

PEN AMERICAN CENTER, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012 AND 2011

PEN AMERICAN CENTER, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of PEN American Center, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PEN American Center, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
June 11, 2013

PEN AMERICAN CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 3)	\$ -	\$ 428,320	\$ -	\$ 428,320	\$ -	\$ 469,181	\$ -	\$ 469,181
Accounts receivable	15,784	-	-	15,784	19,441	-	-	19,441
Unconditional promises to give (Notes 1c and 4)	196,555	276,840	-	473,395	193,098	571,617	-	764,715
Prepaid expenses and other current assets	47,103	-	-	47,103	74,562	-	-	74,562
Investments (Notes 1d and 5)	305,869	360,461	817,315	1,483,645	278,281	288,269	745,651	1,312,201
Interfund receivable (payable)	(175,769)	174,604	1,165	-	(270,696)	199,917	70,779	-
Property and equipment, at cost (net of accumulated depreciation) (Notes 1e and 7)	194,421	-	-	194,421	134,097	-	-	134,097
Security deposits	50,703	-	-	50,703	49,488	-	-	49,488
Total Assets	\$ 634,666	\$ 1,240,225	\$ 818,480	\$2,693,371	\$ 478,271	\$ 1,528,984	\$ 816,430	\$2,823,685
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 105,177	\$ -	\$ -	\$ 105,177	\$ 90,332	\$ -	\$ -	\$ 90,332
Salaries and payroll taxes payable	9,579	-	-	9,579	8,884	-	-	8,884
Accrued vacation	15,192	-	-	15,192	25,508	-	-	25,508
Grants payable	81,325	-	-	81,325	81,175	-	-	81,175
Deferred rent (Note 1f)	26,928	-	-	26,928	43,633	-	-	43,633
Total Liabilities	238,201	-	-	238,201	249,532	-	-	249,532
Commitments and Contingency (Notes 8 and 9)								
Net Assets								
Unrestricted								
Board designated reserves (Note 2a)	283,307	-	-	283,307	271,202	-	-	271,202
Endowment deficit (Note 6)	(1,165)	-	-	(1,165)	(70,779)	-	-	(70,779)
Other	114,323	-	-	114,323	28,316	-	-	28,316
Temporarily restricted (Notes 2b and 6)	-	1,240,225	-	1,240,225	-	1,528,984	-	1,528,984
Permanently restricted (Notes 2c and 6)	-	-	818,480	818,480	-	-	816,430	816,430
Total Net Assets	396,465	1,240,225	818,480	2,455,170	228,739	1,528,984	816,430	2,574,153
Total Liabilities and Net Assets	\$ 634,666	\$ 1,240,225	\$ 818,480	\$2,693,371	\$ 478,271	\$1,528,984	\$ 816,430	\$2,823,685

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support from Operations								
Contributions	\$ 1,376,013	\$ 596,564	\$ 2,050	\$1,974,627	\$ 1,336,254	\$ 889,932	\$ -	\$2,226,186
Fundraising benefit events	758,007	-	-	758,007	928,196	-	-	928,196
Less: Direct fundraising costs	(155,329)	-	-	(155,329)	(166,095)	-	-	(166,095)
Membership fees	215,902	-	-	215,902	243,395	-	-	243,395
Ticketing and other sales	126,767	-	-	126,767	134,138	-	-	134,138
Net investment income - operating (Note 5)	15,278	-	-	15,278	14,435	-	-	14,435
Miscellaneous	741	-	-	741	5,281	-	-	5,281
Net assets released from restrictions								
Grants and contributions	839,515	(839,515)	-	-	605,293	(605,293)	-	-
Total Revenue, Gains and Other Support	<u>3,176,894</u>	<u>(242,951)</u>	<u>2,050</u>	<u>2,935,993</u>	<u>3,100,897</u>	<u>284,639</u>	<u>-</u>	<u>3,385,536</u>
Expenses								
Program Services	2,485,574	-	-	2,485,574	2,436,023	-	-	2,436,023
Supporting Services								
Management and general	202,278	-	-	202,278	191,636	-	-	191,636
Fundraising	426,934	-	-	426,934	444,041	-	-	444,041
Total Expenses Before Depreciation and Amortization	<u>3,114,786</u>	<u>-</u>	<u>-</u>	<u>3,114,786</u>	<u>3,071,700</u>	<u>-</u>	<u>-</u>	<u>3,071,700</u>
Increase (Decrease) in Net Assets from Operations Before Capital Revenue, Depreciation and Amortization, and Net Investment Income (Loss)	62,108	(242,951)	2,050	(178,793)	29,197	284,639	-	313,836
Net assets released from restriction - for capital expenditures	95,000	(95,000)	-	-	-	-	-	-
Depreciation and amortization expense	(71,101)	-	-	(71,101)	(51,440)	-	-	(51,440)
Increase (Decrease) in Net Assets Before Net Investment Income (Loss)	86,007	(337,951)	2,050	(249,894)	(22,243)	284,639	-	262,396
Net investment income (loss) (Note 5)	81,719	49,192	-	130,911	(50,660)	(15,526)	-	(66,186)
Net assets released from permanent restriction	-	-	-	-	12,641	167,359	(180,000)	-
Increase (decrease) in net assets	167,726	(288,759)	2,050	(118,983)	(60,262)	436,472	(180,000)	196,210
Net assets, beginning of year	228,739	1,528,984	816,430	2,574,153	289,001	1,092,512	996,430	2,377,943
Net Assets, End of Year	<u>\$ 396,465</u>	<u>\$ 1,240,225</u>	<u>\$ 818,480</u>	<u>\$2,455,170</u>	<u>\$ 228,739</u>	<u>\$ 1,528,984</u>	<u>\$ 816,430</u>	<u>\$2,574,153</u>

