

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

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, 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 consolidated 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, 2017 and 2016, 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 consolidated financial statements as a whole. The consolidated schedules of functional expenses and report of revenue and expenses by program for the State of Maryland Department of Juvenile Services are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, 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*, and is also 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 28, 2018, 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 solely 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 the effectiveness of the Foundation's 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 28, 2018

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,325,177	\$ 3,004,600
Investments	927,554	728,832
Grants receivable	894,786	1,165,379
Pledges receivable	564,946	590,075
Accounts receivable, net of allowance for doubtful accounts (2017 and 2016 - \$5,000)	590,409	491,539
Inventory	81,840	81,067
Prepaid expenses	132,557	120,219
Total Current Assets	<u>4,517,269</u>	<u>6,181,711</u>
Property		
Land	159,950	159,950
Building and improvements	26,596,128	19,966,132
Vessels and improvements	7,060,139	7,023,068
Office and program equipment	2,402,917	2,395,025
Vehicles	567,888	497,123
Construction in progress	651,665	5,558,915
Exhibits and monuments	730,817	730,817
Total Cost	<u>38,169,504</u>	<u>36,331,030</u>
Less: Accumulated depreciation	<u>14,687,211</u>	<u>13,887,628</u>
Net Property	<u>23,482,293</u>	<u>22,443,402</u>
Other Assets		
Cash surrender value of life insurance policies net of loans (2017 - \$223,298 and 2016 - \$276,822)	486,531	412,954
Donated assets held for resale	500	500
Pledges receivable, net of current portion	709,553	709,471
Investments restricted for long-term investment	2,398,864	2,167,506
Goodwill, net of accumulated amortization (2017 - \$75,000 and 2016 - \$50,000)	175,000	200,000
Total Other Assets	<u>3,770,448</u>	<u>3,490,431</u>
Total Assets	<u><u>\$ 31,770,010</u></u>	<u><u>\$ 32,115,544</u></u>

	<u>2017</u>	<u>2016</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 320,382	\$ 517,083
Accrued expenses	54,386	21,213
Payroll and related taxes payable	728,886	761,804
Deferred revenue	303,317	199,177
Current maturities of long-term debt	258,116	236,840
Total Current Liabilities	<u>1,665,087</u>	<u>1,736,117</u>
Non-Current Liabilities		
Long-term debt, net of current maturities	2,509,266	2,643,522
Deferred compensation	260,000	245,000
Derivative obligation	93,250	146,256
Total Non-Current Liabilities	<u>2,862,516</u>	<u>3,034,778</u>
Total Liabilities	<u>4,527,603</u>	<u>4,770,895</u>
Commitments (Notes 10, 11 and 12)		
Net Assets		
Unrestricted	21,206,240	19,961,534
Temporarily restricted	4,658,818	6,021,766
Permanently restricted	1,377,349	1,361,349
Total Net Assets	<u>27,242,407</u>	<u>27,344,649</u>
Total Liabilities and Net Assets	<u>\$ 31,770,010</u>	<u>\$ 32,115,544</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, 2017 and 2016

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Grants	\$ 4,901,948	\$ 1,007,372	\$ -0-	\$ 5,909,320
Special event income	1,675,573	-0-	-0-	1,675,573
Fundraising, sales, and other	2,108,927	-0-	-0-	2,108,927
Contributions	2,497,780	1,784,428	16,000	4,298,208
Program fees	653,207	-0-	-0-	653,207
Net investment income	112,088	306,621	-0-	418,709
Gain on disposal of property	8,292	-0-	-0-	8,292
Unrealized gain on derivative obligation	53,006	-0-	-0-	53,006
	12,010,821	3,098,421	16,000	15,125,242
Net assets released from restrictions	4,461,369	(4,461,369)	-0-	-0-
Net assets reclassified	-0-	-0-	-0-	-0-
Total Support and Revenue	16,472,190	(1,362,948)	16,000	15,125,242
Expenses				
Program services	12,321,613	-0-	-0-	12,321,613
Administrative services	1,747,060	-0-	-0-	1,747,060
Fundraising	1,158,811	-0-	-0-	1,158,811
Total Expenses	15,227,484	-0-	-0-	15,227,484
Change in Net Assets	1,244,706	(1,362,948)	16,000	(102,242)
Net Assets - Beginning of year	19,961,534	6,021,766	1,361,349	27,344,649
Net Assets - End of year	\$ 21,206,240	\$ 4,658,818	\$ 1,377,349	\$ 27,242,407

