



TIMKEN  
MUSEUM  
OF ART

**THE PUTNAM FOUNDATION**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**



Leaf & Cole, LLP  
*Certified Public Accountants*

**THE PUTNAM FOUNDATION  
FINANCIAL STATEMENTS  
MARCH 31, 2018 AND 2017**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1 - 2
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 19
Supplementary Information:	
Schedule of Functional Expenses - 2018	20
Schedule of Functional Expenses - 2017	21



Leaf & Cole, LLP  
Certified Public Accountants  
A Partnership of Professional Corporations

## **Independent Auditor's Report**

To the Board of Directors  
The Putnam Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Putnam Foundation, which comprise the statements of financial position as of March 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Putnam Foundation as of March 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules of functional expenses for the years ended March 31, 2018 and 2017 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Leaf & Cole LLP

San Diego, California  
November 5, 2018

**THE PUTNAM FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
MARCH 31, 2018 AND 2017**

**ASSETS**

	<u>2018</u>	<u>2017</u>
<b><u>Current Assets:</u></b> (Note 2)		
Cash and cash equivalents	\$ 380,074	\$ 624,568
Prepaid expenses and other assets	10,827	14,684
Inventory	18,238	15,425
Total Current Assets	<u>409,139</u>	<u>654,677</u>
<b><u>Noncurrent Assets:</u></b> (Notes 2, 3, 4, 5 and 6)		
Investments and cash - restricted	6,456,751	6,029,369
Property and equipment, net	439,469	258,589
Collections - works of art	13,759,622	13,554,097
Investments - endowment	2,182,859	2,182,859
Perpetual trust held by third-party trustee	14,478,723	13,919,749
Total Noncurrent Assets	<u>37,317,424</u>	<u>35,944,663</u>
<b>TOTAL ASSETS</b>	<u>\$ 37,726,563</u>	<u>\$ 36,599,340</u>

**LIABILITIES AND NET ASSETS**

<b><u>Current Liabilities:</u></b> (Notes 2, 7 and 10)		
Accounts payable and accrued expenses	\$ 256,734	\$ 138,265
Current portion of note payable	9,789	9,789
Total Current Liabilities	<u>266,523</u>	<u>148,054</u>
<b><u>Noncurrent Liabilities:</u></b> (Note 7)		
Note payable, less current portion	22,840	32,629
Total Noncurrent Liabilities	<u>22,840</u>	<u>32,629</u>
Total Liabilities	<u>289,363</u>	<u>180,683</u>
<b><u>Commitments</u></b> (Note 10)		
<b><u>Net Assets:</u></b> (Notes 2, 8 and 9)		
Unrestricted:		
Unrestricted	13,904,184	13,570,455
Board designated	50,947	204,668
Total Unrestricted	<u>13,955,131</u>	<u>13,775,123</u>
Temporarily restricted	6,820,487	6,540,926
Permanently restricted	16,661,582	16,102,608
Total Net Assets	<u>37,437,200</u>	<u>36,418,657</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 37,726,563</u>	<u>\$ 36,599,340</u>

The accompanying notes are an integral part of the financial statements.

