

PEN AMERICAN CENTER, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, 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, 2013 and 2012, 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
September 15, 2014

PEN AMERICAN CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 3)	\$ 27,086	\$ 932,231	\$ -	\$ 959,317	\$ -	\$ 428,320	\$ -	\$ 428,320
Accounts receivable	42,464	-	-	42,464	15,784	-	-	15,784
Unconditional promises to give (Notes 1c and 4)	168,915	751,670	-	920,585	196,555	276,840	-	473,395
Prepaid expenses and other current assets	96,996	-	-	96,996	47,103	-	-	47,103
Investments (Notes 1d and 5)	305,211	502,555	818,480	1,626,246	305,869	360,461	817,315	1,483,645
Interfund receivable (payable)	-	-	-	-	(175,769)	174,604	1,165	-
Property and equipment, at cost (net of accumulated depreciation) (Notes 1e and 7)	108,623	-	-	108,623	194,421	-	-	194,421
Security deposits	51,120	-	-	51,120	50,703	-	-	50,703
Total Assets	\$ 800,415	\$ 2,186,456	\$ 818,480	\$3,805,351	\$ 634,666	\$ 1,240,225	\$ 818,480	\$2,693,371
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 148,772	\$ -	\$ -	\$ 148,772	\$ 105,177	\$ -	\$ -	\$ 105,177
Salaries and payroll taxes payable	8,677	-	-	8,677	9,579	-	-	9,579
Accrued vacation	26,252	-	-	26,252	15,192	-	-	15,192
Grants payable	77,625	-	-	77,625	81,325	-	-	81,325
Deferred rent (Note 1f)	5,678	-	-	5,678	26,928	-	-	26,928
Total Liabilities	267,004	-	-	267,004	238,201	-	-	238,201
Commitments and Contingency (Notes 8 and 9)								
Net Assets								
Unrestricted								
Board designated reserves (Note 2a)	305,211	-	-	305,211	283,307	-	-	283,307
Endowment deficit (Note 6)	-	-	-	-	(1,165)	-	-	(1,165)
Other	228,200	-	-	228,200	114,323	-	-	114,323
Temporarily restricted (Notes 2b and 6)	-	2,186,456	-	2,186,456	-	1,240,225	-	1,240,225
Permanently restricted (Notes 2c and 6)	-	-	818,480	818,480	-	-	818,480	818,480
Total Net Assets	533,411	2,186,456	818,480	3,538,347	396,465	1,240,225	818,480	2,455,170
Total Liabilities and Net Assets	\$ 800,415	\$ 2,186,456	\$ 818,480	\$3,805,351	\$ 634,666	\$ 1,240,225	\$ 818,480	\$2,693,371

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support from Operations								
Contributions	\$ 1,567,090	\$ 1,199,546	\$ -	\$2,766,636	\$ 1,376,013	\$ 596,564	\$ 2,050	\$1,974,627
Fundraising benefit events	1,294,584	-	-	1,294,584	758,007	-	-	758,007
Less: Direct fundraising costs	(200,804)	-	-	(200,804)	(155,329)	-	-	(155,329)
Donated facilities and services (Note 10)	25,000	-	-	25,000	-	-	-	-
Membership fees	246,425	-	-	246,425	215,902	-	-	215,902
Ticketing and other sales	158,142	-	-	158,142	126,767	-	-	126,767
Net investment income - operating (Note 5)	27,435	-	-	27,435	15,278	-	-	15,278
Miscellaneous	7,822	-	-	7,822	741	-	-	741
Net assets released from restrictions								
Grants and contributions	395,409	(395,409)	-	-	812,515	(812,515)	-	-
Net investment income - endowed awards	32,500	(32,500)	-	-	27,000	(27,000)	-	-
Total Revenue, Gains and Other Support	3,553,603	771,637	-	4,325,240	3,176,894	(242,951)	2,050	2,935,993
Expenses								
Program Services	2,566,725	-	-	2,566,725	2,485,574	-	-	2,485,574
Supporting Services								
Management and general	293,867	-	-	293,867	202,278	-	-	202,278
Fundraising	481,519	-	-	481,519	426,934	-	-	426,934
Total Expenses Before Depreciation and Amortization	3,342,111	-	-	3,342,111	3,114,786	-	-	3,114,786
Increase (Decrease) in Net Assets from Operations Before Capital Revenue, Depreciation and Amortization, and Net Investment Income	211,492	771,637	-	983,129	62,108	(242,951)	2,050	(178,793)
Net assets released from restriction - for capital expenditures	-	-	-	-	95,000	(95,000)	-	-
Depreciation and amortization expense	(90,388)	-	-	(90,388)	(71,101)	-	-	(71,101)
Increase (Decrease) in Net Assets Before Net Investment Income	121,104	771,637	-	892,741	86,007	(337,951)	2,050	(249,894)
Net investment income (Note 5)	15,842	174,594	-	190,436	81,719	49,192	-	130,911
Increase (decrease) in net assets	136,946	946,231	-	1,083,177	167,726	(288,759)	2,050	(118,983)
Net assets, beginning of year	396,465	1,240,225	818,480	2,455,170	228,739	1,528,984	816,430	2,574,153
Net Assets, End of Year	\$ 533,411	\$ 2,186,456	\$ 818,480	\$3,538,347	\$ 396,465	\$ 1,240,225	\$ 818,480	\$2,455,170