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Increase (Decrease)
\$ 6,015,980	\$ 2,032,898	\$ -0-	\$ 8,048,878	\$ (2,139,558)
1,339,255	-0-	-0-	1,339,255	336,318
2,417,118	-0-	-0-	2,417,118	(308,191)
3,098,068	6,632,341	105,000	9,835,409	(5,537,201)
563,554	-0-	-0-	563,554	89,653
26,088	103,294	-0-	129,382	289,327
-0-	-0-	-0-	-0-	8,292
43,811	-0-	-0-	43,811	9,195
<u>13,503,874</u>	<u>8,768,533</u>	<u>105,000</u>	<u>22,377,407</u>	<u>(7,252,165)</u>
8,546,635	(8,546,635)	-0-	-0-	-0-
-0-	952,814	(952,814)	-0-	-0-
<u>22,050,509</u>	<u>1,174,712</u>	<u>(847,814)</u>	<u>22,377,407</u>	<u>(7,252,165)</u>
13,454,993	-0-	-0-	13,454,993	(1,133,380)
1,658,758	-0-	-0-	1,658,758	88,302
1,114,030	-0-	-0-	1,114,030	44,781
<u>16,227,781</u>	<u>-0-</u>	<u>-0-</u>	<u>16,227,781</u>	<u>(1,000,297)</u>
5,822,728	1,174,712	(847,814)	6,149,626	<u>\$ (6,251,868)</u>
<u>14,138,806</u>	<u>4,847,054</u>	<u>2,209,163</u>	<u>21,195,023</u>	
<u>\$ 19,961,534</u>	<u>\$ 6,021,766</u>	<u>\$ 1,361,349</u>	<u>\$ 27,344,649</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (102,242)	\$ 6,149,626
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(383,051)	(86,333)
Gain on disposal of property	(8,292)	-0-
In-kind donations of investments	(60,173)	(70,674)
Depreciation and amortization	945,817	1,055,391
Deferred compensation	15,000	15,000
Unrealized gain on derivative instruments	(53,006)	(43,811)
Effects of changes in operating assets and liabilities:		
Grants and pledges receivable	295,640	2,056,050
Accounts receivable	(98,870)	93,252
Inventory and prepaid expenses	(13,111)	(13,695)
Accounts payable, accrued expenses and payroll and related taxes payable	(196,446)	(1,057,777)
Deferred revenue	104,140	(12,462)
Net Cash Provided by Operating Activities	<u>445,406</u>	<u>8,084,567</u>
Cash Flows from Investing Activities		
Purchase of investments	(47,801)	(55,938)
Proceeds from the sale of investments	60,945	75,308
Proceeds from the sale of property	38,000	-0-
Purchase of property	(1,987,418)	(6,311,671)
Premiums paid on life insurance policies	(20,052)	(59,982)
Net Cash Used in Investing Activities	<u>(1,956,326)</u>	<u>(6,352,283)</u>
Cash Flow from Financing Activities		
Principal payments on life insurance loans	(53,525)	(149,083)
Borrowings on long-term debt	125,000	-0-
Principal payments on long-term debt	(239,978)	(235,267)
Net Cash Used in Financing Activities	<u>(168,503)</u>	<u>(384,350)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,679,423)	1,347,934
Cash and Cash Equivalents at Beginning of Year	<u>3,004,600</u>	<u>1,656,666</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,325,177</u>	<u>\$ 3,004,600</u>

	<u>2017</u>	<u>2016</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 135,408</u>	<u>\$ 132,380</u>
Non-Cash Investing and Financing Activities:		
Donated investments	<u>\$ 60,173</u>	<u>\$ 70,674</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, 2017 and 2016

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 consolidated 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., Friends 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, 2017 and 2016

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 fair values at year-end. To adjust the carrying value of these investments, the change in fair 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, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Depreciation: Property is stated at cost, or, if donated, at fair value at the date of the gift, less accumulated depreciation. 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, 2017 and 2016 was \$ 918,819 and \$1,028,393, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	5-40 years
Vessels and improvements	7-25 years
Office and program equipment	3-10 years
Vehicles	5 years
Exhibits and monuments	10-40 years

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.

Beginning January 1, 2015, management elected to early-adopt an accounting alternative for goodwill. For 2015 and later years, the Foundation amortizes goodwill using the straight-line method over 10 years unless facts and circumstances warrant a shorter life. Amortization expense for the years ended December 31, 2017 and 2016 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.

Donated Materials and Services: Donated materials are reflected in the accompanying consolidated 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 consolidated financial statements. The value of these in kind services was \$37,490 and \$25,334 for the years ended December 31, 2017 and 2016, respectively.

Advertising Expense: Advertising costs are expensed as incurred. The Foundation had no significant direct-response advertising. For the years ended December 31, 2017 and 2016, the Foundation incurred expenses of \$ 143,846 and \$165,223, respectively, to promote various programs.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Issuance Costs: Debt issuance costs represent the costs incurred to obtain financing. The financing costs are being amortized on a straight-line basis over the term of the applicable debt obligation and charged to interest expense. Accounting principles generally accepted in the United States of America (GAAP) require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

As of December 31, 2016, the Organization adopted Accounting Standards Update (ASU) 2015-3, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*. The adoption of this ASU requires that debt issuance costs related to recognized debt liability be presented in the consolidated statements of financial position as a direct reduction from the carrying amount of the debt liability. For the years ended December 31, 2017 and 2016, the amortization of deferred financing costs was \$1,998. Accumulated amortization was \$13,983 and \$11,985 as of December 31, 2017 and 2016, respectively.