**THE PUTNAM FOUNDATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017**

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue:</b>								
Investment income	\$ 477	\$ 814,091	\$ -	\$ 814,568	\$ 2,021	\$ 654,278	\$ -	\$ 656,299
Contributions	707,667	69,660	-	777,327	629,741	207,932	-	837,673
Other income	442,772	-	-	442,772	180,682	-	-	180,682
Government grants	262,882	-	-	262,882	145,995	5,000	-	150,995
Loss on sale of collection items	(9,223)	-	-	(9,223)	(46,610)	-	-	(46,610)
Net assets released from restrictions	1,295,141	(604,190)	(690,951)	-	1,169,357	(459,781)	(709,576)	-
<b>Total Support and Revenue</b>	<b>2,699,716</b>	<b>279,561</b>	<b>(690,951)</b>	<b>2,288,326</b>	<b>2,081,186</b>	<b>407,429</b>	<b>(709,576)</b>	<b>1,779,039</b>
<b>Expenses:</b>								
<b>Program Services:</b>								
Program and exhibits	2,092,819	-	-	2,092,819	1,096,183	-	-	1,096,183
<b>Total Program Services</b>	<b>2,092,819</b>	<b>-</b>	<b>-</b>	<b>2,092,819</b>	<b>1,096,183</b>	<b>-</b>	<b>-</b>	<b>1,096,183</b>
<b>Supporting Services:</b>								
Management and general	203,466	-	-	203,466	565,218	-	-	565,218
Fundraising	69,411	-	-	69,411	306,657	-	-	306,657
<b>Total Supporting Services</b>	<b>272,877</b>	<b>-</b>	<b>-</b>	<b>272,877</b>	<b>871,875</b>	<b>-</b>	<b>-</b>	<b>871,875</b>
<b>Total Program and Supporting Services</b>	<b>2,365,696</b>	<b>-</b>	<b>-</b>	<b>2,365,696</b>	<b>1,968,058</b>	<b>-</b>	<b>-</b>	<b>1,968,058</b>
<b>Special events</b>	<b>120,561</b>	<b>-</b>	<b>-</b>	<b>120,561</b>	<b>283,958</b>	<b>-</b>	<b>-</b>	<b>283,958</b>
<b>Cost of museum store</b>	<b>33,451</b>	<b>-</b>	<b>-</b>	<b>33,451</b>	<b>18,461</b>	<b>-</b>	<b>-</b>	<b>18,461</b>
<b>Total Expenses</b>	<b>2,519,708</b>	<b>-</b>	<b>-</b>	<b>2,519,708</b>	<b>2,270,477</b>	<b>-</b>	<b>-</b>	<b>2,270,477</b>
<b>Other Income:</b>								
Change in fair value of perpetual trust held by third-party trustee	-	-	1,249,925	1,249,925	-	-	1,453,166	1,453,166
<b>Total Other Income</b>	<b>-</b>	<b>-</b>	<b>1,249,925</b>	<b>1,249,925</b>	<b>-</b>	<b>-</b>	<b>1,453,166</b>	<b>1,453,166</b>
Change in Net Assets	180,008	279,561	558,974	1,018,543	(189,291)	407,429	743,590	961,728
Net Assets at Beginning of Year	13,775,123	6,540,926	16,102,608	36,418,657	13,964,414	6,133,497	15,359,018	35,456,929
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 13,955,131</b>	<b>\$ 6,820,487</b>	<b>\$ 16,661,582</b>	<b>\$ 37,437,200</b>	<b>\$ 13,775,123</b>	<b>\$ 6,540,926</b>	<b>\$ 16,102,608</b>	<b>\$ 36,418,657</b>

The accompanying notes are an integral part of the financial statements.

**THE PUTNAM FOUNDATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b><u>Cash Flows From Operating Activities:</u></b>		
Change in net assets	\$ 1,018,543	\$ 961,728
<b>Adjustments to reconcile change in net assets to net cash used in operating activities:</b>		
Depreciation	22,406	22,592
Net realized and unrealized gains from investments	(711,254)	(563,874)
Distributions from perpetual trust held by third-party trustee	690,951	709,576
Change in fair value of perpetual trust held by third-party trustee	(1,249,925)	(1,453,166)
Loss on sale of collection items	9,223	46,610
Donated artwork for collection	(218,875)	(125,000)
<b>(Increase) Decrease in:</b>		
Grants and pledges receivable	-	99,360
Prepaid expenses and other assets	3,857	(592)
Inventory	(2,813)	(15,425)
<b>Increase (Decrease) in:</b>		
Accounts payable and accrued expenses	76,447	15,764
Deferred revenue	-	(850)
Net Cash Used in Operating Activities	<u>(361,440)</u>	<u>(303,277)</u>
<b><u>Cash Flows From Investing Activities:</u></b>		
Purchase of investments	(102,835)	(92,986)
Proceeds from sale of investments	31,188	656,652
Purchase of property and equipment	(161,264)	(190,132)
Proceeds from sale of collection items	4,127	5,940
Change in perpetual trust held by third-party trustee, net	(558,974)	(743,590)
Net Cash Used in Investing Activities	<u>(787,758)</u>	<u>(364,116)</u>
<b><u>Cash Flows From Financing Activities:</u></b>		
Distributions from perpetual trust held by third-party trustee	(690,951)	(709,576)
Change in fair value of perpetual trust held by third-party trustee	1,249,925	1,453,166
Payments on note payable	(9,789)	(10,715)
Net Cash Provided by Financing Activities	<u>549,185</u>	<u>732,875</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(600,013)	65,482
Cash and Cash Equivalents at Beginning of Year	<u>1,150,127</u>	<u>1,084,645</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 550,114</u>	<u>\$ 1,150,127</u>

The accompanying notes are an integral part of the financial statements.

