

PEN AMERICAN CENTER, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



LUTZ AND GARR
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of PEN American Center, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PEN American Center, Inc. as of December 31, 2022 and 2021 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PEN American Center, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PEN American Center, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PEN American Center, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PEN American Center, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Lotz + Carr, LLP

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents (Notes 1c and 4a)	\$ 2,046,599	\$ 7,178,931	\$ 9,225,530	\$ 5,635,584	\$ 5,915,660	\$11,551,244
Contributions receivable (Notes 1d, 4b and 5)	469,723	18,953,889	19,423,612	292,639	12,814,340	13,106,979
Prepaid expenses and other current assets	158,418	-	158,418	122,488	-	122,488
Investments (Notes 1e, 6 and 7)	13,466,296	2,322,096	15,788,392	9,892,012	2,028,621	11,920,633
Operating lease right-of-use asset (Notes 1f, 1p and 8)	761,562	-	761,562	-	-	-
Property and equipment, at cost, net of accumulated depreciation and amortization (Notes 1g and 9)	185,055	-	185,055	151,827	-	151,827
Security deposits	181,341	-	181,341	172,210	-	172,210
Total Assets	<u>\$17,268,994</u>	<u>\$28,454,916</u>	<u>\$45,723,910</u>	<u>\$16,266,760</u>	<u>\$20,758,621</u>	<u>\$37,025,381</u>
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 389,902	\$ -	\$ 389,902	\$ 295,376	\$ -	\$ 295,376
Accrued vacation	219,502	-	219,502	195,844	-	195,844
Operating lease liability (Notes 1f, 1p and 8)	805,891	-	805,891	-	-	-
Deferred revenue (Note 1h)	135,735	-	135,735	105,913	-	105,913
Grants payable (Note 1i)	275,515	-	275,515	109,651	-	109,651
Refundable advances (Notes 1j and 5)	109,538	-	109,538	100,000	-	100,000
Deferred rent (Note 1f)	-	-	-	45,170	-	45,170
Total Liabilities	<u>1,936,083</u>	<u>-</u>	<u>1,936,083</u>	<u>851,954</u>	<u>-</u>	<u>851,954</u>
Commitments and Contingencies (Notes 10 and 13)						
Net Assets						
Without Donor Restrictions (Note 3a)						
Board designated	9,749,730	-	9,749,730	11,114,072	-	11,114,072
Other	5,583,181	-	5,583,181	4,300,734	-	4,300,734
With Donor Restrictions (Note 3b)	-	28,454,916	28,454,916	-	20,758,621	20,758,621
Total Net Assets	<u>15,332,911</u>	<u>28,454,916</u>	<u>43,787,827</u>	<u>15,414,806</u>	<u>20,758,621</u>	<u>36,173,427</u>
Total Liabilities and Net Assets	<u>\$17,268,994</u>	<u>\$28,454,916</u>	<u>\$45,723,910</u>	<u>\$16,266,760</u>	<u>\$20,758,621</u>	<u>\$37,025,381</u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support						
Contributions (Notes 4b and 5)	\$ 5,120,052	\$ 7,106,869	\$12,226,921	\$ 6,556,618	\$ 6,315,258	\$12,871,876
Return of prior year grant funds	-	-	-	-	(60,954)	(60,954)
Fundraising benefit events	2,298,948	-	2,298,948	2,792,326	-	2,792,326
Less: Direct benefit expenses	(621,435)	-	(621,435)	(373,678)	-	(373,678)
Loan forgiveness - Paycheck Protection Program (Note 11)	-	-	-	880,156	-	880,156
Donated services (Note 12)	192,512	-	192,512	105,762	-	105,762
Membership income	235,197	-	235,197	342,595	-	342,595
Ticketing and other sales	141,942	-	141,942	113,936	-	113,936
Net investment income (loss) - operating (Note 6)	(315,782)	-	(315,782)	542	-	542
Other income	204,442	-	204,442	138,538	-	138,538
Net assets released from restrictions and appropriations						
Grants and contributions	5,257,624	(5,257,624)	-	4,433,860	(4,433,860)	-
Accumulated investment income - endowed awards	101,159	(101,159)	-	96,114	(96,114)	-
Appropriations from Centenary Campaign (Note 3)	2,700,000	-	2,700,000	-	-	-
Appropriations from board designated reserve (Note 3)	2,592,156	-	2,592,156	-	-	-
Total Revenue, Gains and Other Support	17,906,815	1,748,086	19,654,901	15,086,769	1,724,330	16,811,099
Expenses						
Program Services	11,264,856	-	11,264,856	7,498,578	-	7,498,578
Supporting Services						
Management and general	2,818,545	-	2,818,545	1,760,565	-	1,760,565
Fundraising	2,540,967	-	2,540,967	1,629,925	-	1,629,925
Total Expenses	16,624,368	-	16,624,368	10,889,068	-	10,889,068
Increase in Net Assets Before Items Below	1,282,447	1,748,086	3,030,533	4,197,701	1,724,330	5,922,031
Centenary Campaign contributions (Note 3)	2,416,188	8,350,169	10,766,357	2,720,238	9,267,523	11,987,761
Centenary Campaign - releases from restrictions (Note 3)	2,100,000	(2,100,000)	-	-	-	-
Appropriation to operations from Centenary Campaign (Note 3)	(2,700,000)	-	(2,700,000)	-	-	-
Appropriation to operations from board designated reserve (Note 3)	(2,592,156)	-	(2,592,156)	-	-	-
Net investment income (loss) - endowments and reserves (Notes 6 and 7)	(588,374)	(301,960)	(890,334)	208,458	243,168	451,626
Increase (decrease) in net assets	(81,895)	7,696,295	7,614,400	7,126,397	11,235,021	18,361,418
Net assets, beginning of year	15,414,806	20,758,621	36,173,427	8,288,409	9,523,600	17,812,009
Net Assets, End of Year	\$15,332,911	\$28,454,916	\$43,787,827	\$15,414,806	\$20,758,621	\$36,173,427

