

PEN AMERICAN CENTER, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, 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, 2014 and 2013, 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
July 29, 2015

PEN AMERICAN CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets								
Cash and cash equivalents (Notes 1b and 3)	\$ 53,652	\$ 1,256,713	\$ -	\$1,310,365	\$ 27,086	\$ 932,231	\$ -	\$ 959,317
Accounts receivable	14,724	-	-	14,724	42,464	-	-	42,464
Unconditional promises to give (Notes 1c and 4)	1,265,162	822,160	-	2,087,322	168,915	751,670	-	920,585
Prepaid expenses and other current assets	82,059	-	-	82,059	96,996	-	-	96,996
Investments (Notes 1d and 5)	316,762	687,949	818,480	1,823,191	305,211	502,555	818,480	1,626,246
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 7)	44,714	-	-	44,714	108,623	-	-	108,623
Security deposits	57,965	-	-	57,965	51,120	-	-	51,120
Total Assets	\$ 1,835,038	\$ 2,766,822	\$ 818,480	\$5,420,340	\$ 800,415	\$ 2,186,456	\$ 818,480	\$3,805,351
Liabilities and Net Assets								
Liabilities								
Accounts payable and accrued expenses	\$ 178,666	\$ -	\$ -	\$ 178,666	\$ 148,772	\$ -	\$ -	\$ 148,772
Salaries and payroll taxes payable	29,416	-	-	29,416	8,677	-	-	8,677
Accrued vacation	30,093	-	-	30,093	26,252	-	-	26,252
Grants payable	90,375	-	-	90,375	77,625	-	-	77,625
Refundable advance (Note 8)	45,133	-	-	45,133	-	-	-	-
Deferred rent (Note 1f)	25,764	-	-	25,764	5,678	-	-	5,678
Total Liabilities	399,447	-	-	399,447	267,004	-	-	267,004
Commitments and Contingency (Notes 9 and 10)								
Net Assets								
Unrestricted								
Board designated reserves (Note 2a)	1,290,247	-	-	1,290,247	305,211	-	-	305,211
Other	145,344	-	-	145,344	228,200	-	-	228,200
Temporarily restricted (Notes 2b and 6)	-	2,766,822	-	2,766,822	-	2,186,456	-	2,186,456
Permanently restricted (Notes 2c and 6)	-	-	818,480	818,480	-	-	818,480	818,480
Total Net Assets	1,435,591	2,766,822	818,480	5,020,893	533,411	2,186,456	818,480	3,538,347
Total Liabilities and Net Assets	\$ 1,835,038	\$ 2,766,822	\$ 818,480	\$5,420,340	\$ 800,415	\$ 2,186,456	\$ 818,480	\$3,805,351

