



**LIVING CLASSROOMS FOUNDATION, INC.  
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015 AND 2014**

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## **Independent Auditor's Report**

To the Board of Directors  
Living Classrooms Foundation, Inc. and Affiliates

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

We have audited the accompanying consolidated financial statements of Living Classrooms Foundation, Inc. and Affiliates (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

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

**Independent Auditor's Report (Continued)**

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Living Classrooms Foundation, Inc. and Affiliates as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of consolidated functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Gross, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
September 30, 2016

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Statements of Financial Position**  
**December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,656,666	\$ 647,114
Investments	549,538	981,281
Grants receivable	1,069,816	2,576,140
Pledges receivable	2,340,022	2,597,946
Accounts receivable, net of allowance for doubtful accounts (2015 and 2014 - \$5,000)	584,791	1,134,666
Inventory	85,927	85,179
Prepaid expenses	101,664	85,192
Total Current Assets	<u>6,388,424</u>	<u>8,107,518</u>
<b>Property</b>		
Land	159,950	159,950
Building and improvements	16,493,606	16,493,607
Vessels and improvements	6,591,212	4,350,427
Office and program equipment	2,395,025	2,395,025
Vehicles	478,205	419,760
Construction in progress	3,170,544	3,014,239
Exhibits and monuments	730,817	730,817
Total Cost	<u>30,019,359</u>	<u>27,563,825</u>
Less: Accumulated depreciation	<u>12,859,235</u>	<u>11,841,101</u>
Net Property	<u>17,160,124</u>	<u>15,722,724</u>
<b>Other Assets</b>		
Cash surrender value of life insurance policies net of loans (2015 - \$429,177 and 2014 - \$444,009)	203,889	135,348
Donated assets held for resale	500	500
Pledges receivable, net of current portion	1,111,137	347,303
Deferred loan fees, net	39,951	41,948
Investments restricted to long-term investment	2,209,163	2,099,163
Goodwill	225,000	250,000
Total Other Assets	<u>3,789,640</u>	<u>2,874,262</u>
<b>Total Assets</b>	<u><u>\$ 27,338,188</u></u>	<u><u>\$ 26,704,504</u></u>

	<u>2015</u>	<u>2014</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 235,255	\$ 260,005
Short-term borrowings, including bridge loan	-0-	2,190,000
Accounts payable	604,368	729,374
Accrued expenses	1,086,333	167,999
Payroll and related taxes payable	667,176	922,190
Deferred revenue	211,639	271,677
Total Current Liabilities	<u>2,804,771</u>	<u>4,541,245</u>
<b>Non-Current Liabilities</b>		
Long-term debt, net of current maturities	2,918,327	3,157,506
Deferred compensation	230,000	200,000
Derivative obligation	190,067	206,031
Total Non-Current Liabilities	<u>3,338,394</u>	<u>3,563,537</u>
<b>Total Liabilities</b>	<u>6,143,165</u>	<u>8,104,782</u>
<b>Commitments (Note 10)</b>		
<b>Net Assets</b>		
Unrestricted	14,138,806	11,173,685
Temporarily restricted	4,847,054	5,326,874
Permanently restricted	2,209,163	2,099,163
Total Net Assets	<u>21,195,023</u>	<u>18,599,722</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 27,338,188</u>	<u>\$ 26,704,504</u>

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

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Statements of Activities**  
**Years Ended December 31, 2015 and 2014**

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Support</b>				
Grants	\$ 7,594,355	\$ -0-	\$ -0-	\$ 7,594,355
Special event income	1,527,982	-0-	-0-	1,527,982
Fundraising, sales, and other	2,186,867	-0-	-0-	2,186,867
Contributions	1,603,339	3,942,064	110,000	5,655,403
Program fees	704,441	-0-	-0-	704,441
Net investment income (loss)	(6,924)	(4,597)	-0-	(11,521)
Unrealized gain (loss) on derivative obligation	15,306	-0-	-0-	15,306
	<u>13,625,366</u>	<u>3,937,467</u>	<u>110,000</u>	<u>17,672,833</u>
Net assets released from restrictions	4,417,287	(4,417,287)	-0-	-0-
Total Support and Revenue	<u>18,042,653</u>	<u>(479,820)</u>	<u>110,000</u>	<u>17,672,833</u>
<b>Expenses</b>				
Program services	12,363,342	-0-	-0-	12,363,342
Administrative services	1,634,548	-0-	-0-	1,634,548
Fundraising	1,079,642	-0-	-0-	1,079,642
Total Expenses	<u>15,077,532</u>	<u>-0-</u>	<u>-0-</u>	<u>15,077,532</u>
<b>Change in Net Assets</b>	2,965,121	(479,820)	110,000	2,595,301
<b>Net Assets - Beginning of year</b>	<u>11,173,685</u>	<u>5,326,874</u>	<u>2,099,163</u>	<u>18,599,722</u>
<b>Net Assets - End of year</b>	<u>\$ 14,138,806</u>	<u>\$ 4,847,054</u>	<u>\$ 2,209,163</u>	<u>\$ 21,195,023</u>

**2014**

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>	<b>Increase (Decrease)</b>
\$ 9,651,557	\$ -0-	\$ -0-	\$ 9,651,557	\$ (2,057,202)
1,132,716	-0-	-0-	1,132,716	395,266
3,106,169	-0-	-0-	3,106,169	(919,302)
1,091,038	3,587,765	132,338	4,811,141	844,262
697,148	-0-	-0-	697,148	7,293
(13,139)	118,800	-0-	105,661	(117,182)
(25,575)	-0-	-0-	(25,575)	40,881
15,639,914	3,706,565	132,338	19,478,817	(1,805,984)
1,426,781	(1,426,781)	-0-	-0-	-0-
17,066,695	2,279,784	132,338	19,478,817	(1,805,984)
13,854,654	-0-	-0-	13,854,654	(1,491,312)
1,749,104	-0-	-0-	1,749,104	(114,556)
937,645	-0-	-0-	937,645	141,997
16,541,403	-0-	-0-	16,541,403	(1,463,871)
525,292	2,279,784	132,338	2,937,414	<u>\$ (342,113)</u>
10,648,393	3,047,090	1,966,825	15,662,308	
<u>\$ 11,173,685</u>	<u>\$ 5,326,874</u>	<u>\$ 2,099,163</u>	<u>\$ 18,599,722</u>	