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022 WITH COMPARATIVE TOTALS FOR 2021

	2022								2021	
	Program Services					Supporting Services			Total Expenses	Total Expenses
	Free Expression Programs	Literary and Festival	National	Communications	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Salaries, payroll taxes, employee benefits and payroll service fee	\$2,860,108	\$1,340,315	\$ 912,201	\$ 566,423	\$ 5,679,047	\$ 1,355,958	\$ 1,183,067	\$2,539,025	\$ 8,218,072	\$ 5,825,532
Program consultants	1,106,301	522,536	137,155	249,248	2,015,240	24,134	169,710	193,844	2,209,084	1,091,076
Event and development consultants	-	-	-	-	-	-	519,204	519,204	519,204	361,869
Professional and administrative fees	97,140	3,351	45	363	100,899	592,432	46,588	639,020	739,919	507,965
Occupancy and insurance costs	283,715	129,919	99,040	60,014	572,688	120,810	118,856	239,666	812,354	518,141
Supplies and office expense	8,544	12,296	3,299	4,864	29,003	134,736	2,327	137,063	166,066	133,621
Telephone and information technology	33,708	49,225	11,215	132,358	226,506	8,784	4,142	12,926	239,432	281,922
Publications, design, printing and postage	35,937	128,612	31,357	16,205	212,111	7,607	93,599	101,206	313,317	200,519
Awards, grants and other support	611,365	339,449	225,657	-	1,176,471	-	-	-	1,176,471	963,503
Event and conference expense	12,457	270,319	10,141	-	292,917	5,731	276,842	282,573	575,490	220,929
Travel	413,063	172,174	46,171	1,836	633,244	78,815	56,922	135,737	768,981	141,153
Book purchases and distribution	1,060	134,222	1,914	-	137,196	1,048	226	1,274	138,470	18,527
Other program expenses	53,100	13,701	45,515	2,641	114,957	48,919	13,783	62,702	177,659	178,881
Other administrative expenses	4,512	5,758	9,642	-	19,912	53,218	44,343	97,561	117,473	106,618
Bad debt expense	-	-	-	-	-	373,334	-	373,334	373,334	264,167
Depreciation and amortization	27,459	12,868	8,900	5,438	54,665	13,019	11,358	24,377	79,042	74,645
Total Expenses, 2022	<u>\$5,548,469</u>	<u>\$3,134,745</u>	<u>\$1,542,252</u>	<u>\$ 1,039,390</u>	<u>\$11,264,856</u>	<u>\$ 2,818,545</u>	<u>\$ 2,540,967</u>	<u>\$5,359,512</u>	<u>\$16,624,368</u>	
Total Expenses, 2021	<u>\$3,365,646</u>	<u>\$2,232,057</u>	<u>\$1,111,852</u>	<u>\$ 789,023</u>	<u>\$ 7,498,578</u>	<u>\$ 1,760,565</u>	<u>\$ 1,629,925</u>	<u>\$3,390,490</u>		<u>\$10,889,068</u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