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support from Operations								
Contributions	\$ 1,282,843	\$ 1,746,500	\$ -	\$3,029,343	\$ 1,567,090	\$ 1,199,546	\$ -	\$2,766,636
Fundraising benefit events	1,441,942	-	-	1,441,942	1,294,584	-	-	1,294,584
Less: Direct benefit expenses	(364,358)	-	-	(364,358)	(200,804)	-	-	(200,804)
Donated facilities and services (Note 11)	157,230	-	-	157,230	25,000	-	-	25,000
Membership fees	288,907	-	-	288,907	246,425	-	-	246,425
Ticketing and other sales	134,683	-	-	134,683	158,142	-	-	158,142
Net investment income - operating (Note 5)	293	-	-	293	27,435	-	-	27,435
Miscellaneous	18,123	-	-	18,123	7,822	-	-	7,822
Net assets released from restrictions								
Grants and contributions	1,113,365	(1,113,365)	-	-	395,409	(395,409)	-	-
Refund of prior year grants	-	(69,054)	-	(69,054)	-	-	-	-
Net investment income - endowed awards	69,300	(69,300)	-	-	32,500	(32,500)	-	-
Total Revenue, Gains and Other Support	4,142,328	494,781	-	4,637,109	3,553,603	771,637	-	4,325,240
Expenses								
Program Services	2,844,475	-	-	2,844,475	2,566,725	-	-	2,566,725
Supporting Services								
Management and general	416,459	-	-	416,459	293,867	-	-	293,867
Fundraising	880,362	-	-	880,362	481,519	-	-	481,519
Total Expenses Before Depreciation and Amortization	4,141,296	-	-	4,141,296	3,342,111	-	-	3,342,111
Increase in Net Assets from Operations Before Depreciation and Amortization, Board Designated Contributions and Net Investment Income	1,032	494,781	-	495,813	211,492	771,637	-	983,129
Depreciation and amortization expense	(83,888)	-	-	(83,888)	(90,388)	-	-	(90,388)
Increase (Decrease) in Net Assets Before Net Investment Income	(82,856)	494,781	-	411,925	121,104	771,637	-	892,741
Board designated contributions (net of donated commission fees of \$229,550) (Notes 2 and 11)	978,800	-	-	978,800	-	-	-	-
Net investment income (Note 5)	6,236	85,585	-	91,821	15,842	174,594	-	190,436
Increase in net assets	902,180	580,366	-	1,482,546	136,946	946,231	-	1,083,177
Net assets, beginning of year	533,411	2,186,456	818,480	3,538,347	396,465	1,240,225	818,480	2,455,170
Net Assets, End of Year	\$ 1,435,591	\$ 2,766,822	\$ 818,480	\$5,020,893	\$ 533,411	\$ 2,186,456	\$ 818,480	\$3,538,347

See notes to financial statements.

PEN AMERICAN CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Increase in net assets	\$1,482,546	\$1,083,177
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	83,888	90,388
Donated securities	(5,313)	(153,130)
Gain on sale of investments	(50,341)	(11,648)
Net unrealized gain on investments	(11,400)	(178,681)
(Increase) decrease in:		
Accounts receivable	27,740	(26,680)
Unconditional promises to give	(1,166,737)	(447,190)
Prepaid expenses and other current assets	14,937	(49,893)
Security deposits	(6,845)	(417)
Increase (decrease) in:		
Accounts payable and accrued expenses	29,894	43,595
Salaries and payroll taxes payable	20,739	(902)
Accrued vacation	3,841	11,060
Grants payable	12,750	(3,700)
Refundable advance	45,133	-
Deferred rent	20,086	(21,250)
Net Cash Provided By Operating Activities	<u>500,918</u>	<u>334,729</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	(19,979)	(4,590)
Purchases of investments	(341,362)	(53,833)
Sales of investments	211,471	254,691
Net Cash Provided (Used) By Investing Activities	<u>(149,870)</u>	<u>196,268</u>
Net increase in cash and cash equivalents	351,048	530,997
Cash and cash equivalents, beginning of year	<u>959,317</u>	<u>428,320</u>
Cash and Cash Equivalents, End of Year	<u>\$1,310,365</u>	<u>\$ 959,317</u>

See notes to financial statements.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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, 2014 AND 2013

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, 2014 AND 2013

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 July 29, 2015, 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. 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 June 30, 2014, this amount was included in unconditional promises to give, and was received in 2015.

Net investment income for the years ended December 31, 2014 and 2013 of \$6,236 and \$14,677, respectively, was allocated to these reserves.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 2 - Restrictions on Assets (continued)

a - Board Designated Reserves (continued)

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

	<u>2014</u>	<u>2013</u>
Board designated reserves	\$1,186,016	\$207,382
Faith Sale Memorial Fund - Writers' Fund reserves	<u>104,231</u>	<u>97,829</u>
	<u>\$1,290,247</u>	<u>\$305,211</u>

b - Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Temporarily Restricted Endowment Funds		
The Phyllis Reynolds Naylor Working Writer Fellowship	\$ 201,165	\$ 188,918
Other awards	<u>486,784</u>	<u>313,637</u>
	687,949	502,555
Grants and contributions for future programs and operations	<u>2,078,873</u>	<u>1,683,901</u>
	<u>\$2,766,822</u>	<u>\$2,186,456</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>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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.

