

**PEN AMERICAN CENTER, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**



## INDEPENDENT AUDITORS' REPORT

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

### Opinion

We have audited the accompanying consolidated financial statements of PEN American Center, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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.

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, 2021 and 2020 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PEN American Center, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PEN American Center, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PEN American Center, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PEN American Center, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Lotz + Carr, LLP*

## PEN AMERICAN CENTER, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Assets</b>						
Cash and cash equivalents (Notes 1c and 4a)	\$ 5,635,584	\$ 5,915,660	\$11,551,244	\$ 1,774,063	\$ 3,853,544	\$ 5,627,607
Contributions receivable (Notes 1d, 4b and 5)	292,639	12,814,340	13,106,979	676,667	3,788,489	4,465,156
Prepaid expenses and other current assets	122,488	-	122,488	199,652	-	199,652
Investments (Notes 1e, 6 and 7)	9,892,012	2,028,621	11,920,633	6,223,183	1,881,567	8,104,750
Property and equipment, at cost, net of accumulated depreciation and amortization (Notes 1f and 8)	151,827	-	151,827	207,587	-	207,587
Security deposits	172,210	-	172,210	106,513	-	106,513
<b>Total Assets</b>	<b>\$16,266,760</b>	<b>\$20,758,621</b>	<b>\$37,025,381</b>	<b>\$ 9,187,665</b>	<b>\$ 9,523,600</b>	<b>\$18,711,265</b>
<b>Liabilities and Net Assets</b>						
Liabilities						
Accounts payable and accrued expenses	\$ 295,376	\$ -	\$ 295,376	\$ 254,082	\$ -	\$ 254,082
Accrued vacation	195,844	-	195,844	290,591	-	290,591
Deferred revenue (Note 1g)	105,913	-	105,913	167,950	-	167,950
Grants payable (Note 1h)	109,651	-	109,651	100,081	-	100,081
Refundable advances (Notes 1i and 5)	100,000	-	100,000	-	-	-
Deferred rent (Note 1j)	45,170	-	45,170	86,552	-	86,552
Total Liabilities	851,954	-	851,954	899,256	-	899,256
Commitments and Contingency (Notes 9 and 12)						
Net Assets						
Without Donor Restrictions (Note 3a)						
Board designated	11,114,072	-	11,114,072	3,845,220	-	3,845,220
Other	4,300,734	-	4,300,734	4,443,189	-	4,443,189
With Donor Restrictions (Note 3b)	-	20,758,621	20,758,621	-	9,523,600	9,523,600
Total Net Assets	15,414,806	20,758,621	36,173,427	8,288,409	9,523,600	17,812,009
<b>Total Liabilities and Net Assets</b>	<b>\$16,266,760</b>	<b>\$20,758,621</b>	<b>\$37,025,381</b>	<b>\$ 9,187,665</b>	<b>\$ 9,523,600</b>	<b>\$18,711,265</b>

See notes to consolidated financial statements.