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$1,083,177	\$ (118,983)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	90,388	71,101
Donated stock	(153,130)	(106,046)
Gain on sale of investments	(11,648)	(1,191)
Net unrealized gain on investments	(178,681)	(110,868)
(Increase) decrease in:		
Accounts receivable	(26,680)	3,657
Unconditional promises to give	(447,190)	291,320
Prepaid expenses and other current assets	(49,893)	27,459
Security deposits	(417)	(1,215)
Increase (decrease) in:		
Accounts payable and accrued expenses	43,595	14,845
Salaries and payroll taxes payable	(902)	695
Accrued vacation	11,060	(10,316)
Grants payable	(3,700)	150
Deferred rent	(21,250)	(16,705)
Net Cash Provided By Operating Activities	<u>334,729</u>	<u>43,903</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(4,590)	(131,425)
Purchases of investments	(53,833)	(1,633,215)
Sales of investments	254,691	1,679,876
Net Cash Provided (Used) By Investing Activities	<u>196,268</u>	<u>(84,764)</u>
Net increase (decrease) in cash and cash equivalents	530,997	(40,861)
Cash and cash equivalents, beginning of year	<u>428,320</u>	<u>469,181</u>
Cash and Cash Equivalents, End of Year	<u>\$ 959,317</u>	<u>\$ 428,320</u>

See notes to financial statements.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 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 comprise International PEN.

PEN American Center is comprised of over 3,600 Members who represent the most distinguished writers, translators, and other professionals in the literary community. PEN also welcomes 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 Free Expression, PEN World Voices Festival, Public Programs, Prison Writing, Literary Awards, Membership, Content and Outreach, 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, 2013 AND 2012

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, if any, 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, 2013 AND 2012

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 are generally subject to examination by taxing authorities for a period of three years from the date of filing.

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 September 15, 2014, the date that the financial statements are considered available to be issued.

k - Prior Year Information

Certain amounts have been reclassified for comparative purposes.

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 for the years ended December 31, 2013 and 2012 of \$14,677 and \$12,105, respectively, were allocated to these reserves.

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

	<u>2013</u>	<u>2012</u>
Board designated reserves	\$207,382	\$199,708
Faith Sale Memorial Fund - Writers' Fund reserves	<u>97,829</u>	<u>83,599</u>
	<u>\$305,211</u>	<u>\$283,307</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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>2013</u>	<u>2012</u>
Temporarily Restricted Endowment Funds		
The Phyllis Reynolds Naylor Working		
Writer Fellowship	\$ 188,918	\$ 169,970
Other awards	<u>313,637</u>	<u>190,491</u>
	502,555	360,461
Grants and contributions for future programs and operations	<u>1,683,901</u>	<u>879,764</u>
	<u>\$2,186,456</u>	<u>\$1,240,225</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:

The Barbara Goldsmith Freedom to Write Award	\$ 35,000
The Arthur Miller Freedom to Write Endowment	47,000
Endowment for Literary Translation	<u>736,480</u>
	<u>\$818,480</u>

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, 2013 AND 2012

Note 4 - Unconditional Promises to Give

Uncollectible promises to give are expected to be insignificant. Unconditional promises to give are due as follows:

	<u>2013</u>	<u>2012</u>
Within one year	\$860,585	\$473,395
In one to five years	<u>60,000</u>	<u>-</u>
	<u>\$920,585</u>	<u>\$473,395</u>

Note 5 - Investments

Investments at December 31, 2013 and 2012, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 259,313	\$ 259,313	\$ 245,831	\$ 245,831
Mutual Funds:				
Fixed income	460,866	439,152	480,071	482,141
Domestic equities	547,103	748,524	565,532	588,431
International equities	145,514	174,197	152,550	157,290
Corporate stock	<u>5,060</u>	<u>5,060</u>	<u>9,952</u>	<u>9,952</u>
	<u>\$1,417,856</u>	<u>\$1,626,246</u>	<u>\$1,453,936</u>	<u>\$1,483,645</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 5 - Investments (continued)

