

PEN AMERICAN CENTER, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019



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, 2020 and 2019, 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, 2020 and 2019, 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.

Lutz + Carr, LLP

New York, New York
August 24, 2021

PEN AMERICAN CENTER, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents (Notes 1c and 4)	\$ 1,774,063	\$ 3,853,544	\$ 5,627,607	\$ -	\$ 4,244,419	\$ 4,244,419
Contributions receivable (Notes 1d and 5)	676,667	3,788,489	4,465,156	530,981	2,434,092	2,965,073
Prepaid expenses and other current assets	199,652	-	199,652	190,765	-	190,765
Investments (Notes 1e and 6)	6,223,183	1,881,567	8,104,750	3,699,212	1,715,100	5,414,312
Interfund receivable (payable)	-	-	-	(208,854)	208,854	-
Property and equipment, at cost, net of accumulated depreciation and amortization (Notes 1f and 8)	207,587	-	207,587	252,085	-	252,085
Security deposits	106,513	-	106,513	108,071	-	108,071
Total Assets	\$ 9,187,665	\$ 9,523,600	\$18,711,265	\$ 4,572,260	\$ 8,602,465	\$13,174,725
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 254,082	\$ -	\$ 254,082	\$ 251,043	\$ -	\$ 251,043
Accrued vacation	290,591	-	290,591	189,571	-	189,571
Deferred revenue (Note 1g)	167,950	-	167,950	-	-	-
Grants payable (Note 1h)	100,081	-	100,081	71,251	-	71,251
Deferred rent (Note 1i)	86,552	-	86,552	117,067	-	117,067
Total Liabilities	899,256	-	899,256	628,932	-	628,932
Commitments and Contingencies (Notes 9, 12 and 13)						
Net Assets						
Without Donor Restrictions						
Board designated reserves (Note 3a)	3,845,220	-	3,845,220	1,756,624	-	1,756,624
Other	4,443,189	-	4,443,189	2,186,704	-	2,186,704
With Donor Restrictions (Note 3b)	-	9,523,600	9,523,600	-	8,602,465	8,602,465
Total Net Assets	8,288,409	9,523,600	17,812,009	3,943,328	8,602,465	12,545,793
Total Liabilities and Net Assets	\$ 9,187,665	\$ 9,523,600	\$18,711,265	\$ 4,572,260	\$ 8,602,465	\$13,174,725

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support						
Contributions	\$ 5,367,180	\$ 4,918,778	\$10,285,958	\$ 3,700,887	\$ 4,796,248	\$ 8,497,135
Return of prior year grant funds	-	-	-	(73,305)	-	(73,305)
Fundraising benefit events	3,107,099	-	3,107,099	3,283,301	-	3,283,301
Less: Direct benefit expenses	-	-	-	(585,193)	-	(585,193)
Loan forgiveness - Paycheck Protection Program (Note 10)	728,554	-	728,554	-	-	-
Donated services (Note 11)	91,456	-	91,456	409,620	-	409,620
Membership income	379,893	-	379,893	402,109	-	402,109
Ticketing and other sales	122,860	-	122,860	142,837	-	142,837
Net investment income - operating (Note 6)	23,924	-	23,924	54,393	-	54,393
Other income	175,737	-	175,737	45,363	-	45,363
Net assets released from restrictions						
Grants and contributions	4,164,110	(4,164,110)	-	3,375,398	(3,375,398)	-
Net investment income - endowed awards	76,700	(76,700)	-	71,100	(71,100)	-
Total Revenue, Gains and Other Support	14,237,513	677,968	14,915,481	10,826,510	1,349,750	12,176,260
Expenses						
Program Services	7,290,488	-	7,290,488	7,532,338	-	7,532,338
Supporting Services						
Management and general	1,145,005	-	1,145,005	1,210,009	-	1,210,009
Fundraising	1,275,001	-	1,275,001	1,037,072	-	1,037,072
Total Expenses Before Depreciation and Amortization	9,710,494	-	9,710,494	9,779,419	-	9,779,419
Increase in Net Assets Before Depreciation and Amortization and Items Below	4,527,019	677,968	5,204,987	1,047,091	1,349,750	2,396,841
Depreciation and amortization expense	(86,954)	-	(86,954)	(120,813)	-	(120,813)
Increase in Net Assets Before Items Below	4,440,065	677,968	5,118,033	926,278	1,349,750	2,276,028
Net investment income - endowments and reserves (Note 6)	88,596	243,167	331,763	280,827	297,576	578,403
Increase in Net Assets	4,528,661	921,135	5,449,796	1,207,105	1,647,326	2,854,431
Net assets, beginning of year, as previously reported	3,943,328	8,602,465	12,545,793	2,736,223	6,955,139	9,691,362
Cumulative effect of change in accounting principle (Note 1o)	(183,580)	-	(183,580)	-	-	-
Net assets, beginning of year, as adjusted	3,759,748	8,602,465	12,362,213	2,736,223	6,955,139	9,691,362
Net Assets, End of Year	\$ 8,288,409	\$ 9,523,600	\$17,812,009	\$ 3,943,328	\$ 8,602,465	\$12,545,793

