GROSS MENDELSOHN
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LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

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

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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, 2019 and 2018, 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 report of revenue and expenses by program for the State of Maryland Department of Juvenile Services 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 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 23, 2020, 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 23, 2020

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	**$ 878,262**	$ 1,652,402
Investments	**885,653**	616,559
Grants receivable	**1,725,245**	1,147,665
Pledges receivable, net of allowance for doubtful accounts (2019 - $56,250 and 2018 - $-0-)	**1,369,697**	1,108,946
Accounts receivable, net of allowance for doubtful accounts (2019 and 2018 - $5,000)	**843,094**	686,518
Inventory	**68,736**	74,221
Prepaid expenses	**234,676**	101,279
Total Current Assets	**6,005,363**	5,387,590
Property		
Land	**159,950**	159,950
Building and improvements	**27,348,347**	27,086,618
Vessels and improvements	**7,586,517**	7,461,162
Office and program equipment	**1,965,708**	2,508,207
Vehicles	**520,132**	573,400
Construction in progress	**247,500**	468,974
Exhibits and monuments	**730,817**	730,817
Total Cost	**38,558,971**	38,989,128
Less: Accumulated depreciation	**16,192,680**	15,726,984
Net Property	**22,366,291**	23,262,144
Other Assets		
Cash surrender value of life insurance policies net of loans (2019 - $219,095 and 2018 - $225,287)	**609,812**	538,824
Donated assets held for resale	**-0-**	500
Pledges receivable, net of current portion	**1,629,963**	1,231,951
Investments restricted to long-term investment	**2,810,964**	2,465,497
Goodwill, net of amortization (2019 - $125,000 and 2018 - $100,000)	**125,000**	150,000
Total Other Assets	**5,175,739**	4,386,772
Total Assets	**$ 33,547,393**	$ 33,036,506

	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	**$ 406,054**	$ 347,789
Accrued expenses	**107,973**	102,353
Payroll and related taxes payable	**886,414**	887,156
Short term borrowing	**-0-**	200,000
Deferred revenue	**302,167**	400,946
Current maturities of long-term debt	**198,677**	198,115
Total Current Liabilities	**1,901,285**	2,136,359
Non-Current Liabilities		
Long-term debt, net of current maturities	**2,508,724**	2,704,623
Deferred compensation	**290,000**	275,000
Derivative obligation	**38,342**	49,703
Total Non-Current Liabilities	**2,837,066**	3,029,326
Total Liabilities	**4,738,351**	5,165,685
Commitments (Notes 11, 12 and 13)		
Net Assets		
Without donor restrictions	**20,360,539**	20,805,932
With donor restrictions	**8,448,503**	7,064,889
Total Net Assets	**28,809,042**	27,870,821
Total Liabilities and Net Assets	**$ 33,547,393**	$ 33,036,506

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, 2019 and 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants	$ 6,263,937	$ 678,532	$ 6,942,469
Gross special event revenue, net cost of direct benefit to donor ($135,408 and $39,416 for 2019 and 2018)	1,308,411	-0-	1,308,411
Gross fundraising, sales, and other, net of cost of goods sold ($59,862 and $57,253 for 2019 and 2018)	2,027,086	-0-	2,027,086
Contributions	3,321,732	2,781,771	6,103,503
Program fees	715,965	-0-	715,965
Net investment return	159,911	449,525	609,436
Gain (loss) on disposal of property	(390,109)	-0-	(390,109)
Unrealized gain on derivative obligation	11,361	-0-	11,361
Total Revenue and Support Before Net Assets Released From Restrictions	13,418,294	3,909,828	17,328,122
Net assets released from restrictions	2,526,214	(2,526,214)	-0-
Total Revenue and Support	15,944,508	1,383,614	17,328,122
Expenses			
Program services	13,833,324	-0-	13,833,324
Administrative services	1,783,819	-0-	1,783,819
Fundraising	772,758	-0-	772,758
Total Expenses	16,389,901	-0-	16,389,901
Change in Net Assets	(445,393)	1,383,614	938,221
Net Assets - Beginning of year	20,805,932	7,064,889	27,870,821
Net Assets - End of year	$ 20,360,539	$ 8,448,503	$ 28,809,042

2018			
Without Donor Unrestricted	With Donor Restrictions	Total	Increase (Decrease)
$ 5,688,345	$ 2,664,156	$ 8,352,501	$ (1,410,032)
1,272,133	-0-	1,272,133	36,278
2,389,047	-0-	2,389,047	(361,961)
2,809,591	907,049	3,716,640	2,386,863
713,731	-0-	713,731	2,234
(37,942)	(87,005)	(124,947)	734,383
10,944	-0-	10,944	(401,053)
43,547	-0-	43,547	(32,186)
12,889,396	3,484,200	16,373,596	954,526
2,455,478	(2,455,478)	-0-	-0-
15,344,874	1,028,722	16,373,596	954,526
12,912,204	-0-	12,912,204	921,120
1,750,438	-0-	1,750,438	33,381
1,082,540	-0-	1,082,540	(309,782)
15,745,182	-0-	15,745,182	644,719
(400,308)	1,028,722	628,414	$ 309,807
21,206,240	6,036,167	27,242,407	
$ 20,805,932	$ 7,064,889	$ 27,870,821	