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



**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 2,595,301	\$ 2,937,414
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	35,436	(36,635)
Depreciation and amortization	1,045,131	878,018
Deferred compensation	30,000	25,000
In-kind donations of investments	(43,673)	(28,719)
Unrealized (gain) loss on derivative instruments	(15,964)	25,575
Effects of changes in operating assets and liabilities:		
Grants and pledges receivable	1,000,414	(3,052,673)
Accounts receivable	549,875	(444,817)
Inventory and prepaid expenses	(17,220)	(10,772)
Donated assets held for resale	-0-	15,900
Accounts payable, accrued expenses and payroll and related taxes payable	538,314	180,302
Deferred revenue	(60,038)	(184,510)
Net Cash Provided by Operating Activities	<u>5,657,576</u>	<u>304,083</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(40,715)	(228,326)
Proceeds from investments	370,695	-0-
Purchase of property	(2,455,534)	(2,848,660)
Premiums paid on life insurance policies	(53,709)	(58,274)
Net Cash Used in Investing Activities	<u>(2,179,263)</u>	<u>(3,135,260)</u>
<b>Cash Flow from Financing Activities</b>		
Principal payments on life insurance loans	(14,832)	(43,265)
Increase (decrease) in short-term borrowings	(2,190,000)	2,114,973
Borrowings on long-term debt	-0-	69,946
Principal payments on long-term debt	(263,929)	(273,186)
Net Cash Provided by (Used in) Financing Activities	<u>(2,468,761)</u>	<u>1,868,468</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>1,009,552</b>	<b>(962,709)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>647,114</b>	<b>1,609,823</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 1,656,666</u></b>	<b><u>\$ 647,114</u></b>

	<u>2015</u>	<u>2014</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	<u>\$ 156,206</u>	<u>\$ 161,911</u>
<b>Non-Cash Investing and Financing Activities:</b>		
Donated investments	<u>\$ 43,673</u>	<u>\$ 28,719</u>

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

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 1: Summary of Significant Accounting Policies**

Living Classrooms Foundation, Inc. (The Foundation) was formed under the laws of Maryland in 1984 and was created for the purpose of providing educational programs for schools and civic organizations. In addition, the Foundation provides management and maintenance services for several museums and supporting organizations in the Baltimore Metropolitan area. The Foundation is supported through program fees, grants, and contributions. The accounting and reporting policies of the Foundation conform to accounting principles generally accepted in the United States of America. Following is a description of the most significant of those policies:

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Basis of Accounting and Principles of Consolidation: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred. The consolidated financial statements include the accounts of Living Classrooms Foundation, Inc. and Affiliates, Living Classrooms of National Capital Region, Inc. (DC), Historic Ships in Baltimore, Inc., Project S.E.R.V.E., Inc., Discovery Creek Children's Museum, Inner Harbor Paddleboats, Inc., the Crossroads School, Inc., Patriots of Fort McHenry, Inc., LCF Believe in Music, LLC and Frederick Douglass - Isaac Meyers Maritime Park, Inc. Living Classrooms Foundation, Inc. and Affiliates are related by common control and economic interests, therefore consolidation is the preferred presentation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue and Expense Recognition: Government and private grants are recognized based on the terms of the specific grant document. Grant revenue received in advance of the grant period is recorded as deferred revenue. Contributions are recognized when the donor makes an unconditional promise to give. Additionally, recognition of contributions is evaluated based on historical trends of collection by specific type of promise to give.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. An unconditional pledge to give support is recognized as a receivable and contribution in the year the pledge is made. Conditional pledges to give, which depend on the occurrence of a specified future and uncertain event, are not recognized as revenue until the condition has been met.

Contributions which are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the same year in which the contributions are recognized. All other donor-imposed restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Expenses are reported as decreases in unrestricted net assets. Program expenses include costs that are specifically identified with a particular program and an allocation of costs associated with the administration of all the Foundation's programs.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Basis of Presentation: Generally accepted accounting principles requires that the Foundation report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation's actions.

Cash and Cash Equivalents: The Foundation considers all highly liquid instruments with a maturity of three months or less when purchased as cash equivalents, except for those held for long-term investment purposes.

Investments: Investments with readily determinable fair values are reflected at market values at year-end. To adjust the carrying value of these investments, the change in fair market value is charged or credited to changes in net assets.

Grants Receivable and Deferred Revenue: Unconditional grants are recognized when awarded. Conditional grants are recognized as the condition is satisfied. If funds are received prior to satisfying the condition they are recorded as deferred revenue.

Pledges Receivable: Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are expected to be received. Amortization of the discounts is included in contribution revenue. Estimated losses are generally determined from historical collection experience and a review of outstanding contributions receivable. Pledges receivable are written off by management when, in their determination, all appropriate collection efforts have been taken. The Foundation has not recorded an allowance for uncollectible pledges since it is management's opinion that all outstanding pledges are collectible.

Accounts Receivable: Accounts receivable, which are from program services, are carried at cost less an allowance for doubtful accounts, if applicable. The Foundation provides for doubtful accounts based on anticipated collection losses. The estimated losses are determined from historical collection experience and a review of outstanding receivables. Delinquent receivables are written off by management when, in their determination, all collection efforts have been exhausted.

Inventory: Inventory consists of donated materials and other retail merchandise located in several gift shops. Donated materials are valued at net realizable value. Retail merchandise is valued at the lower of cost, using the first-in, first-out method, or market.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Property and Depreciation: Property is stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and routine repairs are charged to expense as incurred. Expenditures for improvements and major repairs that materially extend the useful lives of assets are capitalized. Depreciation expense for the years ended December 31, 2015 and 2014 was \$1,018,134 and \$876,019, respectively.

Goodwill: Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in connection with the purchase of Trident Boats, LTD. For years prior to 2015, goodwill was not amortized but instead was evaluated on an annual basis. Based on the Foundation's annual impairment tests, performed through December 31, 2014, the Foundation determined goodwill was not impaired.

Beginning January 1, 2015, management elected to early-adopt an accounting alternative for goodwill. For 2015 and later years, the Foundation will amortize goodwill using the straight-line method over 10 years unless facts and circumstances warrant a shorter life. Amortization expense for the year ended December 31, 2015 was \$25,000.