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 consolidated statements of financial position 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 statements 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. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Foundation had no unrelated business income for the year ended June 30, 2017 and 2016. Accordingly, no provision for income taxes is reflected in these statements. 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 consolidated financial statements for the year ended December 31, 2016 have been reclassified to conform to the consolidated financial statement presentation for the year ended December 31, 2017.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued Accounting Standard Update 2016-02, *Leases* which will be effective for fiscal years beginning after December 15, 2019. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous leases guidance. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statement of financial position as either property or as a depreciable right-to-use asset and a liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. The asset will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has elected not to early adopt the standard and will assess the future impact on any leases.

In August, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* which is effective for fiscal years beginning after December 15, 2017. The primary impact of this standard is as follows: a) Net Asset Classification: The three categories of net assets will be condensed to two categories: Without Donor Restrictions and With Donor Restrictions. Not-for-profits may choose to disaggregate net assets further within the two categories. b) Board-Designated Net Assets: Not-for-profits will need to disclose the amount, purpose and type of board designation either on the face of the financials or in the notes to the financial statements. Board-designated net assets remain a subgroup of net assets without donor restrictions. c) Underwater Endowment Assets: Although the underwater calculation remains unchanged, instead of classifying the underwater portion against unrestricted net assets without donor restrictions, it will go against the net assets with donor restrictions. There are also certain additional disclosures such as any board policy or actions taken regarding appropriation from such funds. d) Cash Flow Statement: Not-for-profits will still have the option of presenting operating cash flows using the direct method or the indirect method. If the direct method is chosen, the indirect reconciliation is not required. e) Expenses: Expenses will be required to be presented both by function and by nature, but it is flexible as to how (in statement form or in the footnotes). A qualitative disclosure about how costs are allocated by function will also be required. External and internal direct investment expenses will be netted against investment return on the statement of activities. Disclosure of investment return components will no longer be required. f) Liquidity and Availability: The standard will require (1) quantitative disclosure about availability of financial assets to meet cash needs for general expenditures within one year of the statement of financial position date, and (2) qualitative disclosure about liquidity, presented in the notes, including information about liquidity risk and how the liquid available resources are managed. Management has chosen not to early adopt this standard but will assess this impact on future financial statements.

Subsequent Events: In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 28, 2018, the date the consolidated financial statements were available to be issued. During the period from January 1, 2018 to September 28, 2018, the Foundation did not have any material recognizable or disclosable subsequent events.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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.

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, 2017 and 2016:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash for investment purposes	\$ 97,604	\$ -0-	\$ -0-	\$ 97,604
Equity mutual funds:				
Large Blend	625,998	-0-	-0-	625,998
Large Growth	747,436	-0-	-0-	747,436
Other	683,274	-0-	-0-	683,274
Bond mutual funds:				
Short-Term	-0-	-0-	-0-	-0-
Intermediate-Term	1,118,330	-0-	-0-	1,118,330
Other	53,776	-0-	-0-	53,776
Derivative obligation (liability)	-0-	(93,250)	-0-	(93,250)
	<u>\$ 3,326,418</u>	<u>\$ (93,250)</u>	<u>\$ -0-</u>	<u>\$ 3,233,168</u>

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 2: Investments and Fair Value Measurement (Continued)

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash for investment purposes	\$ 106,787	\$ -0-	\$ -0-	\$ 106,787
Equity mutual funds:				
Large Blend	526,425	-0-	-0-	526,425
Large Growth	608,258	-0-	-0-	608,258
Other	612,630	-0-	-0-	612,630
Bond mutual funds:				
Short-Term	146,808	-0-	-0-	146,808
Intermediate-Term	850,633	-0-	-0-	850,633
Other	44,797	-0-	-0-	44,797
Derivative obligation (liability)	-0-	(146,256)	-0-	(146,256)
	<u>\$ 2,896,338</u>	<u>\$ (146,256)</u>	<u>\$ -0-</u>	<u>\$ 2,750,082</u>

Investments are allocated on the consolidated statements of financial position as follows as of December 31, 2017 and 2016:

	2017	2016
Investments in current assets	\$ 927,554	\$ 728,832
Investments restricted for long-term investment	2,398,864	2,167,506
Total Investments	<u>\$ 3,326,418</u>	<u>\$ 2,896,338</u>

Earnings on investments are as follows for the years ended December 31, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 47,801	\$ 55,938
Net realized gain	55,718	29,501
Unrealized gain	327,333	56,832
	<u>430,852</u>	<u>142,271</u>
Less investment fees	(12,143)	(12,889)
Net investment income	<u>\$ 418,709</u>	<u>\$ 129,382</u>