**PEN AMERICAN CENTER, INC.**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<b>2021</b>			<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue, Gains and Other Support</b>						
Contributions (Notes 4b and 5)	\$ 6,556,618	\$ 6,315,258	\$12,871,876	\$ 5,367,180	\$ 4,918,778	\$10,285,958
Return of prior year grant funds	-	(60,954)	(60,954)	-	-	-
Fundraising benefit events	2,792,326	-	2,792,326	3,107,099	-	3,107,099
Less: Direct benefit expenses	(373,678)	-	(373,678)	-	-	-
Loan forgiveness - Paycheck Protection Program (Note 10)	880,156	-	880,156	728,554	-	728,554
Donated services (Note 11)	105,762	-	105,762	91,456	-	91,456
Membership income	342,595	-	342,595	379,893	-	379,893
Ticketing and other sales	113,936	-	113,936	122,860	-	122,860
Net investment income - operating (Note 6)	542	-	542	23,924	-	23,924
Other income	138,538	-	138,538	175,737	-	175,737
Net assets released from restrictions						
Grants and contributions	4,433,860	(4,433,860)	-	4,164,110	(4,164,110)	-
Net investment income - endowed awards	96,114	(96,114)	-	76,700	(76,700)	-
<b>Total Revenue, Gains and Other Support</b>	<b>15,086,769</b>	<b>1,724,330</b>	<b>16,811,099</b>	<b>14,237,513</b>	<b>677,968</b>	<b>14,915,481</b>
<b>Expenses</b>						
Program Services	7,498,578	-	7,498,578	7,356,494	-	7,356,494
Supporting Services						
Management and general	1,760,565	-	1,760,565	1,154,353	-	1,154,353
Fundraising	1,629,925	-	1,629,925	1,286,601	-	1,286,601
<b>Total Expenses</b>	<b>10,889,068</b>	<b>-</b>	<b>10,889,068</b>	<b>9,797,448</b>	<b>-</b>	<b>9,797,448</b>
Increase in Net Assets Before Items Below	4,197,701	1,724,330	5,922,031	4,440,065	677,968	5,118,033
Centenary Campaign contributions (Note 3)	2,720,238	9,267,523	11,987,761	-	-	-
Net investment income - endowments and reserves (Notes 6 and 7)	208,458	243,168	451,626	88,596	243,167	331,763
Increase in net assets	7,126,397	11,235,021	18,361,418	4,528,661	921,135	5,449,796
Net assets, beginning of year	8,288,409	9,523,600	17,812,009	3,759,748	8,602,465	12,362,213
<b>Net Assets, End of Year</b>	<b>\$15,414,806</b>	<b>\$20,758,621</b>	<b>\$36,173,427</b>	<b>\$ 8,288,409</b>	<b>\$ 9,523,600</b>	<b>\$17,812,009</b>

See notes to consolidated financial statements.

## PEN AMERICAN CENTER, INC.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021 WITH COMPARATIVE TOTALS FOR 2020

	2021								2020	
	Program Services				Supporting Services				Total Expenses	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	\$1,881,527	\$ 957,125	\$ 745,993	\$ 618,800	\$4,203,445	\$ 725,732	\$ 896,355	\$1,622,087	\$ 5,825,532	\$5,542,310
Program consultants	572,558	298,953	59,935	11,413	942,859	-	148,217	148,217	1,091,076	718,149
Event and development consultants	-	-	-	-	-	-	361,869	361,869	361,869	54,297
Professional and administrative fees	54,750	3,494	2,488	-	60,732	442,600	4,633	447,233	507,965	333,073
Rent, insurance and occupancy	155,074	80,889	64,377	50,899	351,239	93,662	73,240	166,902	518,141	550,120
Supplies and office expense	9,149	6,240	1,473	4,340	21,202	110,787	1,632	112,419	133,621	140,657
Telephone and information technology	128,314	33,946	16,754	86,275	265,289	13,792	2,841	16,633	281,922	321,786
Publications, design, printing and postage	46,613	72,808	21,036	6,662	147,119	9,831	43,569	53,400	200,519	226,168
Awards, grants and other support	411,089	495,306	57,108	-	963,503	-	-	-	963,503	1,338,368
Event and conference expense	424	177,293	28,473	-	206,190	7,797	6,942	14,739	220,929	137,569
Travel	28,405	16,529	23,804	880	69,618	56,048	15,487	71,535	141,153	101,481
Book purchases and distribution	589	16,437	1,376	-	18,402	32	93	125	18,527	8,725
Other program expenses	46,603	49,663	66,025	1,849	164,140	5,976	8,765	14,741	178,881	140,336
Other administrative expenses	6,515	11,147	13,254	-	30,916	20,871	54,831	75,702	106,618	97,257
Bad debt expense	-	-	-	-	-	264,167	-	264,167	264,167	198
Depreciation and amortization	24,036	12,227	9,756	7,905	53,924	9,270	11,451	20,721	74,645	86,954
Total Expenses, 2021	<u>\$3,365,646</u>	<u>\$2,232,057</u>	<u>\$1,111,852</u>	<u>\$ 789,023</u>	<u>\$7,498,578</u>	<u>\$ 1,760,565</u>	<u>\$ 1,629,925</u>	<u>\$3,390,490</u>	<u>\$10,889,068</u>	
Total Expenses, 2020	<u>\$3,572,110</u>	<u>\$1,883,841</u>	<u>\$1,233,265</u>	<u>\$ 667,278</u>	<u>\$7,356,494</u>	<u>\$ 1,154,353</u>	<u>\$ 1,286,601</u>	<u>\$2,440,954</u>		<u>\$9,797,448</u>

See notes to consolidated financial statements.