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (118,983)	\$ 196,210
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	71,101	51,440
Donated stock	(106,046)	(50,735)
Gain on sale of investments	(1,191)	(29,609)
Net unrealized (gain) loss on investments	(110,868)	98,480
(Increase) decrease in:		
Accounts receivable	3,657	(13,338)
Unconditional promises to give	291,320	(227,324)
Prepaid expenses and other current assets	27,459	(23,661)
Security deposits	(1,215)	(2,407)
Increase (decrease) in:		
Accounts payable and accrued expenses	14,845	(16,832)
Salaries and payroll taxes payable	695	(9,564)
Accrued vacation	(10,316)	3,871
Grants payable	150	(35,833)
Deferred rent	(16,705)	(12,292)
Net Cash Provided (Used) By Operating Activities	<u>43,903</u>	<u>(71,594)</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(131,425)	(504)
Purchases of investments	(1,633,215)	(1,310,579)
Sales of investments	1,679,876	1,405,677
Net Cash Provided (Used) By Investing Activities	<u>(84,764)</u>	<u>94,594</u>
Net increase (decrease) in cash and cash equivalents	(40,861)	23,000
Cash and cash equivalents, beginning of year	<u>469,181</u>	<u>446,181</u>
Cash and Cash Equivalents, End of Year	<u>\$ 428,320</u>	<u>\$ 469,181</u>

See notes to financial statements.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 2,000 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, Open Book, Prison Writing, Literary Awards, Membership, pen.org website, PEN America Journal and Branches.

b - Cash and Cash Equivalents

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

c - Contributions and Unconditional Promises to Give

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

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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

c - Contributions and Unconditional Promises to Give (continued)

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

d - Investments

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

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

e - Property and Equipment

Property and equipment are recorded at acquisition cost and depreciated over 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

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

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 PEN 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. PEN's tax returns for years prior to 2009 are generally 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 - Subsequent Events

PEN has evaluated subsequent events through June 11, 2013, the date that the financial statements are considered available to be issued.

Note 2 - Restrictions on Assets

a - Board Designated Reserves

The unrestricted portion of PEN's investment portfolio 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 PEN Writers' Fund in accordance with a spending policy.

Net investment income (loss) for the years ended December 31, 2012 and 2011 of \$12,105 and \$(4,749), respectively, were allocated to these reserves.

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

	<u>2012</u>	<u>2011</u>
Board designated reserves	\$199,708	\$197,016
Faith Sale Memorial Fund - Writers' Fund reserves	<u>83,599</u>	<u>74,186</u>
	<u>\$283,307</u>	<u>\$271,202</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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>2012</u>	<u>2011</u>
Temporarily Restricted Endowment Funds		
The Phyllis Reynolds Naylor Working Writer Fellowship	\$ 169,970	\$ 150,832
Other awards	<u>190,491</u>	<u>137,437</u>
	360,461	288,269
Grants and contributions for future programs and operations	<u>879,764</u>	<u>1,240,715</u>
	<u>\$1,240,225</u>	<u>\$1,528,984</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>2012</u>	<u>2011</u>
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>734,430</u>
	<u>\$818,480</u>	<u>\$816,430</u>

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

Note 3 - Concentration of Credit Risk

PEN maintains cash balances at multiple financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$250,000.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 245,831	\$ 245,831	\$ 20,746	\$ 20,746
U.S. Government bonds and treasury bills	-	-	168,992	168,992
Mutual Funds:				
Fixed income	480,071	482,141	445,472	461,247
Domestic equities	565,532	588,431	289,962	183,140
International equities	152,550	157,290	-	-
Corporate stock	<u>9,952</u>	<u>9,952</u>	<u>468,188</u>	<u>478,076</u>
	<u>\$1,453,936</u>	<u>\$1,483,645</u>	<u>\$1,393,360</u>	<u>\$1,312,201</u>

