

PEN AMERICAN CENTER, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022



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, 2023 and 2022, 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, 2023 and 2022, 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

New York, New York
July 15, 2024

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents (Notes 1c and 4a)	\$ -	\$ 3,080,436	\$ 3,080,436	\$ 2,046,599	\$ 7,178,931	\$9,225,530
Certificates of deposit (Note 1d)	2,355,541	-	2,355,541	-	-	-
Contributions receivable (Notes 1e, 4b and 5)	875,839	17,199,475	18,075,314	469,723	18,953,889	19,423,612
Prepaid expenses and other current assets	160,372	-	160,372	158,418	-	158,418
Investments (Notes 1f, 6 and 7)	20,404,400	2,877,185	23,281,585	13,466,296	2,322,096	15,788,392
Interfund receivable (payable)	(3,198,131)	3,198,131	-	-	-	-
Operating lease right-of-use asset (Note 1g)	238,555	-	238,555	761,562	-	761,562
Property and equipment, at cost, net of accumulated depreciation and amortization (Notes 1h and 9)	353,087	-	353,087	185,055	-	185,055
Security deposits (Note 8)	547,369	-	547,369	181,341	-	181,341
Total Assets	\$21,737,032	\$26,355,227	\$48,092,259	\$17,268,994	\$28,454,916	\$45,723,910
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 505,276	\$ -	\$ 505,276	\$ 389,902	\$ -	\$ 389,902
Accrued vacation	248,790	-	248,790	219,502	-	219,502
Operating lease liability (Notes 1g and 8)	164,510	-	164,510	805,891	-	805,891
Deferred revenue (Note 1i)	163,186	-	163,186	135,735	-	135,735
Grants payable (Note 1j)	444,379	-	444,379	275,515	-	275,515
Refundable advances (Notes 1k and 5)	267,494	-	267,494	109,538	-	109,538
Total Liabilities	1,793,635	-	1,793,635	1,936,083	-	1,936,083
Commitments and Contingencies (Notes 10 and 12)						
Net Assets						
Without Donor Restrictions (Note 3a)						
Board designated	14,510,104	-	14,510,104	9,749,730	-	9,749,730
Other	5,433,293	-	5,433,293	5,583,181	-	5,583,181
With Donor Restrictions (Note 3b)	-	26,355,227	26,355,227	-	28,454,916	28,454,916
Total Net Assets	19,943,397	26,355,227	46,298,624	15,332,911	28,454,916	43,787,827
Total Liabilities and Net Assets	\$21,737,032	\$26,355,227	\$48,092,259	\$17,268,994	\$28,454,916	\$45,723,910