**THE PUTNAM FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 1 - Organization:**

The Putnam Foundation (the “Foundation”) is a non-profit organization whose primary activity is the education of the public in fine arts through the operation of the Timken Museum of Art (the “Museum”) located in Balboa Park in San Diego, California, and is the only fine art museum in San Diego that does not charge admission. Accessibility, whether through our free-admission policy or through outreach to underserved groups in the community is at the heart of the Timken. In addition to contributions, the Foundation receives income from endowment funds and a perpetual trust, which provide restricted and unrestricted income. The Museum is open to the public free of charge.

**Collections**

The world-class Putnam Foundation collection of European old masters, 19<sup>th</sup> century American art and Russian icons is on permanent display at the Museum. The Museum’s collection spans nearly 700 years of art history from early Italian Renaissance devotional paintings to late nineteenth century paintings from the United States and includes important examples of French, Dutch and Flemish paintings in addition to Italian and American. Notable works in the Timken’s collection include: Rembrandt’s *Saint Bartholomew*, the only oil painting by the Dutch master on display in San Diego, Pieter Bruegel the Elder’s *Parable of the Sower*; John Singleton Copley’s *Portrait of Mrs. Thomas Gage*; Eastman Johnson’s classic, *The Cranberry Harvest: Island of Nantucket*; and Jean-Baptiste-Camille Corot’s *View of Volterra*. A special feature of the museum is the significant collection of Russian icons, many from the Moscow and Novgorod Schools, ranging from the fifteenth to the nineteenth century.

**Note 2 - Significant Accounting Policies:**

**Accounting Method**

The financial statements of the Foundation have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

**Financial Statement Presentation**

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations requiring that they be maintained permanently by the Foundation. The income from these assets is available for either general operations or specific programs as specified by the donor.



**THE PUTNAM FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Financial Statement Presentation (Continued)**

The FASB has issued reporting standards for endowments of not-for-profit organizations subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and enhanced disclosures for all endowment funds. The standards provide guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The standards also require additional disclosures about endowments (both donor-restricted funds and board-designated funds) to enable users of financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Risks and Uncertainties**

The Foundation invests in various types of investment securities which are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of financial position.

**Fair Value Measurements**

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

**THE PUTNAM FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018 AND 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Fair Value Measurements (Continued)**

The Foundation's statements of financial position include the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in equities and mutual funds are considered Level 1 assets and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.
- Investments in corporate and government bonds are considered Level 2 assets and are reported at fair value using matrix pricing or market corroborated pricing and inputs such as yield curves and indices.
- The beneficial interest in the perpetual trust held by a third-party trustee (the "Trust") is considered a Level 3 asset and is recorded at fair value based on the fair value of the underlying Trust assets as determined by the third-party trustee and reported to the Foundation. The statements provided by the third-party trustee are reviewed monthly by the Foundation's Controller and quarterly by the Investment Committee for reasonableness of reported values. The Trust assets are valued at fair value based on quoted market prices, except for investments in hedge funds which are valued at the net asset value of the funds. The third-party trustee controls the investments in the Trust and makes all management and investment decisions.

**Inventory**

Inventory of gift shop items are valued at the lower of average cost (first-in, first-out) or market.

**Capitalization and Depreciation**

The Foundation capitalizes all expenditures in excess of \$2,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property is depreciated using the straight-line method over the estimated useful asset lives as follows:

Building improvements	11 - 15 years
Equipment	5 - 7 years

Depreciation totaled \$22,406 and \$22,592 for the years ended March 31, 2018 and 2017, respectively.

Maintenance, repairs and minor renewals are charged to operations as incurred. Upon sale or disposition of property, the asset account is relieved of the cost and the accumulated depreciation account is charged with depreciation taken prior to the sale. Any resultant gain or loss is credited or charged to earnings.

