

PEN AMERICAN CENTER, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023



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) and subsidiary (together, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2024 and 2023, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the 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. and subsidiary as of December 31, 2024 and 2023, 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 the Organization 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, net assets as of January 1, 2024 have been restated to correct contributions receivable, contribution revenue, and net assets with donor restrictions. Our opinion is not modified with respect to this matter.

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 the Organization'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 the Organization'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 the Organization'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, 2024 AND 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash and cash equivalents	\$ -	\$ 1,285,259	\$ 1,285,259	\$ -	\$ 3,080,436	\$ 3,080,436
Certificates of deposit	366,252	-	366,252	2,355,541	-	2,355,541
Contributions receivable	1,229,937	11,266,282	12,496,219	875,839	17,324,475	18,200,314
Prepaid expenses and other assets	187,030	-	187,030	160,372	-	160,372
Investments	20,336,877	3,054,656	23,391,533	20,404,400	2,877,185	23,281,585
Interfund receivable (payable)	(3,280,896)	3,280,896	-	(3,198,131)	3,198,131	-
Operating lease right-of-use asset	7,631,401	-	7,631,401	238,555	-	238,555
Property and equipment, at cost, net of accumulated depreciation and amortization	566,285	-	566,285	353,087	-	353,087
Security deposits	27,333	-	27,333	547,369	-	547,369
Total Assets	\$27,064,219	\$18,887,093	\$45,951,312	\$21,737,032	\$26,480,227	\$48,217,259
Liabilities and Net Assets						
Liabilities						
Accounts payable and accrued expenses	\$ 526,031	\$ -	\$ 526,031	\$ 505,276	\$ -	\$ 505,276
Accrued vacation	364,537	-	364,537	248,790	-	248,790
Operating lease liability	7,694,754	-	7,694,754	164,510	-	164,510
Deferred revenue	159,321	-	159,321	163,186	-	163,186
Grants payable	177,184	-	177,184	444,379	-	444,379
Refundable advances	215,669	-	215,669	267,494	-	267,494
Total Liabilities	9,137,496	-	9,137,496	1,793,635	-	1,793,635
Commitments and Contingencies						
Net Assets						
Without Donor Restrictions						
Board designated	12,237,697	-	12,237,697	14,510,104	-	14,510,104
Other	5,689,026	-	5,689,026	5,433,293	-	5,433,293
With Donor Restrictions	-	18,887,093	18,887,093	-	26,480,227	26,480,227
Total Net Assets	17,926,723	18,887,093	36,813,816	19,943,397	26,480,227	46,423,624
Total Liabilities and Net Assets	\$27,064,219	\$18,887,093	\$45,951,312	\$21,737,032	\$26,480,227	\$48,217,259