	Program Services					Supporting Services			Total Expenses
	Free Expression Programs	Literary and Festival	National	Communications	Total	Management and General	Fundraising	Total	
Salaries, payroll taxes, employee benefits and payroll service fee	\$1,881,527	\$ 957,125	\$ 745,993	\$ 618,800	\$4,203,445	\$ 725,732	\$ 896,355	\$1,622,087	\$ 5,825,532
Program consultants	572,558	298,953	59,935	11,413	942,859	-	148,217	148,217	1,091,076
Event and development consultants	-	-	-	-	-	-	361,869	361,869	361,869
Professional and administrative fees	54,750	3,494	2,488	-	60,732	442,600	4,633	447,233	507,965
Occupancy and insurance costs	155,074	80,889	64,377	50,899	351,239	93,662	73,240	166,902	518,141
Supplies and office expense	9,149	6,240	1,473	4,340	21,202	110,787	1,632	112,419	133,621
Telephone and information technology	128,314	33,946	16,754	86,275	265,289	13,792	2,841	16,633	281,922
Publications, design, printing and postage	46,613	72,808	21,036	6,662	147,119	9,831	43,569	53,400	200,519
Awards, grants and other support	411,089	495,306	57,108	-	963,503	-	-	-	963,503
Event and conference expense	424	177,293	28,473	-	206,190	7,797	6,942	14,739	220,929
Travel	28,405	16,529	23,804	880	69,618	56,048	15,487	71,535	141,153
Book purchases and distribution	589	16,437	1,376	-	18,402	32	93	125	18,527
Other program expenses	46,603	49,663	66,025	1,849	164,140	5,976	8,765	14,741	178,881
Other administrative expenses	6,515	11,147	13,254	-	30,916	20,871	54,831	75,702	106,618
Bad debt expense	-	-	-	-	-	264,167	-	264,167	264,167
Depreciation and amortization	24,036	12,227	9,756	7,905	53,924	9,270	11,451	20,721	74,645
Total Expenses	<u>\$3,365,646</u>	<u>\$2,232,057</u>	<u>\$1,111,852</u>	<u>\$ 789,023</u>	<u>\$7,498,578</u>	<u>\$ 1,760,565</u>	<u>\$ 1,629,925</u>	<u>\$3,390,490</u>	<u>\$10,889,068</u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 7,614,400	\$18,361,418
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Non-cash operating lease expense	603,721	-
Depreciation and amortization	79,042	74,645
Bad debt expense	373,334	264,167
Contributions restricted to endowment	(250,000)	(821,581)
Realized gain on sale of investments	(296,276)	(38,352)
Unrealized (gain) loss on sale of investments	1,701,454	(156,494)
(Increase) decrease in:		
Contributions receivable	(6,689,967)	(8,905,990)
Prepaid expenses and other current assets	(35,930)	77,164
Security deposits	(9,131)	(65,697)
Increase (decrease) in:		
Accounts payable and accrued expenses	94,526	41,294
Operating lease liability	(604,562)	-
Accrued vacation	23,658	(94,747)
Deferred revenue	29,822	(62,037)
Grants payable	165,864	9,570
Refundable advance	9,538	100,000
Deferred rent	-	(41,382)
Net Cash Provided By Operating Activities	<u>2,809,493</u>	<u>8,741,978</u>
Cash Flows From Investing Activities		
Purchases of investments	(18,538,655)	(3,778,219)
Sales of investments	13,265,718	157,182
Acquisition of property and equipment	(112,270)	(18,885)
Net Cash Used By Investing Activities	<u>(5,385,207)</u>	<u>(3,639,922)</u>
Cash Flows From Financing Activities		
Collection of contributions restricted to endowment	<u>250,000</u>	<u>821,581</u>
Net increase (decrease) in cash and cash equivalents	(2,325,714)	5,923,637
Cash and cash equivalents, beginning of year	<u>11,551,244</u>	<u>5,627,607</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,225,530</u></u>	<u><u>\$11,551,244</u></u>
Supplemental disclosure of non-cash investing activities:		
Operating lease right-of-use asset obtained in exchange for lease liability	<u><u>\$ 1,365,283</u></u>	<u><u>\$ -</u></u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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 one-hundred 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 - Principles of Consolidation