**THE PUTNAM FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Valuation of Long-Lived Assets**

The Foundation reviews its long-lived assets for impairment at least annually. Whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, recoverability of the asset to be held and used is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Based on an evaluation of existing long-lived assets, the Foundation believes no impairment exists at March 31, 2018 and 2017.

**Collections - Works of Art**

The Foundation has capitalized its works of art since its inception. If purchased, items accessioned into the works of art are capitalized at cost and, if donated, they are capitalized at their appraised or fair value on the accession date, the date on which the item is accepted by the Board of Directors (the "Board"). Gains or losses on the deaccession of works of art are classified in the statements of activities as unrestricted or temporarily restricted depending on donor restrictions, if any, placed on the item at the time of accession. Accession of works of art totaled \$218,875 and \$125,000 for the years ended March 31, 2018 and 2017, respectively. Deaccession of works of art from the collection totaled \$13,350 and \$52,550 during the years ended March 31, 2018 and 2017, respectively, with net proceeds totaling \$4,128 and \$5,940 resulting in a loss on sale of \$9,223 and \$46,610 for the years ended March 31, 2018 and 2017, respectively. Costs incurred in connection with the acquisition and conservation of works of art are expensed in the period incurred. The collection totaled \$13,759,622 and \$13,554,097 at March 31, 2018 and 2017, respectively.

An independent appraisal made during 2015, adjusted for accessions and deaccessions at cost, valued the works of art held by the Foundation at \$275,283,000. Subsequent to the issuance of the appraisal report, the museum made acquisitions and received donated works of art totaling in the amount of \$1,844,599. Management believes that the value at March 31, 2018 has not declined since the 2015 appraisal.

**Compensated Absences**

Accumulated unpaid vacation and other employee benefit amounts totaling \$25,412 and \$15,704 at March 31, 2018 and 2017, respectively, are accrued when incurred and included in accounts payable and accrued expenses.

**Revenue Recognition**

Pledges receivable and contributions are recognized when the donor makes a promise to give to the Foundation that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

**THE PUTNAM FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018 AND 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Donated Services and Materials**

The Foundation utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the years ended March 31, 2018 and 2017 did not meet the requirements above; therefore, no amounts were recognized in the financial statements for volunteer time.

In-kind contributions, which consist primarily of donated entertainment, advertising, lighting and travel used for fundraising events and program services with an estimated fair value of \$6,462 and \$76,905 and donated food, supplies and artwork used for fundraising events with an estimated value of \$8,656 and \$16,015 for the years ended March 31, 2018 and 2017, respectively, are included in unrestricted contributions and also included in expenses in the accompanying statements of activities.

The Foundation received donated security consulting services. The donated consulting services are recorded at fair value and totaled \$42,902 and \$29,700 for the years ended March 31, 2018 and 2017, respectively, and have been included in unrestricted contributions and also included in expenses in the accompanying statements of activities.

The Foundation received donated artwork and decorative art for its collection. The donated artwork and decorative art is recorded at fair value and totaled \$218,875 and \$125,000 for the years ended March 31, 2018 and 2017, respectively, are included in unrestricted contributions and capitalized as an asset included in collections – works of art.

**Allocated Expenses**

Expenses by function have been allocated among the program and supporting service classifications on the basis of internal records and estimates made by the Foundation's management.

**Income Taxes**

The Foundation is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code except on net income derived from unrelated business activities. The Foundation's unrelated business activity did not generate taxable income and no tax liability has been recorded at March 31, 2018 and 2017. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation is not a private foundation.

The Foundation's Return of Organization Exempt from Income Tax and Exempt Organization Business Income Tax Returns for Tax for the years ended March 31, 2018, 2017, 2016 and 2015 are subject to examination by Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

**THE PUTNAM FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018 AND 2017**

**Note 2 - Significant Accounting Policies: (Continued)**

**Concentration of Credit Risk**

The Foundation's policy is to place cash and cash equivalents with high-credit-quality financial institutions. Amounts placed with FDIC and SIPC insured institutions and covered by insurance may at times exceed the insured deposit limit. The Foundation has not experienced any losses in such accounts.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Foundation considers all highly-liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of the following at March 31:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents - operations	\$ 380,074	\$ 624,568
Investments and cash - restricted	<u>170,030</u>	<u>525,559</u>
Total Cash and Cash Equivalents	<u>\$ 550,114</u>	<u>\$ 1,150,127</u>

**Subsequent Events**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 5, 2018, the date the financial statements were available to be issued.