Net investment income (loss) for the years ended December 31, 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 36,425	\$ 27,065
Realized gain on sale of investments	1,191	29,609
Unrealized gain (loss) on investments	<u>110,868</u>	<u>(98,480)</u>
Total	148,484	(41,806)
Less: Investment fees	<u>(2,295)</u>	<u>(9,945)</u>
Net Investment Income (Loss)	<u>\$146,189</u>	<u>\$(51,751)</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 5 - Investments (continued)

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

	<u>2012</u>	<u>2011</u>
Unrestricted		
Operating	\$ 15,278	\$ 14,435
Board designated reserves	12,105	(4,749)
Endowment recovery (deficit), net of amounts appropriated to operations	69,614	(45,911)
Temporarily restricted	<u>49,192</u>	<u>(15,526)</u>
	<u>\$146,189</u>	<u>\$(51,751)</u>

Note 6 - Endowment Funds

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

PEN'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"), PEN classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by PEN.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 6 - Endowment Funds (continued)

In accordance with NYPMIFA, PEN considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (i) the duration and preservation of the endowment fund;
- (ii) the purposes of PEN and the endowment fund;
- (iii) general economic conditions;
- (iv) the possible effect of inflation or deflation;
- (v) the expected total return from income and the appreciation of investments;
- (vi) other resources of PEN;
- (vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on PEN; and
- (viii) the investment policy of PEN

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

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ (1,165)	\$ (70,779)
Temporarily restricted	360,461	288,269
Permanently restricted	<u>818,480</u>	<u>816,430</u>
Total Endowment Funds	<u>\$1,177,776</u>	<u>\$1,033,920</u>

Changes in endowment funds for the years ended December 31, 2012 and 2011 are summarized as follows:

	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$(70,779)	\$288,269	\$816,430	\$1,033,920
Net investment income	84,114	49,192	-	133,306
Contributions	-	50,000	2,050	52,050
Appropriation of endowment assets for expenditure	<u>(14,500)</u>	<u>(27,000)</u>	<u>-</u>	<u>(41,500)</u>
Endowment Funds, End of Year	<u>\$ (1,165)</u>	<u>\$360,461</u>	<u>\$818,480</u>	<u>\$1,177,776</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 6 - Endowment Funds (continued)

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment funds, beginning of year	\$(37,509)	\$158,936	\$996,430	\$1,117,857
Net investment 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 Year	<u><u>\$(70,779)</u></u>	<u><u>\$288,269</u></u>	<u><u>\$816,430</u></u>	<u><u>\$1,033,920</u></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 \$1,165 as of December 31, 2012 and \$70,779 as of December 31, 2011. These deficiencies resulted from unfavorable market fluctuations.

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

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

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

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

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

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 7 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2012</u>	<u>2011</u>
Leasehold improvements	Life of lease	\$357,369	\$357,369
Furniture, fixtures and equipment	5 years	148,577	144,238
Website	3 years	<u>130,586</u>	<u>101,100</u>
		636,532	602,707
Less: Accumulated depreciation		<u>(442,111)</u>	<u>(468,610)</u>
		<u>\$194,421</u>	<u>\$134,097</u>

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 was \$71,101 and \$51,440, respectively.

Note 8 - Defined Contribution Plan

PEN participates in a 403(b) tax deferred annuity plan. PEN contributes 10% of an eligible employee's salary to the plan. Effective for 2013, PEN contributes 3% of an eligible employee's salary to the plan. Total expense under the plan was \$98,351 and \$99,435 for the years ended December 31, 2012 and 2011, respectively.

Note 9 - Commitments and Contingency

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

Year ending December 31, 2013	\$156,222
Three months ended March 31, 2014	39,375

Rent expense for the years ended December 31, 2012 and 2011 was \$151,985 and \$151,806, respectively.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 9 - Commitments and Contingency (continued)

- b - PEN has entered into an employment contract with an officer through February 2016 that provides for a minimum annual salary, with stated annual increases, and incentives based on total revenues and achieving an annual operating surplus. The contract also includes provisions for the payment of severance compensation in the event of termination without cause.

