



TIMKEN
MUSEUM
OF ART

**THE PUTNAM FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**



Leaf & Cole, LLP
Certified Public Accountants

**THE PUTNAM FOUNDATION
FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

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 - 20



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Independent Auditor's Report

To the Board of Trustees
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, 2015 and 2014, 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 Trustees
The Putnam Foundation

Page 2

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, 2015 and 2014, 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
September 21, 2015

THE PUTNAM FOUNDATION
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
<u>Assets:</u> (Notes 1, 2, 3, 4, 5 and 6)		
Cash and cash equivalents	\$ 2,228,676	\$ 1,095,413
Prepaid expenses and other assets	9,886	6,124
Pledges receivable	-	1,000,000
Investments	7,962,175	8,144,902
Property and equipment, net	88,143	147,576
Collections - works of art	11,980,923	11,980,923
Perpetual trust held by third-party trustee	<u>14,799,728</u>	<u>14,818,614</u>
TOTAL ASSETS	\$ <u>37,069,531</u>	\$ <u>37,193,552</u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Notes 1 and 7)		
Accounts payable and accrued expenses	\$ 87,743	\$ 122,136
Deferred revenue	11,050	-
Note payable	<u>73,376</u>	<u>86,928</u>
Total Liabilities	<u>172,169</u>	<u>209,064</u>
<u>Commitments</u> (Notes 10 and 11)		
<u>Net Assets:</u> (Notes 1, 8 and 9)		
Unrestricted:		
Unrestricted	12,130,597	11,950,321
Board advised	<u>917,843</u>	<u>1,261,071</u>
Total Unrestricted	13,048,440	13,211,392
Temporarily restricted	7,626,853	7,592,141
Permanently restricted	<u>16,222,069</u>	<u>16,180,955</u>
Total Net Assets	<u>36,897,362</u>	<u>36,984,488</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>37,069,531</u>	\$ <u>37,193,552</u>

The accompanying notes are integral part of the financial statements.

**THE PUTNAM FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions	\$ 271,880	\$ 527,835	\$ 60,000	\$ 859,715	\$ 1,818,749	\$ 350,138	\$ -	\$ 2,168,887
Investment income	1,444	142,181	-	143,625	568	743,631	-	744,199
Government grant	111,299	-	-	111,299	96,689	-	-	96,689
Other income	69,826	-	-	69,826	71,788	-	-	71,788
Net assets released from restrictions	1,321,189	(635,304)	(685,885)	-	1,230,234	(566,355)	(663,879)	-
Total Support and Revenue	<u>1,775,638</u>	<u>34,712</u>	<u>(625,885)</u>	<u>1,184,465</u>	<u>3,218,028</u>	<u>527,414</u>	<u>(663,879)</u>	<u>3,081,563</u>
Expenses:								
Program	1,021,281	-	-	1,021,281	891,156	-	-	891,156
Management and general	659,503	-	-	659,503	567,227	-	-	567,227
Fundraising	257,806	-	-	257,806	458,905	-	-	458,905
Total Expenses	<u>1,938,590</u>	<u>-</u>	<u>-</u>	<u>1,938,590</u>	<u>1,917,288</u>	<u>-</u>	<u>-</u>	<u>1,917,288</u>
Other Income:								
Change in fair value of perpetual trust held by third-party trustee	-	-	666,999	666,999	-	-	1,595,242	1,595,242
Total Other Income	<u>-</u>	<u>-</u>	<u>666,999</u>	<u>666,999</u>	<u>-</u>	<u>-</u>	<u>1,595,242</u>	<u>1,595,242</u>
Change in Net Assets	(162,952)	34,712	41,114	(87,126)	1,300,740	527,414	931,363	2,759,517
Net Assets at Beginning of Year	<u>13,211,392</u>	<u>7,592,141</u>	<u>16,180,955</u>	<u>36,984,488</u>	<u>11,910,652</u>	<u>7,064,727</u>	<u>15,249,592</u>	<u>34,224,971</u>
NET ASSETS AT END 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>

The accompanying notes are integral part of the financial statements.