The adoption of this new accounting alternative also changes the method the Foundation uses for goodwill impairment testing and the timing and frequency of those tests. As of January 1, 2015, the Foundation no longer tests goodwill for impairment annually but, instead, will test goodwill upon the occurrence of a triggering event or change in circumstances that indicates that the fair value of a reporting unit may be less than its carrying amount. An impairment loss, should it occur, would represent the excess of the carrying amount of the reporting unit over its fair value.

Deferred Compensation: The Foundation has entered into an agreement with an officer providing for the payment of deferred benefits upon the later of termination from employment or attaining the age of sixty-five. Under the terms of the agreement, the benefit is payable in twenty equal installments over the officer's life. The benefits payable under this agreement are funded by the cash value of life insurance carried on the officer's life.

Donated Materials and Services: Donated materials are reflected in the accompanying financial statements at their estimated fair value at date of receipt. Donated services are recorded only if the services provided require specialized skills provided by individuals possessing those skills, or if the services create or enhance a nonfinancial asset. Various individuals and businesses have donated goods and services to the Foundation. The fair value of these items has been included in total support and expenses in the financial statements. The value of these in kind services was \$389,603 and \$227,736 for the years ended December 31, 2015 and 2014, respectively.

Advertising Expense: Advertising costs are expensed as incurred. The Foundation had no significant direct-response advertising. For the years ended December 31, 2015 and 2014, the Foundation incurred expenses of \$63,213 and \$78,684, respectively, to promote various programs.

Deferred Loan Costs: Deferred loan costs are amortized on a straight-line basis over the terms of the obligations to which the costs relate.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Derivative Instrument: The Foundation uses an interest rate swap agreement to modify a variable rate obligation to a fixed rate obligation, thereby reducing the exposure to market fluctuations in interest rates. The agreement involves the exchange of amounts based on variable interest rates for amounts based on fixed interest rates over the life of the agreement. The Foundation has entered into a swap agreement with PNC Bank (see Note 6). Accounting and reporting standards require that all derivative instruments be recorded in the balance sheet as either assets or liabilities measured at fair value. It also requires that changes in the fair value of a derivative instrument be recognized currently in earnings unless specific hedge accounting criteria are met. Changes in the fair value of the contract are reflected in the consolidated statement of activities.

Income Taxes: The Foundation is a charitable organization under Section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from federal and state income taxes. The Foundation's federal exempt organization tax returns are subject to examination by the Internal Revenue Service, generally for a period of three years after the returns are filed.

Reclassifications: Certain amounts in the financial statements for the year ended December 31, 2014 have been reclassified to conform to the financial statement presentation for the year ended December 31, 2015.

Subsequent Events: In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 30, 2016, the date the financial statements were available to be issued. During the period from January 1, 2016 to September 30, 2016, the Foundation did not have any material recognizable or disclosable subsequent events.

**Note 2: Investments and Fair Value Measurement**

Generally accepted accounting principles establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the assets or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 2: Investments and Fair Value Measurement (Continued)**

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The table below presents the balances of investments and liabilities which are measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2015 and 2014:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash for investment purposes	\$ 149,063	\$ -0-	\$ -0-	\$ 149,063
Equity mutual funds:				
Large Blend	574,910	-0-	-0-	574,910
Large Growth	628,399	-0-	-0-	628,399
Other	430,560	-0-	-0-	430,560
Bond mutual funds:				
Short-Term	156,778	-0-	-0-	156,778
Intermediate-Term	776,304	-0-	-0-	776,304
Other	42,687	-0-	-0-	42,687
Derivative obligation (liability)	-0-	(190,067)	-0-	(190,067)
	<u>\$ 2,758,701</u>	<u>\$ (190,067)</u>	<u>\$ -0-</u>	<u>\$ 2,568,634</u>
	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash for investment purposes	\$ 233,037	\$ -0-	\$ -0-	\$ 233,037
Equity mutual funds:				
Large Blend	652,144	-0-	-0-	652,144
Large Growth	807,927	-0-	-0-	807,927
Other	303,131	-0-	-0-	303,131
Bond mutual funds:				
Short-Term	222,380	-0-	-0-	222,380
Intermediate-Term	817,938	-0-	-0-	817,938
Other	43,887	-0-	-0-	43,887
Derivative obligation (liability)	-0-	(206,031)	-0-	(206,031)
	<u>\$ 3,080,444</u>	<u>\$ (206,031)</u>	<u>\$ -0-</u>	<u>\$ 2,874,413</u>

Investments are allocated on the statements of financial position as follows as of December 31, 2015 and 2014:

	2015	2014
Current Assets Investments	\$ 549,538	\$ 981,281
Other Assets Investments	2,209,163	2,099,163
Total Investments	<u>\$ 2,758,701</u>	<u>\$ 3,080,444</u>

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 2: Investments and Fair Value Measurement (Continued)**

Earnings on investments are as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Interest and dividends	\$ 40,715	\$ 84,343
Net realized gain	62,243	110,227
Unrealized loss	<u>(97,679)</u>	<u>(73,592)</u>
	5,279	120,978
Less investment fees	<u>(16,800)</u>	<u>(15,317)</u>
Net investment income (loss)	<u>\$ (11,521)</u>	<u>\$ 105,661</u>

**Note 3: Pledges Receivable**

Pledges receivable consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Capital construction - temporarily restricted	\$ 450,002	\$ 700,000
Constellation - temporarily restricted	220,000	-0-
Target investment zone - temporarily restricted	1,200,000	-0-
Fight for children - temporarily restricted	500,000	-0-
Operating - unrestricted	<u>1,155,020</u>	<u>2,256,196</u>
	3,525,022	2,956,196
Less: Allowance for doubtful pledges receivable	<u>-0-</u>	<u>-0-</u>
	3,525,022	2,956,196
Less: Present value discount at 3%	<u>73,863</u>	<u>10,947</u>
Unconditional pledges receivable, net	<u>\$ 3,451,159</u>	<u>\$ 2,945,249</u>
Gross amounts due in:		
Less than one year	\$ 2,340,022	\$ 2,597,946
One to five years	1,135,000	357,500
More than five years	<u>50,000</u>	<u>750</u>
Total unconditional pledges receivable	<u>\$ 3,525,022</u>	<u>\$ 2,956,196</u>

The discounted pledges receivable are reflected in the statements of financial position as follows:

	2015	2014
Current portion	\$ 2,340,022	\$ 2,597,946
Non-current portion	<u>1,111,137</u>	<u>347,303</u>
	<u>\$ 3,451,159</u>	<u>\$ 2,945,249</u>



**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 4: Short-Term Borrowings**

In November, 2014 the Foundation obtained a \$500,000 line of credit with PNC Bank. The outstanding balance at December 31, 2015 and 2014 was \$-0- and \$190,000, respectively. The outstanding principal bears interest was 2.41% and 2.17% as of December 31, 2015 and 2014, and was collateralized by the assets of the Foundation. In October, 2014, the Foundation also obtained a construction bonded loan from PNC. The outstanding bondage as of December 31, 2015 and 2014 was \$0 and \$2,000,000. This loan was an interest only loan that matured in October, 2015. Interest was at Libor plus 2.25% (2.41% at December 31, 2014), substantially all assets are pledged as collateral.