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	<u>Program Services</u>					<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Free Expression Programs</u>	<u>Literary and Festival</u>	<u>National</u>	<u>Communications</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	
Salaries, payroll taxes, employee benefits and payroll service fee	\$1,828,152	\$ 946,707	\$ 942,694	\$ 480,052	\$4,197,605	\$ 600,066	\$ 744,639	\$1,344,705	\$5,542,310
Program consultants	222,133	251,671	34,015	18,557	526,376	-	191,773	191,773	718,149
Event and development consultants	-	-	-	-	-	-	54,297	54,297	54,297
Professional and administrative fees	9,095	608	1,220	5,265	16,188	310,700	6,185	316,885	333,073
Rent, insurance and occupancy	170,167	89,511	98,686	46,121	404,485	76,499	69,136	145,635	550,120
Supplies and office expense	10,336	6,336	3,367	4,112	24,151	58,875	57,631	116,506	140,657
Telephone and information technology	179,954	13,484	11,173	95,304	299,915	15,129	6,742	21,871	321,786
Publications, design, printing and postage	80,776	42,240	33,157	7,540	163,713	9,946	52,509	62,455	226,168
Awards, grants and other support	924,465	378,470	35,433	-	1,338,368	-	-	-	1,338,368
Event and conference expense	4,378	88,998	13,485	-	106,861	733	29,975	30,708	137,569
Travel	39,959	17,149	14,038	906	72,052	24,549	4,880	29,429	101,481
Book purchases and distribution	151	3,660	945	-	4,756	3,969	-	3,969	8,725
Other program expenses	70,088	25,890	18,690	1,870	116,538	14,906	8,892	23,798	140,336
Other administrative expenses	3,822	4,370	11,215	73	19,480	29,633	48,342	77,975	97,455
Depreciation and amortization	28,634	14,747	15,147	7,478	66,006	9,348	11,600	20,948	86,954
Total Expenses	3,572,110	1,883,841	1,233,265	667,278	7,356,494	1,154,353	1,286,601	2,440,954	9,797,448
Less: Depreciation and amortization expense, shown separately in the statement of activities	<u>(28,634)</u>	<u>(14,747)</u>	<u>(15,147)</u>	<u>(7,478)</u>	<u>(66,006)</u>	<u>(9,348)</u>	<u>(11,600)</u>	<u>(20,948)</u>	<u>(86,954)</u>
Total Expenses, included in the expense section of the statement of activities	<u>\$3,543,476</u>	<u>\$1,869,094</u>	<u>\$1,218,118</u>	<u>\$ 659,800</u>	<u>\$7,290,488</u>	<u>\$ 1,145,005</u>	<u>\$ 1,275,001</u>	<u>\$2,420,006</u>	<u>\$9,710,494</u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services					Supporting Services			Total Expenses
	Free Expression Programs	Literary and Festival	National	Communications	Total	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 STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Increase in net assets	\$5,449,796	\$2,854,431
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	86,954	120,813
Realized gain on sale of investments	(36,985)	(425,834)
Unrealized gain on sale of investments	(239,969)	(100,922)
Cumulative effect of change in accounting principle	(183,580)	-
(Increase) decrease in:		
Contributions receivable	(1,500,083)	(57,252)
Prepaid expenses and other current assets	(8,887)	(79,616)
Security deposits	1,558	(17,900)
Increase (decrease) in:		
Accounts payable and accrued expenses	3,039	76,158
Accrued vacation	101,020	99,193
Deferred revenue	167,950	-
Grants payable	28,830	(1,650)
Deferred rent	(30,515)	(18,258)
Net Cash Provided By Operating Activities	<u>3,839,128</u>	<u>2,449,163</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(42,456)	(82,202)
Purchases of investments	(2,448,375)	(1,910,718)
Sales of investments	34,891	1,765,574
Net Cash Used By Investing Activities	<u>(2,455,940)</u>	<u>(227,346)</u>
Net increase in cash and cash equivalents	1,383,188	2,221,817
Cash and cash equivalents, beginning of year	<u>4,244,419</u>	<u>2,022,602</u>
Cash and Cash Equivalents, End of Year	<u><u>\$5,627,607</u></u>	<u><u>\$4,244,419</u></u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2020 AND 2019****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 ninety 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, 2020 AND 2019****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. Conditional promises to give, that is, those with a measurable performance-related or other barrier and right of return of assets transferred or release of a promisor's obligation to transfer assets in the future, are not recognized until the conditions on which they depend have been met.