**THE PUTNAM FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (87,126)	\$ 2,759,517
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,433	77,359
Donated other asset	-	50,000
Net realized and unrealized losses/(gains) from investments	7,219	(620,826)
Distributions from perpetual trust held by third-party trustee	685,885	663,879
Change in fair value of perpetual trust held by third-party trustee	(666,999)	(1,595,242)
(Increase) Decrease in:		
Prepaid expenses and other assets	(3,762)	(2,718)
Pledges receivable	1,000,000	(1,000,000)
Increase (Decrease) in:		
Accounts payable and accrued expenses	(34,393)	(57,418)
Deferred revenue	11,050	-
Net Cash Provided by Operating Activities	<u>971,307</u>	<u>274,551</u>
 <u>Cash Flows From Investing Activities:</u>		
Purchase of investments	(149,400)	(122,804)
Proceeds from sale of investments	324,908	378,274
Purchase of property and equipment	-	(93,528)
Change in perpetual trust held by third-party trustee, net	18,886	(931,363)
Net Cash Provided by (Used in) Investing Activities	<u>194,394</u>	<u>(769,421)</u>
 <u>Cash Flows From Financing Activities:</u>		
Distributions from perpetual trust held by third-party trustee	(685,885)	(663,879)
Change in fair value of perpetual trust held by third-party trustee	666,999	1,595,242
Payments on note payable	(13,552)	(6,595)
Proceeds from note payable	-	93,523
Net Cash (Used in) Provided by Financing Activities	<u>(32,438)</u>	<u>1,018,291</u>
 Net Increase in Cash and Cash Equivalents	1,133,263	523,421
 Cash and Cash Equivalents at Beginning of Year	<u>1,095,413</u>	<u>571,992</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,228,676</u>	<u>\$ 1,095,413</u>

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

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

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 45 paintings, 29 Russian icons, four tapestries and one sculpture.

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 (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, 2015 AND 2014**

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 statement 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, 2015 AND 2014**

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

Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

The Foundation's statement of financial position includes 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. Treasuries 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.

Contributions

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 \$250,000 and \$500,000 at March 31, 2015 and 2014, respectively, which was not recorded. The pledge is 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 PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

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

Significant Accounting Policies (Continued)

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 \$59,433 and \$77,359 for the years ended March 31, 2015 and 2014, 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, 2015 or 2014.

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, 2015 or 2014. Costs incurred in connection with the acquisition and conservation of works of art are expensed in the period incurred. The collection totaled \$11,980,923 at March 31, 2015 and 2014.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

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

Significant Accounting Policies (Continued)

Collections – Works of Art (Continued)

An independent appraisal made during 2007, adjusted for accessions and deaccessions at cost, valued the works of art held by the Foundation at \$150,175,000. Management believes that the value at March 31, 2015 has not declined since the 2007 appraisal. Subsequent to year-end, the Foundation underwent an independent appraisal of its collection, the report on which was issued July 10, 2015.

Compensated Absences

Accumulated unpaid vacation and other employee benefit amounts totaling \$11,000 and \$43,794 at March 31, 2015 and 2014, respectively, are accrued when incurred and included in accounts payable and accrued expenses.

Deferred Revenue

Income received in advance is deferred and recognized over the periods to which the income relates. Deferred revenue totaled \$11,050 and \$-0- at March 31, 2015 and 2014, respectively.

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, 2015 and 2014 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 travel used for program services with an estimated fair value of \$7,987 and \$-0- and for the years ended March 31, 2015 and 2014, 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, 2015 AND 2014**

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, 2015 and 2014. 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, 2015, 2014, 2013 and 2012 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 statement 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 September 21, 2015, the date the financial statements were available to be issued.