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support						
Contributions (Notes 4b and 5)	\$ 8,609,420	\$ 6,040,715	\$14,650,135	\$ 5,120,052	\$ 7,106,869	\$12,226,921
Fundraising benefit events	3,004,996	-	3,004,996	2,298,948	-	2,298,948
Less: Direct benefit expenses	(607,425)	-	(607,425)	(621,435)	-	(621,435)
Donated services (Note 11)	40,971	-	40,971	192,512	-	192,512
Membership income	319,099	-	319,099	235,197	-	235,197
Ticketing and other sales	195,183	-	195,183	141,942	-	141,942
Net investment income (loss) - operating (Note 6)	426,335	-	426,335	(315,753)	-	(315,753)
Other income	214,935	-	214,935	204,413	-	204,413
Net assets released from restrictions and appropriations						
Grants and contributions	6,799,398	(6,799,398)	-	5,257,624	(5,257,624)	-
Accumulated investment income - endowed awards	92,526	(92,526)	-	101,159	(101,159)	-
Appropriations from Centenary Campaign (Note 3)	4,045,426	-	4,045,426	2,700,000	-	2,700,000
Appropriations (to) from board designated reserve (Note 3)	(2,423,581)	-	(2,423,581)	2,592,156	-	2,592,156
Total Revenue, Gains and Other Support	20,717,283	(851,209)	19,866,074	17,906,815	1,748,086	19,654,901
Expenses						
Program Services	14,525,247	-	14,525,247	11,264,856	-	11,264,856
Supporting Services						
Management and general	3,832,181	-	3,832,181	2,818,545	-	2,818,545
Fundraising	2,509,745	-	2,509,745	2,540,967	-	2,540,967
Total Expenses	20,867,173	-	20,867,173	16,624,368	-	16,624,368
Increase (Decrease) in Net Assets Before Items Below	(149,890)	(851,209)	(1,001,099)	1,282,447	1,748,086	3,030,533
Centenary Campaign contributions (Note 3)	1,448,025	2,477,903	3,925,928	2,416,188	8,350,169	10,766,357
Centenary Campaign - releases from restrictions (Note 3)	3,749,000	(3,749,000)	-	2,100,000	(2,100,000)	-
Appropriation to operations from Centenary Campaign (Note 3)	(4,045,426)	-	(4,045,426)	(2,700,000)	-	(2,700,000)
Reduction of prior year Centenary Campaign pledge (Note 3)	-	(250,000)	(250,000)	-	-	-
Appropriation (to) from operations from board designated reserve (Note 3)	2,423,581	-	2,423,581	(2,592,156)	-	(2,592,156)
Net investment income (loss) - endowments and reserves (Notes 6 and 7)	1,185,196	272,617	1,457,813	(588,374)	(301,960)	(890,334)
Increase (decrease) in net assets	4,610,486	(2,099,689)	2,510,797	(81,895)	7,696,295	7,614,400
Net assets, beginning of year	15,332,911	28,454,916	43,787,827	15,414,806	20,758,621	36,173,427
Net Assets, End of Year	\$19,943,397	\$26,355,227	\$46,298,624	\$15,332,911	\$28,454,916	\$43,787,827

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2023 WITH COMPARATIVE TOTALS FOR 2022

	2023								2022	
	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	\$4,328,595	\$1,386,731	\$ 923,984	\$ 1,011,739	\$ 7,651,049	\$ 1,948,070	\$ 1,486,200	\$3,434,270	\$11,085,319	\$ 8,218,072
Program consultants	1,762,790	325,743	32,058	178,437	2,299,028	56,246	98,646	154,892	2,453,920	2,209,084
Event and development consultants	-	-	-	-	-	-	274,602	274,602	274,602	519,204
Professional and administrative fees	103,470	5,109	291	1,467	110,337	596,028	120,811	716,839	827,176	739,919
Occupancy and insurance costs	340,105	115,035	83,079	80,319	618,538	166,252	117,490	283,742	902,280	812,354
Supplies and office expense	10,333	2,493	5,958	19,027	37,811	77,442	3,396	80,838	118,649	166,066
Telephone and information technology	54,693	58,314	13,807	199,607	326,421	12,127	3,146	15,273	341,694	239,432
Publications, design, printing and postage	27,169	63,575	36,659	16,719	144,122	13,958	48,337	62,295	206,417	313,317
Awards, grants and other support	1,147,792	359,050	315,892	-	1,822,734	-	-	-	1,822,734	1,176,471
Event and conference expense	21,008	326,727	28,960	2,832	379,527	18,397	245,142	263,539	643,066	575,490
Travel	482,052	177,683	77,960	9,509	747,204	102,385	33,422	135,807	883,011	768,981
Book purchases and distribution	1,255	61,239	3,491	-	65,985	41	2,017	2,058	68,043	138,470
Other program expenses	40,241	28,399	114,787	23,622	207,049	14,886	23,299	38,185	245,234	177,659
Other administrative expenses	25,731	18,517	17,105	-	61,353	173,469	41,998	215,467	276,820	117,473
Bad debt expense	-	-	-	-	-	639,999	-	639,999	639,999	373,334
Depreciation and amortization	27,170	12,732	8,806	5,381	54,089	12,881	11,239	24,120	78,209	79,042
Total Expenses, 2023	<u>\$8,372,404</u>	<u>\$2,941,347</u>	<u>\$1,662,837</u>	<u>\$ 1,548,659</u>	<u>\$14,525,247</u>	<u>\$ 3,832,181</u>	<u>\$ 2,509,745</u>	<u>\$6,341,926</u>	<u>\$20,867,173</u>	
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>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2022