The accompanying consolidated financial statements include the accounts of PEN American Center, Inc. and its wholly owned subsidiary PEN America Los Angeles ("PEN LA"). All significant intercompany transactions have been eliminated in consolidation.

c - Cash and Cash Equivalents

For purposes of the statement of cash flows, PEN considers all 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.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

d - Contributions

Contributions are recognized when the donor makes a promise to give to PEN, that is in substance, unconditional. Conditional promises to give, that is, those with a measurable performance-related or other barrier and right of return of assets transferred or release of a promisor's obligation to transfer assets in the future, are not recognized until the conditions on which they depend have been met.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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

e - Investments

PEN reflects investments at fair value in the consolidated statements of financial position. Interest, dividends, and realized and unrealized gains and losses on investments are reflected in the consolidated statements of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income and losses restricted by the donor are reported as increases and decreases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the income or losses are recognized. All other donor restricted gains and losses and other investment income and losses are reported as increases and decreases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Accounting principles generally accepted in the United States of America ("GAAP") 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.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

f - Operating Lease Right-of-Use Asset and Operating Lease Liability

For leases with an initial term greater than twelve months, PEN's operating lease liability is initially recorded at the present value of the unpaid lease payments as of January 1, 2022. PEN's operating lease right-of-use asset is initially recorded at the carrying amount of the lease liability adjusted for initial direct costs, accruals, prepayments, and lease incentives, if any. Operating lease expense is recognized on a straight-line basis over the lease term.

For 2021, rent expense is recorded on a straight-line basis over the life of the lease. The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements.

g - Property and Equipment

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

h - Revenue Recognition

PEN has multiple revenue streams that are accounted for as exchange transactions, including membership subscriptions, ticket sales, and other earned revenue. PEN recognizes revenue at the point or over the period during which it satisfies the related performance obligations.

Professional and reader memberships are collected at the commencement of the one-year membership period and provide the members with various benefits during the period of their membership. Accordingly, membership revenue is deferred when received, and recognized as revenue over the applicable membership period.

Ticket sales are generally collected prior to the date of the event and is recorded as revenue during the period of the event. Ticket sales related to events taking place in future periods are recorded as deferred income.

Other earned revenue, including submission fees, workshops, and other sales, are recognized in the period that the related goods or services are provided.

i - Grant Expense

Grants are accrued at the time authorized and awarded.

j - Refundable Advances

Amounts received for PEN's fundraising benefit event in advance are recorded and refundable advances until the event takes place, at which time they are recognized as contribution revenue.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

j - Refundable Advances (continued)

Amounts received for conditional grants prior to performance requirements or other conditions being met are also recorded as refundable advances. When the respective conditions are met, contribution revenue is recognized.

k - Financial Statement Presentation

The consolidated financial statements of PEN have been prepared in accordance with GAAP, which require PEN to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of PEN. These net assets may be used at the discretion of PEN's management and Board of Trustees.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of PEN or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

l - Functional Allocation of Expenses

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses are applied directly to programs where applicable or allocated on a reasonable and consistent basis. A substantial portion of PEN's expenses are directly related to program activities. The expenses that are allocated include depreciation and amortization, interest, insurance, general office expenses, and occupancy costs, which are allocated based on employee time and effort.