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

Note 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 years ended December 31, 2012 and 2011, and our report thereon dated June 11, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2012 with comparative totals for 2011 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
June 11, 2013

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

	2012										
	<u>Festival of International Literature and Public Programs</u>	<u>Freedom to Write and Core Freedoms</u>	<u>Membership</u>	<u>Literary Awards</u>	<u>pen.org Website and PEN Journal</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	\$ 283,740	\$ 362,358	\$ 117,598	\$ 92,208	\$ 72,582	\$ 98,337	\$ 67,236	\$47,153	\$13,405	\$15,909	\$1,170,526
Program consultants	92,019	33,037	396	4,170	155,005	3,520	7,077	-	-	-	295,224
Event and development consultants	-	-	-	-	-	-	-	-	-	-	-
Professional and administrative fees	8,734	10,822	3,569	3,765	3,162	3,007	3,060	1,356	452	452	38,379
Rent, insurance and occupancy	39,974	46,555	13,062	12,580	11,708	15,253	-	6,064	2,021	2,007	149,224
Supplies and office expense	2,620	5,329	1,837	850	2,715	1,077	813	388	125	125	15,879
Telecommunications	11,322	13,684	2,514	2,853	27,524	2,495	8,181	1,365	355	338	70,631
Postage and printing	52,867	11,496	16,847	7,876	20,678	767	4,562	13,685	186	80	129,044
Awards, grants and other support	-	81,038	-	183,640	-	-	21,007	2,150	48,950	-	336,785
Event and conference expense	80,293	6,103	4,399	8,863	950	2,333	7,959	41	205	1	111,147
Travel	55,346	46,994	4,050	127	3,442	1,343	22,470	-	-	-	133,772
Book purchases and distribution	109	-	-	-	-	929	5,183	-	-	-	6,221
Other program expense	5,123	2,946	1,187	11	428	184	1,503	5	2	20	11,409
Other administrative expense	8,506	3,579	1,058	778	649	809	1,095	631	114	114	17,333
Depreciation and amortization	14,220	16,353	4,266	4,266	3,555	5,688	-	2,133	711	711	51,903
Total Expenses	654,873	640,294	170,783	321,987	302,398	135,742	150,146	74,971	66,526	19,757	2,537,477
Less: Depreciation and amortization expense, shown separately in the statement of activities	(14,220)	(16,353)	(4,266)	(4,266)	(3,555)	(5,688)	-	(2,133)	(711)	(711)	(51,903)
Total Expenses, included in the expense section of the statement of activities, 2012	<u>\$ 640,653</u>	<u>\$ 623,941</u>	<u>\$ 166,517</u>	<u>\$317,721</u>	<u>\$ 298,843</u>	<u>\$ 130,054</u>	<u>\$150,146</u>	<u>\$72,838</u>	<u>\$65,815</u>	<u>\$19,046</u>	<u>2,485,574</u>
Total Expenses, included in the expense section of the statement of activities, 2011	<u>\$ 761,606</u>	<u>\$ 613,942</u>	<u>\$ 155,033</u>	<u>\$274,094</u>	<u>\$ 220,446</u>	<u>\$ 151,052</u>	<u>\$ 94,084</u>	<u>\$72,314</u>	<u>\$73,363</u>	<u>\$20,089</u>	<u>2,436,023</u>

See independent auditors' report on supplementary information.

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

	2012			Total Expenses	2011	
	Total Program Services (brought forward)	Supporting Services Management and General	Fundraising		Total Expenses	
Salaries, payroll taxes, employee benefits, and payroll service fee	\$1,170,526	\$ 142,610	\$ 253,851	\$396,461	\$1,566,987	\$1,496,640
Program consultants	295,224	1,409	3,500	4,909	300,133	204,526
Event and development consultants	-	-	34,500	34,500	34,500	35,860
Professional and administrative fees	38,379	4,634	7,744	12,378	50,757	99,034
Rent, insurance and occupancy	149,224	19,760	34,363	54,123	203,347	199,260
Supplies and office expense	15,879	1,796	2,994	4,790	20,669	30,082
Telecommunications	70,631	3,683	6,036	9,719	80,350	67,365
Postage and printing	129,044	2,711	36,696	39,407	168,451	159,558
Awards, grants and other support	336,785	-	-	-	336,785	277,288
Event and conference expense	111,147	14,286	36,380	50,666	161,813	234,010
Travel	133,772	4,565	3,192	7,757	141,529	220,873
Book purchases and distribution	6,221	-	1,204	1,204	7,425	5,823
Other program expense	11,409	3,929	4,080	8,009	19,418	21,283
Other administrative expense	17,333	2,895	2,394	5,289	22,622	20,098
Depreciation and amortization	51,903	7,111	12,087	19,198	71,101	51,440
Total Expenses	2,537,477	209,389	439,021	648,410	3,185,887	3,123,140
Less: Depreciation and amortization expense, shown separately in the statement of activities	(51,903)	(7,111)	(12,087)	(19,198)	(71,101)	(51,440)
Total Expenses, included in the expense section of the statement of activities, 2012	<u>\$2,485,574</u>	<u>\$ 202,278</u>	<u>\$ 426,934</u>	<u>\$629,212</u>	<u>\$3,114,786</u>	
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>

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