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 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 of America ("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, 2020 AND 2019****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Revenue Recognition**

PEN has multiple revenue streams that are accounted for as exchange transactions, including membership subscriptions, ticket sales, and other earned revenue. PEN recognizes revenue at the point or over the period during which it satisfies the related performance obligations.

Professional and reader memberships are collected at the commencement of the one-year membership period and provide the members with various benefits during the period of their membership. Accordingly, membership revenue is deferred when received, and recognized as revenue over the applicable membership period.

Ticket sales are generally collected prior to the date of the event and is recorded as revenue during the period of the event. Ticket sales related to events taking place in future periods are recorded as deferred income.

Other earned revenue, including submission fees, workshops, and other sales, are recognized in the period that the related goods or services are provided.

h - Grants Payable

Grants are accrued at the time authorized and awarded.

i - 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.

j - 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, whereby the donor has stipulated the funds be maintained in perpetuity.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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

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 August 24, 2021, the date that the financial statements are considered available to be issued.

o - Recent Accounting Pronouncements

In 2020, PEN adopted Accounting Standards Update (ASU) No 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which required entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligation(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue as PEN satisfies the performance obligation. The ASU was adopted as of January 1, 2020 using the modified retrospective method applied to contracts which were not completed as of December 31, 2019.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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

The cumulative effects of this change in accounting principle, and its impact to the December 31, 2019 statement of financial position, is summarized as follows:

	<u>As Reported</u>	<u>Impact of Adoption of ASU 2014-09</u>	<u>As Adjusted</u>
Deferred revenue	\$ -	\$ 183,580	\$ 183,580
Net assets without donor restrictions	3,943,328	(183,580)	3,759,748

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 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 AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 2 - Information Regarding Liquidity and Availability (continued)

PEN's financial assets as of December 31, 2020 and 2019, and those available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2020</u>	<u>2019</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 5,627,607	\$ 4,244,419
Contributions receivable	4,465,156	2,965,073
Investments	<u>8,104,750</u>	<u>5,414,312</u>
Total Financial Assets	18,197,513	12,623,804
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	(7,642,033)	(6,887,365)
Plus: Net assets with donor restrictions expected to be met in less than one year	4,438,860	4,682,106
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(1,881,567)	(1,715,100)
Plus: Amounts appropriated for use within one year	95,500	76,700
Board designated reserves	(3,845,220)	(1,756,624)
Plus: Amounts appropriated for use within one year	<u>2,000,000</u>	<u>-</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$11,363,053</u>	<u>\$ 7,023,521</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.

