\$1,752,914</u>	<u>\$8,240,336</u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Increase in net assets	\$2,854,431	\$1,768,163
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	120,813	103,285
Realized gain on sale of investments	(425,834)	(19,492)
Unrealized (gain) loss on sale of investments	(100,922)	254,777
Increase in:		
Contributions receivable	(57,252)	(782,803)
Prepaid expenses and other current assets	(79,616)	(35,802)
Security deposits	(17,900)	(6,715)
Increase (decrease) in:		
Accounts payable and accrued expenses	76,158	(62,798)
Accrued vacation	99,193	21,527
Grants payable	(1,650)	(52,499)
Deferred rent	(18,258)	(9,111)
Net Cash Provided By Operating Activities	<u>2,449,163</u>	<u>1,178,532</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(82,202)	(101,862)
Purchases of investments	(1,910,718)	(1,266,940)
Sales of investments	1,765,574	101,118
Net Cash Used By Investing Activities	<u>(227,346)</u>	<u>(1,267,684)</u>
Net increase (decrease) in cash and cash equivalents	2,221,817	(89,152)
Cash and cash equivalents, beginning of year	<u>2,022,602</u>	<u>2,111,754</u>
Cash and Cash Equivalents, End of Year	<u><u>\$4,244,419</u></u>	<u><u>\$2,022,602</u></u>
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)
	<u>\$ -</u>	<u>\$ 82,725</u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****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 - Principles of Consolidation

The accompanying consolidated financial statements include the accounts of PEN American Center, Inc. and its wholly owned subsidiary PEN Center USA West ("PEN West"). All significant intercompany transactions have been eliminated in consolidation.

c - 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.

PEN AMERICAN CENTER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - 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.

Conditional contributions, that have a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

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.

e - Investments

PEN reflects investments at fair value in the consolidated statements of financial position. Interest, dividends, and realized and unrealized gains and losses on investments are reflected in the consolidated statements 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 and losses restricted by the donor are reported as increases and decreases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the income or losses are recognized. All other donor restricted gains and losses and other investment income and losses are reported as increases and decreases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Accounting principles generally accepted in the United States ("GAAP") 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.

f - Property and Equipment

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

PEN AMERICAN CENTER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2019 AND 2018****Note 1 - Organization and Summary of Significant Accounting Policies (continued)**g - Grants Payable

Grants are accrued at the time authorized and awarded.

h - 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.

i - Financial Statement Presentation

The consolidated financial statements of PEN have been prepared in accordance with GAAP, 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 Trustees.

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.

j - Revenue Recognition

Membership fees and ticket sales are recognized as revenue in the period that the related services are provided.

k - Functional Allocation of Expenses

The consolidated 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 and amortization, interest, insurance, general office expenses, and occupancy costs, which are allocated based on employee time and effort.

l - Tax Status

PEN American Center, Inc. and PEN Center USA West are not-for-profit corporations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and have been designated as organizations which are not private foundations.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

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

n - Subsequent Events

PEN has evaluated subsequent events through June 5, 2020, the date that the financial statements are considered available to be issued.

o - Recent Accounting Pronouncements

In 2019, PEN adopted Accounting Standards Update (ASU) No 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. Analysis of the various provisions of these standards resulted in no significant changes in the way PEN recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

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, 2021. 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 CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, and those available within one year to meet cash needs for general expenditures are summarized as follows:

	<u>2019</u>	<u>2018</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 4,244,419	\$2,022,602
Contributions receivable	2,965,073	2,907,821
Investments	<u>5,414,312</u>	<u>4,742,412</u>
Total Financial Assets	12,623,804	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	(6,887,365)	(5,466,515)
Plus: Net assets with donor restrictions expected to be met in less than one year	4,682,106	3,428,857
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(1,715,100)	(1,488,624)
Plus: Amounts appropriated for use within one year	76,700	75,500
Board designated reserves	<u>(1,756,624)</u>	<u>(1,475,797)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$ 7,023,521</u>	<u>\$4,746,256</u>

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 CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 3 - Net Assets (continued)a - Board Designated Reserves (continued)

Net investment income (loss) for the years ended December 31, 2019 and 2018 of \$280,827 and \$(28,534), respectively, was allocated to these reserves.

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

	<u>2019</u>	<u>2018</u>
Board designated reserves	\$1,609,681	\$1,351,979
Faith Sale Memorial Fund - Writers' Fund reserves	<u>146,943</u>	<u>123,818</u>
	<u>\$1,756,624</u>	<u>\$1,475,797</u>

b - Net Assets with Donor Restrictions

Net assets with donor restrictions are designated for future programs and periods as follows:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Free expression	\$2,044,696	\$1,347,897
Literary awards	2,799,235	2,360,438
Branches	615,837	1,038,208
CRM system	<u>134,500</u>	<u>160,000</u>
	<u>5,594,268</u>	<u>4,906,543</u>
Subject to expenditure for specified periods	<u>1,293,097</u>	<u>559,972</u>
Endowments Subject to Spending Policy and Appropriation:		
Investment income above original gift amount:		
The Phyllis Reynolds Naylor Working Writer Fellowship	229,160	197,646
Other awards	<u>667,460</u>	<u>472,498</u>
	<u>896,620</u>	<u>670,144</u>
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	<u>736,480</u>	<u>736,480</u>
	<u>818,480</u>	<u>818,480</u>
Total Endowments	<u>1,715,100</u>	<u>1,488,624</u>
Total Net Assets With Donor Restrictions	<u>\$8,602,465</u>	<u>\$6,955,139</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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:

	<u>2019</u>	<u>2018</u>
Within one year	\$2,728,026	\$2,543,543
In one to three years	<u>253,376</u>	<u>395,000</u>
	2,981,402	2,938,543
Discount to present value	<u>(16,329)</u>	<u>(30,722)</u>
	<u>\$2,965,073</u>	<u>\$2,907,821</u>

Contributions receivable 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, 2019 and 2018, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$2,236,543	\$2,236,543	\$ 839,445	\$ 839,445
Mutual Funds:				
Fixed income	2,112,118	2,126,584	2,232,709	2,159,868
Domestic equities	472,548	878,204	1,060,492	1,473,139
International equities	139,247	167,960	260,758	268,865
Corporate stock	<u>5,021</u>	<u>5,021</u>	<u>1,095</u>	<u>1,095</u>
	<u>\$4,965,477</u>	<u>\$5,414,312</u>	<u>\$4,394,499</u>	<u>\$4,742,412</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 6 - Investments (continued)

Net investment income (loss) for the years ended December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$106,040	\$ 108,720
Realized gain on sale of investments	425,834	19,492
Unrealized gain (loss) on investments	<u>100,922</u>	<u>(254,777)</u>
Net Investment Income (Loss)	<u>\$632,796</u>	<u>\$(126,565)</u>

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

	<u>2019</u>	<u>2018</u>
Without Donor Restrictions		
Operating	\$ 54,393	\$ (28,488)
Board designated reserves	280,827	(28,534)
With donor restrictions	<u>297,576</u>	<u>(69,543)</u>
	<u>\$632,796</u>	<u>\$(126,565)</u>

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 CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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:

	<u>2019</u>	<u>2018</u>
Investment income above original gift amount	\$ 896,620	\$ 670,144
Investment in perpetuity	<u>818,480</u>	<u>818,480</u>
Total Endowment Funds	<u>\$1,715,100</u>	<u>\$1,488,624</u>

Changes in endowment funds for the years ended December 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>		
	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Endowment funds, beginning of year	\$670,144	\$818,480	\$1,488,624
Net investment income	297,576	-	297,576
Appropriation of endowment assets for expenditure	<u>(71,100)</u>	<u>-</u>	<u>(71,100)</u>
Endowment Funds, End of Year	<u>\$896,620</u>	<u>\$818,480</u>	<u>\$1,715,100</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 7 - Endowment Funds (continued)

	<u>2018</u>		
	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
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	<u>(76,000)</u>	<u>-</u>	<u>(76,000)</u>
Endowment Funds, End of Year	<u>\$670,144</u>	<u>\$818,480</u>	<u>\$1,488,624</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 net assets with donor restrictions as of December 31, 2019 and 2018.

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 CONSOLIDATED FINANCIAL STATEMENTS

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Note 8 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2019</u>	<u>2018</u>
Leasehold improvements	Life of lease	\$ 795,129	\$ 768,216
Furniture, fixtures and equipment	5 years	304,051	285,880
Website	3 years	<u>258,395</u>	<u>221,277</u>
		1,357,575	1,275,373
Less: Accumulated depreciation and amortization		<u>(1,105,490)</u>	<u>(984,677)</u>
		<u>\$ 252,085</u>	<u>\$ 290,696</u>

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 \$142,652 and \$90,415 for the years ended December 31, 2019 and 2018, respectively.

Note 10 - Commitments and Contingency

a - PEN occupies its office space under a lease agreement which expires March 31, 2024 and also leases additional office space on a month to month basis. PEN West occupies office space under a lease agreement which expires February 28, 2022. PEN's approximate minimum annual obligations under these lease agreements (exclusive of the effect of real estate tax and tenant operating cost escalation clauses) is as follows:

<u>Year Ending December 31,</u>	
2020	\$477,000
2021	492,000
2022	392,000
2023	394,000
Thereafter, through March 31, 2024	101,000

Rent expense for the years ended December 31, 2019 and 2018 was \$436,675 and \$399,077, respectively.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 10 - Commitments and Contingency (continued)

- b - 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.
- 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:

	2019	2018
Legal services	\$334,590	\$111,149
Advertising	29,750	29,500
Other professional services	45,280	23,950
	\$409,620	\$164,599

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 directly receives certain revenues of PEN West, and is obligated for certain direct expenses of PEN West, effectively assuming a substantial portion of PEN West's program activities. PEN West receives only certain revenue and incurs only a limited amount of expenses on an annual basis.

PEN AMERICAN CENTER, INC.

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Note 12 - Net Assets Assumed (continued)

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	<u>(17,153)</u>
Net Assets Assumed	<u>\$213,752</u>

Note 13 - Subsequent Event

In March 2020, the United States of America declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. As a result, PEN has suspended some of its program activities at the direction of state and local government authorities. Management is currently evaluating the potential impact that the resulting economic uncertainties will have on PEN's operations.