## PEN AMERICAN CENTER, INC.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

	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	\$1,828,152	\$ 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	29,435	48,342	77,777	97,257
Bad debt expense	-	-	-	-	-	198	-	198	198
Depreciation and amortization	28,634	14,747	15,147	7,478	66,006	9,348	11,600	20,948	86,954
Total Expenses	<u>\$3,572,110</u>	<u>\$1,883,841</u>	<u>\$1,233,265</u>	<u>\$ 667,278</u>	<u>\$7,356,494</u>	<u>\$ 1,154,353</u>	<u>\$ 1,286,601</u>	<u>\$2,440,954</u>	<u>\$9,797,448</u>

See notes to consolidated financial statements.

## PEN AMERICAN CENTER, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$18,361,418	\$5,449,796
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	74,645	86,954
Bad debt expense	264,167	198
Contributions restricted to endowment	(821,581)	-
Realized gain on sale of investments	(38,352)	(36,985)
Unrealized gain on sale of investments	(156,494)	(239,969)
(Increase) decrease in:		
Contributions receivable	(8,905,990)	(1,500,281)
Prepaid expenses and other current assets	77,164	(8,887)
Security deposits	(65,697)	1,558
Increase (decrease) in:		
Accounts payable and accrued expenses	41,294	3,039
Accrued vacation	(94,747)	101,020
Deferred revenue	(62,037)	(15,630)
Grants payable	9,570	28,830
Refundable advance	100,000	-
Deferred rent	(41,382)	(30,515)
Net Cash Provided By Operating Activities	<u>8,741,978</u>	<u>3,839,128</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of investments	(3,778,219)	(2,448,375)
Sales of investments	157,182	34,891
Acquisition of property and equipment	(18,885)	(42,456)
Net Cash Used By Investing Activities	<u>(3,639,922)</u>	<u>(2,455,940)</u>
<b>Cash Flows From Financing Activities</b>		
Collection of contributions restricted to endowment	821,581	-
Net increase in cash and cash equivalents	5,923,637	1,383,188
Cash and cash equivalents, beginning of year	<u>5,627,607</u>	<u>4,244,419</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$11,551,244</u>	<u>\$5,627,607</u>

See notes to consolidated financial statements.



**PEN AMERICAN CENTER, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2021 AND 2020****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 America Los Angeles ("PEN LA"). 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, 2021 AND 2020****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, 2021 AND 2020****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 - Grant Expense**

Grants are accrued at the time authorized and awarded.

**i - Refundable Advances**

Amounts received for PEN's fundraising benefit event in advance are recorded and refundable advances until the event takes place, at which time they are recognized as contribution revenue.

Amounts received for conditional grants prior to performance requirements or other conditions being met are also recorded as refundable advances. When the respective conditions are met, contribution revenue is recognized.

**j - 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.

**k - 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.

**PEN AMERICAN CENTER, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2021 AND 2020****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****k - Financial Statement Presentation (continued)****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.

**l - 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.

**m - Tax Status**

PEN American Center, Inc. and PEN America Los Angeles 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.

**n - 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.

**o - Prior Year Information**

For comparability purposes, certain 2020 amounts have been reclassified, where appropriate, to conform to the consolidated financial statement presentation used in 2021.

**p - Subsequent Events**

PEN has evaluated subsequent events through June 8, 2022, the date that the financial statements are considered available to be issued.

**q - New Accounting Standard**

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 2022 financial statements.

**PEN AMERICAN CENTER, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

**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's financial assets as of December 31, 2021 and 2020, and those available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2021</u>	<u>2020</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$11,551,244	\$ 5,627,607
Contributions receivable	13,106,979	4,465,156
Investments	<u>11,920,633</u>	<u>8,104,750</u>
Total Financial Assets	36,578,856	18,197,513
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	(17,908,419)	(7,642,033)
Plus: Net assets with donor restrictions expected to be met in less than one year	7,972,041	4,438,860
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(2,850,202)	(1,881,567)
Plus: Amounts appropriated for use within one year	88,000	95,500
Board designated reserves	(11,114,072)	(3,845,220)
Plus: Amounts appropriated for use within one year	<u>-</u>	<u>2,000,000</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$12,766,204</u>	<u>\$11,363,053</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.

