

PEN AMERICAN CENTER, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2011 AND 2010

PEN AMERICAN CENTER, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of PEN American Center, Inc. (a not-for-profit corporation) as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the year ended December 31, 2011 and the eighteen months ended December 31, 2010. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PEN American Center, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the year ended December 31, 2011 and the eighteen months ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
June 14, 2012

PEN AMERICAN CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31, 2011				December 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 3)	\$ -	\$ 469,181	\$ -	\$ 469,181	\$ 34,495	\$ 411,686	\$ -	\$ 446,181
Accounts receivable	19,441	-	-	19,441	6,103	-	-	6,103
Unconditional promises to give (Notes 1c and 4)								
Unrestricted	193,098	-	-	193,098	15,501	-	-	15,501
Restricted to future programs	-	571,617	-	571,617	-	521,890	-	521,890
Prepaid expenses and other current assets	74,562	-	-	74,562	50,901	-	-	50,901
Investments (Notes 1d and 5)	278,281	288,269	745,651	1,312,201	307,578	158,936	958,921	1,425,435
Interfund receivable (payable)	(270,696)	199,917	70,779	-	(37,509)	-	37,509	-
Property and equipment, at cost (net of accumulated depreciation) (Notes 1e and 7)	134,097	-	-	134,097	185,033	-	-	185,033
Security deposits	49,488	-	-	49,488	47,081	-	-	47,081
Total Assets	\$ 478,271	\$ 1,528,984	\$ 816,430	\$2,823,685	\$ 609,183	\$ 1,092,512	\$ 996,430	\$2,698,125
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 90,332	\$ -	\$ -	\$ 90,332	\$ 107,164	\$ -	\$ -	\$ 107,164
Salaries and payroll taxes payable	8,884	-	-	8,884	18,448	-	-	18,448
Accrued vacation	25,508	-	-	25,508	21,637	-	-	21,637
Grants payable	81,175	-	-	81,175	117,008	-	-	117,008
Deferred rent (Note 1f)	43,633	-	-	43,633	55,925	-	-	55,925
Total Liabilities	249,532	-	-	249,532	320,182	-	-	320,182
Commitment and Contingency (Notes 8 and 9)								
Net Assets								
Unrestricted								
Board designated reserves (Note 2a)	271,202	-	-	271,202	275,951	-	-	275,951
Endowment deficit	(70,779)	-	-	(70,779)	(37,509)	-	-	(37,509)
Other unrestricted	28,316	-	-	28,316	50,559	-	-	50,559
Temporarily restricted (Notes 2b and 6)	-	1,528,984	-	1,528,984	-	1,092,512	-	1,092,512
Permanently restricted (Notes 2c and 6)	-	-	816,430	816,430	-	-	996,430	996,430
Total Net Assets	228,739	1,528,984	816,430	2,574,153	289,001	1,092,512	996,430	2,377,943
Total Liabilities and Net Assets	\$ 478,271	\$ 1,528,984	\$ 816,430	\$2,823,685	\$ 609,183	\$ 1,092,512	\$ 996,430	\$2,698,125

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2011				Eighteen Months Ended December 31, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support								
Contributions	\$ 1,336,254	\$ 889,932	\$ -	\$2,226,186	\$ 1,584,282	\$ 712,342	\$ -	\$2,296,624
Fundraising benefit events	928,196	-	-	928,196	951,641	-	-	951,641
Less: Direct fundraising costs	(166,095)	-	-	(166,095)	(180,822)	-	-	(180,822)
Membership fees	243,395	-	-	243,395	282,945	-	-	282,945
Ticketing and other sales	134,138	-	-	134,138	159,193	-	-	159,193
Net investment income - operating (Note 5)	14,435	-	-	14,435	24,231	-	-	24,231
Miscellaneous	5,281	-	-	5,281	9,595	-	-	9,595
Net assets released from restrictions								
Grants and contributions	605,293	(605,293)	-	-	676,240	(676,240)	-	-
Total Revenue, Gains and Other Support	3,100,897	284,639	-	3,385,536	3,507,305	36,102	-	3,543,407
Expenses								
Program Services	2,436,023	-	-	2,436,023	2,922,781	-	-	2,922,781
Supporting Services								
Management and general	191,636	-	-	191,636	305,681	-	-	305,681
Fundraising	444,041	-	-	444,041	608,689	-	-	608,689
Total Expenses Before Depreciation	3,071,700	-	-	3,071,700	3,837,151	-	-	3,837,151
Increase (Decrease) in Net Assets from Operations Before Depreciation and Net Investment Income (Loss)	29,197	284,639	-	313,836	(329,846)	36,102	-	(293,744)
Depreciation expense	51,440	-	-	51,440	90,151	-	-	90,151
Increase (Decrease) in Net Assets from Operations	(22,243)	284,639	-	262,396	(419,997)	36,102	-	(383,895)
Net investment income (loss) (Note 5)	(50,660)	(15,526)	-	(66,186)	184,548	23,771	-	208,319
Net assets released from permanent restriction - endowment deficit	12,641	167,359	(180,000)	-	-	-	-	-
Increase (decrease) in net assets	(60,262)	436,472	(180,000)	196,210	(235,449)	59,873	-	(175,576)
Net assets, beginning of period	289,001	1,092,512	996,430	2,377,943	524,450	1,032,639	996,430	2,553,519
Net Assets, End of Period	\$ 228,739	\$ 1,528,984	\$ 816,430	\$2,574,153	\$ 289,001	\$ 1,092,512	\$ 996,430	\$2,377,943