	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	\$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
Program consultants	1,106,301	522,536	137,155	249,248	2,015,240	24,134	169,710	193,844	2,209,084
Event and development consultants	-	-	-	-	-	-	519,204	519,204	519,204
Professional and administrative fees	97,140	3,351	45	363	100,899	592,432	46,588	639,020	739,919
Occupancy and insurance costs	283,715	129,919	99,040	60,014	572,688	120,810	118,856	239,666	812,354
Supplies and office expense	8,544	12,296	3,299	4,864	29,003	134,736	2,327	137,063	166,066
Telephone and information technology	33,708	49,225	11,215	132,358	226,506	8,784	4,142	12,926	239,432
Publications, design, printing and postage	35,937	128,612	31,357	16,205	212,111	7,607	93,599	101,206	313,317
Awards, grants and other support	611,365	339,449	225,657	-	1,176,471	-	-	-	1,176,471
Event and conference expense	12,457	270,319	10,141	-	292,917	5,731	276,842	282,573	575,490
Travel	413,063	172,174	46,171	1,836	633,244	78,815	56,922	135,737	768,981
Book purchases and distribution	1,060	134,222	1,914	-	137,196	1,048	226	1,274	138,470
Other program expenses	53,100	13,701	45,515	2,641	114,957	48,919	13,783	62,702	177,659
Other administrative expenses	4,512	5,758	9,642	-	19,912	53,218	44,343	97,561	117,473
Bad debt expense	-	-	-	-	-	373,334	-	373,334	373,334
Depreciation and amortization	27,459	12,868	8,900	5,438	54,665	13,019	11,358	24,377	79,042
Total Expenses	<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>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 2,510,797	\$ 7,614,400
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Amortization of operating right-of-use asset	523,007	603,721
Depreciation and amortization	78,209	79,042
Bad debt expense	889,999	373,334
Contributions restricted to endowment	-	(250,000)
Realized (gain) loss on sale of investments	354,339	(296,276)
Unrealized (gain) loss on sale of investments	(1,859,625)	1,701,454
(Increase) decrease in:		
Contributions receivable	458,299	(6,689,967)
Prepaid expenses and other current assets	(1,954)	(35,930)
Security deposits	(366,028)	(9,131)
Increase (decrease) in:		
Accounts payable and accrued expenses	115,374	94,526
Operating lease liability	(641,381)	(604,562)
Accrued vacation	29,288	23,658
Deferred revenue	27,451	29,822
Grants payable	168,864	165,864
Refundable advances	157,956	9,538
Net Cash Provided By Operating Activities	<u>2,444,595</u>	<u>2,809,493</u>
Cash Flows From Investing Activities		
Purchase of certificates of deposit	(2,355,541)	-
Purchases of investments	(19,770,617)	(18,538,655)
Sales of investments	13,782,710	13,265,718
Acquisition of property and equipment	(246,241)	(112,270)
Net Cash Used By Investing Activities	<u>(8,589,689)</u>	<u>(5,385,207)</u>
Cash Flows From Financing Activities		
Collection of contributions restricted to endowment	-	250,000
Net decrease in cash and cash equivalents	(6,145,094)	(2,325,714)
Cash and cash equivalents, beginning of year	<u>9,225,530</u>	<u>11,551,244</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,080,436</u></u>	<u><u>\$ 9,225,530</u></u>
Supplemental Disclosure of Non-Cash Investing Activities:		
Operating lease right-of-use asset obtained in exchange for lease liability	<u>\$ -</u>	<u>\$ 1,365,283</u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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, 2023 AND 2022