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 3: Pledges Receivable

Pledges receivable consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Target investment zone - temporarily restricted	\$ 600,000	\$ 900,000
Constellation - temporarily restricted	-0-	110,000
Education programs - temporarily restricted	440,000	-0-
Operating - unrestricted	<u>274,946</u>	<u>330,075</u>
	1,314,946	1,340,075
Less: Allowance for doubtful pledges receivable	<u>-0-</u>	<u>-0-</u>
	1,314,946	1,340,075
Less: Present value discount at 3%	<u>40,447</u>	<u>40,529</u>
Unconditional pledges receivable, net	<u>\$ 1,274,499</u>	<u>\$ 1,299,546</u>
Gross amounts due in:		
Less than one year	\$ 564,946	\$ 590,075
One to five years	725,000	725,000
More than five years	<u>25,000</u>	<u>25,000</u>
Total unconditional pledges receivable	<u>\$ 1,314,946</u>	<u>\$ 1,340,075</u>

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

	<u>2017</u>	<u>2016</u>
Current portion	\$ 564,946	\$ 590,075
Non-current portion	<u>709,553</u>	<u>709,471</u>
	<u>\$ 1,274,499</u>	<u>\$ 1,299,546</u>

Note 4: Short-Term Borrowings

The Foundation has a \$500,000 line of credit with PNC Bank. There was no outstanding balance at December 31, 2017 and 2016. The outstanding principal bears interest at the rate of 2.62% for the years ended December 31, 2017 and 2016, and was collateralized by the assets of the Foundation.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 5: Long-Term Debt

Long-term debt consisted of the following as of December 31, 2017 and 2016:

	2017	2016
<p>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 \$2,019,989 and \$1,894,830 as of December 31, 2017 and 2016, respectively. The interest rate for the Series 2010A bonds payable is based on 65% of the sum of one month London Interbank Offered Rate (LIBOR), plus 200 basis points and an additional 18 basis points. For the period ending December 31, 2017 and 2016, the interest was 2.37% and 1.89%, respectively. Principal payments are scheduled starting September 2020 and finishing December, 2035.</p>	<p>\$ 2,019,989</p>	<p>\$ 1,894,830</p>
<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>	<p>300,632</p>	<p>325,240</p>

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 5: Long-Term Debt (Continued)

	2017	2016
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) plus 200 basis points. For the period ending December 31, 2017 and 2016, the interest was 3.37% and 2.63%, respectively. Principal payments are scheduled through September, 2020.	268,140	483,832
Note Payable - PNC convertible line of credit, original proceeds amount to \$125,000 of the allowed \$510,000 with an interest rate equal to the Daily LIBOR plus 200 basis points (2%). It was fully utilized by April 1, 2018 when it was converted into a term loan with interest based on the one month London Interbank Offered Rate (LIBOR) plus 200 basis points, payable in 84 monthly installments of \$6,071 beginning in May 2018.	125,000	-0-
Note payable - PNC Bank 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 Foundation.	89,577	193,668
Note payable - Bank of America 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 (6.25% as of December 31, 2016). Payments of principal of \$1,485 began on May 5, 2014 and continue on the same day of each month thereafter. The loan was paid off in 2017.	-0-	20,745
Total Long-Term Debt	2,803,338	2,918,315
Less: Unamortized Debt Issuance Costs	35,956	37,953
Total Long-Term Debt, Less Debt Issuance Costs	2,767,382	2,880,362
Less: Current Maturities	258,116	236,840
Long-Term Debt Less Current Maturities and Debt Issuance Costs	\$ 2,509,266	\$ 2,643,522

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 5: Long-Term Debt (Continued)

Total interest expense, including interest on short-term bank borrowings, for the years ended December 31, 2017 and 2016 was \$137,405 and \$134,337, respectively.

Aggregate annual maturities of long-term debt for each of the years subsequent to December 31, 2017, are as follows:

Year ending December 31,	
2018	\$ 258,116
2019	198,115
2020	129,392
2021	121,078
2022	126,177
Thereafter	<u>1,970,460</u>
	<u>\$ 2,803,338</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 Foundation 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 consolidated statements of financial position. The swap agreement requires the Foundation to pay a fixed rate of interest of 2.72% on a notional amount of \$2,250,982 (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 statements of activities.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of December 31, 2017 and 2016:

	2017	2016
USS Constellation Maintenance	\$ 1,021,515	\$ 906,157
Target Investment Zone Expansion	662,256	900,000
Education Programs	625,000	1,143,500
Youth Center Program	537,370	435,890
Crossroads School	331,569	193,227
Heritage Center Capital Project	257,102	262,215
Fleetweek Management	247,139	99,370
Fresh Start Program	168,619	196,488
Flick Tower Maintenance	158,435	78,720
LCF Endowment	124,818	48,404
Board Members	118,451	103,465
GEM Program	92,674	44,445
Trash Cage Capital Project	87,028	25,110
Project Serve	83,847	266,487
NCR Environmental Education	22,050	33,504
Patterson Park Program	21,298	-0-
Healthy Lifestyle and Violence Prevention	20,795	27,328
LCF Headquarters Improvements	19,510	19,510
Lady Maryland Maintenance	17,267	9,041
NCR Workforce Development	8,426	-0-
Kingman Island Environmental Center	6,938	20,000
NCR Robotics	5,820	-0-
Kellogg Foundation	5,504	5,504
Safe Streets Program	5,000	3,451
NCR Summer Stem Camp	4,812	3,806
Friends of Fort McHenry	4,049	-0-
Taney Dry Dock project	1,526	-0-
Financial Literacy	-0-	164,863
Masonville Program	-0-	17,117
Youth Center Capital Project	-0-	1,014,164
	<u>\$ 4,658,818</u>	<u>\$ 6,021,766</u>

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 7: Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions for the years ended December 31, 2017 and 2016 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.

	2017	2016
Youth Center Capital Project	\$ 1,304,761	\$ 5,360,128
Education Programs	993,500	276,500
Youth Center Program	608,520	707,511
Target Investment Zone Expansion	400,070	300,000
Crossroads School	262,326	978,997
Project Serve	201,806	245,590
Trash Cage Capital Project	181,811	68,758
Financial Literacy	164,863	155,406
Fresh Start Program	105,000	67,928
Fleetweek Management	102,230	8,630
Healthy Lifestyle and Violence Prevention	31,533	27,842
NCR Summer Stem Camp	23,994	23,590
Masonville Program	17,117	7,533
NCR Environmental Education	14,152	12,848
Kingman Island Environmental Center	13,062	-0-
Patterson Park Program	8,702	-0-
NCR Workforce Development	8,426	-0-
GEM Program	5,981	71,626
Heritage Center Capital Project	5,113	34,338
Friends of Fort McHenry	4,951	2,997
Safe Streets Program	3,451	5,404
BUGS Greenhouse Repairs	-0-	6,063
Constellation Capital Project	-0-	10,015
Queen Beez Program	-0-	46,697
USS Constellation Maintenance	-0-	128,234
	<u>\$ 4,461,369</u>	<u>\$ 8,546,635</u>

Note 8: Temporarily and 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 and maintenance of the USS Constellation Museum.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 8: Temporarily and Permanently Restricted Net Assets (Continued)

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.

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 8% 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.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Note 8: Temporarily and Permanently Restricted Net Assets (Continued)

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 3% 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.

During 2016, the Foundation's Executive Committee and the Historic Ships Advisory Board, reviewed a major donor's agreement and determined that that the donor's gift was designated for long-term preservation and care of the USS Constellation. Accordingly, the gift and income from investing the gift are available for the care and maintenance of the USS Constellation. Therefore, in 2016 the gift was reclassified from permanently restricted to temporarily restricted.

Changes in endowment net assets during the year ended December 31, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 1,042,321	\$ 1,361,349	\$ 2,403,670
Net investment income	279,715	-0-	279,715
Contributions	-0-	16,000	16,000
Donor restricted endowment funds	<u>\$ 1,322,036</u>	<u>\$ 1,377,349</u>	<u>\$ 2,699,385</u>

Changes in endowment net assets during the year ended December 31, 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 536,488	\$ 2,209,163	\$ 2,745,651
Net investment income	96,237	-0-	96,237
Contributions	-0-	105,000	105,000
Reclassification from permanently restricted	952,814	(952,814)	-0-
Released from restriction	(543,218)	-0-	(543,218)
Donor restricted endowment funds	<u>\$ 1,042,321</u>	<u>\$ 1,361,349</u>	<u>\$ 2,403,670</u>

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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 \$126,714 and \$118,944 for 2017 and 2016, 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 June 2022. Additionally, the Foundation leases office equipment under leases that expire through December 2023. As of December 31, 2017, future minimum lease payments under the operating leases, summarized by year, are as follows:

	Facilities	Equipment	Total
2018	\$ 131,810	\$ 7,068	\$ 138,878
2019	125,454	7,067	132,521
2020	129,218	2,801	132,019
2021	133,094	1,379	134,473
2022	67,531	1,379	68,910
	<u>\$ 587,107</u>	<u>\$ 19,694</u>	<u>\$ 606,801</u>

Rent expense for the year ended December 31, 2017 and 2016 totaled \$382,661 and \$680,997, 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, 2017 and 2016, the Foundation contributed \$11,803 and \$9,474, 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 and the USCGC Taney; and the Seven-Foot Knoll Lighthouse that expires December 31, 2017.

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 \$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. No sales occurred during 2017 and 2016.

The Foundation has an agreement with FC Yards Marina, LLC to manage and operate a marina on the Anacostia River that expires July 1, 2019.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016 was \$260,000 and \$245,000, respectively.

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.

Commitments: The Foundation intends to purchase two buildings and land from the Housing Authority of Baltimore City located within Baltimore, Maryland for \$300,000. The transaction is pending approval by the United States Department of Housing and Urban Development and a donor has committed to fund upon approval.