**Note 5: Long-Term Debt**

Long-term debt consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Bond payable - Maryland Economic Development Corporation, \$2,250,708 Series 2010A Revenue Bonds. Funds are for the purpose of refinancing the cost of the acquisition, construction, installation, renovation and equipping of a portion of the Borrower's headquarters building located at 1417 Thames Street, Baltimore, MD and the acquisition of installation, renovation and equipping of certain of the Borrower's facilities in Montgomery County, Maryland and Baltimore City, Maryland. The trustee for the bonds is PNC Bank, N.A . The note is secured by a deed of trust on the Foundation's facility and personal property located in Baltimore City, Maryland and requires compliance with certain financial covenants as described in the note agreement. Under the terms of the agreement, the Foundation is to draw upon the bonds on an as needed basis for the project, The Foundation received bond proceeds totaling \$1,894,830 as of December 31, 2015 and 2014. The interest rate for the Series 2010A bonds payable is based on 65% of the one month London Interbank Offered Rate (LIBOR). For the period ending December 31, 2015 and 2014, the interest was 1.63% and 1.58%, respectively. Principal payments are scheduled starting September 2020 and finishing December, 2035.	\$ 1,894,830	\$ 1,894,830

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 5: Long-Term Debt (Continued)**

	2015	2014
<p>Bond payable - Maryland Economic Development Corporation \$749,292 Series 2010B Revenue Bonds. Funds are for the purpose of refinancing a portion of the construction, acquisition, equipping, installation and renovation of the Borrower's headquarters building located at 1417 Thames Street, Baltimore, MD and refinancing of the acquisition of the certain aquatic vessels located in Baltimore City. The trustee for the bonds is PNC Bank, N.A . The note is secured by a deed of trust on the Foundation's facility and personal property located in Baltimore City, Maryland and requires compliance with certain financial covenants as described in the note agreement. Under the terms of the agreement, the Foundation is to draw upon the bonds on an as needed basis for the project. The Foundation received total bond proceeds totaling \$749,292. Payments will vary based upon the variable interest rate plus scheduled principal payments. The interest rate for the Series 2010B bonds payable is based on the one month London Interbank Offered Rate (LIBOR). For the period ending December 31, 2015 and 2014, the interest was 2.24% and 2.15%, respectively. Principal payments are scheduled through September, 2020.</p>	569,805	651,651
<p>Note payable - Mayor and City Council of Baltimore term loan, original loan principal balance was \$600,000 with an interest rate of 8%, refinanced in 1994 at an interest rate of 5.625% and a new principal balance of \$833,595. Payments of \$3,751 began on August 1, 1995 continuing through July 1, 2023, collateralized by the Maritime Institute building and fixed assets having a cost of \$697,658. During 2013, the note was restated and modified to reduce principal to \$400,000 and forgive \$75,420. The interest rate was reduced to 2%, and payable in monthly installments of \$2,574 beginning November 2013 continuing through October 2028.</p>	349,361	373,006
<p>Note payable - Sophia Gilland, original loan principal balance was \$250,000 with an interest rate of 2%. Payments of principal and interest \$3,688 began in April, 2010 continuing through March, 2016.</p>	6,889	50,529
<p>Note payable - PNC term loan, original loan principal balance was \$500,000 with an interest rate at 3.50%. Payments of principal and interest of \$9,108 began on November 30, 2013 continuing through October 30, 2018, collateralized by the assets of the entity.</p>	294,137	391,120

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 5: Long-Term Debt (Continued)**

	<u>2015</u>	<u>2014</u>
Note payable - BOA term loan, original loan principal balance was \$71,260 with an interest rate equal to the Wall Street Journal Prime Rate plus 2.5 percentage points (6% as of December 31, 2015). Payments of principal of \$1,485 began on May 5, 2014 and continue on the same day of each month thereafter, ending on April 5, 2018.	38,560	56,375
Total Long-Term Debt	3,153,582	3,417,511
Less: Current Maturities	<u>235,255</u>	<u>260,005</u>
Long-Term Debt Less Current Maturities	<u>\$ 2,918,327</u>	<u>\$ 3,157,506</u>

Total interest expense, including interest on short-term bank borrowings, for the years ended December 31, 2015 and 2014 was \$158,203 and \$163,910, respectively.

Long-term debt as of December 31, 2015 is scheduled to mature as follows:

2016	\$ 235,255
2017	236,840
2018	212,469
2019	125,258
2020	130,800
Thereafter	<u>2,212,960</u>
	<u>\$ 3,153,582</u>

**Note 6: Interest Rate Swap Agreement**

The Economic Development Revenue Bonds issued by Maryland Economic Development Corporation bears interest at a variable rate. To minimize the effect of changes in the variable rate, the Company entered into an interest rate swap agreement (a derivative obligation) with PNC Bank N. A., which expires on January 1, 2021. The swap agreement which became active on January 19, 2011, is stated at its fair value in the balance sheet. The swap agreement requires the Company to pay a fixed rate of interest of 2.72% on a notional amount of \$893,330 (then declining as the bond is amortized) and receive a floating rate based on USD-LIBOR-BBA-Bloomberg rate (measurement is determined daily and settlement occurs monthly). Changes in the fair value of the swap agreement are reflected in the consolidated statement of activities.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 7: Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following as of December 31, 2015 and 2014:

	2015	2014
Target Investment Zone Expansion	\$ 1,200,000	\$ 18,706
Crossroads School	1,010,868	2,713,083
Fight for Children	829,050	-0-
SunTrust Foundation	320,269	-0-
Heritage Center	296,553	319,044
USS Constellation	220,000	-0-
Harbor Point Development	200,000	-0-
GEM Program	116,071	85,631
Fresh Start Scholarships	112,527	113,450
Board Members	100,977	99,636
Pepco	93,868	141,051
Fresh Start	60,000	5,000
Flick Tower Maintenance	57,739	47,298
LCF Endowment	29,757	33,282
USS Constellation Maintenance	26,975	453,005
Healthy Lifestyle and Violence Prevention	20,170	-0-
McKee Foods Corp	20,000	-0-
LCF Headquarters Improvements	19,510	-0-
Kingman Island Environmental Center	18,696	18,849
The City Fund	16,697	-0-
Walmart Foundation	15,184	-0-
Constellation Drydocking	10,015	1,036,030
Johns Hopkins	8,855	-0-
Baltimore Community Foundation	7,928	-0-
Lady Maryland Maintenance	7,033	7,501
Commonwealth of Virginia	7,000	-0-
SweetGreen	6,063	-0-
Kellogg Foundation	5,504	130,802
Golfer's Charitable	4,351	4,351
Ticket to Ride	2,997	-0-
E-STEM	2,397	-0-
Commodore John Rodgers	-0-	97,055
E-Bay Silicon Valley	-0-	3,100
	<u>\$ 4,847,054</u>	<u>\$ 5,326,874</u>

Net assets were released from donor restrictions for the years ended December 31, 2015 and 2014 by incurring expenses satisfying the restricted purposes, by occurrence of other events, or by satisfaction of time restrictions. Below are the details of these net assets that were released from restriction.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 7: Temporarily Restricted Net Assets (Continued)**

	2015	2014
Crossroads School	\$ 1,900,621	\$ 212,296
Constellation Drydocking	1,026,015	-0-
Fight for Children	445,950	-0-
USS Constellation Maintenance	415,893	-0-
SunTrust Foundation	179,731	-0-
Kellogg Foundation	125,298	69,198
Commodore John Rodgers	97,055	112,662
Pepco	47,183	81,949
Walmart Foundation	42,816	-0-
Harbor Point Development	25,000	-0-
E-STEM	22,604	-0-
Heritage Center	22,491	-0-
The City Fund	20,803	-0-
Target Investment Zone Expansion	18,706	102,044
Healthy Lifestyle and Violence Prevention	14,830	-0-
Ticket to Ride	5,003	-0-
Johns Hopkins	4,188	-0-
E-Bay Silicon Valley	3,100	-0-
Golfer's Charitable	-0-	2,830
Ralph Young Recreation Center	-0-	669,947
Patterson Park	-0-	100,000
ReEntry	-0-	45,000
Flag Pole	-0-	18,000
Youth Center Gym Repairs	-0-	7,855
Fresh Start	-0-	5,000
	<u>\$ 4,417,287</u>	<u>\$ 1,426,781</u>

**Note 8: Permanently Restricted Net Assets**

Permanently restricted net assets are restricted to investments in the Foundation's endowment. The income earned on the endowment is restricted for use for future maritime education programs, maintenance of the Frederick Douglass - Isaac Meyers Park, maintenance of the Rouse/Flick Tower and general operations of USS Constellation Museum.

The Foundation's endowment consists of six individual funds established for a variety of purposes. The endowment includes only donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Financial Accounting Standards Board (FASB) has issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The FASB guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 8: Permanently Restricted Net Assets (Continued)**

The State of Maryland enacted UPMIFA effective April 14, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors has determined that the majority of the Foundation's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

In accordance with the Maryland Prudent Management of Institutional Funds Act (MUPMIFA), the Foundation preserves 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. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of 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 MUPMIFA. In accordance with MUPMIFA, 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 various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Foundation's investment policies.

**Investment Return Objectives, Risk Parameters and Strategies**

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of no more than 5%, while growing the funds if possible.

Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 4% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy**

The Foundation has a policy of appropriating for distribution each year whatever is needed to fund the required maintenance or other purpose of the endowment. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 8: Permanently Restricted Net Assets (Continued)**

Changes in endowment net assets during the year ended December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -0-	\$ 541,085	\$ 2,099,163	\$ 2,640,248
Net investment income	-0-	(4,597)	-0-	(4,597)
Contributions	-0-	-0-	110,000	110,000
Donor restricted endowment funds	<u>\$ -0-</u>	<u>\$ 536,488</u>	<u>\$ 2,209,163</u>	<u>\$ 2,745,651</u>

Changes in endowment net assets during the year ended December 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ -0-	\$ 439,931	\$ 1,966,825	\$ 2,406,756
Net investment income	-0-	101,154	-0-	101,154
Contributions	-0-	-0-	132,338	132,338
Donor restricted endowment funds	<u>\$ -0-</u>	<u>\$ 541,085</u>	<u>\$ 2,099,163</u>	<u>\$ 2,640,248</u>

**Note 9: Retirement Plan**

The Living Classrooms Foundation, Inc. has a defined contribution pension plan organized under Internal Revenue Code Section 403(b) covering all full-time employees. Employer contributions are at the discretion of the Foundation. Employer contributions totaled \$113,516 and \$118,610 for 2015 and 2014, respectively.

**Note 10: Management Agreements and Lease Commitments**

The Foundation leases various offices, program and other facilities used in their operations under non-cancellable leases that expire through July 2016. Additionally the Foundation leases office equipment under leases that expire through December 2018. As of December 31, 2015, future minimum lease payments under the operating leases, summarized by year, are as follows:

	Facilities	Equipment	Total
2016	\$ 230,800	\$ 11,300	\$ 242,100
2017	75,600	8,000	83,600
2018	-0-	1,200	1,200
	<u>\$ 306,400</u>	<u>\$ 20,500</u>	<u>\$ 326,900</u>

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 10: Management Agreements and Lease Commitments (Continued)**

Rent expense for the year ended December 31, 2015 and 2014 totaled approximately \$534,000 and \$535,000, respectively.

The Foundation has an agreement with the City of Baltimore to manage and operate the USS Constellation as a museum for the public. The agreement expired in July 2009 and was renewed automatically for another ten-year period since neither party provided notice of their intent not to renew ninety days prior to expiration of the original term. The Foundation is required under this agreement to grow the Constellation restoration and maintenance fund by contributing \$0.25 from every adult ticket sold. For the years ended December 31, 2015 and 2014, the Foundation contributed approximately \$6,000 and \$20,000, respectively, to the maintenance fund.

