GROSS MENDELSOHN
ACCOUNTING | TECHNOLOGY | WEALTH ADVISORY

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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.

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, 2018 and 2017, 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 25, 2019, 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 25, 2019

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 1,652,402	$ 1,325,177
Investments	616,559	927,554
Grants receivable	1,147,665	894,786
Pledges receivable, current	1,108,946	564,946
Accounts receivable, net of allowance for doubtful accounts (2018 and 2017 - $5,000)	686,518	590,409
Inventory	74,221	81,840
Prepaid expenses	101,279	132,557
Total Current Assets	5,387,590	4,517,269
Property		
Land	159,950	159,950
Building and improvements	27,086,618	26,596,128
Vessels and improvements	7,461,162	7,060,139
Office and program equipment	2,508,207	2,402,917
Vehicles	573,400	567,888
Construction in progress	468,974	651,665
Exhibits and monuments	730,817	730,817
Total Cost	38,989,128	38,169,504
Less: Accumulated depreciation	15,726,984	14,687,211
Net Property	23,262,144	23,482,293
Other Assets		
Cash surrender value of life insurance policies net of loans (2018 - $225,287 and 2017 - $223,298)	538,824	486,531
Donated assets held for resale	500	500
Pledges receivable, net of current portion	1,231,951	709,553
Investments restricted for long-term investment	2,465,497	2,398,864
Goodwill, net of accumulated amortization (2018 - $100,000 and 2017 - $75,000)	150,000	175,000
Total Other Assets	4,386,772	3,770,448
Total Assets	$ 33,036,506	$ 31,770,010

	2018	2017
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	**$ 347,789**	$ 320,382
Accrued expenses	**102,353**	54,386
Payroll and related taxes payable	**887,156**	728,886
Short term borrowing	**200,000**	-0-
Deferred revenue	**400,946**	303,317
Current maturities of long-term debt	**198,115**	258,116
Total Current Liabilities	**2,136,359**	1,665,087
Non-Current Liabilities		
Long-term debt, net of current maturities	**2,704,623**	2,509,266
Deferred compensation	**275,000**	260,000
Derivative obligation	**49,703**	93,250
Total Non-Current Liabilities	**3,029,326**	2,862,516
Total Liabilities	**5,165,685**	4,527,603
Commitments (Notes 10, 11 and 12)		
Net Assets		
Without donor restricitons	**20,805,932**	21,206,240
With donor restrictions	**7,064,889**	6,036,167
Total Net Assets	**27,870,821**	27,242,407
Total Liabilities and Net Assets	**$ 33,036,506**	$ 31,770,010

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, 2018 and 2017

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Revenue and Support			
Grants	$ 5,688,345	$ 2,664,156	$ 8,352,501
Gross special event revenue, net cost of direct benefit to donor ($39,416 and $-0- for 2018 and 2017)	1,272,133	-0-	1,272,133
Gross fundraising, sales, and other, net of cost of goods sold ($57,253 and $-0- for 2018 and 2017)	2,389,047	-0-	2,389,047
Contributions	2,809,591	907,049	3,716,640
Program fees	713,731	-0-	713,731
Net investment return	(37,942)	(87,005)	(124,947)
Gain on disposal of property	10,944	-0-	10,944
Unrealized gain on derivative obligation	43,547	-0-	43,547
Total Revenue and Support Before Net Assets Released From Restrictions	12,889,396	3,484,200	16,373,596
Net assets released from restrictions	2,455,478	(2,455,478)	-0-
Total Revenue and Support	15,344,874	1,028,722	16,373,596
Expenses			
Program services	12,925,136	-0-	12,925,136
Administrative services	1,750,438	-0-	1,750,438
Fundraising	1,069,608	-0-	1,069,608
Total Expenses	15,745,182	-0-	15,745,182
Change in Net Assets	(400,308)	1,028,722	628,414
Net Assets - Beginning of year	21,206,240	6,036,167	27,242,407
Net Assets - End of year	$ 20,805,932	$ 7,064,889	$ 27,870,821