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 consolidated 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, 2017 AND 2016

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Schedule of Functional Expenses
Year Ended December 31, 2017 with Comparative Totals for 2016

	Living Classrooms Foundation	Living Classrooms Foundation DC	Historic Ships	Project S.E.R.V.E.	Inner Harbor Paddleboats	Crossroads School
Salaries	\$ 3,123,681	\$ 390,410	\$ 1,050,828	\$ 1,133,483	\$ 143,741	\$ 188,675
Payroll taxes	207,170	37,208	81,567	104,420	11,132	14,990
Health insurance	128,368	22,478	44,084	40,838	3,222	7,705
Retirement	36,901	1,742	25,623	7,838	1,199	4,950
Life insurance	21,462	3,694	6,755	6,501	573	1,395
Total Salaries and Related Expenses	3,517,582	455,532	1,208,857	1,293,080	159,867	217,715
Advertising and promotion	12,494	20	15,650	-0-	-0-	-0-
Bank fees	51,965	2,068	65,287	96	9,049	-0-
Conferences and training	19,266	482	998	16,035	459	2,718
Contract services	2,148	1,658	7,925	-0-	863	-0-
Cost of goods sold	-0-	-0-	121,327	-0-	-0-	-0-
Depreciation and amortization	283,505	3,939	250,942	10,400	36,546	92,064
Drug testing	10,066	1,200	1,297	6,833	1,794	48
Food	84,361	35,671	35,071	3,561	453	12,325
Fuel	15,026	2,655	18,964	13,532	656	-0-
In-kind expense	101,701	-0-	29,438	1,854	970	-0-
Insurance	419,239	36,695	69,702	93,649	36,534	24,555
Intercompany	(832,175)	141,431	264,390	234,890	70,000	68,620
Interest expense	119,822	-0-	11,400	-0-	6,183	-0-
Maintenance	232,617	35,999	50,022	31,469	40,022	97,224
Miscellaneous	50,960	13,409	2,540	938	-0-	19,823
Office expense	44,007	7,840	15,101	6,358	5,413	12,975
Partners expense	91,067	-0-	21,975	120,164	17,569	2,959
Postage	7,972	642	2,663	60	-0-	-0-
Printing	4,360	5,086	3,020	66	-0-	-0-
Professional fees	149,114	326,304	31,157	20,544	5,021	154
Program supplies	147,273	34,475	22,448	176,601	8,354	54,303
Rent	59,066	24,009	4,254	31,689	110,659	3,174
Telephone	38,591	4,836	13,205	6,416	1,678	600
Travel and transportation	99,562	26,461	2,134	7,246	2	99,819
Uniforms	16,581	3,179	2,376	4,316	1,923	120
Utilities	49,240	14,606	49,157	33	-0-	-0-
Total Expenses	<u>\$ 4,795,410</u>	<u>\$ 1,178,197</u>	<u>\$ 2,321,300</u>	<u>\$ 2,079,830</u>	<u>\$ 514,015</u>	<u>\$ 709,196</u>

Friends of Fort McHenry	Frederick Douglass- Isaac Meyers Maritime Park	Administrative Services	Fundraising Expenses	2017 Total	2016 Total	Increase (Decrease)
\$ 84,342	\$ 102,845	\$ 1,275,726	\$ 468,234	\$ 7,961,965	\$ 8,392,618	\$ (430,653)
6,502	9,195	86,818	34,149	593,151	673,781	(80,630)
1,641	9,675	56,989	22,566	337,566	323,625	13,941
1,285	5,070	32,730	9,376	126,714	118,944	7,770
251	934	8,546	3,627	53,738	56,317	(2,579)
94,021	127,719	1,460,809	537,952	9,073,134	9,565,285	(492,151)
3,820	364	966	110,532	143,846	165,223	(21,377)
1,607	4,235	19,644	4,849	158,800	154,186	4,614
180	-0-	2,401	45	42,584	45,127	(2,543)
-0-	2,335	852	27,943	43,724	126,422	(82,698)
-0-	-0-	-0-	-0-	121,327	118,526	2,801
-0-	266,425	-0-	-0-	943,821	1,053,393	(109,572)
857	35	342	1,022	23,494	23,852	(358)
2,907	216	5,306	59,541	239,412	280,770	(41,358)
-0-	-0-	697	227	51,757	42,998	8,759
10,438	-0-	-0-	21,730	166,131	149,727	16,404
2,650	8,049	17,590	13,366	722,029	660,674	61,355
24,274	17,820	-0-	10,750	-0-	-0-	-0-
-0-	-0-	-0-	-0-	137,405	134,377	3,028
-0-	102,041	52,185	2,937	644,516	545,809	98,707
(336)	536	8,612	41,827	138,309	256,425	(118,116)
680	26	62,359	117	154,876	173,656	(18,780)
28,198	-0-	-0-	60,328	342,260	449,860	(107,600)
608	128	202	5,245	17,520	20,108	(2,588)
854	58	146	7,489	21,079	10,113	10,966
-0-	-0-	17,609	21,580	571,483	340,693	230,790
5,283	308	5,732	83,860	538,637	508,773	29,864
1,151	3,250	8,703	136,706	382,661	680,997	(298,336)
1,066	42	5,992	2,254	74,680	85,939	(11,259)
11,746	-0-	1,738	8,511	257,219	373,793	(116,574)
74	-0-	486	-0-	29,055	43,578	(14,523)
-0-	-0-	74,689	-0-	187,725	217,477	(29,752)
\$ 190,078	\$ 533,587	\$ 1,747,060	\$ 1,158,811	\$ 15,227,484	\$ 16,227,781	\$ (1,000,297)