The Foundation has an agreement with the City of Baltimore to care for and operate three vessels known as the USS Torsk, Lightship Chesapeake, the USCGC Taney, and the Seven-Foot Knoll Lighthouse that expires December 31, 2016.

The Foundation has an agreement with the City of Baltimore to manage and lease the property at the Foundation's South Caroline Street location. The agreement does not expire due to automatic renewals, but is subject to termination if certain events occur or if notice is given from either party for cause. The Foundation is required under this agreement to pay the city one dollar in compensation for this property. The Foundation estimated the fair value of this lease to be approximately \$80,000 and is presented as an in-kind donation and expense.

The Foundation receives boats as donations and then offers these boats for sale. The loss (based on difference between sales price and original recorded value at date of donation) on the sale of these boats for the years ended December 31, 2015 and 2014 was \$-0- and \$8,600 respectively.

**Note 11: Deferred Compensation**

The Foundation has a deferred compensation plan for an officer whereby the employer shall accrue annually \$15,000 (adjusted for cost of living adjustments) to a deferral account. The agreement stipulates the employer may invest the account balance in life insurance contracts on the life of the officer.

The officer shall be entitled to receive a benefit equal to the deferred account balance payable in twenty annual installments after the later of the officer's termination date for any reason other than death or the date the officer attains age 65. The account balance at December 31, 2015 and 2014 was \$230,000 and \$200,000, respectively.



**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**December 31, 2015 and 2014**

**Note 12: Other Matters**

Uninsured Balances: The Foundation maintains its cash balances at various financial institutions. Periodically during the year, the Foundation's cash balances may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

Risks on Investments: The Foundation invests in a portfolio that may at times contain United States bonds and securities, mutual funds, and common shares of publicly traded companies. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investments balances and the amounts reported in the accompanying financial statements.

Program Review: In connection with various federal, state and city grants, the Foundation and affiliates agree to operate in accordance with various grant requirements, and compliance with those requirements is subject to audit by the respective granting agencies. In cases of noncompliance, the granting agency involved may require the Foundation and affiliates to refund program funds.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**

**SUPPLEMENTAL INFORMATION**

**DECEMBER 31, 2015 AND 2014**

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Schedule of Functional Expenses**  
**Year Ended December 31, 2015**

	Living Classrooms Foundation	Living Classrooms Foundation DC	Historic Ships	Project S.E.R.V.E.	Inner Harbor Paddleboats
Salaries	\$ 3,094,047	\$ 704,104	\$ 877,427	\$ 1,091,624	\$ 136,405
Payroll taxes	243,467	67,234	105,106	119,356	11,218
Health insurance	59,309	22,371	35,658	23,784	3,796
Retirement	28,613	3,964	26,757	4,395	2,360
Life insurance	18,434	4,452	8,242	5,467	531
<b>Total Salaries and Related Expenses</b>	<b>3,443,870</b>	<b>802,125</b>	<b>1,053,190</b>	<b>1,244,626</b>	<b>154,310</b>
Advertising and promotion	11,466	92	16,218	116	1,344
Bank fees	53,206	2,517	27,397	132	11,729
Conferences and training	23,445	6,673	216	5,778	898
Contract services	91,371	7,034	5,727	-0-	1,007
Cost of goods sold	-0-	-0-	86,021	-0-	-0-
Depreciation	213,184	50,035	425,795	1,100	51,649
Drug testing	10,110	4,261	2,917	7,120	1,351
Food	71,023	38,894	28,130	3,275	310
Fuel	14,831	6,335	14,257	15,679	1,122
In-kind expense	195,941	250	31,595	9,150	-0-
Insurance	332,611	34,291	26,445	57,743	20,529
Intercompany	(750,498)	172,370	240,220	188,908	60,860
Interest expense	136,297	-0-	15,500	-0-	6,406
Maintenance	113,135	34,705	45,649	40,657	22,262
Miscellaneous	249,825	11,712	(509)	6,714	-0-
Office expense	48,592	11,979	37,618	4,810	2,327
Partners expense	99,809	23,441	22,000	-0-	74,869
Postage	12,955	195	2,095	99	-0-
Printing	974	494	3,538	247	3,237
Professional fees	128,202	32,045	-0-	-0-	-0-
Program supplies	175,321	32,462	8,915	66,935	6,644
Rent	93,290	73,331	2,231	31,544	105,847
Telephone	42,304	5,884	15,949	7,211	2,196
Travel and transportation	134,258	43,063	1,574	83,016	20
Uniforms	9,868	3,867	4,396	2,980	1,296
Utilities	40,003	21,893	33,915	-0-	-0-
<b>Total Expenses</b>	<b>\$ 4,995,393</b>	<b>\$ 1,419,948</b>	<b>\$ 2,150,999</b>	<b>\$ 1,777,840</b>	<b>\$ 530,213</b>

Crossroads School	Patriots of Fort McHenry	Frederick Douglass- Isaac Meyers Maritime Park	Administrative Services	Fundraising Expenses	2015 Total	2014 Total	Increase (Decrease)
\$ 114,032	\$ 124,890	\$ 130,295	\$ 1,136,285	\$ 539,184	\$ 7,948,293	\$ 8,181,377	\$ (233,084)
8,606	9,310	10,889	82,206	42,466	699,858	666,153	33,705
5,107	2,171	5,684	48,074	22,828	228,782	251,452	(22,670)
3,205	590	8,170	28,196	7,266	113,516	118,610	(5,094)
978	554	1,767	8,338	4,182	52,945	41,591	11,354
131,928	137,515	156,805	1,303,099	615,926	9,043,394	9,259,183	(215,789)
-0-	198	237	3,381	30,161	63,213	78,684	(15,471)
-0-	1,440	-0-	517	7,058	103,996	104,800	(804)
-0-	145	-0-	-0-	-0-	37,155	92,036	(54,881)
31,636	-0-	4,234	26,975	19,043	187,027	133,662	53,365
-0-	-0-	-0-	-0-	-0-	86,021	249,949	(163,928)
12,352	19,833	269,186	-0-	-0-	1,043,134	876,019	167,115
63	917	-0-	349	177	27,265	23,709	3,556
13,964	4,071	159	8,957	55,282	224,065	229,709	(5,644)
-0-	-0-	-0-	749	323	53,296	87,907	(34,611)
23,592	12,738	4,000	10,380	101,957	389,603	227,736	161,867
7,747	1,065	5,732	5,829	8,008	500,000	474,985	25,015
54,310	13,460	14,610	-0-	5,760	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-	158,203	163,910	(5,707)
77,998	2,965	79,576	96,793	2,047	515,787	528,469	(12,682)
5,295	40	1,427	6,915	94,129	375,548	374,618	930
32,686	1,976	335	65,599	1,412	207,334	236,335	(29,001)
-0-	10,281	-0-	-0-	36	230,436	1,318,644	(1,088,208)
-0-	1,133	-0-	255	4,585	21,317	24,976	(3,659)
541	-0-	100	329	4,785	14,245	21,332	(7,087)
6,160	4,475	780	13,990	7,150	192,802	177,768	15,034
33,125	2,173	2,492	2,756	35,043	365,866	634,266	(268,400)
123,827	3,714	4,770	12,446	83,073	534,073	535,146	(1,073)
500	-0-	433	6,167	816	81,460	89,602	(8,142)
71,873	17,643	16	2,549	2,871	356,883	328,992	27,891
1,573	-0-	-0-	406	-0-	24,386	36,403	(12,017)
-0-	300	78,805	66,107	-0-	241,023	232,563	8,460
<u>\$ 629,170</u>	<u>\$ 236,082</u>	<u>\$ 623,697</u>	<u>\$ 1,634,548</u>	<u>\$ 1,079,642</u>	<u>\$ 15,077,532</u>	<u>\$ 16,541,403</u>	<u>\$ (1,463,871)</u>