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

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Schedule of Functional Expenses
Year Ended December 31, 2019 with Comparative Totals for 2018

	Living Classrooms Foundation	Living Classrooms Foundation DC	Historic Ships	Project S.E.R.V.E.	Inner Harbor Paddleboats	Crossroads School
Salaries	$ 3,240,190	$ 503,802	$ 955,502	$ 1,444,744	$ 181,917	$ 141,616
Payroll taxes	244,402	44,124	69,049	109,516	13,422	11,111
Health insurance	134,999	19,864	35,982	25,502	3,570	4,709
Retirement	52,110	3,403	21,680	3,209	1,224	1,714
Life insurance	20,923	2,759	6,047	6,603	327	1,185
Total Salaries and Related Expenses	3,692,624	573,952	1,088,260	1,589,574	200,460	160,335
Advertising and promotion	104,544	1,997	16,294	1,438	955	11,844
Bad debt	56,250	-0-	-0-	-0-	-0-	-0-
Bank fees	79,152	926	59,165	44	14,228	-0-
Conferences and training	31,681	1,007	1,500	10,186	978	3,395
Contract services	14,322	2,108	9,851	-0-	2,161	-0-
Cost of direct benefits to donors	-0-	-0-	-0-	-0-	-0-	-0-
Cost of goods sold	-0-	-0-	59,862	-0-	-0-	-0-
Depreciation and amortization	424,408	6,641	251,338	14,816	80,179	86,687
Drug testing	14,821	2,101	2,431	9,180	3,374	70
Food	98,535	59,350	24,167	5,773	232	15,223
Fuel	11,167	3,868	23,651	14,792	1,073	100
In-kind expense	132,551	1,603	11,379	-0-	-0-	19,131
Insurance	375,420	48,377	74,898	100,789	34,454	9,680
Intercompany	(908,005)	162,131	238,167	303,846	76,514	56,323
Interest expense	104,359	-0-	13,356	-0-	22,596	-0-
Maintenance	304,063	30,473	48,259	28,982	44,658	55,066
Miscellaneous	58,477	13,232	6,049	11,877	401	10,516
Office expense	93,725	27,870	25,042	13,354	22,144	5,481
Partners expense	151,429	26,250	21,875	26,391	45,435	4,584
Postage	14,718	178	2,279	-0-	29	16
Printing	6,551	1,428	3,166	131	-0-	146
Professional fees	139,916	60,637	17,695	7,277	-0-	15,068
Program supplies	188,782	74,089	8,751	609,713	4,850	19,720
Rent	148,304	65,467	21,523	28,150	126,072	24,553
Telephone	44,695	6,971	18,561	7,508	1,910	600
Travel and transportation	157,277	18,167	3,458	6,884	755	71,250
Uniforms	29,434	1,053	3,960	5,000	975	-0-
Utilities	76,934	19,708	42,187	-0-	-0-	48,756
Total expenses by function	5,646,134	1,209,584	2,097,124	2,795,705	684,433	618,544
Less items included within revenue, support and gains						
Cost of product sales	-0-	-0-	(59,862)	-0-	-0-	-0-
Cost of direct benefits to donors	-0-	-0-	-0-	-0-	-0-	-0-
Total expenses as presented on the Statement of Activities	$ 5,646,134	$ 1,209,584	$ 2,037,262	$ 2,795,705	$ 684,433	$ 618,544