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Other Support						
Contributions	\$ 6,880,733	\$ 3,776,254	\$10,656,987	\$ 8,609,420	\$ 6,165,715	\$14,775,135
Fundraising benefit events	2,626,965	-	2,626,965	3,004,996	-	3,004,996
Less: Direct benefit expenses	(498,815)	-	(498,815)	(607,425)	-	(607,425)
Donated services	87,450	-	87,450	40,971	-	40,971
Training fees	413,979	-	413,979	149,587	-	149,587
Membership income	352,544	-	352,544	319,099	-	319,099
Ticketing and other sales	120,161	-	120,161	195,183	-	195,183
Net investment income - operating	569,205	-	569,205	426,335	-	426,335
Other income	152,314	-	152,314	65,348	-	65,348
Net assets released from restrictions and appropriations						
Grants and contributions	6,833,861	(6,833,861)	-	6,799,398	(6,799,398)	-
Accumulated investment income - endowed awards	91,186	(91,186)	-	92,526	(92,526)	-
Appropriations from Centenary Campaign	4,348,000	-	4,348,000	4,045,426	-	4,045,426
Appropriations (to) from board designated reserve	3,744,300	-	3,744,300	(2,423,581)	-	(2,423,581)
Total Revenue, Gains and Other Support	25,721,883	(3,148,793)	22,573,090	20,717,283	(726,209)	19,991,074
Expenses						
Program Services	17,000,174	-	17,000,174	14,525,247	-	14,525,247
Supporting Services						
Management and general	5,991,240	-	5,991,240	3,832,181	-	3,832,181
Fundraising	2,474,736	-	2,474,736	2,509,745	-	2,509,745
Total Expenses	25,466,150	-	25,466,150	20,867,173	-	20,867,173
Increase (Decrease) in Net Assets Before Items Below	255,733	(3,148,793)	(2,893,060)	(149,890)	(726,209)	(876,099)
Centenary Campaign contributions	-	-	-	1,448,025	2,477,903	3,925,928
Centenary Campaign - releases from restrictions	4,413,000	(4,413,000)	-	3,749,000	(3,749,000)	-
Appropriation to operations from Centenary Campaign	(4,348,000)	-	(4,348,000)	(4,045,426)	-	(4,045,426)
Reduction of prior year Centenary Campaign pledge	-	(300,000)	(300,000)	-	(250,000)	(250,000)
Appropriation (to) from operations from board designated reserve	(3,744,300)	-	(3,744,300)	2,423,581	-	2,423,581
Net investment income - endowments and reserves	1,406,893	268,659	1,675,552	1,185,196	272,617	1,457,813
Increase (Decrease) in Net Assets	(2,016,674)	(7,593,134)	(9,609,808)	4,610,486	(1,974,689)	2,635,797
Net assets, beginning of year, as previously reported	19,943,397	26,355,227	46,298,624	15,332,911	28,454,916	43,787,827
Prior period adjustment	-	125,000	125,000	-	-	-
Net assets, beginning of year, as restated	19,943,397	26,480,227	46,423,624	15,332,911	28,454,916	43,787,827
Net Assets, End of Year	\$17,926,723	\$18,887,093	\$36,813,816	\$19,943,397	\$26,480,227	\$46,423,624

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2024 WITH COMPARATIVE TOTALS FOR 2023

	2024								2023	
	Program Services					Supporting Services			Total Expenses	Total Expenses
	Free Expression Programs	Literary and Festival	National	Communications	Total	Management and General	Fundraising	Total		
Salaries, payroll taxes, employee benefits and employment related expenses	\$ 5,155,380	\$1,430,497	\$1,323,782	\$ 1,034,125	\$ 8,943,784	\$ 3,544,386	\$ 1,466,069	\$5,010,455	\$13,954,239	\$11,085,319
Program consultants	2,410,287	442,635	204,340	290,302	3,347,564	98,371	90,033	188,404	3,535,968	2,453,920
Professional and administrative fees	150,531	14,446	1,170	8,745	174,892	1,266,515	88,105	1,354,620	1,529,512	827,176
Awards, grants and other support	1,000,565	272,799	184,002	-	1,457,366	-	-	-	1,457,366	1,822,734
Occupancy and insurance costs	495,077	144,086	143,294	101,645	884,102	290,531	144,452	434,983	1,319,085	902,280
Travel	466,708	132,857	149,287	5,000	753,852	111,841	34,934	146,775	900,627	883,011
Event and conference expense	46,071	221,636	180,280	77	448,064	9,608	351,140	360,748	808,812	643,066
Telephone and information technology	63,219	39,416	1,875	185,897	290,407	27,086	11,132	38,218	328,625	341,694
Supplies and office expense	123,108	9,833	4,285	4,487	141,713	166,001	5,872	171,873	313,586	118,649
Event and development consultants	-	-	-	-	-	-	117,948	117,948	117,948	274,602
Publications, design, printing and postage	15,990	24,771	38,928	1,895	81,584	9,213	54,123	63,336	144,920	206,417
Book purchases and distribution	8,626	26,873	2,291	71	37,861	580	5,851	6,431	44,292	68,043
Other program expenses	53,367	15,385	117,979	4,299	191,030	45,469	36,793	82,262	273,292	245,234
Other administrative expenses	16,300	3,538	18,964	340	39,142	112,819	34,055	146,874	186,016	276,820
Bad debt expense	-	-	-	-	-	255,252	-	255,252	255,252	639,999
Depreciation and amortization	120,364	33,398	30,907	24,144	208,813	53,568	34,229	87,797	296,610	78,209
Total Expenses, 2024	<u>\$10,125,593</u>	<u>\$2,812,170</u>	<u>\$2,401,384</u>	<u>\$ 1,661,027</u>	<u>\$17,000,174</u>	<u>\$ 5,991,240</u>	<u>\$ 2,474,736</u>	<u>\$8,465,976</u>	<u>\$25,466,150</u>	
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>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2023