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Schedule of Functional Expenses**  
**Year Ended December 31, 2014**

	Living Classrooms Foundation	Living Classrooms Foundation DC	Historic Ships	Project S.E.R.V.E.	Inner Harbor Paddleboats
Salaries	\$ 2,991,275	\$ 649,331	\$ 1,068,872	\$ 1,184,883	\$ 186,214
Payroll taxes	249,801	54,597	83,209	99,664	15,388
Health insurance	148,629	17,260	30,060	10,205	2,658
Retirement	31,421	2,985	21,676	4,394	1,363
Life insurance	9,724	4,651	7,997	4,541	632
Total Salaries and Related Expenses	3,430,850	728,824	1,211,814	1,303,687	206,255
Advertising and promotion	21,514	-0-	14,625	840	836
Bank fees	37,711	2,831	51,046	170	506
Conferences and training	14,933	4,605	1,126	67,374	1,315
Contract services	30,870	4,314	7,657	-0-	869
Cost of goods sold	1,029	-0-	248,920	-0-	-0-
Depreciation	222,782	50,035	219,143	1,310	29,210
Drug testing	5,706	3,844	2,162	6,620	2,963
Food	87,847	16,721	34,177	5,329	348
Fuel	18,323	7,239	25,613	33,092	1,644
In-kind expense	81,780	2,011	18,328	4,198	-0-
Insurance	339,632	8,444	20,287	67,967	21,235
Intercompany	(747,270)	173,895	213,146	193,220	64,246
Interest expense	148,241	-0-	11,608	-0-	4,061
Maintenance	165,198	25,970	45,886	30,098	13,771
Miscellaneous	231,237	11,639	9,927	(1,463)	(3,323)
Office expense	55,550	12,984	46,811	19,857	3,479
Partners expense	853,938	15,156	41,701	78,773	57,025
Postage	12,527	1,243	3,705	56	-0-
Printing	3,760	404	6,216	-0-	235
Professional fees	109,784	19,041	420	600	-0-
Program supplies	185,360	29,950	8,373	330,481	7,535
Rent	108,981	73,953	3,139	38,479	107,733
Telephone	42,454	7,719	18,942	10,507	1,931
Travel and transportation	163,438	44,843	2,744	25,084	130
Uniforms	8,930	837	2,331	17,896	1,737
Utilities	50,800	13,966	37,692	10,662	-0-
	<u>\$ 5,685,905</u>	<u>\$ 1,260,468</u>	<u>\$ 2,307,539</u>	<u>\$ 2,244,837</u>	<u>\$ 523,741</u>

Crossroads School	Patriots of Fort McHenry	Frederick Douglass- Isaac Meyers Maritime Park	Administrative Services	Fundraising Expenses	Total
\$ 148,311	113,842	\$ 132,521	\$ 1,221,649	\$ 484,479	\$ 8,181,377
11,412	11,124	10,998	89,326	40,634	666,153
2,339	1,440	2,615	27,846	8,400	251,452
2,570	-0-	583	50,866	2,752	118,610
767	362	730	8,856	3,331	41,591
165,399	126,768	147,447	1,398,543	539,596	9,259,183
714	1,103	694	1,981	36,377	78,684
-0-	2,059	14	984	9,479	104,800
2,093	30	-0-	560	-0-	92,036
42,709	560	2,279	21,162	23,242	133,662
-0-	-0-	-0-	-0-	-0-	249,949
12,583	70,833	270,123	-0-	-0-	876,019
606	1,063	-0-	553	192	23,709
4,731	23,370	794	9,123	47,269	229,709
163	-0-	-0-	1,336	497	87,907
350	-0-	-0-	20,035	101,034	227,736
1,085	309	6,128	6,130	3,768	474,985
53,259	27,240	15,284	-0-	6,980	-0-
-0-	-0-	-0-	-0-	-0-	163,910
77,890	1,590	65,631	95,596	6,839	528,469
9,696	68,193	1,292	10,590	36,830	374,618
5,185	6,801	719	84,481	468	236,335
-0-	266,491	-0-	-0-	5,560	1,318,644
-0-	2,745	-0-	303	4,397	24,976
-0-	4,409	-0-	2,786	3,522	21,332
-0-	33,620	50	9,386	4,867	177,768
19,240	3,935	2,609	2,870	43,913	634,266
125,459	1,500	2,767	13,541	59,594	535,146
500	-0-	441	7,003	105	89,602
17,766	71,283	25	3,118	561	328,992
1,295	935	-0-	97	2,345	36,403
157	530	59,620	58,926	210	232,563
\$ 540,880	\$ 715,367	\$ 575,917	\$ 1,749,104	\$ 937,645	\$ 16,541,403

**LIVING CLASSROOMS FOUNDATION, INC.**  
**Report of Revenue and Expense by Program**  
**For the State of Maryland Department of Juvenile Services (DJS)**  
**Year Ended December 31, 2015**