**Reclassification**

The Foundation has reclassified certain prior year information to conform with current year presentation.

**Note 3 - Fair Value Measurements:**

The following table summarizes assets measured at fair value by classification within the fair value hierarchy at March 31:

	2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2018
Equities:				
Domestic	\$ 3,619,113	\$ -	\$ -	\$ 3,619,113
International	1,987,070	-	-	1,987,070
Fixed Income:				
Domestic	682,422	1,486,051	-	2,168,473
International	301,784	393,130	-	694,914
Perpetual trust held by third-party trustee (Note 6)	-	-	<u>14,478,723</u>	<u>14,478,723</u>
	<u>\$ 6,590,389</u>	<u>\$ 1,879,181</u>	<u>\$ 14,478,723</u>	<u>\$ 22,948,293</u>

**THE PUTNAM FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 3 - Fair Value Measurements: (Continued)**

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2017
Equities:				
Domestic	\$ 3,356,297	\$ -	\$ -	\$ 3,356,297
International	1,782,907	-	-	1,782,907
Fixed Income:				
Domestic	637,227	1,301,202	-	1,938,429
International	261,813	347,223	-	609,036
Perpetual trust held by third-party trustee (Note 6)	-	-	13,919,749	13,919,749
	\$ 6,038,244	\$ 1,648,425	\$ 13,919,749	\$ 21,606,418

The reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are included in the Note 6 as indicated above.

The following table represents the Foundation's Level 3 financial instrument, the valuation techniques used to measure the fair value of the financial instrument, and the significant unobservable inputs and the range of values for those inputs for the years ended March 31:

		2018		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Perpetual trust held by third party trustee	\$ 14,478,723	Valuation of underlying assets as provided by third-party trustee	Base price	N/A

		2017		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Perpetual trust held by third party trustee	\$ 13,919,749	Valuation of underlying assets as provided by the third-party trustee	Base price	N/A

**THE PUTNAM FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 4 - Investments:**

Investments consist of the following at March 31:

	<u>2018</u>	<u>2017</u>
Equities	\$ 5,606,183	\$ 5,139,204
Fixed income	2,863,387	2,547,465
Total Investments	<u>\$ 8,469,570</u>	<u>\$ 7,686,669</u>

Investments are classified as follows:

	<u>2018</u>	<u>2017</u>
Investments and cash - restricted	\$ 6,286,711	\$ 5,503,810
Investments - endowment	2,182,859	2,182,859
Total Investments	<u>\$ 8,469,570</u>	<u>\$ 7,686,669</u>

The following schedule summarizes the investment return for the years ended March 31:

	<u>2018</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2018</u>
Interest and dividend income	\$ 477	\$ 208,204	\$ 208,681
Net realized and unrealized gains	-	711,254	711,254
Investment management fees	-	(105,367)	(105,367)
Net Investment Income	<u>\$ 477</u>	<u>\$ 814,091</u>	<u>\$ 814,568</u>
	<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>
Interest and dividend income	\$ 2,021	\$ 188,981	\$ 191,002
Net realized and unrealized gains	-	563,874	563,874
Investment management fees	-	(98,577)	(98,577)
Net Investment Income	<u>\$ 2,021</u>	<u>\$ 654,278</u>	<u>\$ 656,299</u>

**Note 5 - Property and Equipment:**

Property and equipment consist of the following at March 31:

	<u>2018</u>	<u>2017</u>
Building improvements	\$ 1,186,710	\$ 1,175,709
Equipment	128,976	125,948
Construction in progress	189,257	-
Subtotal	<u>1,504,943</u>	<u>1,301,657</u>
Less: Accumulated depreciation	<u>(1,065,474)</u>	<u>(1,043,068)</u>
Property and Equipment, Net	<u>\$ 439,469</u>	<u>\$ 258,589</u>

**THE PUTNAM FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018 AND 2017**

**Note 6 - Perpetual Trust Held by Third-Party Trustee:**

The Foundation has a beneficial interest in the Putnam Foundation Trust, a perpetual trust, which is held by JP Morgan and is classified as permanently restricted as these investments must be maintained in perpetuity. The assets held in the Putnam Foundation Trust consists of 81% publicly traded U.S. and International equities traded on the open markets, 6% U.S. and International fixed income mutual funds traded on open markets and 13% alternative investments consisting of two hedge funds at March 31, 2018.

