



TIMKEN
MUSEUM
OF ART

THE PUTNAM FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018



Leaf & Cole, LLP
Certified Public Accountants

**THE PUTNAM FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018**

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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, 2019 and 2018, and the related statements of activities, functional expenses 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.

To the Board of Directors
The Putnam Foundation

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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, 2019 and 2018, 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.

Leaf & Cole LLP

San Diego, California
October 28, 2019

**THE PUTNAM FOUNDATION
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2019 AND 2018**

ASSETS

	<u>2019</u>	<u>2018</u>
<u>Current Assets:</u> (Notes 2 and 5)		
Cash and cash equivalents	\$ 280,789	\$ 380,074
Pledges receivable	20,000	-
Prepaid expenses and other assets	10,453	10,827
Inventory	34,195	18,238
Total Current Assets	345,437	409,139
<u>Noncurrent Assets:</u> (Notes 2, 4, 6, 7 and 8)		
Investments and cash - restricted	6,187,520	6,456,751
Property and equipment, net	458,503	439,469
Collections - works of art	13,759,622	13,759,622
Investments - endowment	2,182,859	2,182,859
Perpetual trust held by third-party trustee	14,176,695	14,478,723
Total Noncurrent Assets	36,765,199	37,317,424
TOTAL ASSETS	\$ 37,110,636	\$ 37,726,563

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2, 9 and 13)		
Accounts payable and accrued expenses	\$ 249,476	\$ 256,734
Current portion of note payable	9,789	9,789
Total Current Liabilities	259,265	266,523
<u>Noncurrent Liabilities:</u> (Note 9)		
Note payable, less current portion	13,051	22,840
Total Noncurrent Liabilities	13,051	22,840
Total Liabilities	272,316	289,363
<u>Commitments</u> (Note 13)		
<u>Net Assets:</u> (Notes 2, 10, 11 and 12)		
Without Donor Restrictions:		
Undesignated	13,962,804	13,904,184
Board designated funds	675,000	50,947
Total Without Donor Restrictions	14,637,804	13,955,131
With Donor Restrictions:		
Time restrictions	5,512,520	6,456,750
Purpose restrictions	328,442	363,737
Perpetual in nature	16,359,554	16,661,582
Total With Donor Restrictions	22,200,516	23,482,069
Total Net Assets	36,838,320	37,437,200
TOTAL LIABILITIES AND NET ASSETS	\$ 37,110,636	\$ 37,726,563

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

**THE PUTNAM FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenue:</u>						
Contributions	\$ 600,094	\$ 38,031	\$ 638,125	\$ 796,633	\$ 69,660	\$ 866,293
Other income	381,510	-	381,510	442,772	-	442,772
Government grants	164,256	-	164,256	173,916	-	173,916
Investment income	217	144,829	145,046	477	814,091	814,568
Loss on sale of collection items	-	-	-	(9,223)	-	(9,223)
Net assets released from restrictions	1,857,306	(1,857,306)	-	1,295,141	(1,295,141)	-
Total Support and Revenue	<u>3,003,383</u>	<u>(1,674,446)</u>	<u>1,328,937</u>	<u>2,699,716</u>	<u>(411,390)</u>	<u>2,288,326</u>
<u>Expenses:</u>						
Program Services:						
Program and exhibits	1,963,137	-	1,963,137	2,126,270	-	2,126,270
Total Program Services	<u>1,963,137</u>	<u>-</u>	<u>1,963,137</u>	<u>2,126,270</u>	<u>-</u>	<u>2,126,270</u>
Supporting Services:						
Management and general	200,691	-	200,691	203,466	-	203,466
Fundraising	156,882	-	156,882	189,972	-	189,972
Total Supporting Services	<u>357,573</u>	<u>-</u>	<u>357,573</u>	<u>393,438</u>	<u>-</u>	<u>393,438</u>
Total Expenses	<u>2,320,710</u>	<u>-</u>	<u>2,320,710</u>	<u>2,519,708</u>	<u>-</u>	<u>2,519,708</u>
<u>Other Income:</u>						
Change in fair value of perpetual trust held by third-party trustee	-	392,893	392,893	-	1,249,925	1,249,925
Total Other Income	<u>-</u>	<u>392,893</u>	<u>392,893</u>	<u>-</u>	<u>1,249,925</u>	<u>1,249,925</u>
Change in Net Assets	682,673	(1,281,553)	(598,880)	180,008	838,535	1,018,543
Net Assets at Beginning of Year	13,955,131	23,482,069	37,437,200	13,775,123	22,643,534	36,418,657
NET ASSETS AT END OF YEAR	<u>\$ 14,637,804</u>	<u>\$ 22,200,516</u>	<u>\$ 36,838,320</u>	<u>\$ 13,955,131</u>	<u>\$ 23,482,069</u>	<u>\$ 37,437,200</u>