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF CASH FLOWS

	Year Ended <u>December 31, 2011</u>	Eighteen Months Ended <u>December 31, 2010</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 196,210	\$ (175,576)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	51,440	90,151
Donated stock	(50,735)	(37,758)
Gain on sale of investments	(29,609)	(26,900)
Net unrealized (gain) loss on investments	98,480	(171,046)
(Increase) decrease in:		
Accounts receivable	(13,338)	1,193
Unconditional promises to give	(227,324)	304,792
Prepaid expenses and other current assets	(23,661)	(33,547)
Security deposits	(2,407)	(2,232)
Increase (decrease) in:		
Accounts payable and accrued expenses	(16,832)	17,521
Salaries and payroll taxes payable	(9,564)	15,933
Accrued vacation	3,871	(4,182)
Grants payable	(35,833)	(3,942)
Deferred rent	(12,292)	(8,433)
Net Cash Used By Operating Activities	<u>(71,594)</u>	<u>(34,026)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(504)	(13,376)
Purchases of investments	(1,310,579)	(1,494,397)
Sales of investments	1,405,677	1,503,736
Net Cash Provided (Used) By Investing Activities	<u>94,594</u>	<u>(4,037)</u>
Net increase (decrease) in cash and cash equivalents	23,000	(38,063)
Cash and cash equivalents, beginning of period	<u>446,181</u>	<u>484,244</u>
Cash and Cash Equivalents, End of Period	<u>\$ 469,181</u>	<u>\$ 446,181</u>

See notes to financial statements.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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, defend free expression, and foster international literary fellowship.

PEN American Center is the U.S. branch of the world's oldest international literary and human rights organization. International PEN was founded in 1921 in direct response to the ethnic and national divisions that contributed to the First World War. PEN American Center was founded in 1922 and is the largest of the 144 PEN centers in 101 countries that together compose International PEN.

PEN American Center is comprised of over 3,000 Professional Members who represent the most distinguished writers, translators, and other professionals in the literary community. PEN also welcomes Associate Members who come from all parts of the literary community - booksellers, librarians, students, passionate readers - and who share PEN's ideals. The direct involvement of this broad base of committed individuals forms the cornerstone of PEN's ability to advocate for the rights of writers and readers at home and abroad.

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 Freedom to Write/Core Freedoms, PEN World Voices Festival, Public Programs, Readers & Writers, Prison Writing, Literary Awards and PEN America Journal.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less, to be cash equivalents, except for cash and short-term investments managed by the Organization's investment managers as part of their long-term investment strategies.

c - Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

c - Contributions and Unconditional Promises to Give (continued)

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

d - Investments

The Organization reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities. Interest, gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

Generally accepted accounting principles establish a fair value measurement hierarchy that prioritizes the inputs to valuation techniques. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of unobservable inputs and have the lowest priority. The Organization uses the higher priority valuation techniques based on available inputs to measure fair values. The fair value of the Organization's investments is measured using quoted prices in active markets, which are Level 1 inputs.

e - Property and Equipment

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

f - 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.

g - Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

h - Tax Status

PEN American Center, Inc. is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. Management has evaluated all income tax positions, including the position that the Organization is exempt from income taxes or not subject to income taxes or unrelated business income, and concluded that no disclosures relating to uncertain tax positions are required in the financial statements. The Organization's tax returns for years prior to 2008 are no longer subject to examination by the taxing authorities.

i - Estimates

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

j - Prior Year Information

For comparability, certain 2010 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2011.

k - Subsequent Events

The Organization has evaluated subsequent events through June 14, 2012, the date that the financial statements are considered available to be issued.