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

d - Certificates of Deposit

PEN reflects certificates of deposit at fair value in the consolidated statement of financial position. The certificates of deposit are held at one financial institution and mature at various times through December 2024. At December 31, 2023, the fair value of PEN's certificates of deposit approximated cost.

e - 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.

f - 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 ("U.S. 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, 2023 AND 2022

Note 1 - Organization and Summary of Significant Accounting Policies (continued)**g - 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 was initially recorded at the present value of the unpaid lease payments. PEN's operating lease right-of-use asset was 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.

h - Property and Equipment

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

i - 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 in time 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 when the event takes place. 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.

j - Grant Expense

Grants are accrued at the time authorized and awarded.

k - Refundable Advances

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

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.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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

l - Financial Statement Presentation

The consolidated financial statements of PEN have been prepared in accordance with U.S. 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 the 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.

m - 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.

n - Tax Status

PEN American Center, Inc. and PEN America Los Angeles are not-for-profit organizations 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.

o - Estimates

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

p - Subsequent Events

PEN has evaluated subsequent events through July 15, 2024, the date that the financial statements are considered available to be issued.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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 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, 2023 and 2022, and those available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2023</u>	<u>2022</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 3,080,436	\$ 9,225,530
Certificates of deposit	2,355,541	-
Contributions receivable	18,075,314	19,423,612
Investments	23,281,585	15,788,392
Accrued interest and other receivables (included in prepaid expenses and other assets)	<u>65,681</u>	<u>18,604</u>
Total Financial Assets	46,858,557	44,456,138
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	(23,478,053)	(25,757,833)
Plus: Net assets with donor restrictions expected to be met in less than one year	9,855,352	10,301,822
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(2,877,174)	(2,697,083)
Plus: Amounts appropriated for use within one year	93,687	61,586
Board designated reserves	(14,510,104)	(9,749,730)
Plus: Amounts appropriated for use within one year	<u>4,325,481</u>	<u>736,000</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$20,267,746</u>	<u>\$17,350,900</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

Note 2 - Information Regarding Liquidity and Availability (continued)

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.

Note 3 - Net Assets**a - Net Assets Without Donor Restrictions**

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

	<u>2023</u>	<u>2022</u>
Board designated reserves	\$ 8,399,769	\$5,073,774
Faith Sale Memorial Fund - Writers' Fund reserves	177,131	139,530
Centenary Campaign (Note 3b)	<u>5,933,204</u>	<u>4,536,426</u>
	<u>\$14,510,104</u>	<u>\$9,749,730</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 2023, the Board added \$ 2,423,581 to the board designated reserve. During 2022, the Board appropriated \$2,592,156 for use in operations from the board designated reserve.

Net investment income (loss) for the years ended December 31, 2023 and 2022 of \$1,185,196 and \$(588,374), respectively, was allocated to these reserves.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Free expression	\$ 7,178,212	\$ 8,143,203
Literary awards	2,127,169	2,643,820
Centenary Campaign for various programs	3,135,000	2,035,000
Less: discount to present value	(66,888)	(156,633)
Branches	<u>1,147,658</u>	<u>324,725</u>
	<u>13,521,151</u>	<u>12,990,115</u>
Subject to expenditure for specified periods		
Centenary Campaign	10,276,000	13,400,000
Less: discount to present value	(419,098)	(832,256)
General	<u>100,000</u>	<u>199,974</u>
	<u>9,956,902</u>	<u>12,767,718</u>
Total subject to expenditure for specified purpose or periods	<u>23,478,053</u>	<u>25,757,833</u>
Endowments subject to spending policy and appropriation:		
Investment income above (below) original gift amount:		
The Phyllis Reynolds Naylor Working Writer Fellowship	244,509	231,404
Other awards	668,867	608,646
Centenary endowment	<u>73,737</u>	<u>(33,028)</u>
	<u>987,113</u>	<u>807,022</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	<u>1,071,581</u>	<u>1,071,581</u>
	<u>1,890,061</u>	<u>1,890,061</u>
Total Endowments	<u>2,877,174</u>	<u>2,697,083</u>
Total Net Assets With Donor Restrictions	<u>\$26,355,227</u>	<u>\$28,454,916</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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.