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

**THE PUTNAM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2019**

	Supporting Services				Total
	Programs and Exhibits	Management and General	Fundraising	Total Supporting Services	
<u>Salaries and Related Expenses:</u>					
Salaries and wages	\$ 797,364	\$ 108,133	\$ 29,405	\$ 137,538	\$ 934,902
Payroll taxes	59,716	7,884	2,162	10,046	69,762
Employee benefits	73,919	20,408	4,903	25,311	99,230
Total Salaries and Related Expenses	930,999	136,425	36,470	172,895	1,103,894
<u>Nonsalary Related Expenses:</u>					
Advertising	-	-	11,716	11,716	11,716
Bank fees and other charges	7,768	1,228	537	1,765	9,533
Cost of goods sold - Museum store	26,018	-	-	-	26,018
Depreciation	34,958	-	-	-	34,958
Events and donor recognition	119,111	-	-	-	119,111
Equipment expense	2,820	492	-	492	3,312
Exhibition costs	226,514	-	-	-	226,514
In-kind expenses	7,060	-	2,984	2,984	10,044
Insurance	56,480	2,029	527	2,556	59,036
Occupancy	192,132	21,065	6,153	27,218	219,350
Other expenses	95,640	11,497	1,808	13,305	108,945
Outside services	92,325	26,479	4,209	30,688	123,013
Program expenses	111,687	-	-	-	111,687
Repairs and maintenance	34,922	198	-	198	35,120
Special events	-	-	92,116	92,116	92,116
Supplies and materials	24,703	1,278	362	1,640	26,343
Total Nonsalary Related Expenses	1,032,138	64,266	120,412	184,678	1,216,816
Total Expenses	\$ 1,963,137	\$ 200,691	\$ 156,882	\$ 357,573	\$ 2,320,710

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

THE PUTNAM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2018

	Supporting Services				Total
	Programs and Exhibits	Management and General	Fundraising	Total Supporting Services	
<u>Salaries and Related Expenses:</u>					
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	918,074	125,881	37,820	163,701	1,081,775
<u>Nonsalary Related Expenses:</u>					
Advertising	12,930	-	-	-	12,930
Bank fees and other charges	10,233	1,614	704	2,318	12,551
Cost of goods sold - Museum store	33,451	-	-	-	33,451
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
Special events	-	-	120,561	120,561	120,561
Supplies and materials	13,612	2,026	-	2,026	15,638
Total Nonsalary Related Expenses	1,208,196	77,585	152,152	229,737	1,437,933
Total Expenses	\$ 2,126,270	\$ 203,466	\$ 189,972	\$ 393,438	\$ 2,519,708

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

**THE PUTNAM FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (598,880)	\$ 1,018,543
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	34,958	22,406
Net realized and unrealized gains from investments	(29,235)	(711,254)
Distributions from perpetual trust held by third-party trustee	694,921	690,951
Change in fair value of perpetual trust held by third-party trustee	(392,893)	(1,249,925)
Loss on sale of collection items	-	9,223
Donated artwork for collection	-	(218,875)
(Increase) Decrease in:		
Pledges receivable	(20,000)	-
Prepaid expenses and other assets	374	3,857
Inventory	(15,957)	(2,813)
Increase (Decrease) in:		
Accounts payable and accrued expenses	18,098	76,447
Net Cash Used in Operating Activities	<u>(308,614)</u>	<u>(361,440)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of investments	(115,595)	(102,835)
Proceeds from sale of investments	364,562	31,188
Purchase of property and equipment	(79,348)	(161,264)
Proceeds from sale of collection items	-	4,127
Change in perpetual trust held by third-party trustee, net	302,028	(558,974)
Net Cash Provided by (Used in) Investing Activities	<u>471,647</u>	<u>(787,758)</u>
<u>Cash Flows From Financing Activities:</u>		
Distributions from perpetual trust held by third-party trustee	(694,921)	(690,951)
Change in fair value of perpetual trust held by third-party trustee	392,893	1,249,925
Payments on note payable	(9,789)	(9,789)
Net Cash (Used in) Provided by Financing Activities	<u>(311,817)</u>	<u>549,185</u>
Net Decrease in Cash and Cash Equivalents	(148,784)	(600,013)
Cash and Cash Equivalents at Beginning of Year	<u>550,114</u>	<u>1,150,127</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 401,330</u>	<u>\$ 550,114</u>