Note 2 - Restrictions on Assets

a - Board Designated Reserves

The unrestricted portion of the Organization's investment portfolio is held as a board designated reserve. In addition, certain amounts have been designated by the Board of Trustees as the Faith Sale Memorial Fund to use for the work of the PEN Writers' Fund in accordance with a spending policy.

Net investment losses of \$4,749 for the year ended December 31, 2011 and net investment income of \$39,936 for the eighteen months ended December 31, 2010 were allocated to these reserves.

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

	<u>2011</u>	<u>2010</u>
Board designated reserves	\$197,016	\$198,754
Faith Sale Memorial Fund - Writers' Fund reserves	<u>74,186</u>	<u>77,197</u>
	<u>\$271,202</u>	<u>\$275,951</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 2 - Restrictions on Assets (continued)

b - Temporarily Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
The Phyllis Reynolds Naylor Working Writer Fellowship	\$ 150,832	\$ -
Other awards	137,437	158,936
Grants and contributions for future programs and operations	<u>1,240,715</u>	<u>933,576</u>
	<u>\$1,528,984</u>	<u>\$1,092,512</u>

c - Permanently Restricted Net Assets

Permanently restricted net assets are restricted by the donors for use as endowment funds. The income earned on the principal is restricted to use in the following programs:

	<u>2011</u>	<u>2010</u>
The Barbara Goldsmith Freedom to Write Award	\$ 35,000	\$ 35,000
The Arthur Miller Freedom to Write Endowment	47,000	47,000
The Phyllis Reynolds Naylor Working Writer Fellowship	-	180,000
Endowment for Literary Translation	<u>734,430</u>	<u>734,430</u>
	<u>\$816,430</u>	<u>\$996,430</u>

During 2011, \$180,000 was reclassified from permanently restricted net assets, and the actual value of the endowment fund reclassified to temporarily restricted net assets, pursuant to an amendment to the original terms of the endowment fund.

Note 3 - Concentration of Credit Risk

The Organization maintains cash balances (i) at Chase Bank, which are insured by the Federal Deposit Insurance Corporation up to \$250,000, and (ii) in money market mutual funds.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due within one year. Uncollectible promises to give are expected to be insignificant.

Note 5 - Investments

Investments at December 31, 2011 and 2010, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 20,746	\$ 20,746	\$ 17,802	\$ 17,802
U.S. Government bonds and treasury bills	168,992	168,992	168,944	168,990
Mutual funds - fixed income	445,472	461,247	598,982	608,312
Mutual funds - equities	289,962	183,140	291,693	225,367
Corporate stock	468,188	478,076	330,217	404,964
	<u>\$1,393,360</u>	<u>\$1,312,201</u>	<u>\$1,407,638</u>	<u>\$1,425,435</u>

Net investment income (loss) for the year ended December 31, 2011 and the eighteen months ended December 31, 2010 is summarized as follows:

	<u>Year Ended December 31, 2011</u>	<u>Eighteen Months Ended December 31, 2010</u>
Interest and dividends	\$ 27,541	\$ 47,208
Realized gain on sale of investments	29,609	26,900
Unrealized gain (loss) on investments	<u>(98,956)</u>	<u>171,046</u>
Total	(41,806)	245,154
Less: Investment fees	<u>(9,945)</u>	<u>(12,604)</u>
Net Investment Income (Loss)	<u>\$ (51,751)</u>	<u>\$232,550</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 5 - Investments (continued)

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

	Year Ended <u>December 31, 2011</u>	Eighteen Months Ended <u>December 31, 2010</u>
Unrestricted		
Operating	\$ 14,435	\$ 24,231
Board designated reserves (deficit)	(4,749)	39,936
Endowment recovery (deficit), net of amounts appropriated to operations	(45,911)	144,612
Temporarily restricted (deficit)	<u>(15,526)</u>	<u>23,771</u>
	<u>\$ (51,751)</u>	<u>\$ 232,550</u>

Note 6 - Endowment Funds

The Organization's endowment consists of several individual donor-restricted funds established for a variety of purposes. Its endowment includes both the permanently restricted endowment funds described in Note 2c and temporarily restricted endowment funds restricted by donors to provide for term endowments to fund certain award programs. Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's endowment consists of several individual donor-restricted funds. Consistent with the New York State Not-for-profit Corporation Law, and the New York State Prudent Management of Institutional Funds Act ("NYPMIFA"), the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 6 - Endowment Funds (continued)

In accordance with NYPMIFA, the Organization 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 the Organization 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 the Organization;
- (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 the Organization; and
- (viii) the investment policy of the Organization