m - Tax Status

PEN American Center, Inc. and PEN America Los Angeles are not-for-profit corporations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and have been designated as organizations which are not private foundations.

n - Estimates

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

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

o - Subsequent Events

PEN has evaluated subsequent events through June 13, 2023, the date that the financial statements are considered available to be issued.

p - New Accounting Standards

During 2022, PEN adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard did not have a significant impact on the financial statements, with the exception of increased disclosure.

PEN also adopted FASB ASU 2016-02, *Leases* ("Topic 842"). The core principles of ASU 2016-02 change the way organizations account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. As such, results for 2022 are presented under Topic 842, while results for 2021 continue to be reported in accordance with historical accounting practices. The adoption of Topic 842 did not have a significant impact on PEN's net assets as of January 1, 2022.

As part of the adoption of Topic 842, PEN elected to apply the modified retrospective transition approach as of the date of initial application, without restating comparative period financial statements, to use a risk-free rate, equal to the two-year Treasury Bill rate for the discount of the operating lease and also elected to apply the practical expedients which allows PEN to not reassess (i) whether any expired or existing contracts are leases or contain leases (ii) the lease classification for any expired or existing leases (iii) initial direct costs for any existing leases.

Note 2 - Information Regarding Liquidity and Availability

PEN manages a balanced budget each fiscal year attributable to annual revenues necessary to meet the cash needs of the organization's future expenditures. The annual revenue consists mainly of contribution revenue raised along with other sources earned during the current year. General expenditures are comprised of expenses related to ongoing program projects, general and administrative expenses, and fundraising activities created to support these projects.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 2 - Information Regarding Liquidity and Availability (continued)

PEN manages its liquidity regularly with a policy structured to ensure it adheres to its operating needs and other commitments and obligations while simultaneously maximizing its investments of excess available funds. PEN maintains liquid financial assets on an ongoing basis sufficient to cover 120 days of general expenditures. The organization has a policy structured to have management regularly prepare cash flow projections determining its liquidity needs. In addition, as part of its liquidity management, PEN invests financial assets in excess of daily requirements in money market funds and various short-term investments.

PEN's financial assets as of December 31, 2022 and 2021, and those available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2022</u>	<u>2021</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 9,225,530	\$11,551,244
Contributions receivable	19,423,612	13,106,979
Investments	15,788,392	11,920,633
Accrued interest (included in prepaid expenses and other assets)	<u>18,604</u>	<u>-</u>
Total Financial Assets	44,456,138	36,578,856
Less: Amounts not Available to be Used within One Year:		
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(25,757,833)	(17,908,419)
Plus: Net assets with donor restrictions expected to be met in less than one year	10,301,822	7,972,041
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(2,697,083)	(2,850,202)
Plus: Amounts appropriated for use within one year	61,586	88,000
Board designated reserves	(9,749,730)	(11,114,072)
Plus: Amounts appropriated for use within one year	<u>736,000</u>	<u>-</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$17,350,900</u>	<u>\$12,766,204</u>

In addition to these financial assets available within one year, PEN's board designated reserve could be made available at any time to meet cash needs for general expenditures at the discretion of the board.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 3 - Net Assetsa - Net Assets Without Donor Restrictions

At December 31, board designated net assets are summarized as follows:

	<u>2022</u>	<u>2021</u>
Board designated reserves	\$5,073,774	\$ 8,230,769
Faith Sale Memorial Fund - Writers' Fund reserves	139,530	163,065
Centenary Campaign (Note 3b)	<u>4,536,426</u>	<u>2,720,238</u>
	<u>\$9,749,730</u>	<u>\$11,114,072</u>

Board Designated Reserves and Faith Sale Memorial Fund

A portion of PEN's investment portfolio without donor restrictions was established as a board designated reserve in prior years, and specific amounts have been added to the reserve at the discretion of the Board of Trustees. 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.