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

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

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, 19th 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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 2 - Significant Accounting Policies: (Continued)

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 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 PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 2 - Significant Accounting Policies: (Continued)

Fair Value Measurements (Continued)

- 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 net realizable value.

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 support without donor restrictions 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 and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how 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 net assets with donor restrictions to net assets without donor restrictions 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 \$34,958 and \$22,406 for the years ended March 31, 2019 and 2018, 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.

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, 2019 and 2018.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018**

Note 2 - Significant Accounting Policies: (Continued)

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 with donor restrictions or without donor restrictions depending on donor restrictions, if any, placed on the item at the time of accession. Accession of works of art totaled \$-0- and \$218,875 for the years ended March 31, 2019 and 2018, respectively. Deaccession of works of art from the collection totaled \$-0- and \$13,350 during the years ended March 31, 2019 and 2018, respectively, with net proceeds totaling \$-0- and \$4,128 resulting in a loss on sale of \$-0- and \$9,223 for the years ended March 31, 2019 and 2018, 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 at March 31, 2019 and 2018.

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, 2019 has not declined since the 2015 appraisal.

Compensated Absences

Accumulated unpaid vacation and other employee benefit amounts totaling \$16,221 and \$25,412 at March 31, 2019 and 2018, respectively, are accrued when incurred and included in accounts payable and accrued expenses.

Revenue Recognition

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 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 depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. 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.

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, 2019 and 2018 did not meet the requirements above; therefore, no amounts were recognized in the financial statements for volunteer time.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018**

Note 2 - Significant Accounting Policies: (Continued)

Donated Services and Materials (Continued)

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 \$7,060 and \$6,462 and donated food, supplies and artwork used for fundraising events with an estimated value of \$2,984 and \$8,656 for the years ended March 31, 2019 and 2018, respectively, are included in 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 \$-0- and \$42,902 for the years ended March 31, 2019 and 2018, respectively, and have been included in 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 \$-0- and \$218,875 for the years ended March 31, 2019 and 2018, respectively, are included in contributions and capitalized as an asset included in collections – works of art.

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. The Foundation allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, 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, 2019 and 2018. 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, 2019, 2018, 2017 and 2016 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, 2019 AND 2018**

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>2019</u>	<u>2018</u>
Cash and cash equivalents - operations	\$ 280,789	\$ 380,074
Investments and cash - restricted	<u>120,541</u>	<u>170,030</u>
Total Cash and Cash Equivalents	<u>\$ 401,330</u>	<u>\$ 550,114</u>

Accounting Pronouncements Adopted

In August 2016, the FASB issued ASU 2016-14, “Presentation of Financial Statements of Not-for-Profit Entities” (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Foundation has adopted this ASU as of and for the year ended March 31, 2019.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 28, 2019, the date the financial statements were available to be issued.

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 3 - Liquidity and Availability:

The Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation considers investment income without donor restrictions, appropriated earnings from donor-restricted endowments, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The table below presents financial assets available for general expenditures within one year at March 31, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 280,789
Pledges receivable	20,000
Appropriation of operating reserve and endowment earnings	400,000
Distributions from perpetual trust	<u>690,000</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,390,789</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

The Foundation's governing board has designated a portion of its resources without donor restrictions for an operating reserve as described in Note 10. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Board of Directors. The earnings from the operating reserve expected to be used within one year are identified in the table above.

Endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for available for general use. Appropriations of endowment fund earnings are made in accordance with the spending policy as described in Note 12. Donor-restricted endowment funds are not available for general expenditure.

The beneficial interest in the Putnam Foundation Trust is a perpetual trust (Note 8). Income from the perpetual trust is available for general use and is distributed to the Foundation based on a spending policy established by the trustee.