The activity in the beneficial interest in the Putnam Foundation Trust consisted of the following for the years ended March 31:

	<u>2018</u>	<u>2017</u>
Balance at Beginning of Year	\$ 13,919,749	\$ 13,176,159
Distributions to the Foundation	(690,951)	(709,576)
Change in fair value	<u>1,249,925</u>	<u>1,453,166</u>
Balance at End of Year	<u>\$ 14,478,723</u>	<u>\$ 13,919,749</u>

**Note 7 - Note Payable:**

Note payable consists of the following at March 31:

	<u>2018</u>	<u>2017</u>
Note payable to San Diego Gas & Electric in the original amount of \$93,523 for energy efficient upgrades that will lower energy levels and counteract the planned rate increases. The note is noninterest bearing and requires a monthly payment of \$1,695, due June 30, 2021. Unsecured.	32,629	42,418
Less: Current Portion	<u>(9,789)</u>	<u>(9,789)</u>
Notes Payable, Net	<u>\$ 22,840</u>	<u>\$ 32,629</u>

Future principal payments on the note payable are as follows:

<u>Years Ended March 31</u>	
2019	\$ 9,789
2020	9,789
2021	9,789
2022	<u>3,262</u>
	<u>\$ 32,629</u>



**THE PUTNAM FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 8 - Temporarily Restricted Net Assets:**

Temporarily restricted net assets represent contributions received by the Foundation, which are limited in their use by the donor-imposed stipulations and accumulated earnings on endowment assets that are restricted in accordance with the endowment spending policy. Temporarily restricted net assets are available for the following purposes at March 31:

	<u>2018</u>	<u>2017</u>
Accumulated earnings on endowment assets	\$ 6,456,750	\$ 6,029,369
Acquisition fund	298,737	298,737
Exhibits and educational programs	47,500	129,440
Fellowship	17,500	15,000
Capital improvements	-	46,194
Special event	-	12,000
Strategic planning/rebranding fund	-	10,186
Total Temporarily Restricted Net Assets	<u>\$ 6,820,487</u>	<u>\$ 6,540,926</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows for the years ended March 31:

	<u>2018</u>	<u>2017</u>
Accumulated earnings on endowment assets	\$ 386,710	\$ 428,904
Exhibits and educational programs	207,294	28,654
Strategic planning fund	10,186	2,223
Total Temporarily Restricted Net Assets Released from Restriction	<u>\$ 604,190</u>	<u>\$ 459,781</u>

**Note 9 - Endowment Net Assets:**

The Foundation's endowment was established for a general purpose. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the enacted version of the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment (2) the original value of subsequent gifts donated to the permanent endowment (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

**THE PUTNAM FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 9 - Endowment Net Assets: (Continued)**

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation.

From time to time, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies at March 31, 2018 and 2017.

The Foundation has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under the Foundation's investment policy, as approved by the Board, the endowment assets are invested in a manner which attempts to achieve a pre-tax absolute real return, in excess of inflation and after fees and expenses, of 5% for all permanently restricted endowment assets. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation has a spending policy of appropriating for distribution 5% of its endowment fund's three-year, moving-average fair value as of the most recent fiscal year end.

The Foundation targets a diversified asset allocation primarily focused on equity and fixed-income-based investments to achieve its long-term return objectives within prudent risk constraints. If the accumulated gains/losses fund has a debit balance, the endowment is "underwater" and no endowment appropriations are allowed until the endowment value has returned to a credit balance, unless this limitation is waived by the Board.