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014

Note 2 - Fair Value Measurements:

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

	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 PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014

Note 2 - Fair Value Measurements: (Continued)

	2014			Balance at March 31, 2014
	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	\$ 847,901	\$ -	\$ -	\$ 847,901
US Large Cap Growth	837,618	-	-	837,618
US Small and Mid-Cap	1,184,302	-	-	1,184,302
US Convertibles	334,036	-	-	334,036
International:				
International Equity Core	1,235,438	-	-	1,235,438
Emerging Market Equity	314,104	-	-	314,104
Fixed Income:				
Domestic:				
US Fixed Income	337,133	1,211,438	-	1,548,571
Short-Dated Fixed Income	75,973	-	-	75,973
Senior Loan Portfolio	313,921	-	-	313,921
High Yield Fixed Income	165,678	-	-	165,678
International:				
Non-US Fixed Income	-	796,440	-	796,440
Mutual funds:				
Real Estate Investment Trusts	335,685	-	-	335,685
Perpetual trust held by third-party Trustee (Note 6)	-	-	14,818,614	14,818,614
	<u>\$ 5,981,789</u>	<u>\$ 2,007,878</u>	<u>\$ 14,818,614</u>	<u>\$ 22,808,281</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.

Note 3 - Investments:

Investments consist of the following at March 31:

	<u>2015</u>	<u>2014</u>
Equities	\$ 4,657,589	\$ 4,753,399
Fixed income	2,583,472	2,900,583
Mutual funds	406,840	335,685
Cash and cash equivalents	314,274	155,235
Total Investments	<u>\$ 7,962,175</u>	<u>\$ 8,144,902</u>

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014

Note 3 - Investments: (Continued)

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

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

	<u>2014</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2014</u>
Net realized and unrealized gains	\$ -	\$ 620,826	\$ 620,826
Interest and dividend income	568	210,687	211,255
Investment management fees	-	(87,882)	(87,882)
Net Investment Income	<u>\$ 568</u>	<u>\$ 743,631</u>	<u>\$ 744,199</u>

Note 4 - Pledges Receivable:

Pledges receivable consist of the following at March 31:

	<u>2015</u>	<u>2014</u>
Receivables due in less than one year	\$ -	\$ 1,000,000
Total Pledges Receivable	<u>\$ -</u>	<u>\$ 1,000,000</u>

Note 5 - Property and Equipment:

Property and equipment consist of the following at March 31:

	<u>2015</u>	<u>2014</u>
Building improvements	\$ 991,198	\$ 991,198
Equipment	108,253	116,485
Subtotal	<u>1,099,451</u>	<u>1,107,683</u>
Less: Accumulated depreciation	(1,011,308)	(960,107)
Property and Equipment, Net	<u>\$ 88,143</u>	<u>\$ 147,576</u>

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014

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 5% cash and cash equivalents, 71% U.S. and International equities, 5% fixed income and 19% alternative investments at March 31, 2015.

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

	<u>2015</u>	<u>2014</u>
Balance at Beginning of Year	\$ 14,818,614	\$ 13,887,251
Distributions to the Foundation	(685,885)	(663,879)
Change in fair value	666,999	1,595,242
Balance at End of Year	<u>\$ 14,799,728</u>	<u>\$ 14,818,614</u>

Note 7 - Note Payable:

Note payable consists of the following at March 31:

	<u>2015</u>	<u>2014</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>\$ 73,376</u>	<u>\$ 86,928</u>

Future principal payments on the note payable are as follows:

<u>Years Ended</u> <u>March 31</u>	
2016	\$ 20,243
2017	11,531
2018	9,789
2019	9,789
2020	9,789
Thereafter	<u>12,235</u>
	<u>\$ 73,376</u>

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

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>2015</u>	<u>2014</u>
Accumulated earnings on endowment assets	\$ 6,539,834	\$ 6,782,561
Acquisition fund	981,585	639,358
Exhibits and educational programs	86,357	149,503
Strategic planning/rebranding fund	19,077	20,719
Total Temporarily Restricted Net Assets	<u>\$ 7,626,853</u>	<u>\$ 7,592,141</u>