The Organization's invested endowment funds composition, all of which are donor-restricted endowment funds, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted	\$ (70,779)	\$ (37,509)
Temporarily restricted	288,269	158,936
Permanently restricted	<u>816,430</u>	<u>996,430</u>
Total Endowment Funds	<u>\$1,033,920</u>	<u>\$1,117,857</u>

Changes in endowment funds for the year ended December 31, 2011 and the eighteen months ended December 31, 2010 are summarized as follows:

	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of period	\$(37,509)	\$158,936	\$996,430	\$1,117,857
Net investment income (loss)	(31,011)	(15,526)	-	(46,537)
Release from permanent restriction by donor	12,641	167,359	(180,000)	-
Appropriation of endowment assets for expenditure	<u>(14,900)</u>	<u>(22,500)</u>	<u>-</u>	<u>(37,400)</u>
Endowment Funds, End of Period	<u>\$(70,779)</u>	<u>\$288,269</u>	<u>\$816,430</u>	<u>\$1,033,920</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 6 - Endowment Funds (continued)

	2010			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment funds, beginning of period	\$(182,121)	\$135,165	\$996,430	\$ 949,474
Net investment income	<u>144,612</u>	<u>23,771</u>	<u>-</u>	<u>168,383</u>
Endowment Funds, End of Period	<u>\$ (37,509)</u>	<u>\$158,936</u>	<u>\$996,430</u>	<u>\$1,117,857</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. Deficiencies of this nature that are reported in unrestricted net assets were \$70,779 as of December 31, 2011 and \$37,509 as of December 31, 2010. These deficiencies resulted from unfavorable market fluctuations.

The Organization'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.

The Organization 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 60% 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 40% in fixed income instruments to reduce overall portfolio risk and to preserve capital.

For endowment funds without specified spending policies, the Organization has a policy of appropriating for distribution each year up to 5% of the 3-year rolling average of the value of endowment funds as of the prior calendar year-end.

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

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 7 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2011</u>	<u>2010</u>
Leasehold improvements	Life of lease	\$357,369	\$357,369
Furniture, fixtures and equipment	5 years	144,238	143,734
Website	5 years	<u>101,100</u>	<u>101,100</u>
		602,707	602,203
Less: Accumulated depreciation		<u>(468,610)</u>	<u>(417,170)</u>
		<u>\$134,097</u>	<u>\$185,033</u>

Depreciation expense for the year ended December 31, 2011 and the eighteen months ended December 31, 2010 was \$51,440 and \$90,151, respectively.

Note 8 - Defined Contribution Plan

The Organization participates in a 403(b) tax deferred annuity plan. The Organization contributes 10% of an eligible employee's salary to the plan. Total expense under the plan was \$99,435 and \$106,968 for the year ended December 31, 2011 and the eighteen months ended December 31, 2010, respectively.

Note 9 - Commitment and Contingency

a - The Organization occupies its office space under a lease which expires March 31, 2014. The Organization's minimum annual obligation under this lease agreement (exclusive of the effect of escalation clauses) is as follows:

<u>Year Ending December 31,</u>	
2012	\$151,503
2013	156,222
Three months ended March 31, 2014	39,375

Rent expense for the year ended December 31, 2011 and the eighteen months ended December 31, 2010 was \$151,806 and \$227,493, respectively.

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

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 10 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services in reasonable ratios.

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

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**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of PEN American Center, Inc. as of and for the year ended December 31, 2011 and eighteen months ended December 31, 2010, and have issued our report thereon dated June 14, 2012, which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2011 with comparative totals for the eighteen months ended December 31, 2010 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
June 14, 2012

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011 WITH COMPARATIVE TOTALS
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2010