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

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (9,609,808)	\$ 2,635,797
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Amortization of operating right-of-use asset	723,324	523,007
Depreciation and amortization	296,610	78,209
Bad debt expense and reduction of prior year pledges	555,252	889,999
Realized (gain) loss on sale of investments	(1,263,901)	354,339
Unrealized gain on sale of investments	(180,371)	(1,859,625)
(Increase) decrease in:		
Contributions receivable	5,148,843	333,299
Prepaid expenses and other assets	(26,658)	(1,954)
Security deposits	520,036	(366,028)
Increase (decrease) in:		
Accounts payable and accrued expenses	20,755	115,374
Accrued vacation	115,747	29,288
Operating lease liability	(585,926)	(641,381)
Deferred revenue	(3,865)	27,451
Grants payable	(267,195)	168,864
Refundable advances	(51,825)	157,956
Net Cash Provided (Used) By Operating Activities	<u>(4,608,982)</u>	<u>2,444,595</u>
Cash Flows From Investing Activities		
Proceeds from maturity of certificate of deposit	2,355,541	-
Purchase of certificates of deposit	(366,252)	(2,355,541)
Purchases of investments	(14,623,606)	(19,770,617)
Sales of investments	15,957,930	13,782,710
Acquisition of property and equipment	(509,808)	(246,241)
Net Cash Provided (Used) By Investing Activities	<u>2,813,805</u>	<u>(8,589,689)</u>
Net decrease in cash and cash equivalents	(1,795,177)	(6,145,094)
Cash and cash equivalents, beginning of year	<u>3,080,436</u>	<u>9,225,530</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,285,259</u></u>	<u><u>\$ 3,080,436</u></u>
Supplemental Disclosure of Non-Cash Investing Activities:		
Operating lease right-of-use asset obtained in exchange for lease liability	<u><u>\$ 8,116,170</u></u>	<u><u>\$ -</u></u>

See notes to consolidated financial statements.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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, 2024 AND 2023

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 in November 2025. At December 31, 2024, 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.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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 is initially recorded at the present value of the unpaid lease payments. 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.

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 training fees, 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.

Training fees and ticket sales are generally collected prior to the date of the training workshop or event and are recorded as revenue when the workshop or event takes place. Training fees and ticket sales related to workshops or events taking place in future periods are recorded as deferred income.

Other earned revenue, including submission fees, 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, 2024 AND 2023****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 December 12, 2025, the date that the financial statements are considered available to be issued.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

Note 2 - Information Regarding Liquidity and Availability

PEN strives for 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, 2024 and 2023 available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2024</u>	<u>2023</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 1,285,259	\$ 3,080,436
Certificate of deposit	366,252	2,355,541
Contributions receivable	12,496,219	18,200,314
Investments	23,391,533	23,281,585
Accrued interest and other receivables (included in prepaid expenses and other assets)	<u>37,674</u>	<u>65,681</u>
Total Financial Assets	37,576,937	46,983,557
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	(15,832,447)	(23,603,053)
Plus: Net assets with donor restrictions expected to be met in less than one year	8,961,857	9,855,352
Net assets with donor restrictions for endowment, subject to spending policy and appropriation	(3,054,646)	(2,877,174)
Plus: Amounts appropriated for use within one year	89,071	93,687
Board designated reserves	(12,237,697)	(14,510,104)
Plus: Amounts appropriated for use within one year	<u>-</u>	<u>4,325,481</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$15,503,075</u>	<u>\$20,267,746</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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>2024</u>	<u>2023</u>
Board designated reserves	\$ 5,426,742	\$ 8,399,769
Faith Sale Memorial Fund - Writers' Fund reserves	190,774	177,131
Centenary Campaign (Note 3b)	<u>6,620,181</u>	<u>5,933,204</u>
	<u>\$12,237,697</u>	<u>\$14,510,104</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 2024, the Board appropriated \$3,744,300 to operations from the board designated reserve. During 2023, the Board added \$ 2,423,581 to the board designated reserve.