During 2022, the Board appropriated \$2,592,156 for use in operations from the board designated reserve. During 2021, the Board added \$4,340,156 to the board designated reserve.

Net investment income (loss) for the years ended December 31, 2022 and 2021 of \$(588,374) and \$208,458, respectively, was allocated to these reserves.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 3 - Net Assets (continued)b - Net Assets with Donor Restrictions

Net assets with donor restrictions are designated for future programs and periods as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Free expression	\$ 8,143,203	\$ 4,379,771
Literary awards	2,643,820	4,039,221
Centenary Campaign for various programs	2,035,000	-
Less: discount to present value	(156,633)	-
Branches	324,725	571,000
Centenary exhibition	-	100,000
	<u>12,990,115</u>	<u>9,089,992</u>
Subject to expenditure for specified periods		
Centenary Campaign	13,400,000	8,975,000
Less: discount to present value	(832,256)	(529,058)
General	199,974	372,485
	<u>12,767,718</u>	<u>8,818,427</u>
Total subject to expenditure for specified purpose or periods	<u>25,757,833</u>	<u>17,908,419</u>
Endowments subject to spending policy and appropriation:		
Investment income above (below) original gift amount:		
The Phyllis Reynolds Naylor Working Writer Fellowship	231,404	278,768
Other awards	608,646	931,373
Centenary endowment	(33,028)	-
	<u>807,022</u>	<u>1,210,141</u>
Investment in perpetuity:		
The Barbara Goldsmith Freedom to Write Award	35,000	35,000
The Arthur Miller Freedom to Write Endowment	47,000	47,000
Endowment for Literary Translation	736,480	736,480
Endowment for Centenary	1,071,581	821,581
	<u>1,890,061</u>	<u>1,640,061</u>
Total Endowments	<u>2,697,083</u>	<u>2,850,202</u>
Total Net Assets With Donor Restrictions	<u>\$28,454,916</u>	<u>\$20,758,621</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 3 - Net Assets (continued)**b - Net Assets with Donor Restrictions (continued)**Centenary Campaign

During the year ended December 31, 2021, PEN established the Centenary Campaign (the "Campaign"). The Campaign includes contributions without donor restrictions raised to scale and increase the longevity PEN's mission to defend human rights, free speech and open discourse, as well as to establish an endowment to support the ongoing operations of PEN.

The Campaign includes multiyear pledges available for expenditure and other purposes of the Campaign, as well as endowment contributions and program support with donor restrictions to support PEN's ongoing activities.

Cumulative contributions towards the Campaign recognized during the years ended December 31, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>	<u>Cumulative Total</u>
Without donor restrictions	\$ 2,416,188	\$ 2,720,238	\$ 5,136,426
With donor restrictions:			
Pledges for future periods	4,550,000	8,975,000	13,525,000
Restricted for specified purposes	4,010,000	-	4,010,000
Restricted for permanent endowment	<u>250,000</u>	<u>821,581</u>	<u>1,071,581</u>
	11,226,188	12,516,819	23,743,007
Less: discount to present value	<u>(459,831)</u>	<u>(529,058)</u>	<u>(988,889)</u>
	<u>\$10,766,357</u>	<u>\$11,987,761</u>	<u>\$22,754,118</u>

Note 4 - Concentrations

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

b - At December 31, 2022, approximately 40% of contributions receivable were from two donors, and at December 31, 2021, 58% of contributions receivable was from one donor.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 4 - Concentrations (continued)

b - (continued)

During the year ended December 31 2022, PEN received approximately 11% of its contributions from one donor, and during the year ended December 31, 2021, PEN received approximately 37% of its contributions from another donor.

Note 5 - Contributions Receivable and Refundable Advances

Contributions receivable as of December 31 are due as follows:

	<u>2022</u>	<u>2021</u>
Within one year	\$ 7,712,034	\$ 5,462,880
In one to five years	12,115,666	8,111,000
In six to ten years	<u>700,000</u>	<u>250,000</u>
	20,527,700	13,823,880
Discount to present value	<u>(1,104,088)</u>	<u>(716,901)</u>
	<u>\$19,423,612</u>	<u>\$13,106,979</u>

Contributions receivable due after one year are discounted to net present value using a rate of 3%. Uncollectible contributions receivable are expected to be insignificant.

