

PEN AMERICAN CENTER, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2015 AND 2014

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, 2015 and 2014, 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, 2015 and 2014, 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 6, 2016

PEN AMERICAN CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 3)	\$ 944,579	\$ 1,048,028	\$ -	\$1,992,607	\$ 53,652	\$ 1,256,713	\$ -	\$1,310,365
Accounts receivable	24,166	-	-	24,166	14,724	-	-	14,724
Unconditional promises to give (Notes 1c and 4)	171,244	871,797	-	1,043,041	1,265,162	822,160	-	2,087,322
Prepaid expenses and other current assets	47,878	-	-	47,878	82,059	-	-	82,059
Investments (Notes 1d and 5)	469,895	619,621	818,480	1,907,996	316,762	687,949	818,480	1,823,191
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 7)	16,459	-	-	16,459	44,714	-	-	44,714
Security deposits	59,298	-	-	59,298	57,965	-	-	57,965
Total Assets	\$ 1,733,519	\$ 2,539,446	\$ 818,480	\$5,091,445	\$ 1,835,038	\$ 2,766,822	\$ 818,480	\$5,420,340
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 108,242	\$ -	\$ -	\$ 108,242	\$ 178,666	\$ -	\$ -	\$ 178,666
Salaries and payroll taxes payable	26,862	-	-	26,862	29,416	-	-	29,416
Accrued vacation	43,336	-	-	43,336	30,093	-	-	30,093
Grants payable	83,575	-	-	83,575	90,375	-	-	90,375
Refundable advance (Note 8)	4,722	-	-	4,722	45,133	-	-	45,133
Deferred rent (Note 1f)	59,229	-	-	59,229	25,764	-	-	25,764
Total Liabilities	325,966	-	-	325,966	399,447	-	-	399,447
Commitments and Contingency (Notes 9 and 10)								
Net Assets								
Unrestricted								
Board designated reserves (Note 2a)	1,289,734	-	-	1,289,734	1,290,247	-	-	1,290,247
Other	117,819	-	-	117,819	145,344	-	-	145,344
Temporarily restricted (Notes 2b and 6)	-	2,539,446	-	2,539,446	-	2,766,822	-	2,766,822
Permanently restricted (Notes 2c and 6)	-	-	818,480	818,480	-	-	818,480	818,480
Total Net Assets	1,407,553	2,539,446	818,480	4,765,479	1,435,591	2,766,822	818,480	5,020,893
Total Liabilities and Net Assets	\$ 1,733,519	\$ 2,539,446	\$ 818,480	\$5,091,445	\$ 1,835,038	\$ 2,766,822	\$ 818,480	\$5,420,340

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015			2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support								
Contributions	\$ 1,426,870	\$ 1,339,646	\$ -	\$2,766,516	\$ 1,282,843	\$ 1,746,500	\$ -	\$3,029,343
Fundraising benefit events	1,613,889	-	-	1,613,889	1,441,942	-	-	1,441,942
Less: Direct benefit expenses	(344,244)	-	-	(344,244)	(364,358)	-	-	(364,358)
Donated facilities and services (Note 11)	5,000	-	-	5,000	157,230	-	-	157,230
Membership fees	312,060	-	-	312,060	288,907	-	-	288,907
Ticketing and other sales	116,688	-	-	116,688	134,683	-	-	134,683
Net investment income - operating (Note 5)	93	-	-	93	293	-	-	293
Miscellaneous	52,034	-	-	52,034	18,123	-	-	18,123
Net assets released from restrictions								
Grants and contributions	1,498,694	(1,498,694)	-	-	1,113,365	(1,113,365)	-	-
Refund of prior year grants	-	-	-	-	-	(69,054)	-	(69,054)
Net investment income - endowed awards	60,300	(60,300)	-	-	69,300	(69,300)	-	-
Total Revenue, Gains and Other Support	4,741,384	(219,348)	-	4,522,036	4,142,328	494,781	-	4,637,109
Expenses								
Program Services	3,436,641	-	-	3,436,641	2,844,475	-	-	2,844,475
Supporting Services								
Management and general	336,933	-	-	336,933	416,459	-	-	416,459
Fundraising	967,080	-	-	967,080	880,362	-	-	880,362
Total Expenses Before Depreciation and Amortization	4,740,654	-	-	4,740,654	4,141,296	-	-	4,141,296
Increase (Decrease) in Net Assets Before Depreciation and Amortization, Board Designated Contributions and Net Investment Income	730	(219,348)	-	(218,618)	1,032	494,781	-	495,813
Depreciation and amortization expense	(28,255)	-	-	(28,255)	(83,888)	-	-	(83,888)
Increase (Decrease) in Net Assets Before Net Investment Income and Board Designated Contributions	(27,525)	(219,348)	-	(246,873)	(82,856)	494,781	-	411,925
Board designated contributions (net of donated commission fees of \$229,550) (Notes 2 and 11)	-	-	-	-	978,800	-	-	978,800
Net investment income (loss) (Note 5)	(513)	(8,028)	-	(8,541)	6,236	85,585	-	91,821
Increase (decrease) in net assets	(28,038)	(227,376)	-	(255,414)	902,180	580,366	-	1,482,546
Net assets, beginning of year	1,435,591	2,766,822	818,480	5,020,893	533,411	2,186,456	818,480	3,538,347
Net Assets, End of Year	\$ 1,407,553	\$ 2,539,446	\$ 818,480	\$4,765,479	\$ 1,435,591	\$ 2,766,822	\$ 818,480	\$5,020,893