Net investment income for the years ended December 31, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 27,542	\$ 36,425
Realized gain on sale of investments	11,648	1,191
Unrealized gain on investments	<u>178,681</u>	<u>110,868</u>
Total	217,871	148,484
Less: Investment fees	<u>-</u>	<u>(2,295)</u>
Net Investment Income	<u>\$217,871</u>	<u>\$146,189</u>

Net investment income has been allocated as follows:

	<u>2013</u>	<u>2012</u>
Unrestricted		
Operating	\$ 27,435	\$ 15,278
Board designated reserves	14,677	12,105
Endowment recovery, net of amounts appropriated to operations	1,165	69,614
Temporarily restricted	<u>174,594</u>	<u>49,192</u>
	<u>\$217,871</u>	<u>\$146,189</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, 2013 AND 2012

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>2013</u>	<u>2012</u>
Unrestricted	\$ -	\$ (1,165)
Temporarily restricted	502,555	360,461
Permanently restricted	<u>818,480</u>	<u>818,480</u>
Total Endowment Funds	<u>\$1,321,035</u>	<u>\$1,177,776</u>

Changes in endowment funds for the years ended December 31, 2013 and 2012 are summarized as follows:

	<u>2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$ (1,165)	\$360,461	\$818,480	\$1,177,776
Net investment income	28,298	174,594	-	202,892
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	<u>(27,133)</u>	<u>(32,500)</u>	<u>-</u>	<u>(59,633)</u>
Endowment Funds, End of Year	<u>\$ -</u>	<u>\$502,555</u>	<u>\$818,480</u>	<u>\$1,321,035</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 6 - Endowment Funds (continued)

	2012			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</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>

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. These deficiencies resulted from unfavorable market fluctuations, and were fully recovered during 2013.

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, 2013 AND 2012

Note 7 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2013</u>	<u>2012</u>
Leasehold improvements	Life of lease	\$357,369	\$357,369
Furniture, fixtures and equipment	5 years	153,167	148,577
Website	3 years	<u>130,586</u>	<u>130,586</u>
		641,122	636,532
Less: Accumulated depreciation		<u>(532,499)</u>	<u>(442,111)</u>
		<u>\$108,623</u>	<u>\$194,421</u>

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was \$90,388 and \$71,101, respectively.

Note 8 - Defined Contribution Plan

PEN participates in a 403(b) tax deferred annuity plan. For 2012, PEN contributed 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 \$25,465 and \$98,351 for the years ended December 31, 2013 and 2012, respectively.

Note 9 - Commitments and Contingency

a - PEN occupies its office space under a lease which expired March 31, 2014. In 2014 the Organization signed an extension and lease modification agreement, which expires March 31, 2024. PEN's minimum annual obligation under this lease agreement (exclusive of the effect of real estate tax and tenant operating cost escalation clauses) is as follows:

<u>Year Ending December 31,</u>	
2014	\$ 212,090
2015	235,466
2016	242,530
2017	249,806
2018	257,300
Thereafter, through March 31, 2024	1,528,280

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Note 9 - Commitments and Contingency (continued)

a - (continued)

Rent expense for the years ended December 31, 2013 and 2012 was \$156,191 and \$151,985, respectively.

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 - Donated Facilities and Services

The Organization received the following donated facilities and services during 2013:

Event rental space	\$15,000
Professional services	<u>10,000</u>
	<u>\$25,000</u>

Note 11 - 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 supporting services benefited.

SUPPLEMENTARY INFORMATION



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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, 2013 and 2012, and our report thereon dated September 15, 2014, 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, 2013 with comparative totals for 2012 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
September 15, 2014