Friends of Fort McHenry	Frederick Douglass-Isaac Meyers Maritime Park	Program Services	Administrative Services	Fundraising Expenses	2019 Total	2018 Total	Increase (Decrease)
$ 132,542	$ 96,581	6,696,894	$ 1,326,058	$ 422,466	$ 8,445,418	$ 8,225,741	$ 219,677
11,032	8,240	510,896	77,165	25,593	613,654	592,112	21,542
1,785	7,724	234,135	61,817	24,671	320,623	341,174	(20,551)
1,748	3,954	89,042	41,481	7,421	137,944	138,278	(334)
531	742	39,117	10,421	3,199	52,737	47,862	4,875
147,638	117,241	7,570,084	1,516,942	483,350	9,570,376	9,345,167	225,209
231	870	138,173	12,808	27,028	178,009	193,025	(15,016)
-0-	-0-	56,250	-0-	-0-	56,250	-0-	56,250
1,992	445	155,952	(73)	6,001	161,880	165,994	(4,114)
190	-0-	48,937	3,009	-0-	51,946	86,539	(34,593)
-0-	1,933	30,375	19,648	20,664	70,687	61,944	8,743
-0-	-0-	-0-	-0-	135,408	135,408	39,416	95,992
-0-	-0-	59,862	-0-	-0-	59,862	57,253	2,609
-0-	264,118	1,128,187	-0-	-0-	1,128,187	1,064,773	63,414
904	48	32,929	256	47	33,232	27,785	5,447
5,036	423	208,739	15,561	4,714	229,014	259,515	(30,501)
-0-	-0-	54,651	586	-0-	55,237	52,554	2,683
3,713	-0-	168,377	-0-	114,224	282,601	135,415	147,186
1,891	17,815	663,324	34,433	10,144	707,901	670,194	37,707
30,455	2,200	(38,369)	-0-	38,369	-0-	-0-	-0-
-0-	-0-	140,311	-0-	-0-	140,311	132,116	8,195
-0-	118,112	629,613	82,494	5,254	717,361	491,939	225,422
170	945	101,667	26,341	4,725	132,733	117,573	15,160
1,075	8,751	197,442	21,769	1,284	220,495	171,878	48,617
5,264	9,368	290,596	380	-0-	290,976	472,019	(181,043)
845	-0-	18,065	138	3,855	22,058	20,647	1,411
20	-0-	11,442	260	2,210	13,912	18,314	(4,402)
4,930	-0-	245,523	6,737	29,667	281,927	587,228	(305,301)
5,182	819	911,906	3,860	12,384	928,150	484,746	443,404
18	2,195	416,282	10,378	3,770	430,430	586,710	(156,280)
761	-0-	81,006	5,696	1,200	87,902	73,475	14,427
206	-0-	257,997	6,984	3,868	268,849	297,242	(28,393)
-0-	-0-	40,422	-0-	-0-	40,422	34,926	5,496
-0-	85,858	273,443	15,612	-0-	289,055	193,464	95,591
210,521	631,141	13,893,186	1,783,819	908,166	16,585,171	15,841,851	743,320
-0-	-0-	(59,862)	-0-	-0-	(59,862)	(57,253)	(2,609)
-0-	-0-	-0-	-0-	(135,408)	(135,408)	(39,416)	(95,992)
$ 210,521	$ 631,141	$ 13,833,324	$ 1,783,819	$ 772,758	$ 16,389,901	$ 15,745,182	$ 644,719

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

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Schedule of Functional Expenses
Year Ended December 31, 2018

	Living Classrooms Foundation	Living Classrooms Foundation DC	Historic Ships	Project S.E.R.V.E.	Inner Harbor Paddleboats
Salaries	$ 2,931,759	$ 469,999	$ 1,054,236	$ 1,320,967	$ 194,267
Payroll taxes	211,863	37,306	77,316	99,681	16,960
Health insurance	136,318	25,747	39,442	35,048	3,394
Retirement	45,975	4,459	23,733	8,688	1,200
Life insurance	14,739	3,646	6,580	6,321	632
Total Salaries and Related Expenses	3,340,654	541,157	1,201,307	1,470,705	216,453
Advertising and promotion	13,116	120	91,792	214	48
Bank fees	55,502	768	62,172	13	11,354
Conferences and training	24,481	5,107	1,340	48,302	45
Contract services	8,500	1,984	34,388	-0-	1,663
Cost of direct benefits to donors	-0-	-0-	-0-	-0-	-0-
Cost of goods sold	-0-	-0-	57,253	-0-	-0-
Depreciation and amortization	382,146	4,490	251,886	14,816	55,519
Drug testing	10,973	1,355	1,983	7,706	2,111
Food	86,995	30,550	82,643	2,102	231
Fuel	14,073	2,471	18,880	15,137	1,054
In-kind expense	102,452	3,500	5,620	-0-	-0-
Insurance	365,011	30,662	97,506	90,877	40,130
Intercompany	(964,735)	134,277	374,542	241,664	69,631
Interest expense	63,345	-0-	16,884	-0-	51,887
Maintenance	234,265	28,105	48,360	31,329	7,003
Miscellaneous	39,908	2,619	9,413	9,138	867
Office expense	54,395	5,741	25,416	8,677	13,940
Partners expense	106,046	190	160,007	129,468	(16,872)
Postage	9,262	44	3,391	274	39
Printing	7,345	257	7,476	-0-	1,094
Professional fees	164,369	110,263	202,550	-0-	-0-
Program supplies	131,134	32,247	33,830	204,813	6,765
Rent	124,395	15,939	81,491	28,717	122,400
Telephone	35,887	6,182	14,464	6,439	1,657
Travel and transportation	94,360	13,937	110,827	21,853	9
Uniforms	16,979	2,506	10,049	4,562	-0-
Utilities	34,178	19,067	52,024	-0-	-0-
Total expenses by function	4,555,036	993,538	3,057,494	2,336,806	587,028
Less items included within revenue, support and gains					
Cost of product sales	-0-	-0-	(57,253)	-0-	-0-
Cost of direct benefits to donors	-0-	-0-	-0-	-0-	-0-
Total expenses as presented on the Statement of Activities	$ 4,555,036	$ 993,538	$ 3,000,241	$ 2,336,806	$ 587,028