Endowment Composition by type of fund at March 31:

	2018		Total
	Temporarily Restricted Endowment Fund	Permanently Restricted Endowment Fund	
Perpetual trust held by third-party trustee	\$ -	\$ 14,478,723	\$ 14,478,723
Timken Ames Endowment	6,455,671	612,341	7,068,012
Roon Endowment	1,079	760,518	761,597
Walter Fitch Education Endowment	-	750,000	750,000
Outreach Español Endowment	-	60,000	60,000
	<u>\$ 6,456,750</u>	<u>\$ 16,661,582</u>	<u>\$ 23,118,332</u>

**THE PUTNAM FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2018 AND 2017**

**Note 9 - Endowment Net Assets: (Continued)**

	2017		Total
	Temporarily Restricted Endowment Fund	Permanently Restricted Endowment Fund	
Perpetual trust held by third-party trustee	\$ -	\$ 13,919,749	\$ 13,919,749
Timken Ames Endowment	6,028,290	612,341	6,640,631
Roon Endowment	1,079	760,518	761,597
Walter Fitch Education Endowment	-	750,000	750,000
Outreach Español Endowment	-	60,000	60,000
	<u>\$ 6,029,369</u>	<u>\$ 16,102,608</u>	<u>\$ 22,131,977</u>

Endowment composition by type of fund and changes in endowment net assets as of and for the years ended March 31:

	Temporarily Restricted Endowment Fund	Permanently Restricted Endowment Fund	Total
Endowment net assets, March 31, 2016	\$ 5,803,995	\$ 15,359,018	\$ 21,163,013
Investment return:			
Investment income	90,404	-	90,404
Net appreciation (realized and unrealized)	563,874	1,453,166	2,017,040
Total investment return	654,278	1,453,166	2,107,444
Appropriation of accumulated earnings on endowment assets	(428,904)	(709,576)	(1,138,480)
Endowment net assets, March 31, 2017	6,029,369	16,102,608	22,131,977
Investment return:			
Investment income	102,837	-	102,837
Net appreciation (realized and unrealized)	711,254	1,249,925	1,961,179
Total investment return	814,091	1,249,925	2,064,016
Appropriation of accumulated earnings on endowment assets	(386,710)	(690,951)	(1,077,661)
Endowment net assets, March 31, 2018	<u>\$ 6,456,750</u>	<u>\$ 16,661,582</u>	<u>\$ 23,118,332</u>

**THE PUTNAM FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018 AND 2017**

**Note 10 - Commitments:**

**Leases**

The Foundation leases office space under an operating lease that expires in January 2023. Rent expense totaled \$85,505 and \$90,884 for the years ended March 31, 2018 and 2017, respectively.

Future minimum lease payments are as follows:

<u>Years Ended March 31</u>	
2019	\$ 79,550
2020	81,937
2021	84,396
2022	86,928
2023	<u>74,280</u>
Total	<u>\$ 407,091</u>

**Agreement With the City of San Diego**

The building and land where the Foundation is located are owned by the City of San Diego (the “City”) and leased to the Foundation, and therefore are not assets of the Foundation and are not reflected in the accompanying financial statements. Additions and renovations to the original building are assets of the Foundation and are reflected as leasehold improvements in the accompanying financial statements. The Foundation operates the museum under a 50-year lease with the City which ended in October 2015. A new agreement is currently being negotiated. As part of this agreement, the Foundation is to make the premises available to the public, without charge, one day per month. Under the agreement, in place of cash rent for the use of the premises, the consideration to the City from the Foundation will be the continuous operation, development and maintenance of the premises.

**Pension Plan**

The Foundation sponsors a 401(k) pension plan (the “Plan”) covering employees over 21 years of age after they have six months of service. Each employee’s total contribution may not exceed the maximum allowable under current regulations. The Foundation also pays all administrative costs of the Plan. All beneficiaries of the Plan are responsible for their own investment decisions. The Foundation’s matching contributions to the Plan totaled \$9,930 and \$9,738 for the years ended March 31, 2018 and 2017, respectively.

