



TIMKEN
MUSEUM
OF ART

THE PUTNAM FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015



Leaf & Cole, LLP
Certified Public Accountants

**THE PUTNAM FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

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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, 2016 and 2015, 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.

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, 2016 and 2015, 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 31, 2016

**THE PUTNAM FOUNDATION
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND 2015**

ASSETS

	<u>2016</u>	<u>2015</u>
<u>Assets:</u> (Notes 1, 2, 3, 4, 5 and 6)		
Cash and cash equivalents	\$ 784,250	\$ 2,228,676
Prepaid expenses and other assets	14,092	9,886
Grants and pledges receivable	99,360	-
Investments	7,986,856	7,962,175
Property and equipment, net	91,049	88,143
Collections - works of art	13,481,647	11,980,923
Perpetual trust held by third-party trustee	<u>13,176,159</u>	<u>14,799,728</u>
TOTAL ASSETS	\$ <u>35,633,413</u>	\$ <u>37,069,531</u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Notes 1 and 7)		
Accounts payable and accrued expenses	\$ 122,501	\$ 87,743
Deferred revenue	850	11,050
Note payable	<u>53,133</u>	<u>73,376</u>
Total Liabilities	<u>176,484</u>	<u>172,169</u>
<u>Commitments</u> (Note 10)		
<u>Net Assets:</u> (Notes 1, 8 and 9)		
Unrestricted:		
Unrestricted	13,751,456	12,130,597
Board advised	<u>212,958</u>	<u>917,843</u>
Total Unrestricted	13,964,414	13,048,440
Temporarily restricted	6,133,497	7,626,853
Permanently restricted	<u>15,359,018</u>	<u>16,222,069</u>
Total Net Assets	<u>35,456,929</u>	<u>36,897,362</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>35,633,413</u>	\$ <u>37,069,531</u>

The accompanying notes are integral part of the financial statements.

**THE PUTNAM FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Support and Revenue:</u>								
Contributions	\$ 483,573	\$ 404,705	\$ 760,518	\$ 1,648,796	\$ 271,880	\$ 527,835	\$ 60,000	\$ 859,715
Investment income (loss)	1,050	(265,874)	-	(264,824)	1,444	142,181	-	143,625
Government grants	137,528	-	-	137,528	111,299	-	-	111,299
Other income	112,202	-	-	112,202	69,826	-	-	69,826
Net assets released from restrictions	2,342,930	(1,632,187)	(710,743)	-	1,321,189	(635,304)	(685,885)	-
Total Support and Revenue	<u>3,077,283</u>	<u>(1,493,356)</u>	<u>49,775</u>	<u>1,633,702</u>	<u>1,775,638</u>	<u>34,712</u>	<u>(625,885)</u>	<u>1,184,465</u>
<u>Expenses:</u>								
Program	1,084,988	-	-	1,084,988	1,021,281	-	-	1,021,281
Management and general	619,086	-	-	619,086	659,503	-	-	659,503
Fundraising	457,235	-	-	457,235	257,806	-	-	257,806
Total Expenses	<u>2,161,309</u>	<u>-</u>	<u>-</u>	<u>2,161,309</u>	<u>1,938,590</u>	<u>-</u>	<u>-</u>	<u>1,938,590</u>
<u>Other Income:</u>								
Change in fair value of perpetual trust held by third-party trustee	-	-	(912,826)	(912,826)	-	-	666,999	666,999
Total Other Income	<u>-</u>	<u>-</u>	<u>(912,826)</u>	<u>(912,826)</u>	<u>-</u>	<u>-</u>	<u>666,999</u>	<u>666,999</u>
Change in Net Assets	915,974	(1,493,356)	(863,051)	(1,440,433)	(162,952)	34,712	41,114	(87,126)
Net Assets at Beginning of Year	<u>13,048,440</u>	<u>7,626,853</u>	<u>16,222,069</u>	<u>36,897,362</u>	<u>13,211,392</u>	<u>7,592,141</u>	<u>16,180,955</u>	<u>36,984,488</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 13,964,414</u></u>	<u><u>\$ 6,133,497</u></u>	<u><u>\$ 15,359,018</u></u>	<u><u>\$ 35,456,929</u></u>	<u><u>\$ 13,048,440</u></u>	<u><u>\$ 7,626,853</u></u>	<u><u>\$ 16,222,069</u></u>	<u><u>\$ 36,897,362</u></u>

The accompanying notes are integral part of the financial statements.