2017			
Without Donor Restrictions	With Donor Restrictions	Total	Increase (Decrease)
$ 4,901,948	$ 1,007,372	$ 5,909,320	$ 2,443,181
1,650,038	-0-	1,650,038	(377,905)
2,134,462	-0-	2,134,462	254,585
2,497,780	1,800,428	4,298,208	(581,568)
653,207	-0-	653,207	60,524
112,088	306,621	418,709	(543,656)
8,292	-0-	8,292	2,652
53,006	-0-	53,006	(9,459)
12,010,821	3,114,421	15,125,242	1,248,354
4,461,369	(4,461,369)	-0-	-0-
16,472,190	(1,346,948)	15,125,242	1,248,354
12,320,350	-0-	12,320,350	604,786
1,747,060	-0-	1,747,060	3,378
1,160,074	-0-	1,160,074	(90,466)
15,227,484	-0-	15,227,484	517,698
1,244,706	(1,346,948)	(102,242)	$ 730,656
19,961,534	7,383,115	27,344,649	
$ 21,206,240	$ 6,036,167	$ 27,242,407	

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

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018 with Comparative Totals for 2017

	Living Classrooms Foundation	Living Classrooms Foundation DC	Historic Ships	Project S.E.R.V.E.	Inner Harbor Paddleboats	Crossroads School
Salaries	$ 2,931,759	$ 469,999	$ 1,054,236	$ 1,320,967	$ 194,267	$ 245,428
Payroll taxes	211,863	37,306	77,316	99,681	16,960	17,654
Health insurance	136,318	25,747	39,442	35,048	3,394	8,336
Retirement	45,975	4,459	23,733	8,688	1,200	4,164
Life insurance	14,739	3,646	6,580	6,321	632	1,720
Total Salaries and Related Expenses	3,340,654	541,157	1,201,307	1,470,705	216,453	277,302
Advertising and promotion	13,116	120	91,792	214	48	-0-
Bank fees	55,502	768	62,172	13	11,354	-0-
Conferences and training	24,481	5,107	1,340	48,302	45	4,790
Contract services	8,500	1,984	34,388	-0-	1,663	-0-
Cost of direct benefits to donors	-0-	-0-	-0-	-0-	-0-	-0-
Cost of goods sold	-0-	-0-	57,253	-0-	-0-	-0-
Depreciation and amortization	382,146	4,490	251,886	14,816	55,519	91,283
Drug testing	10,973	1,355	1,983	7,706	2,111	13
Food	86,995	30,550	82,643	2,102	231	6,790
Fuel	14,073	2,471	18,880	15,137	1,054	25
In-kind expense	102,452	3,500	5,620	-0-	-0-	-0-
Insurance	365,011	30,662	97,506	90,877	40,130	9,759
Intercompany	(964,735)	134,277	374,542	241,664	69,631	77,751
Interest expense	63,345	-0-	16,884	-0-	51,887	-0-
Maintenance	234,265	28,105	48,360	31,329	7,003	10,063
Miscellaneous	39,908	2,619	9,413	9,138	867	13,438
Office expense	54,395	5,741	25,416	8,677	13,940	5,965
Partners expense	106,046	190	160,007	129,468	(16,872)	6,324
Postage	9,262	44	3,391	274	39	-0-
Printing	7,345	257	7,476	-0-	1,094	-0-
Professional fees	164,369	110,263	202,550	-0-	-0-	13,802
Program supplies	131,134	32,247	33,830	204,813	6,765	16,697
Rent	124,395	15,939	81,491	28,717	122,400	92,402
Telephone	35,887	6,182	14,464	6,439	1,657	604
Travel and transportation	94,360	13,937	110,827	21,853	9	33,783
Uniforms	16,979	2,506	10,049	4,562	-0-	60
Utilities	34,178	19,067	52,024	-0-	-0-	-0-
Total expenses by function	4,555,036	993,538	3,057,494	2,336,806	587,028	660,851
Less items included within revenue, support and gains						
Cost of product sales	-0-	-0-	(57,253)	-0-	-0-	-0-
Cost of direct benefits to donors	-0-	-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	$ 660,851