Contributions towards the Campaign recognized during the years ended December 31, 2023 and 2022, in addition to cumulative contributions raised to date, are summarized as follows:

	<u>2023</u>	<u>2022</u>	<u>Cumulative Total 2021 - 2023</u>
Without donor restrictions	\$ 335,586	\$ 2,416,188	\$ 5,472,012
With donor restrictions:			
Pledges for future periods	580,000	4,550,000	14,105,000
Restricted for specified purposes	2,507,439	4,010,000	6,517,439
Restricted for permanent endowment	-	250,000	1,071,581
	<u>3,423,025</u>	<u>11,226,188</u>	<u>27,166,032</u>
Write-off of restricted pledge	(250,000)	-	(250,000)
Less: discount to present value	<u>502,903</u>	<u>(459,831)</u>	<u>(485,986)</u>
	<u>\$3,675,928</u>	<u>\$10,766,357</u>	<u>\$26,430,046</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, 2023, approximately 21% of contributions receivable was from one donor, and at December 31, 2022, approximately 40% of contributions receivable were from two donors.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

Note 4 - Concentrations (continued)

b - (continued)

During the year ended December 31 2023, PEN received approximately 15% of its contributions from one donor, and during the year ended December 31, 2022, PEN received approximately 11% of its contributions from another donor.

Note 5 - Contributions Receivable and Refundable Advances

Contributions receivable as of December 31 are due as follows:

	<u>2023</u>	<u>2022</u>
Within one year	\$ 9,025,619	\$ 7,712,034
In one to five years	9,665,722	12,115,666
In six to ten years	<u>145,000</u>	<u>700,000</u>
	18,836,341	20,527,700
Discount to present value	<u>(761,027)</u>	<u>(1,104,088)</u>
	<u>\$18,075,314</u>	<u>\$19,423,612</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, 2023 and 2022, 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 \$1,500,000. \$954,643 of the grants have not been recognized as qualifying expenses have not been incurred and \$66,900 was received and recorded as a refundable advance as of December 31, 2023. \$200,494 was also received for a future fundraising event and is included as a refundable advance as of December 31, 2023.

As of December 31, 2023, \$15,440,000 in pledges for the Centenary Campaign and future fundraising events have not yet been received or recognized in the accompanying consolidated 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, 2023 AND 2022

Note 6 - Investments

Investments at December 31, 2023 and 2022 are reflected at fair value and consist of the following:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 1,541,791	\$ 1,541,791	\$ 3,983,134	\$ 3,983,134
U.S. Treasury Bills	747,202	748,378	-	-
Exchange traded funds - fixed income	684,057	678,933	-	-
Domestic equities	7,350,821	8,143,707	3,987,727	3,826,120
International equities	2,300,826	2,376,295	1,449,319	1,184,612
U.S. Treasuries and bonds	5,903,354	5,939,640	2,874,383	2,756,122
Corporate bonds:				
Domestic	2,083,959	2,144,889	2,951,789	2,807,239
International	1,666,106	1,707,952	1,192,626	1,067,697
REITs	-	-	205,570	163,468
	<u>\$22,278,116</u>	<u>\$23,281,585</u>	<u>\$16,644,548</u>	<u>\$15,788,392</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:

	2023			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,541,791	\$ 1,541,791	\$ -	\$ -
US Treasury Bills	748,378	748,378	-	-
Exchange Traded Funds - fixed income	678,933	678,933	-	-
Domestic equities	8,143,707	8,143,707	-	-
International equities	2,376,295	2,376,295	-	-
U.S. Treasuries and bonds	5,939,640	-	5,939,640	-
Corporate bonds:				
Domestic	2,144,889	-	2,144,889	-
International	1,707,952	-	1,707,952	-
	<u>\$23,281,585</u>	<u>\$13,489,104</u>	<u>\$9,792,481</u>	<u>\$ -</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