During the years ended December 31, 2022 and 2021, PEN received pledges for future fundraising events and cost-reimbursable federal grants which are conditioned upon certain performance requirements. Amounts received are recognized as revenue when the fundraising event takes place or expenditures are incurred in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

PEN received cost reimbursable grants totaling \$1,000,000. \$900,231 of the grants have not been recognized as qualifying expenses have not been incurred and \$9,538 was received and recorded as a refundable advance as of December 31, 2022. \$100,000 was also received for a future fundraising event and is included as a refundable advance as of December 31, 2022.

As of December 31, 2022, \$15,975,000 in pledges for the Centenary Campaign and future fundraising events have not yet been received or recognized in the accompanying financial statements as the events or conditions on receiving the contributions have not been met.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 6 - Investments

Investments at December 31, 2022 and 2021 are reflected at fair value and consist of the following:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 3,983,134	\$ 3,983,134	\$ 3,858,896	\$ 3,858,896
Domestic equities	3,987,727	3,826,120	-	-
International equities	1,449,319	1,184,612	-	-
U.S. Treasuries and bonds	2,874,383	2,756,122	-	-
Corporate bonds:				
Domestic	2,951,789	2,807,239	-	-
International	1,192,626	1,067,697	-	-
REITs	205,570	163,468	-	-
Mutual Funds:				
Fixed income	-	-	6,619,283	6,682,035
Domestic equities	-	-	459,539	1,198,744
International equities	-	-	137,617	180,958
	<u>\$16,644,548</u>	<u>\$15,788,392</u>	<u>\$11,075,335</u>	<u>\$11,920,633</u>

The following summarizes PEN's investments by the levels within the fair value hierarchy used to measure their respective fair values at December 31:

	2022			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 3,983,134	\$3,983,134	\$ -	\$ -
Domestic equities	3,826,120	3,826,120	-	-
International equities	1,184,612	1,184,612	-	-
U.S. Treasuries and bonds	2,756,122	-	2,756,122	-
Corporate bonds:				
Domestic	2,807,239	-	2,807,239	-
International	1,067,697	-	1,067,697	-
REITs	163,468	163,468	-	-
	<u>\$15,788,392</u>	<u>\$9,157,334</u>	<u>\$6,631,058</u>	<u>\$ -</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 6 - Investments (continued)

	2021			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 3,858,896	\$ 3,858,896	\$ -	\$ -
Mutual Funds:				
Fixed income	6,682,035	6,682,035	-	-
Domestic equities	1,198,744	1,198,744	-	-
International equities	<u>180,958</u>	<u>180,958</u>	<u>-</u>	<u>-</u>
	<u>\$11,920,633</u>	<u>\$11,920,633</u>	<u>\$ -</u>	<u>\$ -</u>

Net investment income (loss) for the years ended December 31, 2022 and 2021 is summarized as follows:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 242,526	\$257,322
Realized gain on sale of investments	296,276	38,352
Unrealized gain (loss) on investments	(1,701,454)	156,494
Investment management fees	<u>(43,464)</u>	<u>-</u>
Net Investment Income (Loss)	<u>\$(1,206,116)</u>	<u>\$452,168</u>

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

	<u>2022</u>	<u>2021</u>
Without Donor Restrictions		
Operating	\$ (315,782)	\$ 542
Board designated reserves	(588,374)	208,458
With donor restrictions	<u>(301,960)</u>	<u>243,168</u>
	<u>\$(1,206,116)</u>	<u>\$452,168</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 7 - Endowment Funds

PEN's endowment consists of several individual donor-restricted funds established for a variety of purposes. Its endowment includes both the donor-restricted endowment funds and endowment funds restricted by donors to provide for term endowments to fund certain award programs (Note 3b). 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 donor-restricted for investment in perpetuity as (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 for investment in perpetuity is classified as investment income above original gift amount until those amounts are appropriated for expenditure by PEN.