Crossroads School	Friends of Fort McHenry	Frederick Douglass-Isaac Meyers Maritime Park	Program Services	Administrative Services	Fundraising Expenses	Total
$ 245,428	$ 90,410	$ 144,359	$ 6,451,425	$ 1,286,453	$ 487,863	$ 8,225,741
17,654	6,716	11,980	479,476	79,695	32,941	592,112
8,336	679	9,074	258,038	54,630	28,506	341,174
4,164	853	3,357	92,429	37,270	8,579	138,278
1,720	204	1,101	34,943	9,295	3,624	47,862
277,302	98,862	169,871	7,316,311	1,467,343	561,513	9,345,167
-0-	286	-0-	105,576	1,885	85,564	193,025
-0-	1,521	802	132,132	27,949	5,913	165,994
4,790	250	-0-	84,315	2,064	160	86,539
-0-	-0-	832	47,367	5,610	8,967	61,944
-0-	-0-	-0-	-0-	-0-	39,416	39,416
-0-	-0-	-0-	57,253	-0-	-0-	57,253
91,283	-0-	264,633	1,064,773	-0-	-0-	1,064,773
13	1,164	82	25,387	1,615	783	27,785
6,790	492	-0-	209,803	12,498	37,214	259,515
25	-0-	-0-	51,640	803	111	52,554
-0-	-0-	-0-	111,572	1,528	22,315	135,415
9,759	1,392	2,655	637,992	20,990	11,212	670,194
77,751	21,431	1,954	(43,485)	-0-	43,485	-0-
-0-	-0-	-0-	132,116	-0-	-0-	132,116
10,063	-0-	73,155	432,280	57,873	1,786	491,939
13,438	349	1,225	76,957	21,010	19,606	117,573
5,965	943	3,157	118,234	52,551	1,093	171,878
6,324	27,855	-0-	413,018	-0-	59,001	472,019
-0-	1,082	535	14,627	144	5,876	20,647
-0-	124	381	16,677	69	1,568	18,314
13,802	150	468	491,602	42,451	53,175	587,228
16,697	5,107	675	431,268	3,037	50,441	484,746
92,402	-0-	3,598	468,942	11,791	105,977	586,710
604	929	-0-	66,162	5,960	1,353	73,475
33,783	8,674	-0-	283,443	8,372	5,427	297,242
60	-0-	-0-	34,156	770	-0-	34,926
-0-	-0-	84,070	189,339	4,125	-0-	193,464
660,851	170,611	608,093	12,969,457	1,750,438	1,121,956	15,841,851
-0-	-0-	-0-	(57,253)	-0-	-0-	(57,253)
-0-	-0-	-0-	-0-	-0-	(39,416)	(39,416)
$ 660,851	$ 170,611	$ 608,093	$ 12,912,204	$ 1,750,438	$ 1,082,540	15,745,182

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, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	**$ 938,221**	$ 628,414
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	**56,250**	-0-
Net realized and unrealized loss (gain) on investments	**(566,274)**	169,436
In-kind donations of investments	**(19,003)**	(14,035)
Depreciation and amortization	**1,130,965**	1,073,245
Loss (gain) on disposal of property	**390,109**	(10,944)
In-kind donations of property	**(241,000)**	-0-
Deferred compensation	**15,000**	15,000
Unrealized gain on derivative instruments	**(11,361)**	(43,547)
Effects of changes in operating assets and liabilities:		
Grants and pledges receivable	**(1,292,593)**	(1,319,277)
Accounts receivable	**(156,576)**	(96,109)
Inventory and prepaid expenses	**(127,912)**	38,897
Accounts payable, accrued expenses and payroll and related taxes payable	**(7,484)**	233,644
Deferred revenue	**(98,779)**	97,629
Net Cash Provided by Operating Activities	**9,563**	772,353
Cash Flows from Investing Activities		
Purchase of investments	**(57,089)**	(58,289)
Proceeds from the sale of investments	**27,805**	147,250
Proceeds from sale of property	**5,899**	10,944
Purchase of property	**(291,215)**	(819,624)
Premiums paid on life insurance policies	**(70,988)**	(52,293)
Net Cash Used in Investing Activities	**(385,588)**	(772,012)
Cash Flow from Financing Activities		
Borrowings on short-term debt	**-0-**	200,000
Principal payments on short-term debt	**(200,000)**	-0-
Borrowings on long-term debt	**-0-**	385,000
Principal payments on long-term debt	**(198,115)**	(258,116)
Net Cash Provided by (Used in) Financing Activities	**(398,115)**	326,884
Net Increase (Decrease) in Cash and Cash Equivalents	**(774,140)**	327,225
Cash and Cash Equivalents at Beginning of Year	**1,652,402**	1,325,177
Cash and Cash Equivalents at End of Year	**$ 878,262**	$ 1,652,402

	2019	2018
Supplemental Disclosure of Cash Flow Information:		
Interest paid	**$ 137,534**	$ 123,644
Non-Cash Investing and Financing Activities:		
Donated investments	**$ 19,003**	$ 14,035
Acquisition of property	**$ 361,842**	$ -0-
Less: Property acquired through accounts payable	**(70,627)**	-0-
Net cash paid for property	**$ 291,215**	$ -0-

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

Note 1: Nature of Organization and 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 without donor restrictions or with donor restrictions, 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 net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Accounting Standards Update (ASU) 2014-19, *Revenue from Contracts with Customers (Topic 606)* generally became effective for private companies for the years beginning after December 15, 2018. Management determined it did not have revenue transactions which met the definition of "contracts with customers" that were impacted by the new standards; therefore, there have been no changes to the revenue recognition policies of the Foundation.