During 2020, the Board added \$2,000,000 to the board designated reserve for future programmatic use.

Net investment income for the years ended December 31, 2020 and 2019 of \$88,596 and \$280,827, respectively, was allocated to these reserves.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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

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

	<u>2020</u>	<u>2019</u>
Board designated reserves	\$3,690,646	\$1,609,681
Faith Sale Memorial Fund - Writers' Fund reserves	<u>154,574</u>	<u>146,943</u>
	<u>\$3,845,220</u>	<u>\$1,756,624</u>

b - Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Literary awards	\$3,475,813	\$2,044,696
Free expression	2,615,198	2,799,235
Branches	988,050	615,837
CRM system	<u>20,000</u>	<u>134,500</u>
	<u>7,099,061</u>	<u>5,594,268</u>
Subject to expenditure for specified periods	<u>542,972</u>	<u>1,293,097</u>
Endowments subject to spending policy and appropriation:		
Investment income above original gift amount:		
The Phyllis Reynolds Naylor Working Writer Fellowship	252,816	229,160
Other awards	<u>810,271</u>	<u>667,460</u>
	<u>1,063,087</u>	<u>896,620</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>1,881,567</u>	<u>1,715,100</u>
Total Net Assets With Donor Restrictions	<u>\$9,523,600</u>	<u>\$8,602,465</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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>2020</u>	<u>2019</u>
Within one year	\$3,086,295	\$2,728,026
In one to three years	<u>1,487,003</u>	<u>253,376</u>
	4,573,298	2,981,402
Discount to present value	<u>(108,142)</u>	<u>(16,329)</u>
	<u>\$4,465,156</u>	<u>\$2,965,073</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.

A portion of PEN's revenue is derived from cost-reimbursable federal grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts are recognized as revenue when PEN has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. PEN received a cost-reimbursable grant totaling \$578,918. Through December 31, 2020, \$419,525 of this grant has been recognized. PEN has not recognized \$159,393 of this grant as of December 31, 2020 because qualifying expenditures have not yet been incurred.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 6 - Investments

Investments at December 31, 2020 and 2019, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$2,387,746	\$2,387,746	\$2,236,543	\$2,236,543
Mutual Funds:				
Fixed income	4,363,390	4,464,936	2,112,118	2,126,584
Domestic equities	466,745	1,014,804	472,548	878,204
International equities	136,193	175,455	139,247	167,960
Corporate stock	<u>61,872</u>	<u>61,809</u>	<u>5,021</u>	<u>5,021</u>
	<u>\$7,415,946</u>	<u>\$8,104,750</u>	<u>\$4,965,477</u>	<u>\$5,414,312</u>

Net investment income for the years ended December 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 78,733	\$106,040
Realized gain on sale of investments	36,985	425,834
Unrealized gain on investments	<u>239,969</u>	<u>100,922</u>
Net Investment Income	<u>\$355,687</u>	<u>\$632,796</u>

Net investment income has been allocated as follows:

	<u>2020</u>	<u>2019</u>
Without Donor Restrictions		
Operating	\$ 23,924	\$ 54,393
Board designated reserves	88,596	280,827
With donor restrictions	<u>243,167</u>	<u>297,576</u>
	<u>\$355,687</u>	<u>\$632,796</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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.