Net investment income for the years ended December 31, 2024 and 2023 of \$1,406,893 and \$1,185,196, respectively, was allocated to these reserves.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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>2024</u>	<u>2023</u>
Subject to expenditure for specified purpose:		
Free expression	\$ 4,954,732	\$ 7,303,212
Literary awards	1,401,865	2,127,169
Centenary Campaign for various programs	2,535,000	3,135,000
Less: Discount to present value	(44,124)	(66,888)
Branches	<u>705,057</u>	<u>1,147,658</u>
	<u>9,552,530</u>	<u>13,646,151</u>
Subject to expenditure for specified periods		
Centenary Campaign	6,163,000	10,276,000
Less: Discount to present value	(169,631)	(419,098)
General	<u>286,548</u>	<u>100,000</u>
	<u>6,279,917</u>	<u>9,956,902</u>
Total Subject to Expenditure for Specified Purpose or Periods	<u>15,832,447</u>	<u>23,603,053</u>
Endowments subject to spending policy and appropriation:		
Investment income above original gift amount:		
The Phyllis Reynolds Naylor Working Writer Fellowship	254,626	244,509
Other awards	709,942	668,867
Centenary endowment	<u>200,017</u>	<u>73,737</u>
	<u>1,164,585</u>	<u>987,113</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>3,054,646</u>	<u>2,877,174</u>
Total Net Assets With Donor Restrictions	<u>\$18,887,093</u>	<u>\$26,480,227</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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

In 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.

Changes in the Campaign funds as of December 31, 2024 and 2023, are summarized as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, December 31, 2022	\$4,536,426	\$15,484,664	\$20,021,090
Contributions, net of change in discount on long term pledges	1,448,025	2,477,903	3,925,928
Reduction of prior year pledge	-	(250,000)	(250,000)
Investment income	245,179	106,765	351,944
Net assets released from restrictions	2,540,000	(3,749,000)	(1,209,000)
Transfer for use in operations	<u>(2,836,426)</u>	<u>-</u>	<u>(2,836,426)</u>
Balance, December 31, 2023	5,933,204	14,070,332	20,003,536
Contributions, net of change in discount on long term pledges	-	272,231	272,231
Reduction of prior year pledge	-	(300,000)	(300,000)
Investment income	621,977	126,280	748,257
Net assets released from restrictions	3,015,000	(4,413,000)	(1,398,000)
Transfer for use in operations	<u>(2,950,000)</u>	<u>-</u>	<u>(2,950,000)</u>
Balance December 31, 2024	<u>\$6,620,181</u>	<u>\$ 9,755,843</u>	<u>\$16,376,024</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.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

Note 4 - Concentrations (continued)

- b - At December 31, 2024 and 2023, approximately 15% and 21%, respectively, of contributions receivable was from one donor.

During the years ended December 31 2024 and 2023, PEN received approximately 15% of its contribution income from one donor.

Note 5 - Contributions Receivable and Refundable Advances

Contributions receivable as of December 31 are due as follows:

	<u>2024</u>	<u>2023</u>
Within one year	\$ 7,855,865	\$ 9,150,619
In one to five years	5,082,917	9,665,722
In six to ten years	<u>65,000</u>	<u>145,000</u>
	13,003,782	18,961,341
Discount to present value	<u>(507,563)</u>	<u>(761,027)</u>
	<u>\$12,496,219</u>	<u>\$18,200,314</u>

Contributions receivable due after one year are discounted to net present value using rates ranging from 3% to 4.27%. Uncollectible contributions receivable are expected to be insignificant.