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Schedule of Functional Expenses
Year Ended December 31, 2016

	Living Classrooms Foundation	Living Classrooms Foundation DC	Historic Ships	Project S.E.R.V.E.	Inner Harbor Paddleboats	Crossroads School
Salaries	\$ 3,408,563	\$ 596,113	\$ 1,082,164	\$ 1,023,284	\$ 148,759	\$ 229,970
Payroll taxes	267,698	53,284	86,443	93,999	13,344	13,654
Health insurance	98,885	32,840	44,478	37,628	4,286	7,732
Retirement	33,953	2,056	25,793	7,202	2,072	3,140
Life insurance	22,780	4,898	7,206	5,625	665	1,215
Total Salaries and Related Expenses	3,831,879	689,191	1,246,084	1,167,738	169,126	255,711
Advertising and promotion	9,550	1,478	93,192	-0-	159	-0-
Bank fees	50,834	5,255	59,576	54	12,682	-0-
Conferences and training	31,083	4,210	1,778	4,696	459	1,224
Contract services	24,642	2,903	21,055	-0-	820	17,514
Cost of goods sold	-0-	-0-	118,526	-0-	-0-	-0-
Depreciation and amortization	241,026	29,784	416,258	4,092	44,574	49,361
Drug testing	8,536	2,171	2,466	6,029	2,317	-0-
Food	69,393	31,881	62,740	3,079	259	12,946
Fuel	16,206	4,229	11,151	9,179	1,157	-0-
In-kind expense	113,432	1,700	-0-	4,750	-0-	-0-
Insurance	383,747	38,656	55,248	117,723	15,859	6,407
Intercompany	(1,192,000)	293,717	444,823	225,690	76,890	71,570
Interest expense	110,116	-0-	15,499	-0-	6,420	2,342
Maintenance	182,382	59,739	35,135	36,832	42,743	55,017
Miscellaneous	96,545	13,039	71,981	8,243	4,363	26,485
Office expense	53,032	10,154	11,802	14,076	2,425	7,213
Partners expense	55,410	-0-	298,810	27,932	45,518	3,382
Postage	11,601	933	2,821	28	30	17
Printing	2,928	1,322	1,517	443	-0-	-0-
Professional fees	86,418	68,303	61,938	15,000	-0-	2,508
Program supplies	224,649	24,798	37,630	79,708	10,526	28,234
Rent	170,967	83,739	119,700	31,381	105,490	23,997
Telephone	44,258	5,487	17,201	6,184	1,660	600
Travel and transportation	116,775	24,504	104,738	20,984	8	88,963
Uniforms	25,761	6,386	8,283	2,479	1,074	-0-
Utilities	84,087	20,228	40,470	-0-	-0-	-0-
Total Expenses	\$ 4,853,257	\$ 1,423,807	\$ 3,360,422	\$ 1,786,320	\$ 544,559	\$ 653,491

Friends of Fort McHenry	Frederick Douglass- Isaac Meyers Maritime Park	Administrative Services	Fundraising Expenses	Total
\$ 68,828	\$ 181,040	\$ 1,177,324	\$ 476,573	\$ 8,392,618
5,316	14,939	86,038	39,066	673,781
1,590	11,146	55,798	29,242	323,625
930	3,728	32,210	7,860	118,944
226	1,542	8,355	3,805	56,317
76,890	212,395	1,359,725	556,546	9,565,285
-0-	-0-	119	60,725	165,223
895	-0-	21,174	3,716	154,186
40	-0-	1,512	125	45,127
-0-	7,540	16,801	35,147	126,422
-0-	-0-	-0-	-0-	118,526
-0-	268,298	-0-	-0-	1,053,393
552	-0-	402	1,379	23,852
9,530	9,536	7,748	73,658	280,770
-0-	-0-	808	268	42,998
-0-	-0-	-0-	29,845	149,727
5,560	17,577	11,879	8,018	660,674
22,490	25,740	-0-	31,080	-0-
-0-	-0-	-0-	-0-	134,377
-0-	57,542	71,352	5,067	545,809
8,482	1,817	9,170	16,300	256,425
801	16	68,064	6,073	173,656
8,110	-0-	-0-	10,698	449,860
480	25	36	4,137	20,108
986	-0-	1,154	1,763	10,113
3,400	300	67,169	35,657	340,693
3,769	2,135	3,878	93,446	508,773
610	3,463	7,962	133,688	680,997
-0-	448	8,401	1,700	85,939
11,943	-0-	884	4,994	373,793
195	-0-	(600)	-0-	43,578
516	71,056	1,120	-0-	217,477
\$ 155,249	\$ 677,888	\$ 1,658,758	\$ 1,114,030	\$ 16,227,781