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (255,414)	\$1,482,546
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	28,255	83,888
Donated securities	(82,553)	(5,313)
Realized (gain) loss on sale of investments	426	(50,341)
Net unrealized (gain) loss on investments	41,567	(11,400)
(Increase) decrease in:		
Accounts receivable	(9,442)	27,740
Unconditional promises to give	1,044,281	(1,166,737)
Prepaid expenses and other current assets	34,181	14,937
Security deposits	(1,333)	(6,845)
Increase (decrease) in:		
Accounts payable and accrued expenses	(70,424)	29,894
Salaries and payroll taxes payable	(2,554)	20,739
Accrued vacation	13,243	3,841
Grants payable	(6,800)	12,750
Refundable advance	(40,411)	45,133
Deferred rent	33,465	20,086
Net Cash Provided By Operating Activities	<u>726,487</u>	<u>500,918</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	-	(19,979)
Purchases of investments	(154,508)	(341,362)
Sales of investments	110,263	211,471
Net Cash Used By Investing Activities	<u>(44,245)</u>	<u>(149,870)</u>
Net increase in cash and cash equivalents	682,242	351,048
Cash and cash equivalents, beginning of year	<u>1,310,365</u>	<u>959,317</u>
Cash and Cash Equivalents, End of Year	<u>\$1,992,607</u>	<u>\$1,310,365</u>

See notes to financial statements.

PEN AMERICAN CENTER, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2015 AND 2014****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

PEN American Center, Inc. ("PEN") is an organization of writers and other literary professionals working to advance literature and defend free expression. PEN stands at the intersection of literature and human rights to protect open expression in the United States and worldwide. PEN champions the freedom to write, recognizing the power of the word to transform the world. PEN's mission is to unite writers and their allies to celebrate creative expression and defend the liberties that make it possible.

PEN is the largest of more than 100 centers of PEN International. For more than 90 years, PEN has been working together with its colleagues in the international PEN community to ensure that people everywhere have the freedom to create literature, to convey information and ideas, to express their views, and to make it possible for everyone to access the views, ideas, and literatures of others. In doing so, PEN is building on a tradition begun in the years following World War I and carried forward by thousands of American writers.

PEN's membership is a nationwide community of more than 4,400 novelists, journalists, editors, poets, essayists, playwrights, publishers, translators, agents, and other professionals, and an even larger network of devoted readers and supporters who join with them to carry out PEN's mission.

PEN's programs reach out to the world and into diverse communities within this country. They promote writing and literature at every level and are founded on the belief that free expression is an essential component of every healthy society. PEN's main programs are Free Expression, PEN World Voices Festival, Public Programs, Prison Writing, Literary Awards, Membership, Content and Outreach, PEN America Journal, PEN Branches, the Translation and Children's/Young Adult Book Committees, and the Writers' Fund.

b - 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, 2015 AND 2014

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 the 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, 2015 AND 2014

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.