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Net Assets: Net assets, revenue, support, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional Allocation of Expenses: The costs of providing various programs and other support activities have been summarized on a functional basis in the statements of activities and by natural classification in the statements of functional expenses. Costs that can be identified with specific programs or support services are allocated directly. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated based on estimates of the time expended on various functions or by physical measures such as square footage.

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 market values are reported at fair value in the consolidated statements of financial position. Investments whose fair market values are not readily determined are recorded at cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments are reported in the consolidated statements of activities as part of net investment return.

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 established an allowance for uncollectible pledges of $56,250 and $-0- as of December 31, 2019 and 2018, respectively.

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

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. The Foundation has established an allowance for uncollectible accounts receivable of $5,000 as of December 31, 2019 and 2018.

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.

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, 2019 and 2018 was $1,103,187 and $1,039,773, 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, 2019 and 2018 was $25,000 in each year.

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.

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

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 $65,786 and $-0- for the years ended December 31, 2019 and 2018, respectively.

Advertising Expense: Advertising costs are expensed as incurred. The Foundation had no significant direct-response advertising. For the years ended December 31, 2019 and 2018, the Foundation incurred expenses of $243,875 and $193,025, respectively, to promote various programs.

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.

GAAP 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, 2019 and 2018, the amortization of deferred financing costs was $2,778 and $8,472, 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 years ended December 31, 2019 and 2018. 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, 2018 have been reclassified to conform to the consolidated financial statement presentation for the year ended December 31, 2019.

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements: FASB issued Accounting Standard Update 2016-02, *Leases* which will be effective for fiscal years beginning after December 15, 2021. 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 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.

Subsequent Events: In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 23, 2020, the date the consolidated financial statements were available to be issued. During the period from January 1, 2020 to September 23, 2020, the Foundation did not have any material recognizable or disclosable subsequent events, except for several commitments detailed in Note 13 that warrant disclosure.

Note 2: Liquidity

A summary of the financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following:

	2019	2018
Cash and cash equivalents	$ 878,262	$ 1,652,402
Operating investments	885,653	616,559
Grants receivable	1,725,245	1,147,665
Pledges receivable, current	1,369,697	1,108,946
Accounts receivable, net	843,094	686,518
Less: Net assets with donor restrictions - future periods	-0-	(75,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 5,701,951	$ 5,137,090

The Foundation manages its liquidity following two guiding principles: operating within a prudent range of financial soundness, stability, and maintaining adequate liquid assets to fund near-term operating needs. In the event of an unanticipated liquidity need, the Foundation also could draw upon an operating line of credit, which is maintained in the amount of approximately $700,000.

Note 3: 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 asset 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 valuation techniques used by the Foundation include the following:

<u>Money Market Funds</u>: Valued at the account balance which is the cash balance of the account.

<u>Mutual Funds and Bond Mutual Funds</u>: Valued at the last sales price reported on the active market in which the individual fund is traded.

<u>Interest Rate Swap Agreement</u>: The fair value of the interest rate swap is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and current credit worthiness of the swap counter parties.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

Note 3: Investments and Fair Value Measurement (Continued)

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, 2019 and 2018:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Money market	$ 200,507	$ -0-	$ -0-	$ 200,507
Equity mutual funds:				
Large Blend	591,121	-0-	-0-	591,121
Large Growth	892,449	-0-	-0-	892,449
Other	845,333	-0-	-0-	845,333
Bond mutual funds:				
Intermediate-Term	1,167,207	-0-	-0-	1,167,207
Derivative obligation (liability)	-0-	(38,342)	-0-	(38,342)
	$ 3,696,617	$ (38,342)	$ -0-	$ 3,658,275

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Money market	$ 200,428	$ -0-	$ -0-	$ 200,428
Equity mutual funds:				
Large Blend	462,914	-0-	-0-	462,914
Large Growth	715,807	-0-	-0-	715,807
Other	641,366	-0-	-0-	641,366
Bond mutual funds:				
Intermediate-Term	1,061,541	-0-	-0-	1,061,541
Derivative obligation (liability)	-0-	(49,703)	-0-	(49,703)
	$ 3,082,056	$ (49,703)	$ -0-	$ 3,032,353

Investments are allocated on the consolidated statements of financial position as follows as of December 31, 2019 and 2018:

	2019	2018
Investments in current assets	$ 885,653	$ 616,559
Investments restricted for long-term investment	2,810,964	2,465,497
Total Investments	$ 3,696,617	$ 3,082,056

Note 3: Investments and Fair Value Measurement (Continued)

Earnings on investments are as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Interest and dividends	$ 57,077	$ 58,288
Net realized gain	89,555	151,688
Unrealized gain (loss)	476,719	(321,124)
	623,351	(111,148)
Less investment fees	(13,915)	(13,799)
Net investment return	$ 609,436	$ (124,947)

Note 4: Pledges Receivable

Pledges receivable consisted of the following as of December 31, 2019 and 2018:

	2019	2018
Unrestricted Operating	$ 1,863,447	$ 1,698,946
Restricted Education Programs	120,000	240,000
Restricted Ferndale Building	900,000	-0-
Restricted for Musical Education	100,000	200,000
Restricted Dent House Community Center	75,000	125,000
Restricted Patterson Park House Community Programming	30,000	60,000
Restricted to Support Leveraging Eager Park	25,000	50,000
Restricted Project SERVE	25,000	25,000
Restricted Historic Ships	-0-	10,000
	3,138,447	2,408,946
Less: Allowance for doubtful pledges receivable	56,250	-0-
	3,082,197	2,408,946
Less: Present value discount at 3%	82,537	68,049
Unconditional pledges receivable, net	2,999,660	2,340,897
Less: Current portion	1,369,697	1,108,946
Pledges receivable net of current portion	$ 1,629,963	$ 1,231,951
Gross amounts due in:		
Less than one year	$ 1,369,697	$ 1,108,946
One to five years	1,687,500	1,275,000
More than five years	25,000	25,000
Total unconditional pledges receivable	$ 3,082,197	$ 2,408,946

Note 5: Short-Term Borrowings

The Foundation had a $700,000 line of credit with PNC Bank that was closed in December 2019. For the years ended December 31, 2019 and 2018, the outstanding balance was $-0- and $200,000, respectively. The outstanding principal bore interest at the rate of 4.5% for the years ended December 31, 2019 and 2018 and was collateralized by the assets of the Foundation.

Note 6: Long-Term Debt

Long-term debt consisted of the following as of December 31, 2019 and 2018:

	2019	2018
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, Maryland, and the acquisition, 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 as of December 31, 2019 and 2018. 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 years ended December 31, 2019 and 2018, the interest was 2.58% and 3.00%, respectively. Principal payments are scheduled starting September 2020 and finishing December 2035.	$ 2,019,989	$ 2,019,989
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.	249,915	275,527

Note 6: Long-Term Debt (Continued)

	2019	2018
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, Maryland 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 years ended December 31, 2019 and 2018, the interest was 3.69% and 4.34%, respectively. Principal payments are scheduled through September 2020.	$ 73,631	$ 173,278
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. For the years ended December 31, 2019 and 2018, the interest rate was 3.76% and 4.50%, respectively.	388,571	461,428
Total Long-Term Debt	2,732,106	2,930,222
Less: Unamortized debt issuance costs	24,705	27,484
Total Long-Term Debt, Less Debt Issuance Costs	2,707,401	2,902,738
Less: Current maturities	198,677	198,115
Long-Term Debt Less Current Maturities and Debt Issuance Costs	$ 2,508,724	$ 2,704,623

Total interest expense, including interest on short-term bank borrowings, for the years ended December 31, 2019 and 2018 was $140,311 and $132,116, respectively.

Note 6: Long-Term Debt (Continued)

Aggregate annual maturities of long-term debt for each of the years subsequent to December 31, 2019, are as follows:

Year ending December 31,	
2020	$ 198,677
2021	193,936
2022	199,034
2023	204,328
2024	209,269
Thereafter	1,726,862
	$ 2,732,106

Note 7: 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.

Note 8: Net Assets with Donor Restrictions

Net assets with donor restrictions that are restricted for time or the following purposes consisted of the following as of December 31, 2019 and 2018:

	2019	2018
Education Programs	$ 1,946,231	$ 1,500,000
Workforce Development	1,522,828	-0-
Youth Center Program	427,433	587,684
Crossroads School	327,447	372,696
Fresh Start Program	241,523	203,466
Target Investment Zone Expansion	191,496	405,561
Teen Program	174,324	173,185
Board Members	167,772	132,127
Heritage Center Capital Project	143,412	257,102
Music Program	100,000	200,000
Project Serve	78,409	165,427
NCR Dent House	50,000	100,000
Taney Dry Dock Project	49,806	28,858
GEM Program	37,360	65,318
Patterson Park Program	30,000	60,000
Trash Cage Capital Project	26,828	19,200
NCR Environmental Education	25,457	21,344
Education App Project	13,750	7,500
Kingman Island Environmental Center	10,000	55,212
Kellogg Foundation	5,504	5,504
Friends of Fort McHenry	5,231	10,305
Safe Streets Program	5,000	94,916
NCR Workforce Development	2,826	-0-
Signage Project	2,500	-0-
Masonville Program	1,800	1,800
Fleetweek Management	-0-	72,944
Financial Literacy	-0-	32,733
LCF Headquarters Improvements	-0-	19,510
Early Childhood Program	-0-	7,000
Total Purpose and Time Restriction	$ 5,586,937	$ 4,599,392

Note 8: Net Assets with Donor Restrictions (Continued)

	2019	2018
Baltimore Ravens (Bisciotti) Fund	$ 500,000	$ 500,000
Rouse Flick Tower	457,349	452,349
Weinberg Foundation	300,000	300,000
Kevin Hall	60,000	55,000
Middendorf Fund - Lady Maryland Maintenance	50,000	50,000
Pastore Fund	20,000	20,000
Total Endowments in Perpetuity	$ 1,387,349	$ 1,377,349
USS Constellation Maintenance	$ 975,461	$ 834,113
Flick Tower Maintenance	249,763	134,128
LCF Endowment	221,335	104,795
Middendorf Fund - Lady Maryland Maintenance	27,658	15,112
Total Endowments not in Perpetuity	$ 1,474,217	$ 1,088,148
Purpose and time restriction	$ 5,586,937	$ 4,599,392
Endowments not in perpetuity	1,474,217	1,088,148
Endowments in perpetuity	1,387,349	1,377,349
Total Net Assets with Donor Restrictions	$ 8,448,503	$ 7,064,889

Note 8: Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions for the years ended December 31, 2019 and 2018 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.