Friends of Fort McHenry	Frederick Douglass-Isaac Meyers Maritime Park	Program Services	Administrative Services	Fundraising Expenses	2018 Total	2017 Total
$ 90,410	$ 144,359	$ 6,451,425	$ 1,286,453	$ 487,863	$ 8,225,741	$ 7,961,965
6,716	11,980	479,476	79,695	32,988	592,159	593,151
679	9,074	258,038	54,630	28,506	341,174	337,566
853	3,357	92,429	37,270	8,579	138,278	126,714
204	1,101	34,943	9,295	3,624	47,862	53,738
98,862	169,871	7,316,311	1,467,343	561,560	9,345,214	9,073,134
286	-0-	105,576	1,885	85,564	193,025	143,846
1,521	802	132,132	27,949	5,913	165,994	158,800
250	-0-	84,315	2,064	160	86,539	42,584
-0-	832	47,367	5,610	8,967	61,944	43,724
-0-	-0-	-0-	-0-	39,416	39,416	-0-
-0-	-0-	57,253	-0-	-0-	57,253	121,327
-0-	264,633	1,064,773	-0-	-0-	1,064,773	943,821
1,164	82	25,387	1,615	783	27,785	23,494
492	-0-	209,803	12,498	37,214	259,515	239,412
-0-	-0-	51,640	803	111	52,554	51,757
12,932	-0-	124,504	1,528	9,383	135,415	166,131
1,392	2,655	637,992	20,990	11,165	670,147	722,029
21,431	1,954	(43,485)	-0-	43,485	-0-	-0-
-0-	-0-	132,116	-0-	-0-	132,116	137,405
(1)	73,155	432,279	57,873	1,786	491,938	644,516
349	1,225	76,957	21,010	19,606	117,573	138,309
944	3,157	118,235	52,551	1,093	171,879	154,876
27,855	-0-	413,018	-0-	59,001	472,019	342,260
1,082	535	14,627	144	5,876	20,647	17,520
124	381	16,677	69	1,568	18,314	21,079
150	468	491,602	42,451	53,175	587,228	571,483
5,107	675	431,268	3,037	50,441	484,746	538,637
-0-	3,598	468,942	11,791	105,977	586,710	382,661
929	-0-	66,162	5,960	1,353	73,475	74,680
8,674	-0-	283,443	8,372	5,427	297,242	257,219
-0-	-0-	34,156	770	-0-	34,926	29,055
-0-	84,070	189,339	4,125	-0-	193,464	187,725
183,543	608,093	12,982,389	1,750,438	1,109,024	15,841,851	15,227,484
-0-	-0-	(57,253)	-0-	-0-	(57,253)	-0-
-0-	-0-	-0-	-0-	(39,416)	(39,416)	-0-
$ 183,543	$ 608,093	$ 12,925,136	$ 1,750,438	$ 1,069,608	$ 15,745,182	$ 15,227,484