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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Note 4 - Fair Value Measurements:

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

	2019			
	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, 2019
Equities:				
Domestic	\$ 4,325,302	\$ -	\$ -	\$ 4,325,302
International	1,001,619	-	-	1,001,619
Fixed Income:				
Domestic	706,413	1,590,217	-	2,296,630
International	260,471	365,816	-	626,287
Perpetual trust held by third-party trustee (Note 8)	-	-	14,176,695	14,176,695
	<u>\$ 6,293,805</u>	<u>\$ 1,956,033</u>	<u>\$ 14,176,695</u>	<u>\$ 22,426,533</u>
	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 8)	-	-	14,478,723	14,478,723
	<u>\$ 6,590,389</u>	<u>\$ 1,879,181</u>	<u>\$ 14,478,723</u>	<u>\$ 22,948,293</u>

The reconciliation for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are included in the Note 8 as indicated above.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018**

Note 4 - Fair Value Measurements: (Continued)

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:

2019				
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Perpetual trust held by third party trustee	\$ 14,176,695	Valuation of underlying assets as provided by the third-party trustee	Base price	N/A

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

Note 5 – Pledges Receivable:

Pledges receivable totaling \$20,000 and \$-0- at March 31, 2019 and 2018, respectively, are due within one year.

Note 6 - Investments:

Investments consist of the following at March 31:

	<u>2019</u>	<u>2018</u>
Equities	\$ 5,326,921	\$ 5,606,183
Fixed income	2,922,917	2,863,387
Total Investments	<u>\$ 8,249,838</u>	<u>\$ 8,469,570</u>

Investments are classified as follows:

	<u>2019</u>	<u>2018</u>
Investments and cash - restricted	\$ 6,187,520	\$ 6,286,711
Investments - endowment	2,182,859	2,182,859
Total Investments	<u>\$ 8,249,838</u>	<u>\$ 8,469,570</u>

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 6 - Investments: (Continued)

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

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Interest and dividend income	\$ 217	\$ 222,338	\$ 222,555
Net realized and unrealized gains	-	29,235	29,235
Investment management fees	-	(106,744)	(106,744)
Net Investment Income	\$ 217	\$ 144,829	\$ 145,046
	2018		
	Without Donor Restriction	With Donor Restriction	Total
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	\$ 477	\$ 814,091	\$ 814,568

Note 7 - Property and Equipment:

Property and equipment consist of the following at March 31:

	2019	2018
Building improvements	\$ 1,368,381	\$ 1,186,710
Equipment	132,065	128,976
Construction in progress	58,489	189,257
Subtotal	1,558,935	1,504,943
Less: Accumulated depreciation	(1,100,432)	(1,065,474)
Property and Equipment, Net	\$ 458,503	\$ 439,469

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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Note 8 - 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 with donor restrictions as these investments must be maintained in perpetuity. The assets held in the Putnam Foundation Trust consists of 58% publicly traded U.S. and International equities traded on the open markets, 32% U.S. and International fixed income mutual funds traded on open markets and 10% alternative investments consisting of two hedge funds at March 31, 2019.

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

	<u>2019</u>	<u>2018</u>
Balance at Beginning of Year	\$ 14,478,723	\$ 13,919,749
Distributions to the Foundation	(694,921)	(690,951)
Change in fair value	392,893	1,249,925
Balance at End of Year	<u>\$ 14,176,695</u>	<u>\$ 14,478,723</u>

Note 9 - Note Payable:

Note payable consists of the following at March 31:

	<u>2019</u>	<u>2018</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.	22,840	32,629
Less: Current Portion	<u>(9,789)</u>	<u>(9,789)</u>
Note Payable, Net	<u>\$ 13,051</u>	<u>\$ 22,840</u>

Future principal payments on the note payable are as follows:

<u>Years Ended March 31</u>	
2020	\$ 9,789
2021	9,789
2022	<u>3,262</u>
	<u>\$ 22,840</u>

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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Note 10 – Board-Designated Funds:

The Foundation’s governing board has designated a portion of funds without donor restrictions as an operating reserve fund. The operating reserve fund target minimum is equal to three months of average operating costs adjusted annually based on the annual budget. The funds are available in cash or cash equivalents and are held in the general cash and investment accounts of the Foundation. The operating reserve policy governs the use and replenishment of the operating reserve funds. The operating reserve totaled \$675,000 and \$-0- at March 31, 2019 and 2018, respectively.