	2019	2018
Education Programs	$ 496,669	$ 165,000
Crossroads School	374,320	325,262
Target Investment Zone Expansion	300,000	471,420
Project Serve	243,519	43,012
Youth Center Program	160,251	624,686
Fresh Start Program	151,198	35,900
Heritage Center capital project	113,689	-0-
Music Program	100,000	-0-
Safe Streets Program	89,916	35,084
Workforce Development	77,172	-0-
Fleetweek Management	72,944	174,195
Kingman Island Environmental Center	55,212	18,171
NCR Dent House	50,000	50,000
Trash Cage capital project	44,262	124,827
NCR Workforce Development	44,174	8,426
Financial Literacy	32,733	117,267
Patterson Park Program	30,000	51,298
GEM Program	27,958	27,356
LCF Headquarters Improvements	19,510	-0-
Friends of Fort McHenry	15,074	4,049
Teen Program	13,862	-0-
Early Childhood Program	7,000	-0-
Flick Tower Maintenance	6,751	3,073
USS Constellation Maintenance	-0-	145,025
Healthy Lifestyle and Violence Prevention	-0-	20,795
NCR Robotics	-0-	5,820
NCR Summer Stem Camp	-0-	4,812
	$ 2,526,214	$ 2,455,478

Note 9: Endowments

The Foundation's endowment consists of ten 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 income earned on the endowments are restricted for use for future maritime education programs, maintenance of the Frederick Douglass - Isaac Meyers Park, maintenance of the Rouse/Flick Tower, maintenance of the Lady Maryland, and general operations and maintenance of the USS Constellation Museum.

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 net assets with donor restrictions (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 Foundation considers these net assets with donor restrictions to be endowment funds. 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 50% of the annual income generated, while growing the funds if possible.

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.

Note 9: Endowments (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.

Changes in endowment net assets during the year ended December 31, 2019 are as follows:

	Purpose and Time Restricted	Endowed in Perpetuity	Total
Endowment net assets, beginning of year	$ 1,088,148	$ 1,377,349	$ 2,465,497
Net investment income	392,820	-0-	392,820
Released from restriction	(6,751)	-0-	(6,751)
Contributions	-0-	10,000	10,000
Donor restricted endowment funds	$ 1,474,217	$ 1,387,349	$ 2,861,566

Changes in endowment net assets during the year ended December 31, 2018 are as follows:

	Purpose and Time Restricted	Endowed in Perpetuity	Total
Endowment net assets, beginning of year	$ 1,322,037	$ 1,377,349	$ 2,699,386
Net investment loss	(85,792)	-0-	(85,792)
Released from restriction	(148,097)	-0-	(148,097)
Donor restricted endowment funds	$ 1,088,148	$ 1,377,349	$ 2,465,497

Note 10: 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 $137,944 and $138,278 for 2019 and 2018, respectively.

Note 11: Management Agreements and Lease Commitments

The Foundation leases various offices, programs and other facilities used in their operations under non-cancellable leases that expire through September 2023. Additionally, the Foundation leases office equipment under leases that expire through December 2023. As of December 31, 2019, future minimum lease payments under the operating leases, summarized by year, are as follows:

	Facilities	Equipment	Total
2020	$ 276,691	$ 5,696	$ 282,387
2021	157,607	1,379	158,986
2022	49,856	1,379	51,235
2023	3,308	1,379	4,687
2024 and thereafter	-0-	-0-	-0-
	$ 487,462	$ 9,833	$ 497,295

Rent expense for the year ended December 31, 2019 and 2018 totaled $483,170 and $586,710, respectively.

The Foundation signed an agreement in 1999 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 renews automatically for ten-year periods until either party provides notice of their intent not to renew ninety days prior to expiration of the 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, 2019 and 2018, the Foundation contributed $10,576 and $13,270, 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 WHEC-37; and the Seven-Foot Knoll Lighthouse that expired on December 31, 2017. The Foundation is currently in negotiations with the City of Baltimore for a five year contract which would expire in December 2022.

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 2019 and 2018.

The Foundation has an agreement with FC Yards Marina, LLC to manage and operate a marina on the Anacostia River that expired July 1, 2019 and automatically renewed for two more years. The Foundation is currently in negotiations and operating the marina under a month-to-month agreement.

Note 12: 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, 2019 and 2018 was $290,000 and $275,000, respectively.

Note 13: 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 investment balances and the amounts reported in the accompanying consolidated financial statements.

National Health Emergency: In March 2020, the President of the United States declared a national emergency due to a viral pandemic. The declaration of the national emergency and similar declarations made by various states, and the outbreak of the virus itself, will have far reaching social, economic, and financial impacts on the country going forward. At this time, the impact on the operation and financial status of The Foundation cannot be determined.

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.