Note 4 - Unconditional Promises to Give

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

	<u>2014</u>	<u>2013</u>
Within one year	\$2,087,322	\$860,585
In one to five years	-	60,000
	<u>\$2,087,322</u>	<u>\$920,585</u>

Uncollectible promises to give are expected to be insignificant.

Note 5 - Investments

Investments at December 31, 2014 and 2013, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 279,618	\$ 279,618	\$ 259,313	\$ 259,313
Mutual Funds:				
Fixed income	609,552	602,479	460,866	439,152
Domestic equities	531,713	746,546	547,103	748,524
International equities	172,357	184,387	145,514	174,197
Corporate stock	<u>10,161</u>	<u>10,161</u>	<u>5,060</u>	<u>5,060</u>
	<u>\$1,603,401</u>	<u>\$1,823,191</u>	<u>\$1,417,856</u>	<u>\$1,626,246</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 5 - Investments (continued)

Net investment income for the years ended December 31, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$30,373	\$ 27,542
Realized gain on sale of investments	50,341	11,648
Unrealized gain on investments	<u>11,400</u>	<u>178,681</u>
Net Investment Income	<u>\$92,114</u>	<u>\$217,871</u>

Net investment income has been allocated as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted		
Operating	\$ 293	\$ 27,435
Board designated reserves	6,236	14,677
Endowment recovery, net of amounts appropriated to operations	-	1,165
Temporarily restricted	<u>85,585</u>	<u>174,594</u>
	<u>\$92,114</u>	<u>\$217,871</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, 2014 AND 2013

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>2014</u>	<u>2013</u>
Temporarily restricted	\$ 687,949	\$ 502,555
Permanently restricted	<u>818,480</u>	<u>818,480</u>
Total Endowment Funds	<u>\$1,506,429</u>	<u>\$1,321,035</u>

Changes in endowment funds for the years ended December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>		
	<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>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 6 - Endowment Funds (continued)

	2013			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment funds, beginning of year	\$ (1,165)	\$360,461	\$818,480	\$1,177,776
Net investment income	28,298	174,594	-	202,892
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>

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, 2014 AND 2013

Note 7 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2014</u>	<u>2013</u>
Leasehold improvements	Life of lease	\$357,369	\$357,369
Furniture, fixtures and equipment	5 years	173,146	153,167
Website	3 years	<u>130,586</u>	<u>130,586</u>
		661,101	641,122
Less: Accumulated depreciation		<u>(616,387)</u>	<u>(532,499)</u>
		<u>\$ 44,714</u>	<u>\$108,623</u>

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was \$83,888 and \$90,388, 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, 2014, the balance of available funds was \$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 \$64,866 and \$25,465 for the years ended December 31, 2014 and 2013, respectively.

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Note 10 - 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>	
2015	\$ 235,466
2016	242,530
2017	249,806
2018	257,300
2019	271,537
Thereafter, through March 31, 2024	1,256,741

Rent expense for the years ended December 31, 2014 and 2013 was \$216,370 and \$156,191, 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 11 - Donated Facilities and Services

The Organization received the following donated facilities and services during 2014:

	<u>2014</u>	<u>2013</u>
Event rental space	\$ 15,000	\$15,000
Auction commission fees	229,550	-
Direct benefit event expenses	113,443	-
Professional services	3,500	10,000
Other	<u>25,287</u>	<u>-</u>
	<u>\$386,780</u>	<u>\$25,000</u>

PEN AMERICAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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, 2014 and 2013, and our report thereon dated July 29, 2015, 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, 2014 with comparative totals for 2013 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
July 29, 2015

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014 WITH COMPARATIVE TOTALS FOR 2013