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 6, 2016, 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 was established as a board designated reserve. 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.

In addition, during 2014, \$990,800 was raised from an auction of donated historic books, and additional contributed revenue. Of this amount, \$12,000 was allocated to 2014 operations, and the remaining \$978,800 was designated by the Board of Trustees and added to the Board reserves. As of December 31, 2014, this amount was included in unconditional promises to give, and was received in 2015. As of December 31, 2015, this amount is included in cash and investments.

Net investment income (loss) for the years ended December 31, 2015 and 2014 of \$(513) and \$6,236, respectively, was allocated to these reserves.

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

	<u>2015</u>	<u>2014</u>
Board designated reserves	\$1,186,062	\$1,186,016
Faith Sale Memorial Fund - Writers' Fund reserves	<u>103,672</u>	<u>104,231</u>
	<u>\$1,289,734</u>	<u>\$1,290,247</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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>2015</u>	<u>2014</u>
Temporarily Restricted Endowment Funds		
The Phyllis Reynolds Naylor Working Writer Fellowship	\$ 195,085	\$ 201,165
Other awards	<u>424,536</u>	<u>486,784</u>
	619,621	687,949
Grants and contributions for future programs and operations	<u>1,919,825</u>	<u>2,078,873</u>
	<u>\$2,539,446</u>	<u>\$2,766,822</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, 2015 AND 2014

Note 4 - Unconditional Promises to Give

Unconditional promises to give as of December 31 are due as follows:

	<u>2015</u>	<u>2014</u>
Within one year	\$ 826,244	\$2,087,322
In one to five years	<u>230,000</u>	<u>-</u>
	1,056,244	2,087,322
Discount to present value	<u>(13,203)</u>	<u>-</u>
	<u>\$1,043,041</u>	<u>\$2,087,322</u>

Unconditional promises to give due after one year are discounted to net present value using a rate of 3%. Uncollectible promises to give are expected to be insignificant.

Note 5 - Investments

Investments at December 31, 2015 and 2014, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 300,655	\$ 300,655	\$ 279,618	\$ 279,618
Mutual Funds:				
Fixed income	625,325	606,502	609,552	602,479
Domestic equities	545,484	743,076	531,713	746,546
International equities	175,756	175,210	172,357	184,387
Corporate stock	<u>82,553</u>	<u>82,553</u>	<u>10,161</u>	<u>10,161</u>
	<u>\$1,729,773</u>	<u>\$1,907,996</u>	<u>\$1,603,401</u>	<u>\$1,823,191</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 5 - Investments (continued)

Net investment income (loss) for the years ended December 31, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$33,545	\$30,373
Realized gain (loss) on sale of investments	(426)	50,341
Unrealized gain (loss) on investments	<u>(41,567)</u>	<u>11,400</u>
Net Investment Income (Loss)	<u>\$ (8,448)</u>	<u>\$92,114</u>

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

	<u>2015</u>	<u>2014</u>
Unrestricted		
Operating	\$ 93	\$ 293
Board designated reserves	(513)	6,236
Endowment recovery, net of amounts appropriated to operations	-	-
Temporarily restricted	<u>(8,028)</u>	<u>85,585</u>
	<u>\$ (8,448)</u>	<u>\$92,114</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.

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, 2015 AND 2014

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>2015</u>	<u>2014</u>
Temporarily restricted	\$ 619,621	\$ 687,949
Permanently restricted	<u>818,480</u>	<u>818,480</u>
Total Endowment Funds	<u>\$1,438,101</u>	<u>\$1,506,429</u>

Changes in endowment funds for the years ended December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$687,949	\$818,480	\$1,506,429
Net investment loss	(8,028)	-	(8,028)
Appropriation of endowment assets for expenditure	<u>(60,300)</u>	<u>-</u>	<u>(60,300)</u>
Endowment Funds, End of Year	<u>\$619,621</u>	<u>\$818,480</u>	<u>\$1,438,101</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 6 - Endowment Funds (continued)