**THE PUTNAM FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (1,440,433)	\$ (87,126)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,168	59,433
Net realized and unrealized losses from investments	348,185	7,219
Distributions from perpetual trust held by third-party trustee	710,743	685,885
Change in fair value of perpetual trust held by third-party trustee	912,826	(666,999)
(Increase) Decrease in:		
Prepaid expenses and other assets	(4,206)	(3,762)
Grants and pledges receivable	(99,360)	1,000,000
Increase (Decrease) in:		
Accounts payable and accrued expenses	34,758	(34,393)
Deferred revenue	(10,200)	11,050
Net Cash Provided by Operating Activities	<u>461,481</u>	<u>971,307</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of investments	(842,831)	(149,400)
Proceeds from sale of investments	469,965	324,908
Purchase of property and equipment	(12,074)	-
Purchase of collection items	(1,500,724)	-
Change in perpetual trust held by third-party trustee, net	1,623,569	18,886
Net Cash (Used in) Provided by Investing Activities	<u>(262,095)</u>	<u>194,394</u>
<u>Cash Flows From Financing Activities:</u>		
Distributions from perpetual trust held by third-party trustee	(710,743)	(685,885)
Change in fair value of perpetual trust held by third-party trustee	(912,826)	666,999
Payments on note payable	(20,243)	(13,552)
Net Cash Used in Financing Activities	<u>(1,643,812)</u>	<u>(32,438)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,444,426)	1,133,263
Cash and Cash Equivalents at Beginning of Year	<u>2,228,676</u>	<u>1,095,413</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 784,250</u>	<u>\$ 2,228,676</u>

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

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 1 - Organization and Significant Accounting Policies:

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. 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 and 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. 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. On display are 46 paintings, 29 Russian icons, four tapestries and one sculpture. The collection also includes the only Rembrandt painting on public display in San Diego.

Significant Accounting Policies

Method of Accounting

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, 2016 AND 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

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, 2016 AND 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

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, mutual funds and U.S. Government Debt Securities 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 municipal bonds are considered Level 2 assets 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.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all grants and pledges receivable were fully collectible; therefore, no allowance for grants and pledges receivable was recorded at March 31, 2016 and 2015

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

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation (Continued)

Depreciation totaled \$9,168 and \$59,433 for the years ended March 31, 2016 and 2015, 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 of 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, 2016 and 2015.

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. There were no deaccessions of works of art during the years ended March 31, 2016 and 2015. Costs incurred in connection with the acquisition and conservation of works of art are expensed in the period incurred. The collection totaled \$13,481,647 and \$11,980,923 at March 31, 2016 and 2015, 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 in the amount of \$ 1,500,724. Management believes that the value at March 31, 2016 has not declined since the 2015 appraisal.

Compensated Absences

Accumulated unpaid vacation and other employee benefit amounts totaling \$13,060 and \$11,000 at March 31, 2016 and 2015, respectively, are accrued when incurred and included in accounts payable and accrued expenses.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Revenue Recognition

Income received in advance is deferred and recognized over the periods to which the income relates. Deferred revenue totaled \$850 and \$11,050 at March 31, 2016 and 2015, respectively.

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 Foundation received a conditional pledge with a balance of \$-0- and \$250,000 at March 31, 2016 and 2015, respectively, which was not recorded. The pledge was conditioned on the Foundation raising matching funds of \$250,000 a year in fiscal year 2016. If the condition is met, the pledge will be paid in the year the condition is met. The condition for fiscal year 2016 was met and the pledge balance was paid.

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, 2016 and 2015 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 advertising, lighting and travel used for fundraising events and program services with an estimated fair value of \$38,590 and \$7,987 and donated food, supplies and artwork used for fundraising events with an estimated value of \$4,148 and \$-0- for the years ended March 31, 2016 and 2015, respectively, are included in unrestricted contributions and also included in expenses in the accompanying statements of activities.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

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, 2016 and 2015. 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, 2016, 2015, 2014 and 2013 are subject to examination by Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

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.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 31, 2016, the date the financial statements were available to be issued.

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 2 - Fair Value Measurements:

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

	2016			Balance at March 31, 2016
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Equities:				
Domestic:				
US Large Cap Value	\$ 782,090	\$ -	\$ -	\$ 782,090
US Large Cap Growth	1,128,523	-	-	1,128,523
US Small and Mid-Cap	1,137,789	-	-	1,137,789
US Convertibles	117,720	-	-	117,720
Common Stock	302,792	-	-	302,792
Other equity investments	886	-	-	886
International:				
International Equity Core	1,159,307	-	-	1,159,307
Fixed Income:				
Domestic:				
US Fixed Income	1,445,799	-	-	1,445,799
US Government	348,552	40,600	-	389,152
High Yield Fixed Income	161,142	-	-	161,142
Corporate bonds and notes	-	42,201	-	42,201
Asset backed securities	-	33,634	-	33,634
Closed end funds	28,521	-	-	28,521
International:				
Non-US Fixed Income	-	368,284	-	368,284
Mutual funds:				
Real Estate Investment Trusts	289,161	-	-	289,161
Domestic Equity	188,985	-	-	188,985
Domestic Fixed Income	110,475	-	-	110,475
Perpetual trust held by third-party trustee (Note 6)	-	-	13,176,159	13,176,159
	<u>\$ 7,201,742</u>	<u>\$ 484,719</u>	<u>\$ 13,176,159</u>	<u>\$ 20,862,620</u>