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 \$1,950,000. \$725,607 of the grants have not been recognized as qualifying expenses have not been incurred and \$39,869 was received and recorded as a refundable advance as of December 31, 2024. \$175,800 was also received for a future fundraising event and is included as a refundable advance as of December 31, 2024.

As of December 31, 2023, \$15,265,000 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, 2024 AND 2023

Note 6 - Investments

Investments at December 31, 2024 and 2023 are reflected at fair value and consist of the following:

	2024		2023	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 527,383	\$ 527,383	\$ 1,541,791	\$ 1,541,791
U.S. Treasury Bills	-	-	747,202	748,378
Exchange traded funds:				
Equities	652,793	635,087	-	-
Fixed income	-	-	684,057	678,933
Mutual funds:				
Equities	3,986,890	4,031,193	3,029,917	3,124,740
Fixed income	4,717,171	4,751,845	1,925,305	1,975,796
Domestic equities	5,953,921	7,074,078	6,510,084	7,266,299
International equities	-	-	111,646	128,963
U.S. Treasuries and bonds	4,326,000	4,318,162	5,903,354	5,939,640
Corporate bonds:				
Domestic	1,791,147	1,799,199	1,733,502	1,784,167
International	-	-	91,258	92,878
REITs	252,388	254,586	-	-
	<u>\$22,207,693</u>	<u>\$23,391,533</u>	<u>\$22,278,116</u>	<u>\$23,281,585</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:

	2024			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 527,383	\$ 527,383	\$ -	\$ -
Exchange traded funds:				
Equities	635,087	635,087	-	-
Mutual funds:				
Equities	4,031,193	4,031,193	-	-
Fixed income	4,751,845	4,751,845	-	-
Domestic equities	7,074,078	7,074,078	-	-
U.S. Treasuries and bonds	4,318,162	-	4,318,162	-
Corporate bonds:				
Domestic	1,799,199	-	1,799,199	-
REITs	254,586	254,586	-	-
	<u>\$23,391,533</u>	<u>\$17,274,172</u>	<u>\$6,117,361</u>	<u>\$ -</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

Note 6 - Investments (continued)

	2023			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 1,541,791	\$ 1,541,791	\$ -	\$ -
U.S. Treasury Bills	748,378	748,378	-	-
Exchange traded funds:				
Fixed income	678,933	678,933	-	-
Mutual funds:				
Equities	3,124,740	3,124,740	-	-
Fixed income	1,975,796	1,975,796	-	-
Domestic equities	7,266,299	7,266,299	-	-
International equities	128,963	128,963	-	-
U.S. Treasuries and bonds	5,939,640	-	5,939,640	-
Corporate bonds:				
Domestic	1,784,167	-	1,784,167	-
International	92,878	-	92,878	-
	<u>\$23,281,585</u>	<u>\$15,464,900</u>	<u>\$7,816,685</u>	<u>\$ -</u>

Net investment income for the years ended December 31, 2024 and 2023 is summarized as follows:

	<u>2024</u>	<u>2023</u>
Interest and dividends	\$ 876,408	\$ 444,575
Realized gain (loss) on sale of investments	1,263,901	(354,339)
Unrealized gain on investments	180,371	1,859,625
Investment management fees	<u>(75,923)</u>	<u>(65,713)</u>
Net Investment Income	<u>\$2,244,757</u>	<u>\$1,884,148</u>

Net investment income has been allocated as follows:

	<u>2024</u>	<u>2023</u>
Without Donor Restrictions		
Operating	\$ 569,205	\$ 426,335
Board designated reserves	1,406,893	1,185,196
With donor restrictions	<u>268,659</u>	<u>272,617</u>
	<u>\$2,244,757</u>	<u>\$1,884,148</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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>2024</u>	<u>2023</u>
Investment income above original gift amount	\$1,164,585	\$ 987,113
Investment in perpetuity	<u>1,890,061</u>	<u>1,890,061</u>
Total Endowment Funds	<u>\$3,054,646</u>	<u>\$2,877,174</u>