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>2020</u>	<u>2019</u>
Investment income above original gift amount	\$1,063,087	\$ 896,620
Investment in perpetuity	<u>818,480</u>	<u>818,480</u>
Total Endowment Funds	<u>\$1,881,567</u>	<u>\$1,715,100</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 7 - Endowment Funds (continued)

Changes in endowment funds for the years ended December 31, 2020 and 2019 are summarized as follows:

	2020		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	\$ 896,620	\$818,480	\$1,715,100
Net investment income	243,167	-	243,167
Appropriation of endowment assets for expenditure	<u>(76,700)</u>	<u>-</u>	<u>(76,700)</u>
Endowment Funds, End of Year	<u>\$1,063,087</u>	<u>\$818,480</u>	<u>\$1,881,567</u>
	2019		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	\$670,144	\$818,480	\$1,488,624
Net investment loss	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>

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, 2020 and 2019.

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

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

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 7 - Endowment Funds (continued)

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

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

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

Note 8 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2020</u>	<u>2019</u>
Leasehold improvements	Life of lease	\$ 552,535	\$ 795,129
Furniture, fixtures and equipment	5 years	261,498	304,051
Website	3 years	<u>278,395</u>	<u>258,395</u>
		1,092,428	1,357,575
Less: Accumulated depreciation and amortization		<u>(884,841)</u>	<u>(1,105,490)</u>
		<u>\$ 207,587</u>	<u>\$ 252,085</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 \$159,405 and \$142,652 for the years ended December 31, 2020 and 2019, respectively.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Note 10 - Loan Forgiveness - Paycheck Protection Program

On April 20, 2020, PEN received a loan totaling \$728,554 under the Paycheck Protection Program administered by the U.S. Small Business Administration. The loan included provisions for forgiveness if PEN meet certain employee retention requirements and the funds were used for eligible expenses.

In November 2020, PEN received forgiveness of the full loan amount, and accordingly recognized loan forgiveness revenue.

Note 11 - Donated Services

PEN received the following donated services for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Legal services	\$91,456	\$334,590
Advertising	-	29,750
Other professional services	<u>-</u>	<u>45,280</u>
	<u>\$91,456</u>	<u>\$409,620</u>

Note 12 - Commitments, Contingency and Related Party Transactions

- a - PEN occupies its office space under a lease agreement which expires March 31, 2024. PEN also leased additional office space on a month to month basis through May 2020. PEN West occupied office space under a lease agreement which was terminated in August 2020.

PEN's approximate minimum annual lease obligations (exclusive of the effect of real estate tax and tenant operating cost escalation clauses) are as follows:

<u>Year Ending December 31,</u>	
2021	\$434,000
2022	383,000
2023	394,000
Thereafter, through March 31, 2024	101,000

Rent expense for the years ended December 31, 2020 and 2019 was \$453,836 and \$435,675, respectively.

PEN AMERICAN CENTER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2020 AND 2019****Note 12 - Commitments, Contingency and Related Party Transactions (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.
- d - During the year ended December 31, 2020, PEN paid \$26,500 to a company affiliated with a Board member for professional fundraising services. In 2021, PEN entered into a contract for additional professional fundraising services totaling \$652,500 with the same company.

Note 13 - Risks and Uncertainties

In March 2020, the United States of America declared a national emergency in response to the Covid-19 global pandemic. As a result, PEN suspended many of its in-person program activities and events based on the direction of state and local governmental authorities. Management evaluated the situation and took steps to mitigate the pandemic's potential economic impact by migrating some programmatic offerings online, instituting across-the-board budget cuts, implementing staff pay freeze, and reducing staff via permanent layoffs. PEN applied for and received a loan under the Paycheck Protection Program established by the CARES Act. With these steps, and ongoing oversight, management believes that its current financial assets are sufficient to support PEN's operations on an ongoing basis.

In February 2021, PEN received a loan totaling \$880,156 under the Paycheck Protection Program administered by the U.S. Small Business Administration. The loan includes provisions for forgiveness if PEN meets certain employee retention requirements and the funds are used for eligible expenses. PEN expects to meet all the requirements for forgiveness.