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 2 - Fair Value Measurements: (Continued)

	2015			Balance at March 31, 2015
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Equities:				
Domestic:				
US Large Cap Value	\$ 831,884	\$ -	\$ -	\$ 831,884
US Large Cap Growth	788,969	-	-	788,969
US Small and Mid-Cap	1,201,769	-	-	1,201,769
US Convertibles	329,687	-	-	329,687
International:				
International Equity Core	1,200,471	-	-	1,200,471
Emerging Market Equity	304,809	-	-	304,809
Fixed Income:				
Domestic:				
US Fixed Income	402,096	1,064,514	-	1,466,610
Senior Loan Portfolio	304,811	-	-	304,811
High Yield Fixed Income	168,196	-	-	168,196
International:				
Non-US Fixed Income	-	643,855	-	643,855
Mutual funds:				
Real Estate Investment Trusts	406,840	-	-	406,840
Perpetual trust held by third-party trustee (Note 6)	-	-	14,799,728	14,799,728
	<u>\$ 5,939,532</u>	<u>\$ 1,708,369</u>	<u>\$ 14,799,728</u>	<u>\$ 22,447,629</u>

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

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 2 - 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:

		2016		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Perpetual trust held by third party trustee	\$ 13,176,159	Valuation of underlying assets as provided by third party trustee	Base Price	N/A

		2015		
Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Perpetual trust held by third party trustee	\$ 14,799,728	Valuation of underlying assets as provided by the third party trustee	Base Price	N/A

Note 3 - Grants and Pledges Receivable:

Grants and pledges receivable consist of the following at March 31:

	<u>2016</u>	<u>2015</u>
City of San Diego Commission for Arts and Culture	\$ 74,360	\$ -
Pledges Receivable – Due in less than one year	25,000	-
Total Grants and Pledges Receivable	<u>\$ 99,360</u>	<u>\$ -</u>

Note 4 - Investments:

Investments consist of the following at March 31:

	<u>2016</u>	<u>2015</u>
Equities	\$ 4,629,107	\$ 4,657,589
Fixed income	2,468,733	2,583,472
Mutual funds	588,621	406,840
Cash and cash equivalents	300,395	314,274
Total Investments	<u>\$ 7,986,856</u>	<u>\$ 7,962,175</u>

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 4 - Investments: (Continued)

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

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2016</u>
Interest and dividend income	\$ 1,050	\$ 183,371	\$ 184,421
Net realized and unrealized losses	-	(348,185)	(348,185)
Investment management fees	-	(101,060)	(101,060)
Net Investment Income (Loss)	<u>\$ 1,050</u>	<u>\$ (265,874)</u>	<u>\$ (264,824)</u>

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2015</u>
Interest and dividend income	\$ 1,444	\$ 230,674	\$ 232,118
Net realized and unrealized losses	-	(7,219)	(7,219)
Investment management fees	-	(81,274)	(81,274)
Net Investment Income	<u>\$ 1,444</u>	<u>\$ 142,181</u>	<u>\$ 143,625</u>

Note 5 - Property and Equipment:

Property and equipment consist of the following at March 31:

	<u>2016</u>	<u>2015</u>
Building improvements	\$ 991,198	\$ 991,198
Equipment	120,327	108,253
Subtotal	<u>1,111,525</u>	<u>1,099,451</u>
Less: Accumulated depreciation	<u>(1,020,476)</u>	<u>(1,011,308)</u>
Property and Equipment, Net	<u>\$ 91,049</u>	<u>\$ 88,143</u>

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

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 consist of 2% cash and cash equivalents, 69% U.S. and International equities, 10% fixed income and 19% alternative investments at March 31, 2016.