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, 2017

Contract #14-PD-006

	<u>January 1, 2017 to June 30, 2017</u>	<u>July 1, 2017 to December 31, 2017</u>
Sources of Revenues and Support		
State Governments:		
State of Maryland:		
Department of Juvenile Services	\$ 106,644	\$ 102,176
Personnel Expenditures		
Salaries and wages	47,651	119,094
Payroll taxes and employee benefits	11,288	19,383
Total Personnel Expenditures	<u>58,939</u>	<u>138,477</u>
Administrative Costs		
	<u>28,780</u>	<u>27,460</u>
Other Expenditures		
Transportation	640	2,880
Program Supplies	1,296	7,156
Insurance	5,648	-0-
Rent	15,526	15,516
Telephone	760	635
Food and kitchen supplies	182	289
Miscellaneous	96	90
Fuel	94	263
Total Other Expenditures	<u>24,242</u>	<u>26,829</u>
Total Expenditures	<u>111,961</u>	<u>192,766</u>
Excess Expense	<u>\$ (5,317)</u>	<u>\$ (90,590)</u>
Service Days Provided	1,178	1,080
Service Rate Per Day (Weighted average)	<u>\$ 93.49</u>	<u>\$ 94.71</u>
Total Earned Revenue	<u>\$ 110,131</u>	<u>\$ 102,287</u>

Independent Auditor's Report on Internal Control over Consolidated Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated 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, 2017, 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 28, 2018.

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 material weaknesses. 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 Consolidated 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 consolidated 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 consolidated 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 28, 2018

**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, 2017. 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 (CFR) 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 noncompliance 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, 2017.

**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 28, 2018

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Numbers	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
<i>Passed through from the National Fish and Wildlife Foundation</i>				
Cooperative Forestry Assistance (Hispanic Environmental Awareness)	10.664	1301-17-055746	\$ -0-	\$ 3,394
U.S. Department of Housing and Urban Development				
<i>Passed through from the City of Baltimore</i>				
		37414		
		37415		
		37416		
		37940		
		37941		
Community Development Block Grants/Entitlement Grants	14.218	37942	-0-	534,510
U.S. Department of the Interior				
National Wildlife Refuge System Enhancements (Urban Initiative with Masonville Cove)	15.654		-0-	10,312
Conservation Activities by Youth Service Organizations (National Park Service - Cultural Landscapes Program)	15.931		-0-	358,110
Total U.S. Department of the Interior			-0-	368,422
U.S. Department of Labor				
<i>Passed through from the Mayors Office of Employment Development</i>				
WIOA Youth Activities (Fresh Start)	17.259	4000-807416-6312 481105-603051	38,826	63,392
U.S. Department of Commerce				
<i>Passed through from the National Marine Sanctuary Foundation</i>				
NOAA Mission-Related Education Awards	11.008	17-03-B-101	-0-	22,069

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Numbers	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Environmental Protection Agency				
Environmental Education Grants	66.951		-0-	45,874
<i>Passed through from the District of Columbia Department of Energy and Environment</i>		2016-1609-WPD- Watershed Projects		
Chesapeake Bay Program (Trash - Focused Watershed Educational Experiences)	66.466	-09-2	-0-	11,623
Total U.S. Environmental Protection Agency			-0-	57,497
U.S. Department of Education				
<i>Passed through from the Maryland State Department of Education</i>				
		170767		
		171064		
		171537		
21 st Century Community Learning Centers	84.287	181134	-0-	435,154
Total Expenditures of Federal Awards			\$ 38,826	\$ 1,484,438

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

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, 2017. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations (CFR) 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, 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: Indirect Cost Rate

Living Classrooms Foundation, Inc. has elected not to use the 10% *de minimis* indirect cost rate allowed under the Uniform Guidance.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Summary of Auditor's Results

- 1) The auditor's report expresses an unmodified opinion on whether the consolidated financial statements of Living Classrooms Foundation, Inc. were prepared in accordance with GAAP.
- 2) No significant deficiencies or material weaknesses relating to the audit of the consolidated 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 or material weaknesses related to internal control over major federal award programs are 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).
- 7) The Conservation Activities by Youth Science Organizations (CFDA 15.931) was tested as the major program.
- 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 as defined by the Uniform Guidance.

Findings - Financial Statement Audit

None

Findings and Questioned Costs - Major Federal Award Programs Audit

None

Summary Schedule of Prior Audit Findings

None