Temporarily restricted net assets in the amount of \$635,304 and \$566,355 were released from donor restrictions for the years ended March 31, 2015 and 2014, respectively, by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2015</u>	<u>2014</u>
Accumulated earnings on endowment assets	\$ 384,908	\$ 419,752
Exhibits and educational programs	248,754	87,052
Strategic planning fund	1,642	59,551
Total Temporarily Restricted Net Assets Released from Restriction	<u>\$ 635,304</u>	<u>\$ 566,355</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, 2015 AND 2014**

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:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. 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, 2015 and 2014.

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 percent 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 percent 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.

	2015		Total
	Temporarily Restricted Endowment Fund	Permanently Restricted Endowment Fund	
Perpetual trust held by third-party trustee	\$ -	\$ 14,799,728	\$ 14,799,728
Walter Fitch Education Endowment	-	750,000	750,000
Timken Ames Endowment	6,539,834	612,341	7,152,175
Outreach Español Endowment	-	60,000	60,000
	<u>\$ 6,539,834</u>	<u>\$ 16,222,069</u>	<u>\$ 22,761,903</u>

THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014

Note 9 - Endowment Net Assets: (Continued)

	2014		Total
	Temporarily Restricted Endowment Fund	Permanently Restricted Endowment Fund	
Perpetual trust held by third-party trustee	\$ -	\$ 14,818,614	\$ 14,818,614
Walter Fitch Education Endowment	-	750,000	750,000
Timken Ames Endowment	6,782,561	612,341	7,394,902
	<u>\$ 6,782,561</u>	<u>\$ 16,180,955</u>	<u>\$ 22,963,516</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, 2013	\$ 6,458,682	\$ 15,249,592	\$ 21,708,274
Investment return:			
Investment income	122,805	-	122,805
Net appreciation (realized and unrealized)	620,826	1,595,242	2,216,068
Total investment return	<u>743,631</u>	<u>1,595,242</u>	<u>2,338,873</u>
Appropriation of accumulated earnings on endowment assets	<u>(419,752)</u>	<u>(663,879)</u>	<u>(1,083,631)</u>
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	<u>\$ 6,539,834</u>	<u>\$ 16,222,069</u>	<u>\$ 22,761,903</u>

Note 10 - Commitments:

Leases

The Foundation leases office space under an operating lease that expires in December 2017. Rent expense totaled \$80,650 and \$67,427 for the years ended March 31, 2015 and 2014, respectively.

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

Note 10 - Commitments: (Continued)

Future minimum lease payments are as follows:

<u>Years Ended March 31</u>	
2016	\$ 70,545
2017	72,660
2018	55,710
Total	<u>\$ 198,915</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. 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. Matching contributions under this plan totaled \$-0- and \$27,423 for the years ended March 31, 2015 and 2014, respectively.

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>2015</u>	<u>2014</u>
Retirement agreement payable at March 31	\$ 47,041	\$ 59,764
Benefit payments	(28,800)	(28,800)
Actuarial change in retirement obligation	<u>14,767</u>	<u>16,077</u>
Retirement Agreement Payable at March 31, included in accounts payable and accrued expenses	<u>\$ 33,008</u>	<u>\$ 47,041</u>

**THE PUTNAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2015 AND 2014**

Note 11 – Line of Credit:

The Foundation had a revolving line of credit with a bank for up to \$5,000,000. Interest is accrued at the bank's rate of 1.75 % plus the bank's current cost of fund index (1.95% at March 31, 2015). The line has no maturity date but is payable on demand and is secured by the Foundation's investments in marketable securities of which the bank is the custodian. The Foundation has no outstanding balance on the line of credit at March 31, 2015 and 2014. During the year ended March 31, 2015, the line of credit was cancelled by the Foundation, but can be reopened within a week, should the need arise.