**THE PUTNAM FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2018 AND 2017**

**Note 10 - Commitments: (Continued)**

**Retirement Agreement**

The Foundation has a retirement agreement with a retired employee to provide for an annual pension payment of \$28,800. The annual measurement date is March 31 for the retirement agreement. The following provides further information about the Foundation's retirement agreement for the years ended March 31:

	<u>2018</u>	<u>2017</u>
<u>Obligation and Funded Status:</u>		
Retirement agreement payable at March 31	\$ 33,008	\$ 33,008
Benefit payments	(28,800)	(28,800)
Actuarial change in retirement obligation	<u>28,800</u>	<u>28,800</u>
Retirement Agreement Payable at March 31, included in accounts payable and accrued expenses	<u>\$ 33,008</u>	<u>\$ 33,008</u>

**THE PUTNAM FOUNDATION**  
**SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	Supporting Services			Total Supporting Services	Total
	Programs and Exhibits	Management and General	Fundraising		
<b><u>Salaries and Related Expenses:</u></b>					
Salaries and wages	\$ 784,953	\$ 100,299	\$ 30,825	\$ 131,124	\$ 916,077
Payroll taxes	65,639	7,679	2,442	10,121	75,760
Employee benefits	67,482	17,903	4,553	22,456	89,938
Total Salaries and Related Expenses	<u>918,074</u>	<u>125,881</u>	<u>37,820</u>	<u>163,701</u>	<u>1,081,775</u>
<b><u>Nonsalary Related Expenses:</u></b>					
Advertising	12,930	-	-	-	12,930
Bank fees and other charges	10,233	1,614	704	2,318	12,551
Depreciation	18,254	2,891	1,261	4,152	22,406
Events and donor recognition	203,844	-	6,595	6,595	210,439
Equipment expense	2,524	4,144	-	4,144	6,668
Exhibition costs	259,842	-	-	-	259,842
In-kind expenses	49,696	-	-	-	49,696
Insurance	47,973	1,227	384	1,611	49,584
Occupancy	188,417	13,187	5,684	18,871	207,288
Other expenses	113,711	13,232	8,609	21,841	135,552
Outside services	113,622	39,264	8,354	47,618	161,240
Program expenses	105,465	-	-	-	105,465
Repairs and maintenance	34,622	-	-	-	34,622
Supplies and materials	13,612	2,026	-	2,026	15,638
Total Nonsalary Related Expenses	<u>1,174,745</u>	<u>77,585</u>	<u>31,591</u>	<u>109,176</u>	<u>1,283,921</u>
<b>Total Program and Supporting Services Expenses</b>	<u>\$ 2,092,819</u>	<u>\$ 203,466</u>	<u>\$ 69,411</u>	<u>\$ 272,877</u>	<u>\$ 2,365,696</u>

**THE PUTNAM FOUNDATION**  
**SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED MARCH 31, 2017**

	Supporting Services			Total Supporting Services	Total
	Programs and Exhibits	Management and General	Fundraising		
<b><u>Salaries and Related Expenses:</u></b>					
Salaries and wages	\$ 465,877	\$ 268,491	\$ 145,208	\$ 413,699	\$ 879,576
Payroll taxes	21,046	42,017	11,107	53,124	74,170
Employee benefits	31,519	30,276	15,724	46,000	77,519
Total Salaries and Related Expenses	<u>518,442</u>	<u>340,784</u>	<u>172,039</u>	<u>512,823</u>	<u>1,031,265</u>
<b><u>Nonsalary Related Expenses:</u></b>					
Advertising	20,035	194	16,956	17,150	37,185
Bank fees and other charges	3,654	2,691	2,007	4,698	8,352
Depreciation	9,884	7,279	5,429	12,708	22,592
Events and donor recognition	4,068	-	55,452	55,452	59,520
Equipment expense	5,412	3,981	-	3,981	9,393
Exhibition costs	161,266	-	-	-	161,266
In-kind expenses	39,195	-	2,000	2,000	41,195
Insurance	52,486	7,358	-	7,358	59,844
Occupancy	37,315	124,788	15,334	140,122	177,437
Other expenses	26,273	11,188	17,845	29,033	55,306
Outside services	60,356	52,635	19,500	72,135	132,491
Program expenses	96,504	-	-	-	96,504
Repairs and maintenance	55,195	4,851	-	4,851	60,046
Supplies and materials	6,098	9,469	95	9,564	15,662
Total Nonsalary Related Expenses	<u>577,741</u>	<u>224,434</u>	<u>134,618</u>	<u>359,052</u>	<u>936,793</u>
<b>Total Program and Supporting Services Expenses</b>	<u>\$ 1,096,183</u>	<u>\$ 565,218</u>	<u>\$ 306,657</u>	<u>\$ 871,875</u>	<u>\$ 1,968,058</u>