	2014											
	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	\$ 379,165	\$ 246,399	\$110,857	\$108,993	\$ 91,284	\$ 141,605	\$ 61,754	\$44,074	\$49,862	\$12,396	\$ -	\$1,246,389
Program consultants	73,077	88,346	5,000	10,950	17,377	2,560	7,595	-	23,970	-	-	228,875
Event and development consultants	-	-	-	-	-	-	-	-	-	-	-	-
Professional and administrative fees	40,707	41,859	2,515	3,021	3,736	4,426	880	922	1,097	412	-	99,575
Rent, insurance and occupancy	57,629	37,171	16,901	16,910	19,801	20,750	-	6,423	7,172	2,662	-	185,419
Supplies and office expense	5,339	4,199	1,103	1,050	3,400	2,943	1,124	810	446	131	-	20,545
Telephone and information technology	18,196	9,758	4,404	5,964	51,811	3,249	338	596	917	382	-	95,615
Publications, design, printing and postage	10,119	54,381	17,854	6,914	4,017	16,922	8,190	6,778	12,715	447	-	138,337
Awards, grants and other support	109,927	-	206,500	-	-	-	7,186	2,350	-	47,350	-	373,313
Event and conference expense	3,530	150,380	11,297	16,584	1,515	10,689	13,404	85	85	90	-	207,659
Travel	70,837	96,620	549	2,290	4,803	10,064	23,787	325	-	-	-	209,275
Book purchases and distribution	-	-	-	-	-	-	2,892	-	-	-	-	2,892
Other program expenses	2,361	5,037	611	105	89	1,765	1,785	-	185	125	-	12,063
Other administrative expenses	5,595	9,163	1,563	1,438	1,993	2,003	1,192	664	664	243	-	24,518
Depreciation and amortization	18,015	11,620	5,283	5,286	6,190	6,487	-	2,008	2,242	832	-	57,963
Total Expenses	794,497	754,933	384,437	179,505	206,016	223,463	130,127	65,035	99,355	65,070	-	2,902,438
Less: Depreciation and amortization expense, shown separately in the statement of activities	(18,015)	(11,620)	(5,283)	(5,286)	(6,190)	(6,487)	-	(2,008)	(2,242)	(832)	-	(57,963)
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>\$ -</u>	<u>2,844,475</u>
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>

See independent auditors' report on supplementary information.

PEN AMERICAN CENTER, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014 WITH COMPARATIVE TOTALS FOR 2013

	2014			Total Expenses	2013	
	Total Program Services (brought forward)	Supporting Services Management and General	Fundraising		Total	Total Expenses
Salaries, payroll taxes, employee benefits, and payroll service fee	\$1,246,389	\$ 264,858	\$ 347,061	\$611,919	\$1,858,308	\$1,468,699
Program consultants	228,875	18,285	81,728	100,013	328,888	329,863
Event and development consultants	-	-	129,500	129,500	129,500	54,060
Professional and administrative fees	99,575	61,639	42,168	103,807	203,382	125,324
Rent, insurance and occupancy	185,419	30,765	52,166	82,931	268,350	210,507
Supplies and office expense	20,545	3,982	6,229	10,211	30,756	28,020
Telephone and information technology	95,615	5,806	34,690	40,496	136,111	109,988
Publications, design, printing and postage	138,337	3,854	82,928	86,782	225,119	155,753
Awards, grants and other support	373,313	-	1,252	1,252	374,565	336,512
Event and conference expense	207,659	4,993	53,489	58,482	266,141	296,398
Travel	209,275	3,504	16,897	20,401	229,676	168,859
Book purchases and distribution	2,892	-	18,139	18,139	21,031	6,958
Other program expenses	12,063	3,839	7,655	11,494	23,557	27,880
Other administrative expenses	24,518	14,934	6,460	21,394	45,912	23,290
Depreciation and amortization	57,963	9,618	16,307	25,925	83,888	90,388
Total Expenses	2,902,438	426,077	896,669	1,322,746	4,225,184	3,432,499
Less: Depreciation and amortization expense, shown separately in the statement of activities	(57,963)	(9,618)	(16,307)	(25,925)	(83,888)	(90,388)
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>	
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>

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