**PEN AMERICAN CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**Note 3 - Net Assets**

a - Net Assets Without Donor Restrictions

At December 31, board designated net assets are summarized as follows:

	<u>2021</u>	<u>2020</u>
Board designated reserves	\$ 8,230,769	\$3,690,646
Faith Sale Memorial Fund - Writers' Fund reserves	163,065	154,574
Centenary Campaign	<u>2,720,238</u>	<u>-</u>
	<u>\$11,114,072</u>	<u>\$3,845,220</u>

Board Designated Reserves and Faith Sale Memorial Fund

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 2021 and 2020, the Board added \$4,340,156 and \$2,000,000, respectively, to the board designated reserve for future programmatic use.

Net investment income for the years ended December 31, 2021 and 2020 of \$208,458 and \$88,596, respectively, was allocated to these reserves.

Centenary Campaign

During the year ended December 31, 2021, PEN established the Centenary Campaign (the "Campaign"). The Campaign includes contributions without donor restrictions raised to scale and increase the longevity PEN's mission to defend human rights, free speech and open discourse, as well as to establish an endowment to support the ongoing operations of PEN.

During 2021, PEN raised \$12,616,819 in direct Campaign contributions. \$2,720,238 was raised without donor restrictions, \$8,975,000 pledged with donor restrictions designated for future periods, \$100,000 with donor restrictions for the 2022 Centenary Exhibition, and \$821,581 held in perpetuity.

## PEN AMERICAN CENTER, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

**Note 3 - Net Assets (continued)****b - Net Assets with Donor Restrictions**

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Free expression	\$ 4,379,771	\$2,615,198
Literary awards	4,039,221	3,475,813
Branches	571,000	988,050
Centenary exhibition	100,000	-
CRM system	-	20,000
	<u>9,089,992</u>	<u>7,099,061</u>
Subject to expenditure for specified periods		
Centenary Campaign	8,975,000	-
Less: discount to present value	(529,058)	-
General	<u>372,485</u>	<u>542,972</u>
	<u>8,818,427</u>	<u>542,972</u>
Total subject to expenditure for specified purpose or periods	<u>17,908,419</u>	<u>7,642,033</u>
Endowments subject to spending policy and appropriation:		
Investment income above original gift amount:		
The Phyllis Reynolds Naylor Working Writer Fellowship	278,768	252,816
Other awards	<u>931,373</u>	<u>810,271</u>
	<u>1,210,141</u>	<u>1,063,087</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	736,480	736,480
Endowment for Centenary	<u>821,581</u>	-
	<u>1,640,061</u>	<u>818,480</u>
Total Endowments	<u>2,850,202</u>	<u>1,881,567</u>
Total Net Assets With Donor Restrictions	<u>\$20,758,621</u>	<u>\$9,523,600</u>

**Centenary Campaign**

The Centenary Campaign (the "Campaign") includes multiyear pledges available for expenditure and other purposes of the Campaign, as well as endowment contributions with donor restrictions to support PEN's ongoing operations.

**PEN AMERICAN CENTER, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

**Note 4 - Concentrations**

- a - PEN maintains cash balances at multiple financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$250,000.
- b - At December 31, 2021, approximately 58% of contributions receivable was from one donor, and at December 31, 2020, 33% of contributions receivable were from two donors.

During the year ended December 31 2021, PEN received approximately 37% of its contributions from one donor.

**Note 5 - Contributions Receivable and Refundable Advance**

Contributions receivable as of December 31 are due as follows:

	<u>2021</u>	<u>2020</u>
Within one year	\$ 5,462,880	\$3,086,295
In one to five years	8,111,000	1,487,003
In six to ten years	<u>250,000</u>	<u>-</u>
	13,823,880	4,573,298
Discount to present value	<u>(716,901)</u>	<u>(108,142)</u>
	<u>\$13,106,979</u>	<u>\$4,465,156</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.

During the year ended December 31, 2021, PEN received pledges for future fundraising events. \$100,000 was received and recorded as a refundable advance, and contributions totaling approximately \$1,275,000 have not yet been received or recognized in the accompanying financial statements as the events have not taken place.