**Contract #14-PD-006**

	<u>January 1, 2015 to June 30, 2015</u>	<u>July 1, 2015 to December 31, 2015</u>
<b>Sources of Revenues and Support</b>		
State Governments:		
State of Maryland:		
Department of Juvenile Services	\$ 194,553	\$ 149,864
<b>Personnel Expenditures</b>		
Salaries and wages	165,042	174,089
Payroll taxes and employee benefits	23,631	25,463
Staff training	1,897	2,106
Total Personnel Expenditures	<u>190,570</u>	<u>201,658</u>
<b>Administrative Costs</b>		
	<u>41,090</u>	<u>40,890</u>
<b>Other Expenditures</b>		
Transportation	6,420	4,344
Program Supplies	7,816	2,457
Rent	11,250	11,700
Telephone	2,190	300
Uniforms	492	1,460
Food and kitchen supplies	1,508	1,360
Miscellaneous	1,935	1,467
Fuel	163	143
Total Other Expenditures	<u>31,774</u>	<u>23,231</u>
<b>Total Expenditures</b>	<u>263,434</u>	<u>265,779</u>
<b>Excess Revenue/(Expense)</b>	<u>\$ (68,881)</u>	<u>\$ (115,915)</u>
<b>Service Days Provided</b>	2,081	1,603
<b>Service Rate Per Day (Weighted average)</b>	<u>\$ 93.49</u>	<u>\$ 93.49</u>
<b>Total Earned Revenue</b>	<u>\$ 194,553</u>	<u>\$ 149,864</u>

**Independent Auditor's Report on Internal Control over Consolidated Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Board of Directors  
Living Classrooms Foundation, Inc. and Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Living Classrooms Foundation, Inc. and Affiliates (the "Foundation"), (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2015, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 30, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.



**Independent Auditor's Report on Internal Control over Consolidated Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (Continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Gross, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
September 30, 2016

**Independent Auditor's Report on Compliance for Each Major  
Program and on Internal Control Over Compliance  
Required by the Uniform Guidance**

To the Board of Directors  
Living Classrooms Foundation, Inc. and Affiliates

**Report on Compliance for Each Major Federal Program**

We have audited Living Classrooms Foundation, Inc. and Affiliates' (the "Foundation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended December 31, 2015. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit included examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and a material effect on each of its major federal programs for the year ended December 31, 2015.

**Independent Auditor's Report on Compliance for Each Major  
Program and on Internal Control Over Compliance  
Required by the Uniform Guidance (Continued)**

**Report on Internal Control over Compliance**

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management of employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Gross, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
September 30, 2016

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Numbers	Total Federal Expenditures
<b>U.S. Department of Agriculture</b>			
Hispanic Environmental Awareness Passed through from the National Fish and Wildlife Foundation	10.664	1301-15-048629	\$ <u>20,547</u>
<b>U.S. Department of Commerce-National Oceanic and Atmospheric Administration</b>			
Chesapeake Bay Studies	11.457		90,914
Unallied Management Projects Passed through from Chesapeake Bay Trust	11.454	12590	630
Total from U.S. Department of Commerce-National Oceanic and Atmospheric Administration			<u>91,544</u>
<b>U.S. Department of Housing and Urban Development</b>			
Baltimore City Housing Community Development Block Grants/Entitlement Grants		36379 36524 36950	
Passed through from the City of Baltimore	14.218	37149	<u>409,889</u>
<b>U.S. Department of the Interior</b>			
Urban Initiative with Masonville Cove	15.654		15,302
National Park Service Cultural Landscapes Program	15.931		175,737
Rigging Repair Passed through from the Maryland Historical Trust	15.946	2014-059	<u>89,596</u>
Total U.S. Department of the Interior			<u>280,635</u>
<b>U.S. Department of Justice</b>			
STEM Monitoring Program Passed through from the Sea Research Foundation	16.726	2015-OJP-STEM-27	<u>1,946</u>

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended December 31, 2015**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Numbers</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Labor</b>			
Fresh Start			
Passed through from the Mayors Office of Employment Development	17.259	4000-806416-6313- 4481105-603051	771
Training to Work	17.270		<u>450,981</u>
Total U.S. Department of Labor			<u>451,752</u>
<b>U.S. Environmental Protection Agency</b>			
Meaningful Watershed	66.440		30,167
Environmental Education Grants	66.951		56,795
District Department of the Environment Chesapeake Bay Program		12700	
Passed through from the District of Columbia Department of the Environment	66.466	11-G-11-CB- LCF/WPD15	<u>31,928</u>
Total U.S. Environmental Protection Agency			<u>118,890</u>
<b>U.S. Department of Education</b>			
21 <sup>st</sup> Century Community Learning Program		155045 155147 155159 165035 165346 165566	
Passed through from the Maryland State Department of Education	84.287	165614	<u>758,932</u>
<b>U.S. Department of Health and Human Services</b>			
ImagiNation OST Grant			
Passed through from the Office of the State Superintendent of Education	93.558	DELTANFOST 2015-1-01	<u>9,508</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 2,143,643</u></u>

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Foundation under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Foundation.

**Note 2: Summary of Significant Accounting Policies**

(A) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(B) Pass-through entity identifying numbers are presented where available.

**Note 3: Subrecipients**

There were no amounts passed through to subrecipients during the year ended December 31, 2015.

**LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2015**

**Summary of Auditor's Results**

- 1) The auditor's report expresses an unmodified opinion on whether the financial statements of Living Classrooms Foundation, Inc. were prepared in accordance with GAAP.
- 2) No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- 3) No instances of noncompliance material to the consolidated financial statements of Living Classrooms Foundation, Inc. and Affiliates which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- 4) No significant deficiencies relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
- 5) The auditor's report on compliance for the major federal award programs of Living Classrooms Foundation, Inc. and Affiliates expresses an unmodified opinion on all major federal programs.
- 6) There were no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
- 7) The Training to Work (CFDA 17.270) and Community Development Block Grants (CFDA 14.218) were tested as major programs.
- 8) The threshold used for distinguishing between Type A and B programs was \$750,000.
- 9) Living Classrooms Foundation, Inc. and Affiliates qualified as a low-risk auditee.

**Major Federal Award Programs Audit – Findings and Questioned Costs**

**Summary of Current Year Findings**

There were no current year findings relative to the major federal awards.

**Summary of Prior Year Findings**

There were no prior year findings relative to the major federal awards.