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>2022</u>	<u>2021</u>
Investment income above original gift amount	\$ 807,022	\$1,210,141
Investment in perpetuity	<u>1,890,061</u>	<u>1,640,061</u>
Total Endowment Funds	<u>\$2,697,083</u>	<u>\$2,850,202</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 7 - Endowment Funds (continued)

Changes in endowment funds for the years ended December 31, 2022 and 2021 are summarized as follows:

	2022		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	\$1,210,141	\$1,640,061	\$2,850,202
Contributions	-	250,000	250,000
Net investment loss	(301,960)	-	(301,960)
Appropriation of endowment assets for expenditure	<u>(101,159)</u>	<u>-</u>	<u>(101,159)</u>
Endowment Funds, End of Year	<u>\$ 807,022</u>	<u>\$1,890,061</u>	<u>\$2,697,083</u>

	2021		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	\$1,063,087	\$ 818,480	\$1,881,567
Contributions	-	821,581	821,581
Net investment income	243,168	-	243,168
Appropriation of endowment assets for expenditure	<u>(96,114)</u>	<u>-</u>	<u>(96,114)</u>
Endowment Funds, End of Year	<u>\$1,210,141</u>	<u>\$1,640,061</u>	<u>\$2,850,202</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. As of December 31, 2022, one fund with an original gift value of \$696,591, fair value of \$663,563, and deficiency of \$33,028 was reported in net assets with donor restrictions. The shortfall resulted from unfavorable market conditions.

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 AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 7 - Endowment Funds (continued)

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.

Note 8 - Operating Lease Liability

PEN occupies its office space under a lease agreement which expires March 31, 2024. PEN also occupies a co-working office space on a month to month basis in 2022 and signed an agreement for an additional co-working office space in 2023.

Operating lease expense for the years ended December 31, 2022 and 2021 was \$666,482 and \$413,828 respectively. There were no variable lease costs incurred. As of December 31, 2022, the remaining term of PEN's operating lease is 15 months, and the discount rate is 0.78%.

Maturities of PEN's operating lease liability as of December 31, 2022 are as follows:

Year ending December 31, 2023	\$645,387
Thereafter, through March 31, 2024	<u>164,724</u>
	810,111
Less: Amount attributable to interest	<u>(4,220)</u>
	<u>\$805,891</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Note 9 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2022</u>	<u>2021</u>
Leasehold improvements	Life of lease	\$ 587,495	\$ 552,535
Furniture, fixtures and equipment	5 years	357,693	280,383
Website	3 years	<u>278,395</u>	<u>278,395</u>
		1,223,583	1,111,313
Less: Accumulated depreciation and amortization		<u>(1,038,528)</u>	<u>(959,486)</u>
		<u>\$ 185,055</u>	<u>\$ 151,827</u>

Note 10 - 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 \$221,697 and \$222,413 for the years ended December 31, 2022 and 2021, respectively.

Note 11 - Loan Forgiveness - Paycheck Protection Program

On February 11, 2021, PEN received a loan of \$880,156 under the Paycheck Protection Program administered by the U.S. Small Business Administration. The loan included provisions for forgiveness if PEN met certain employee retention requirements and the funds were used for eligible expenses. In November 2021, PEN received forgiveness of the full loan amount, and accordingly recognized loan forgiveness revenue.

Note 12 - Donated Services

During the years ended December 31, 2022 and 2021, PEN received donated legal services in connection with its program and administrative supporting services in the amount of \$192,512 and \$105,762, respectively.

Legal services were valued by the service provider based on rates charged for similar services.

PEN AMERICAN CENTER, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2022 AND 2021****Note 13 - Commitments, Contingencies and Related Party Transactions**

- a - PEN has entered into an employment contract with an officer through January 2027 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.
- b - Government supported programs are subject to audit by the granting agency.
- c - During the years ended December 31, 2022 and 2021, PEN paid \$453,004 and \$298,589, respectively, to a company affiliated with a Board member for professional fundraising services, and has remaining contracted commitments with the company of approximately \$90,500 at December 31, 2022.