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

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

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

Crossroads School	Friends of Fort McHenry	Frederick Douglass-Isaac Meyers Maritime Park	Program Services	Administrative Services	Fundraising Expenses	Total
$ 188,675	$ 84,342	$ 102,845	$ 6,218,005	$ 1,275,726	$ 468,234	$ 7,961,965
14,990	6,502	9,195	472,184	86,818	34,149	593,151
7,705	1,641	9,675	258,011	56,989	22,566	337,566
4,950	1,285	5,070	84,608	32,730	9,376	126,714
1,395	251	934	41,565	8,546	3,627	53,738
217,715	94,021	127,719	7,074,373	1,460,809	537,952	9,073,134
-0-	3,820	364	32,348	966	110,532	143,846
-0-	1,607	4,235	134,307	19,644	4,849	158,800
2,718	180	-0-	40,138	2,401	45	42,584
-0-	-0-	2,335	14,929	852	27,943	43,724
-0-	-0-	-0-	121,327	-0-	-0-	121,327
92,064	-0-	266,425	943,821	-0-	-0-	943,821
48	857	35	22,130	342	1,022	23,494
12,325	2,907	216	174,565	5,306	59,541	239,412
-0-	-0-	-0-	50,833	697	227	51,757
-0-	10,438	-0-	144,401	-0-	21,730	166,131
24,555	2,650	8,049	691,073	17,590	13,366	722,029
68,620	24,274	17,820	(10,750)	-0-	10,750	-0-
-0-	-0-	-0-	137,405	-0-	-0-	137,405
97,224	-0-	102,041	589,394	52,185	2,937	644,516
19,823	(336)	536	87,870	8,612	41,827	138,309
12,975	680	26	92,400	62,359	117	154,876
2,959	28,198	-0-	281,932	-0-	60,328	342,260
-0-	608	128	12,073	202	5,245	17,520
-0-	854	58	13,444	146	7,489	21,079
154	-0-	-0-	532,294	17,609	21,580	571,483
54,303	5,171	308	448,933	5,732	83,972	538,637
3,174	-0-	3,250	236,101	8,703	137,857	382,661
600	1,066	42	66,434	5,992	2,254	74,680
99,819	11,746	-0-	246,970	1,738	8,511	257,219
120	74	-0-	28,569	486	-0-	29,055
-0-	-0-	-0-	113,036	74,689	-0-	187,725
$ 709,196	$ 188,815	$ 533,587	$ 12,320,350	$ 1,747,060	$ 1,160,074	$ 15,227,484

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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	**$ 628,414**	$ (102,242)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	**169,436**	(383,051)
Gain on disposal of property	**(10,944)**	(8,292)
In-kind donations of investments	**(14,035)**	(60,173)
Depreciation and amortization	**1,073,245**	945,817
Deferred compensation	**15,000**	15,000
Unrealized gain on derivative instruments	**(43,547)**	(53,006)
Effects of changes in operating assets and liabilities:		
Grants and pledges receivable	**(1,319,277)**	295,640
Accounts receivable	**(96,109)**	(98,870)
Inventory and prepaid expenses	**38,897**	(13,111)
Accounts payable, accrued expenses and payroll and related taxes payable	**233,644**	(196,446)
Deferred revenue	**97,629**	104,140
Net Cash Provided by Operating Activities	**772,353**	445,406
Cash Flows from Investing Activities		
Purchase of investments	**(58,289)**	(47,801)
Proceeds from the sale of investments	**147,250**	60,945
Proceeds from the sale of property	**10,944**	38,000
Purchase of property	**(819,624)**	(1,987,418)
Premiums paid on life insurance policies	**(52,293)**	(20,052)
Net Cash Used in Investing Activities	**(772,012)**	(1,956,326)
Cash Flow from Financing Activities		
Principal payments on life insurance loans	**-0-**	(53,525)
Borrowings on short-term debt	**200,000**	-0-
Borrowings on long-term debt	**385,000**	125,000
Principal payments on long-term debt	**(258,116)**	(239,978)
Net Cash Provided by (Used in) Financing Activities	**326,884**	(168,503)
Net Increase (Decrease) in Cash and Cash Equivalents	**327,225**	(1,679,423)
Cash and Cash Equivalents at Beginning of Year	**1,325,177**	3,004,600
Cash and Cash Equivalents at End of Year	**$ 1,652,402**	$ 1,325,177

	2018	2017
Supplemental Disclosure of Cash Flow Information:		
Interest paid	**$ 123,644**	$ 135,409
Non-Cash Investing and Financing Activities:		
Donated investments	**$ 14,035**	$ 60,173

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

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 without donor restrictions or with donor restriction, 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.

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.

Note 1: 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.

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.

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, 2018 and 2017 was $1,039,773 and $918,821, 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, 2018 and 2017 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 $0 and $37,490 for the years ended December 31, 2018 and 2017, respectively.

Advertising Expense: Advertising costs are expensed as incurred. The Foundation had no significant direct-response advertising. For the years ended December 31, 2018 and 2017, the Foundation incurred expenses of $193,025 and $143,846, 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.