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

Note 7 - Endowment Funds (continued)

Changes in endowment funds for the years ended December 31, 2024 and 2023 are summarized as follows:

	2024		
	Investment Income Above Original Gift Amount	Investment in Perpetuity	Total
Endowment funds, beginning of year	\$ 987,113	\$1,890,061	\$2,877,174
Net investment income	268,658	-	268,658
Appropriation of endowment assets for expenditure	<u>(91,186)</u>	<u>-</u>	<u>(91,186)</u>
Endowment Funds, End of Year	<u>\$1,164,585</u>	<u>\$1,890,061</u>	<u>\$3,054,646</u>
	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 income	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>

PEN's investment and spending policies for endowment assets attempt to provide a predictable stream of funding for programs and awards supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

PEN targets a diversified asset allocation that, under normal market conditions, places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The endowment assets are invested with target asset class allocations of 55% in equities that are intended to exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk, and 45% in fixed income instruments to reduce overall portfolio risk and to preserve capital.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

Note 7 - Endowment Funds (continued)

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 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2024</u>	<u>2023</u>
Website	3 years	\$ 605,211	\$ 278,395
Furniture, fixtures and equipment	5 years	480,432	408,816
Leasehold improvements	Life of lease	-	587,495
Website	Not yet in service	-	195,118
		<u>1,085,643</u>	<u>1,469,824</u>
Less: Accumulated depreciation and amortization		<u>(519,358)</u>	<u>(1,116,737)</u>
		<u>\$ 566,285</u>	<u>\$ 353,087</u>

Note 9 - Operating Lease Liability

PEN occupied office space under an operating lease agreement which expired March 31, 2024. PEN relocated to a new office space in New York under an operating lease agreement which expires April 25, 2034, and has an irrevocable letter of credit in the name of the landlord in the amount of \$355,541 as a security deposit.

PEN also has office space in Florida under an operating lease agreement expiring January 31, 2025, as well as two co-working office spaces in DC and California on a month-to-month basis.

PEN AMERICAN CENTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

Note 9 - Operating Lease Liability (continued)

Operating lease expense for the years ended December 31, 2024 and 2023 was \$1,131,628 and \$749,617, respectively. There were no variable lease costs incurred. As of December 31, 2024, the remaining term of PEN's operating lease is 112 months, and the discount rate is 4.70%.

Maturities of PEN's operating lease liability as of December 31, 2024 are as follows:

<u>Year Ending December 31</u>	
2025	\$1,027,356
2026	1,027,356
2027	1,027,356
2028	1,027,356
2029	1,027,356
Thereafter, through April 25, 2034	<u>4,366,263</u>
	9,503,043
Less: Amount attributable to interest	<u>(1,808,289)</u>
	<u>\$7,694,754</u>

Note 10 - Commitments, Contingencies and Other Matters

a - 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 \$420,739 and \$334,823 for the years ended December 31, 2024 and 2023, respectively.

b - Government supported programs are subject to audit by the granting agency.

Note 11 - Donated Services

During the years ended December 31, 2024 and 2023, PEN received donated legal services in connection with its program and administrative supporting services in the amount of \$87,450 and \$40,971, 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, 2024 AND 2023

Note 12 - Prior Period Adjustment

As of January 1, 2024, net assets have been restated to reflect contributions with donor restrictions totaling \$125,000 which had not been previously recorded.

	<u>As Previously Stated</u>	<u>As Restated</u>	<u>Total</u>
Statements of Financial Position:			
Contributions receivable	<u>\$18,075,314</u>	<u>\$18,200,314</u>	<u>\$125,000</u>
Net Assets			
With donor restrictions	<u>\$26,355,227</u>	<u>\$26,480,227</u>	<u>\$125,000</u>
Statements of Activities:			
Contribution income	<u>\$14,650,135</u>	<u>\$14,775,135</u>	<u>\$125,000</u>