	2014		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment funds, beginning of year	\$502,555	\$818,480	\$1,321,035
Net investment income	85,585	-	85,585
Contributions	184,363	-	184,363
Refund of prior year grant	(15,254)	-	(15,254)
Appropriation of endowment assets for expenditure	<u>(69,300)</u>	<u>-</u>	<u>(69,300)</u>
Endowment Funds, End of Year	<u>\$687,949</u>	<u>\$818,480</u>	<u>\$1,506,429</u>

The fair value of assets associated with individual donor restricted endowment funds may fall below the level required to be retained as a fund of perpetual duration. There were no deficiencies of this nature reported in unrestricted net assets as of December 31, 2015 and 2014.

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, 2015 AND 2014

Note 7 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2015</u>	<u>2014</u>
Leasehold improvements	Life of lease	\$357,369	\$357,369
Furniture, fixtures and equipment	5 years	173,146	173,146
Website	3 years	<u>130,586</u>	<u>130,586</u>
		661,101	661,101
Less: Accumulated depreciation		<u>(644,642)</u>	<u>(616,387)</u>
		<u>\$ 16,459</u>	<u>\$ 44,714</u>

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was \$28,255 and \$83,888, respectively.

Note 8 - Refundable Advance

The Organization received \$50,000 to establish a restricted earmarked fund account for the purpose of funding certain costs incurred towards the PEN Transaction Digital Publication Project. Under certain circumstances, these funds may be distributed to another organization determined by the funder. As of December 31, 2015 and 2014, respectively, the balance of available funds was \$4,722 and \$45,133.

Note 9 - Defined Contribution Plan

PEN participates in a 403(b) tax deferred annuity plan. PEN contributes 3% of an eligible employee's salary to the plan. Total expense under the plan was \$76,279 and \$64,866 for the years ended December 31, 2015 and 2014, respectively.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 10 - Commitments and Contingency

- a - PEN occupies its office space under a 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>	
2016	\$242,530
2017	249,806
2018	257,300
2019	271,537
2020	281,856
Thereafter, through March 31, 2024	974,885

Rent expense for the years ended December 31, 2015 and 2014 was \$286,015 and \$216,370, respectively.

- b - PEN has entered into an employment contract with an officer through February 2019 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 - Capital expenditures in 2016 related to office renovations are expected to be approximately \$200,000.
- d - Government supported programs are subject to audit by the granting agency.

Note 11 - Donated Facilities and Services

The Organization received the following donated facilities and services years ended December 31:

	<u>2015</u>	<u>2014</u>
Event rental space	\$ -	\$ 15,000
Auction commission fees	-	229,550
Direct benefit event expenses	-	113,443
Professional services	5,000	3,500
Other	-	25,287
	<u>\$5,000</u>	<u>\$386,780</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 12 - 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



LUZ 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, 2015 and 2014, and our report thereon dated September 6, 2016, 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, 2015 with comparative totals for 2014 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 6, 2016