The Foundation has received funds without donor restrictions which have been designated by the governing board for capital improvements and other purposes totaling \$-0- and \$50,947 at March 31, 2019 and 2018, respectively.

Note 11 - Net Assets With Donor Restrictions:

Net assets with donor restrictions represent contributions received or receivable by the Foundation, which are limited in their use by time or donor-imposed restrictions. Net assets with donor restrictions are available for the following purpose at March 31:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Acquisition fund	\$ 298,737	\$ 298,737
Curatorial fellowship	15,000	17,500
Exhibits and educational programs	14,705	47,500
Total Subject to Expenditure For Specified Purpose	328,442	363,737
Subject to the Passage of Time:		
Accumulated earnings on endowment assets	5,512,520	6,456,750
Perpetual in Nature:		
Endowments (Note 12)	16,359,554	16,661,582
Total Net Assets with Donor Restrictions	\$ 22,200,516	\$ 23,482,069

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the years ended March 31:

	<u>2019</u>	<u>2018</u>
Purpose Restrictions Accomplished:		
Exhibits and educational programs	\$ 55,826	\$ 207,294
Curatorial fellowship	17,500	-
Strategic planning fund	-	10,186
Time Restrictions Fulfilled:		
Perpetual trust distributions	694,921	690,951
Appropriation of accumulated earnings on endowment assets	414,059	386,710
Accumulated earnings transferred to operating reserve	675,000	-
Total Net Assets Released From Restrictions	\$ 1,857,306	\$ 1,295,141

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018**

Note 12 - 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 Uniform Prudent Management of Institutional Funds Act of 2006 ("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 donor-restricted net assets of a perpetual nature as (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 donor-restricted net assets of a perpetual nature is classified as donor-restricted net assets with time restriction until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

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.

The Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Foundation has no underwater endowment funds at March 31, 2019 and 2018.

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 endowment assets of a perpetual nature. 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.

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018

Note 12 - Endowment Net Assets: (Continued)

Endowment composition by type of fund at March 31:

	2019		
	With Donor Restrictions	With Donor Restrictions - Perpetual	Total
Perpetual trust held by third-party trustee	\$ -	\$ 14,176,695	\$ 14,176,695
Timken Ames Endowment	5,511,441	612,341	6,123,782
Roon Endowment	1,079	760,518	761,597
Walter Fitch Education Endowment	-	750,000	750,000
Outreach Español Endowment	-	60,000	60,000
Total Endowment Net Assets	\$ 5,512,520	\$ 16,359,554	\$ 21,872,074
	2018		
	With Donor Restrictions	With Donor Restrictions - Perpetual	Total
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
Total Endowment Net Assets	\$ 6,456,750	\$ 16,661,582	\$ 23,118,332

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

	With Donor Restrictions	With Donor Restrictions - Perpetual	Total
Endowment net assets, March 31, 2017	\$ 6,029,369	\$ 16,102,608	\$ 22,131,977
Investment income	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	6,456,750	16,661,582	23,118,332
Investment income	144,829	392,893	537,722
Appropriation of accumulated earnings on endowment assets	(414,059)	(694,921)	(1,108,980)
Transfer to operating reserve	(675,000)	-	(675,000)
Endowment net assets, March 31, 2019	\$ 5,512,520	\$ 16,359,554	\$ 21,872,074

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018**

Note 13 - Commitments:

Leases

The Foundation leases office space under an operating lease that expires in January 2023. Rent expense totaled \$79,551 and \$85,505 for the years ended March 31, 2019 and 2018, respectively.

The Foundation leases equipment and storage space under operating leases that expire in February 2024 and May 2022, respectively. Rent expense totaled \$22,616 and \$24,125 for the years ended March 31, 2019 and 2018, respectively.

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 20-year lease with the City through June 30, 2039. In addition, the Foundation has the option to extend the term of the lease for two periods of five years each. 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, the Foundation pays annual rent of \$3,598, increasing by the CPI annually, as well as provides for the continuous operation, development and maintenance of the premises.

Future minimum lease payments are as follows:

Years Ended March 31	
2020	\$ 104,532
2021	110,541
2022	113,073
2023	85,387
2024	7,725
Thereafter	53,963
Total	<u>\$ 475,221</u>

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 \$9,619 and \$9,930 for the years ended March 31, 2019 and 2018, respectively.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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Note 13 - 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>2019</u>	<u>2018</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>