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	2013											
	Free Expression Programs	PEN World Voices Festival of International Literature	Literary Awards	Public Programs	Content and Outreach	Membership	Branches	Prison Writing	PEN America Journal	Writers Fund	Readers and Writers and Open Book	Total Program Services (carried forward)
Salaries, payroll taxes, employee benefits and payroll service fee	\$ 314,750	\$ 207,132	\$102,331	\$ 89,976	\$107,637	\$ 133,816	\$ 59,973	\$46,216	\$13,727	\$13,785	\$ 30,907	\$1,120,250
Program consultants	58,520	103,683	500	13,270	21,375	550	5,000	5,000	38,600	-	80	246,578
Event and development consultants	-	-	-	8,500	-	-	-	-	-	-	-	8,500
Professional and administrative fees	19,911	7,140	2,820	2,351	5,719	3,823	-	1,410	1,015	470	-	44,659
Rent, insurance and occupancy	47,030	29,958	12,638	10,748	12,231	16,347	-	6,314	4,209	2,105	6,569	148,149
Supplies and office expense	2,701	1,565	782	1,439	4,149	4,275	3,201	279	1,899	93	-	20,383
Telecommunications	10,597	7,348	5,267	17,433	41,634	3,320	2,779	806	7,142	414	-	96,740
Postage and printing	14,793	45,140	11,300	19,062	1,644	13,462	5,723	8,259	1,170	409	221	121,183
Awards, grants and other support	127,475	-	154,482	-	-	-	16,630	2,125	-	35,800	-	336,512
Event and conference expense	19,083	91,942	15,071	89,746	2,621	4,135	13,931	15	11	72	222	236,849
Travel	64,404	48,902	230	22,419	2,022	4,520	4,218	-	112	-	-	146,827
Book purchases and distribution	-	-	-	-	-	-	3,217	-	-	-	-	3,217
Other program expense	10,117	4,116	119	660	574	2,107	2,086	-	-	-	-	19,779
Other administrative expense	3,152	8,292	686	1,913	921	995	409	343	229	114	45	17,099
Depreciation and amortization	20,194	12,863	5,427	4,616	5,252	7,019	-	2,711	1,807	904	2,820	63,613
Total Expenses	712,727	568,081	311,653	282,133	205,779	194,369	117,167	73,478	69,921	54,166	40,864	2,630,338
Less: Depreciation and amortization expense, shown separately in the statement of activities	(20,194)	(12,863)	(5,427)	(4,616)	(5,252)	(7,019)	-	(2,711)	(1,807)	(904)	(2,820)	(63,613)
Total Expenses, included in the expense section of the statement of activities, 2013	<u>\$ 692,533</u>	<u>\$ 555,218</u>	<u>\$306,226</u>	<u>\$277,517</u>	<u>\$200,527</u>	<u>\$ 187,350</u>	<u>\$117,167</u>	<u>\$70,767</u>	<u>\$68,114</u>	<u>\$53,262</u>	<u>\$ 38,044</u>	<u>2,566,725</u>
Total Expenses, included in the expense section of the statement of activities, 2012	<u>\$ 623,941</u>	<u>\$ 550,159</u>	<u>\$317,721</u>	<u>\$ 90,494</u>	<u>\$212,010</u>	<u>\$ 166,517</u>	<u>\$150,146</u>	<u>\$72,838</u>	<u>\$86,833</u>	<u>\$65,815</u>	<u>\$ 149,100</u>	<u>2,485,574</u>

See independent auditors' report on supplementary information.

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2013 WITH COMPARATIVE TOTALS FOR 2012

	2013			Total Expenses	2012	
	Total Program Services (brought forward)	Supporting Services Management and General	Fundraising		Total	Total Expenses
Salaries, payroll taxes, employee benefits, and payroll service fee	\$1,120,250	\$ 152,413	\$ 196,036	\$348,449	\$1,468,699	\$1,566,987
Program consultants	246,578	73,215	10,070	83,285	329,863	300,133
Event and development consultants	8,500	-	45,560	45,560	54,060	34,500
Professional and administrative fees	44,659	12,668	67,997	80,665	125,324	50,757
Rent, insurance and occupancy	148,149	23,779	38,579	62,358	210,507	203,347
Supplies and office expense	20,383	2,878	4,759	7,637	28,020	20,669
Telecommunications	96,740	5,406	7,842	13,248	109,988	80,350
Postage and printing	121,183	3,692	30,878	34,570	155,753	168,451
Awards, grants and other support	336,512	-	-	-	336,512	336,785
Event and conference expense	236,849	3,377	56,172	59,549	296,398	161,813
Travel	146,827	9,999	12,033	22,032	168,859	141,529
Book purchases and distribution	3,217	-	3,741	3,741	6,958	7,425
Other program expense	19,779	3,466	4,635	8,101	27,880	19,418
Other administrative expense	17,099	2,974	3,217	6,191	23,290	22,622
Depreciation and amortization	63,613	10,209	16,566	26,775	90,388	71,101
Total Expenses	2,630,338	304,076	498,085	802,161	3,432,499	3,185,887
Less: Depreciation and amortization expense, shown separately in the statement of activities	(63,613)	(10,209)	(16,566)	(26,775)	(90,388)	(71,101)
Total Expenses, included in the expense section of the statement of activities, 2013	<u>\$2,566,725</u>	<u>\$ 293,867</u>	<u>\$ 481,519</u>	<u>\$775,386</u>	<u>\$3,342,111</u>	
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>

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