Commitments: The Foundation has three purchase commitments as of year-end. 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. The Foundation has a purchase commitment to renovate the dock in the Inner Harbor in the amount of $481,000. The Foundation has an agreement with the City of Baltimore to forgive rents related to the dock usage through the cost of the replacement. The Foundation has a commitment to purchase stock in Ferndale Fence and Awning Co, Inc. that owns property near the headquarters in Baltimore for $2,500,000. The purchase commitment has a due diligence period ending during 2020 and is funded through a financing arrangement with CFG Bank in the amount of $2,500,000 payable in equal monthly installments of principal and interest beginning May 2023 and ending April 2033 and bears interest at 3.49%. An additional financing vehicle in the amount of $1,200,000 is available for improvements to the property.

Note 13: Other Matters (Continued)

After the fiscal year-end in April 2020, to obtain more favorable interest rates and repayment terms, the Foundation refinanced all its PNC loans to CFG Bank and obtained additional financing. One of the loans for $2,150,000 is payable in equal monthly installments of principal and interest beginning June 2020 and ending April 2030, and bears interest at 3.49%. Two of the loans totaling $863,500 are payable in equal monthly installments of principal and interest beginning between June 2020 and August 2020, ending between April 2025 and April 2027, and bears interest at a variable interest rate corresponding to the one-month LIBOR plus 2.00%. A line of credit in the amount of $750,000 for general operations is payable on demand and bears interest at 3.49%.

After the fiscal year-end, the Foundation applied for and received funds in the amount of $1,782,400 under the Paycheck Protection Program (PPP), which was created because of the coronavirus pandemic. The proceeds are considered a forgivable loan, assuming certain qualified expenses, primarily payroll related expenses, are incurred during a 24-week period, commencing on the date of the loan agreement (April 7, 2020). Any portion of this loan that does not qualify for forgiveness is subject to an interest rate of 1%. The original loan document required equal monthly principal installments plus interest over an eighteen-month period commencing on November 7, 2020, with a maturity date of April 7, 2022. However, the repayment of principal period has been extended until 10 months after the end of the 24-week period. It is the Foundation's position that this entire PPP loan will qualify for forgiveness.

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

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, 2019

Contract #14-PD-006

	January 1, 2019 to June 30, 2019	July 1, 2019 to December 31, 2019
Sources of Revenues and Support		
State Governments:		
State of Maryland:		
Department of Juvenile Services	$ 156,461	$ 119,430
Personnel Expenditures		
Salaries and wages	124,371	113,239
Payroll taxes and employee benefits	20,636	20,018
Total Personnel Expenditures	145,007	133,257
Administrative Costs	33,702	33,680
Other Expenditures		
Transportation	3,160	2,649
Program Supplies	8,358	9,247
Insurance	3,929	3,929
Utilities	11,648	4,422
Partner Expense	8,700	19,920
Telephone	664	600
Food and Kitchen supplies	689	709
Miscellaneous	1,088	1,214
Fuel	223	174
Total Other Expenditures	38,459	42,864
Total Expenditures	217,168	209,801
Excess Expense	$ (60,707)	$ (90,371)
Service Days Provided	1,618	1,212
Service Rate Per Day (Weighted average)	$ 96.70	$ 98.54
Total Earned Revenue	$ 156,461	$ 119,430

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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				
Passed through from the National Fish and Wildlife Foundation				
Cooperative Forestry Assistance	10.664	1301-17-055746		
(Hispanic Environmental Awareness)			$ -0-	$ 32,132
U.S. Department of Housing and Urban Development				
Passed through from the City of Baltimore		38633 38634 38635 39187		
Community Development Block Grants/Entitlement Grants	14.218	39188	-0-	651,083
U.S. Department of the Interior				
National Wildlife Refuge System Enhancements	15.654			
(Urban Initiative with Masonville Cove)			-0-	11,278
Conservation Activities by Youth Service Organizations	15.931			
(National Park Service - Cultural Landscapes Program)			-0-	330,086
Total U.S. Department of the Interior			-0-	341,364
U.S. Department of Labor				
Reentry Employment Opportunities	17.270			
(Project S.E.R.V.E.)			-0-	321,752
U.S. Environmental Protection Agency				
Passed through from the District of Columbia Department of Energy and Environment		2016-1609-WPD- Watershed Projects		
Chesapeake Bay Program	66.466	-09-2		
(Trash - Focused Watershed Educational Experiences)			-0-	20,000
Environmental Education Grants	66.951		-0-	14,413
Total U.S. Environmental Protection Agency			-0-	34,413
U.S. Department of Education				
Passed through from the Maryland State Department of Education		191129 191254 200870		
21st Century Community Learning Centers	84.287	201579	-0-	336,017
Total Expenditures of Federal Awards			$ -0-	$ 1,716,761

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, 2019. 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.

GROSS MENDELSOHN
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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, 2019, and the related consolidated statements of activities, functional expenses 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 23, 2020.

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.

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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 23, 2020

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, 2019. 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, 2019.

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 23, 2020

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

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 Twenty-First Century Community Learning Centers (CFDA 84.287) and Environmental Education Grants (CFDA 66.951) were tested as the 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 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

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