Note 1: Summary of Significant Accounting Policies (Continued)

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, 2018 and 2017, the amortization of deferred financing costs was $8,472 and $1,996, respectively. Accumulated amortization was $22,455 and $13,983 as of December 31, 2018 and 2017, 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 December 31, 2018 and 2017. 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, 2017 have been reclassified to conform to the consolidated financial statement presentation for the year ended December 31, 2018.

Recently Issued Accounting Pronouncements: During the year ended December 31, 2018, the Foundation implemented the Financial Accounting Standards Board's (FASB) Accounting Standards Update (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. Accordingly, the beginning balances of the donor restricted net asset categories (temporarily and permanently restricted) have been retroactively adjusted to consolidate all donor restricted net assets into one classification, *with donor restrictions.* The ASU requires additional disclosures in the areas of liquidity and requires reclassification of investment expenses which are netted in net investment return to include internal investment expenses.

Note 1: Summary of Significant Accounting Policies (Continued)

FASB issued Accounting Standard Update 2016-02, *Leases* which will be effective for fiscal years beginning after December 15, 2019 or possibly after December 15, 2020. 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 25, 2019, the date the consolidated financial statements were available to be issued. During the period from January 1, 2019 to September 25, 2019, the Foundation did not have any material recognizable or disclosable subsequent events.

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:

	2018	2017
Cash and cash equivalents	$ 1,652,402	$ 1,325,177
Operating investments	616,559	927,554
Grants receivable	1,147,665	894,786
Pledges receivable, current	1,108,946	564,946
Accounts receivable, net	686,518	590,409
Less: net assets with donor restrictions - future periods	(75,000)	-0-
Financial assets avaliable to meet cash needs for general expenditures within one year	$ 5,137,090	$ 4,302,872

The Foundation manages its liquidity following two guiding principles: operating within a prudent range of financial soundness and 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 a $500,000 operating line of credit ($300,000 available at December 31, 2018, Note 5).

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 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 valuation techniques used by the Foundation include the following:

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

Interest Rate Swap Agreement: 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, 2018 and 2017:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash for investment purposes	$ 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

	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:				
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)
	$ 3,326,418	$ (93,250)	$ -0-	$ 3,233,168

Investments are allocated on the consolidated statements of financial position as follows as of December 31, 2018 and 2017:

	2018	2017
Investments in current assets	$ 616,559	$ 927,554
Investments restricted for long-term investment	2,465,497	2,398,864
Total Investments	$ 3,082,056	$ 3,326,418

Note 3: Investments and Fair Value Measurement (Continued)

Earnings on investments are as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Interest and dividends	$ 58,288	$ 47,801
Net realized gain	151,688	55,718
Unrealized gain (loss)	(321,124)	327,333
	(111,148)	430,852
Less investment fees	(13,799)	(12,143)
Net investment return	$ (124,947)	$ 418,709

Note 4: Pledges Receivable

Pledges receivable consisted of the following as of December 31, 2018 and 2017:

	2018	2017
Unrestricted Operating	$ 1,698,946	$ 274,946
Restricted Education Programs	240,000	440,000
Restricted for Musical Education	200,000	-0-
Restricted Dent House Community Center	125,000	-0-
Restricted Patterson Park House Community Programming	60,000	-0-
Restricted to Support Leveraging Eager Park	50,000	-0-
Restricted Project SERVE	25,000	-0-
Restricted Historic Ships	10,000	-0-
Restricted Target Investment Zone	-0-	600,000
	2,408,946	1,314,946
Less: Allowance for doubtful pledges receivable	-0-	-0-
	2,408,946	1,314,946
Less: Present value discount at 3%	68,049	40,447
Unconditional pledges receivable, net	$ 2,340,897	$ 1,274,499
Gross amounts due in:		
Less than one year	$ 1,108,946	$ 564,946
One to five years	1,275,000	725,000
More than five years	25,000	25,000
Total unconditional pledges receivable	$ 2,408,946	$ 1,314,946