	Year Ended December 31, 2011										
	<u>Festival of International Literature and Public Programs</u>	<u>Freedom to Write</u>	<u>Membership</u>	<u>Literary Awards</u>	<u>Publications</u>	<u>Readers and Writers</u>	<u>Branches</u>	<u>Prison Writing</u>	<u>Writers Fund</u>	<u>Open Book</u>	<u>Total Program Services (carried forward)</u>
Salaries, payroll taxes, employee benefits, and payroll service fee	\$ 281,685	\$318,147	\$ 95,897	\$ 84,933	\$ 85,086	\$ 109,328	\$ 59,211	\$ 47,083	\$11,872	\$15,844	\$1,109,086
Program consultants	97,838	15,787	350	-	77,418	4,140	6,493	-	-	-	202,026
Event and development consultants	-	-	-	-	-	-	-	-	-	-	-
Professional and administrative fees	17,301	19,603	5,681	5,058	4,314	6,206	5,910	2,514	851	824	68,262
Rent, insurance and occupancy	39,417	46,263	11,977	11,956	10,012	15,870	-	5,978	1,993	1,985	145,451
Supplies and office expense	5,615	6,820	2,455	2,064	1,184	1,835	948	1,173	214	223	22,531
Telecommunications	9,462	14,566	2,634	3,924	20,594	2,879	281	1,470	374	374	56,558
Postage and printing	52,637	6,220	22,515	9,698	17,968	1,461	2,769	9,841	324	598	124,031
Awards, grants and other support	-	63,327	-	146,480	-	-	8,152	1,875	57,454	-	277,288
Event and conference expense	116,600	36,512	8,233	8,144	690	2,199	7,650	1,514	128	30	181,700
Travel	132,772	75,276	3,483	411	2,116	1,980	1,111	25	2	2	217,178
Book purchases and distribution	1,032	-	-	-	-	3,760	1,025	-	-	6	5,823
Other program expense	4,043	5,734	571	430	299	299	31	5	2	54	11,468
Other administrative expense	3,204	5,687	1,237	996	765	1,095	503	836	149	149	14,621
Depreciation	7,716	9,259	5,144	2,572	5,144	4,630	-	1,543	514	514	37,036
Total Expenses	769,322	623,201	160,177	276,666	225,590	155,682	94,084	73,857	73,877	20,603	2,473,059
Less: Depreciation expense, shown separately in the statement of activities	(7,716)	(9,259)	(5,144)	(2,572)	(5,144)	(4,630)	-	(1,543)	(514)	(514)	(37,036)
Total Expenses, included in the expense section of the statement of activities, 2011	\$ 761,606	\$613,942	\$ 155,033	\$274,094	\$ 220,446	\$ 151,052	\$ 94,084	\$ 72,314	\$73,363	\$20,089	2,436,023
Total Expenses, included in the expense section of the statement of activities, 2010	\$ 820,811	\$563,203	\$ 232,186	\$253,065	\$ 375,921	\$ 305,318	\$150,614	\$106,613	\$84,013	\$31,037	2,922,781

See independent auditors' report on supplementary information.

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011 WITH COMPARATIVE TOTALS
FOR THE EIGHTEEN MONTHS ENDED DECEMBER 31, 2010

	Year Ended December 31, 2011				2011 Total Expenses	Eighteen Months Ended December 31, 2010 Total Expenses
	Total Program Services (brought forward)	Management and General	Fundraising	Total		
Salaries, payroll taxes, employee benefits, and payroll service fee	\$1,109,086	\$ 144,841	\$ 242,713	\$387,554	\$1,496,640	\$ 2,002,893
Program consultants	202,026	-	2,500	2,500	204,526	230,542
Event and development consultants	-	-	35,860	35,860	35,860	44,400
Professional and administrative fees	68,262	8,440	22,332	30,772	99,034	205,928
Rent, insurance and occupancy	145,451	19,971	33,838	53,809	199,260	307,122
Supplies and office expense	22,531	2,856	4,695	7,551	30,082	45,481
Telecommunications	56,558	4,458	6,349	10,807	67,365	96,433
Postage and printing	124,031	1,682	33,845	35,527	159,558	205,040
Awards, grants and other support	277,288	-	-	-	277,288	322,679
Event and conference expense	181,700	3,411	48,899	52,310	234,010	149,030
Travel	217,178	1,858	1,837	3,695	220,873	163,745
Book purchases and distribution	5,823	-	-	-	5,823	14,526
Other program expense	11,468	1,217	8,598	9,815	21,283	26,088
Other administrative expense	14,621	2,902	2,575	5,477	20,098	23,244
Depreciation	37,036	5,659	8,745	14,404	51,440	90,151
Total Expenses	2,473,059	197,295	452,786	650,081	3,123,140	3,927,302
Less: Depreciation expense, shown separately in the statement of activities	(37,036)	(5,659)	(8,745)	(14,404)	(51,440)	(90,151)
Total Expenses, included in the expense section of the statement of activities, 2011	<u>\$2,436,023</u>	<u>\$ 191,636</u>	<u>\$ 444,041</u>	<u>\$635,677</u>	<u>\$3,071,700</u>	
Total Expenses, included in the expense section of the statement of activities, 2010	<u>\$2,922,781</u>	<u>\$ 305,681</u>	<u>\$ 608,689</u>	<u>\$914,370</u>		<u>\$ 3,837,151</u>

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