## PEN AMERICAN CENTER, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

**Note 6 - Investments**

Investments at December 31, 2021 and 2020, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 3,858,896	\$ 3,858,896	\$2,387,746	\$2,387,746
Mutual Funds:				
Fixed income	6,619,283	6,682,035	4,363,390	4,464,936
Domestic equities	459,539	1,198,744	466,745	1,014,804
International equities	137,617	180,958	136,193	175,455
Corporate stock	-	-	61,872	61,809
	<u>\$11,075,335</u>	<u>\$11,920,633</u>	<u>\$7,415,946</u>	<u>\$8,104,750</u>

Net investment income for the years ended December 31, 2021 and 2020 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$257,322	\$ 78,733
Realized gain on sale of investments	38,352	36,985
Unrealized gain on investments	<u>156,494</u>	<u>239,969</u>
Net Investment Income	<u>\$452,168</u>	<u>\$355,687</u>

Net investment income has been allocated as follows:

	<u>2021</u>	<u>2020</u>
Without Donor Restrictions		
Operating	\$ 542	\$ 23,924
Board designated reserves	208,458	88,596
With donor restrictions	<u>243,168</u>	<u>243,167</u>
	<u>\$452,168</u>	<u>\$355,687</u>

**PEN AMERICAN CENTER, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

**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>2021</u>	<u>2020</u>
Investment income above original gift amount	\$1,210,141	\$1,063,087
Investment in perpetuity	<u>1,640,061</u>	<u>818,480</u>
Total Endowment Funds	<u>\$2,850,202</u>	<u>\$1,881,567</u>

## PEN AMERICAN CENTER, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 7 - Endowment Funds (continued)

Changes in endowment funds for the years ended December 31, 2021 and 2020 are summarized as follows:

	<u>2021</u>		
	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
Endowment funds, beginning of year	\$1,063,087	\$ 818,480	\$1,881,567
Contributions	-	821,581	821,581
Net investment income	243,168	-	243,168
Appropriation of endowment assets for expenditure	<u>(96,114)</u>	<u>-</u>	<u>(96,114)</u>
Endowment Funds, End of Year	<u>\$1,210,141</u>	<u>\$1,640,061</u>	<u>\$2,850,202</u>
	<u>2020</u>		
	<u>Investment Income Above Original Gift Amount</u>	<u>Investment in Perpetuity</u>	<u>Total</u>
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>

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, 2021 and 2020.

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, 2021 AND 2020**

**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>2021</u>	<u>2020</u>
Leasehold improvements	Life of lease	\$ 552,535	\$ 552,535
Furniture, fixtures and equipment	5 years	280,383	261,498
Website	3 years	<u>278,395</u>	<u>278,395</u>
		1,111,313	1,092,428
Less: Accumulated depreciation and amortization		<u>(959,486)</u>	<u>(884,841)</u>
		<u>\$ 151,827</u>	<u>\$ 207,587</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 \$222,413 and \$159,405 for the years ended December 31, 2021 and 2020, respectively.

**PEN AMERICAN CENTER, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

**Note 10 - Loan Forgiveness - Paycheck Protection Program**

On April 20, 2020, PEN received a loan totaling \$728,554 under the Paycheck Protection Program ("PPP") 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.

On February 11, 2021, PEN received a second PPP loan totaling \$880,156. The loan included provisions for forgiveness if PEN meet certain employee retention requirements and the funds were used for eligible expenses. In November 2021, PEN received forgiveness of the full loan amount, and accordingly recognized loan forgiveness revenue.

**Note 11 - Donated Services**

PEN received donated legal services in the amount of \$105,762 and \$91,456, respectively, for the years ended December 31, 2021 and 2020.

**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 LA 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:

<b><u>Year Ending December 31,</u></b>	
2022	\$613,000
2023	645,000
Thereafter, through March 31, 2024	165,000

Rent expense for the years ended December 31, 2021 and 2020 was \$413,828 and \$453,836, respectively.

**PEN AMERICAN CENTER, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2021 AND 2020****Note 12 - Commitments, Contingency and Related Party Transactions (continued)**

- b - PEN has entered into an employment contract with an officer through January 2027 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 years ended December 31, 2021 and 2020, PEN paid \$298,589 and \$26,500, respectively, to a company affiliated with a Board member for professional fundraising services, and has remaining contracted commitments with the company of approximately \$408,000 at December 31, 2021.