Note 6 - Investments (continued)

	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	<u>163,468</u>	<u>163,468</u>	<u>-</u>	<u>-</u>
	<u>\$15,788,392</u>	<u>\$9,157,334</u>	<u>\$6,631,058</u>	<u>\$ -</u>

Net investment income (loss) for the years ended December 31, 2023 and 2022 is summarized as follows:

	2023	2022
Interest and dividends	\$ 444,575	\$ 242,555
Realized gain (loss) on sale of investments	(354,339)	296,276
Unrealized gain (loss) on investments	1,859,625	(1,701,454)
Investment management fees	<u>(65,713)</u>	<u>(43,464)</u>
Net Investment Income (Loss)	<u>\$1,884,148</u>	<u>\$(1,206,087)</u>

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

	2023	2022
Without Donor Restrictions		
Operating	\$ 426,335	\$ (315,753)
Board designated reserves	1,185,196	(588,374)
With donor restrictions	<u>272,617</u>	<u>(301,960)</u>
	<u>\$1,884,148</u>	<u>\$(1,206,087)</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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>2023</u>	<u>2022</u>
Investment income above original gift amount	\$ 987,113	\$ 807,022
Investment in perpetuity	<u>1,890,061</u>	<u>1,890,061</u>
Total Endowment Funds	<u>\$2,877,174</u>	<u>\$2,697,083</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

Note 7 - Endowment Funds (continued)

Changes in endowment funds for the years ended December 31, 2023 and 2022 are summarized as follows:

	2023		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	\$807,022	\$1,890,061	\$2,697,083
Net investment loss	272,617	-	272,617
Appropriation of endowment assets for expenditure	<u>(92,526)</u>	<u>-</u>	<u>(92,526)</u>
Endowment Funds, End of Year	<u>\$987,113</u>	<u>\$1,890,061</u>	<u>\$2,877,174</u>

	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>

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, 2023 AND 2022

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 two co-working office spaces on a month to month basis.

Operating lease expense for the years ended December 31, 2023 and 2022 was \$749,617 and \$666,482 respectively. There were no variable lease costs incurred. As of December 31, 2023, the remaining term of PEN's operating lease is 3 months, and the discount rate is 0.78%.

Maturities of PEN's operating lease liability as of December 31, 2023 is as follows:

Through March 31, 2024	\$164,724
Less: Amount attributable to interest	<u>(214)</u>
	<u>\$164,510</u>

In December 2023, PEN entered into an operating lease agreement to relocate to a new office space with a commencement date of April 25, 2024. The lease provides for base rent per annum of \$1,027,350 through expiration on April 24, 2034. PEN has provided \$355,541 as security deposit for the space which was converted to a letter of credit in the name of the landlord in February 2024.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

Note 8 - Operating Lease Liability (continued)

In December 2023, PEN entered into another operating lease agreement for additional office space with a commencement date of January 1, 2024. The lease provides for base rent of \$2,445 per month through expiration on January 1, 2025.

Note 9 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2023</u>	<u>2022</u>
Leasehold improvements	Life of lease	\$ 587,495	\$ 587,495
Furniture, fixtures and equipment	5 years	408,816	357,693
Website	5 years	278,395	278,395
Website – not yet in service	-	195,118	-
		<u>1,469,824</u>	<u>1,223,583</u>
Less: Accumulated depreciation and amortization		<u>(1,116,737)</u>	<u>(1,038,528)</u>
		<u>\$ 353,087</u>	<u>\$ 185,055</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 \$334,823 and \$221,697 for the years ended December 31, 2023 and 2022, respectively.

Note 11 - Donated Services

During the years ended December 31, 2023 and 2022, PEN received donated legal services in connection with its program and administrative supporting services in the amount of \$40,971 and \$192,512, 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, 2023 AND 2022****Note 12 - 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 year ended December 31, 2022, PEN paid \$453,004 to a company affiliated with a Board member for professional fundraising services.