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

	<u>2016</u>	<u>2015</u>
Balance at Beginning of Year	\$ 14,799,728	\$ 14,818,614
Distributions to the Foundation	(710,743)	(685,885)
Change in fair value	<u>(912,826)</u>	<u>666,999</u>
Balance at End of Year	<u>\$ 13,176,159</u>	<u>\$ 14,799,728</u>

Note 7 - Note Payable:

Note payable consists of the following at March 31:

	<u>2016</u>	<u>2015</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.	<u>\$ 53,133</u>	<u>\$ 73,376</u>

Future principal payments on the note payable are as follows:

<u>Years Ended March 31</u>	
2017	\$ 11,531
2018	9,789
2019	9,789
2020	9,789
2021	9,789
Thereafter	<u>2,446</u>
	<u>\$ 53,133</u>

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

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>2016</u>	<u>2015</u>
Accumulated earnings on endowment assets	\$ 5,803,995	\$ 6,539,834
Acquisition fund	298,738	981,585
Exhibits and educational programs	18,355	86,357
Strategic planning/rebranding fund	12,409	19,077
Total Temporarily Restricted Net Assets	<u>\$ 6,133,497</u>	<u>\$ 7,626,853</u>

Temporarily restricted net assets in the amount of \$1,632,187 and \$635,304 were released from donor restrictions for the years ended March 31, 2016 and 2015, respectively, by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2016</u>	<u>2015</u>
Acquisition	\$ 1,005,708	\$ -
Accumulated earnings on endowment assets	469,965	384,908
Exhibits and educational programs	149,846	248,754
Strategic planning fund	6,668	1,642
Total Temporarily Restricted Net Assets Released from Restriction	<u>\$ 1,632,187</u>	<u>\$ 635,304</u>

Note 9 - Endowment Net Assets:

The Foundation's endowment consists of a fund 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, 2016 AND 2015**

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, 2016 and 2015.

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:

	2016		Total
	Temporarily Restricted Endowment Fund	Permanently Restricted Endowment Fund	
Perpetual trust held by third-party trustee	\$ -	\$ 13,176,159	\$ 13,176,159
Timken Ames Endowment	5,796,606	612,341	6,408,947
Roon Endowment	7,389	760,518	767,907
Walter Fitch Education Endowment	-	750,000	750,000
Outreach Español Endowment	-	60,000	60,000
	<u>\$ 5,803,995</u>	<u>\$ 15,359,018</u>	<u>\$ 21,163,013</u>

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

Note 9 - Endowment Net Assets: (Continued)

	2015		Total
	Temporarily Restricted Endowment Fund	Permanently Restricted Endowment Fund	
Perpetual trust held by third-party trustee	\$ -	\$ 14,799,728	\$ 14,799,728
Timken Ames Endowment	6,539,834	612,341	7,152,175
Walter Fitch Education Endowment	-	750,000	750,000
Outreach Español Endowment	-	60,000	60,000
	<u>\$ 6,539,834</u>	<u>\$ 16,222,069</u>	<u>\$ 22,761,903</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, 2014	\$ 6,782,561	\$ 16,180,955	\$ 22,963,516
Contribution	-	60,000	60,000
Investment return:			
Investment income	149,400	-	149,400
Net appreciation (realized and unrealized)	(7,219)	666,999	659,780
Total investment return	<u>142,181</u>	<u>666,999</u>	<u>809,180</u>
Appropriation of accumulated earnings on endowment assets	<u>(384,908)</u>	<u>(685,885)</u>	<u>(1,070,793)</u>
Endowment net assets, March 31, 2015	6,539,834	16,222,069	22,761,903
Contribution		760,518	760,518
Investment return:	-		
Investment income	82,311	-	82,311
Net depreciation (realized and unrealized)	(348,185)	(912,826)	(1,261,011)
Total investment return	<u>(265,874)</u>	<u>(912,826)</u>	<u>(1,178,700)</u>
Appropriation of accumulated earnings on endowment assets	<u>(469,965)</u>	<u>(710,743)</u>	<u>(1,180,708)</u>
Endowment net assets, March 31, 2016	<u>\$ 5,803,995</u>	<u>\$ 15,359,018</u>	<u>\$ 21,163,013</u>

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

Note 10 - Commitments:

Leases

The Foundation leases office space under an operating lease that expires in December 2017. Rent expense totaled \$85,294 and \$80,650 for the years ended March 31, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

<u>Years Ended March 31</u>	
2017	\$ 72,660
2018	<u>55,710</u>
Total	<u>\$ 128,370</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 ending 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 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 matched the first 4% of eligible compensation contributed by the employee until February 28, 2014 when the match was suspended. The Foundation also pays all administrative costs of this plan. All beneficiaries of the 401(k) pension plan are responsible for their own plan investment decisions. There were no matching contributions under this plan for the years ended March 31, 2016 and 2015. The 401(k) matching contributions were reinstated on April 1, 2016.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015**

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>Obligation and Funded Status:</u>	<u>2016</u>	<u>2015</u>
Retirement agreement payable at March 31	\$ 33,008	\$ 47,041
Benefit payments	(28,800)	(28,800)
Actuarial change in retirement obligation	<u>28,800</u>	<u>14,767</u>
Retirement Agreement Payable at March 31, included in accounts payable and accrued expenses	<u>\$ 33,008</u>	<u>\$ 33,008</u>