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	2015										
	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	Total Program Services (carried forward)
Salaries, payroll taxes, employee benefits and payroll service fee	\$ 481,037	\$ 323,820	\$ 93,861	\$129,059	\$234,652	\$ 201,801	\$100,901	\$39,891	\$51,624	\$11,733	\$1,668,379
Program consultants	168,134	90,476	4,423	13,314	31,040	17,370	5,230	134	22,473	39	352,633
Event and development consultants	-	-	-	-	-	-	-	-	-	-	-
Professional and administrative fees	13,326	7,518	2,222	4,039	5,325	5,215	2,131	922	1,250	288	42,236
Rent, insurance and occupancy	66,189	44,557	12,915	17,758	32,287	27,767	13,884	5,489	7,103	1,614	229,563
Supplies and office expense	5,399	3,291	977	1,131	5,763	2,539	1,952	349	496	103	22,000
Telephone and information technology	9,731	50,337	2,705	2,853	43,673	3,232	2,155	542	731	249	116,208
Publications, design, printing and postage	18,481	65,137	18,098	4,076	25,418	18,757	10,095	14,754	12,837	195	187,848
Awards, grants and other support	118,319	-	150,050	-	-	-	43,000	1,850	-	56,200	369,419
Event and conference expense	5,877	110,630	16,049	17,740	1,107	24,296	3,207	117	152	108	179,283
Travel	72,046	111,199	1,708	2,863	8,326	13,410	6,367	27	967	8	216,921
Book purchases and distribution	-	136	468	912	44	410	3,561	-	-	-	5,531
Other program expenses	9,648	2,362	960	129	8,978	7,766	373	40	66	12	30,334
Other administrative expenses	4,641	2,876	795	1,075	2,736	1,709	1,580	338	437	99	16,286
Depreciation and amortization	5,792	3,899	1,130	1,554	2,826	2,430	1,215	480	622	141	20,089
Total Expenses	978,620	816,238	306,361	196,503	402,175	326,702	195,651	64,933	98,758	70,789	3,456,730
Less: Depreciation and amortization expense, shown separately in the statement of activities	(5,792)	(3,899)	(1,130)	(1,554)	(2,826)	(2,430)	(1,215)	(480)	(622)	(141)	(20,089)
Total Expenses, included in the expense section of the statement of activities, 2015	<u>\$ 972,828</u>	<u>\$ 812,339</u>	<u>\$305,231</u>	<u>\$194,949</u>	<u>\$399,349</u>	<u>\$ 324,272</u>	<u>\$194,436</u>	<u>\$64,453</u>	<u>\$98,136</u>	<u>\$70,648</u>	<u>3,436,641</u>
Total Expenses, included in the expense section of the statement of activities, 2014	<u>\$ 776,482</u>	<u>\$ 743,313</u>	<u>\$379,154</u>	<u>\$174,219</u>	<u>\$199,826</u>	<u>\$ 216,976</u>	<u>\$130,127</u>	<u>\$63,027</u>	<u>\$97,113</u>	<u>\$64,238</u>	<u>2,844,475</u>

See independent auditors' report on supplementary information.

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015 WITH COMPARATIVE TOTALS FOR 2014

	2015				2014	
	Total Program Services (brought forward)	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries, payroll taxes, employee benefits, and payroll service fee	\$1,668,379	\$ 152,524	\$ 525,621	\$ 678,145	\$2,346,524	\$1,858,310
Program consultants	352,633	2,188	21,643	23,831	376,464	328,889
Event and development consultants	-	-	87,988	87,988	87,988	129,500
Professional and administrative fees	42,236	88,744	36,086	124,830	167,066	203,381
Rent, insurance and occupancy	229,563	20,987	72,324	93,311	322,874	268,350
Supplies and office expense	22,000	10,001	9,873	19,874	41,874	30,754
Telephone and information technology	116,208	3,363	34,093	37,456	153,664	136,111
Publications, design, printing and postage	187,848	8,399	55,011	63,410	251,258	225,120
Awards, grants and other support	369,419	-	-	-	369,419	374,566
Event and conference expense	179,283	4,974	51,991	56,965	236,248	266,140
Travel	216,921	7,486	38,056	45,542	262,463	229,675
Book purchases and distribution	5,531	-	4,540	4,540	10,071	21,031
Other program expenses	30,334	6,707	14,646	21,353	51,687	23,563
Other administrative expenses	16,286	31,560	15,208	46,768	63,054	45,906
Depreciation and amortization	20,089	1,837	6,329	8,166	28,255	83,888
Total Expenses	3,456,730	338,770	973,409	1,312,179	4,768,909	4,225,184
Less: Depreciation and amortization expense, shown separately in the statement of activities	(20,089)	(1,837)	(6,329)	(8,166)	(28,255)	(83,888)
Total Expenses, included in the expense section of the statement of activities, 2015	<u>\$3,436,641</u>	<u>\$ 336,933</u>	<u>\$ 967,080</u>	<u>\$1,304,013</u>	<u>\$4,740,654</u>	
Total Expenses, included in the expense section of the statement of activities, 2014	<u>\$2,844,475</u>	<u>\$ 416,459</u>	<u>\$ 880,362</u>	<u>\$1,296,821</u>		<u>\$4,141,296</u>

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