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

	2018	2017
Current portion	$ 1,108,946	$ 564,946
Non-current portion	1,231,951	709,553
	$ 2,340,897	$ 1,274,499

Note 5: Short-Term Borrowings

The Foundation has a $500,000 line of credit with PNC Bank. For the years ended December 31, 2018 and 2017, the outstanding balance was $200,000 and $0, respectively. The outstanding principal bears interest at the rate of 4.5% and 2.62% for the years ended December 31, 2018 and 2017 respectively, 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, 2018 and 2017:

	2018	2017
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 as of December 31, 2018 and 2017. 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 year ending December 31, 2018 and 2017, the interest was 3.00% and 2.37%, 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.	275,527	300,632

Note 6: Long-Term Debt (Continued)

	2018	2017
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 year ended December 31, 2018 and 2017, the interest was 4.34% and 3.37%, respectively. Principal payments are scheduled through September, 2020.	173,278	268,140
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 year ended December 31, 2018 and 2017, the interest rate was 4.50% and 3.56%, respectively.	461,428	125,000
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.	-0-	89,577
Total Long-Term Debt	2,930,222	2,803,338
Less: Unamortized Debt Issuance Costs	27,484	35,956
Total Long-Term Debt, Less Debt Issuance Costs	2,902,738	2,767,382
Less: Current Maturities	198,115	258,116
Long-Term Debt Less Current Maturities and Debt Issuance Costs	$ 2,704,623	$ 2,509,266

Total interest expense, including interest on short-term bank borrowings, for the years ended December 31, 2018 and 2017 was $132,116 and $137,405, respectively.

Note 6: Long-Term Debt (Continued)

Aggregate annual maturities of long-term debt for each of the years subsequent to December 31, 2018, are as follows:

Year ending December 31,	
2019	$ 198,115
2020	198,677
2021	193,936
2022	199,034
2023	204,328
Thereafter	1,936,132
	$ 2,930,222

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, 2018 and 2017:

	2018	2017
Education Programs	$ 1,500,000	$ 625,000
USS Constellation Maintenance	834,113	1,021,515
Youth Center Program	587,684	537,370
Target Investment Zone Expansion	405,561	662,256
Crossroads School	372,696	331,569
Heritage Center Capital Project	257,102	257,102
Fresh Start Program	203,466	168,619
Music Program	200,000	-0-
Teen Program	173,185	-0-
Project Serve	165,427	83,847
Flick Tower Maintenance	134,128	158,435
Board Members	132,127	118,451
LCF Endowment	104,795	124,818
NCR Dent House	100,000	-0-
Safe Streets Program	94,916	5,000
Fleetweek Management	72,944	247,139
GEM Program	65,318	92,674
Patterson Park Program	60,000	21,298
Kingman Island Environmental Center	55,212	6,938
Financial Literacy	32,733	-0-
Taney Dry Dock project	28,858	1,526
NCR Environmental Education	21,344	22,050
LCF Headquarters Improvements	19,510	19,510
Trash Cage Capital Project	19,200	87,028
Lady Maryland Maintenance	15,112	17,267
Friends of Fort McHenry	10,305	4,049
Education App project	7,500	-0-
Early Childhood Program	7,000	-0-
Kellogg Foundation	5,504	5,504
Masonville Program	1,800	-0-
Healthy Lifestyle and Violence Prevention	-0-	20,795
NCR Workforce Development	-0-	8,426
NCR Robotics	-0-	5,820
NCR Summer Stem Camp	-0-	4,812
	$ 5,687,540	$ 4,658,818

Note 8: Net Assets with Donor Restrictions (Continued)

Endowments:

Subject to The Foundation's endowment spending policy and appropriation:

	2018	2017
Baltimore Ravens (Bisciotti) Fund	$ 500,000	$ 500,000
Rouse Flick Tower	452,349	452,349
Weinberg Foundation	300,000	300,000
Kevin Hall	55,000	55,000
Middendorf Fund	50,000	50,000
Pastore Fund	20,000	20,000
Total Endowments	$ 1,377,349	$ 1,377,349

	2018	2017
Purpose and time restriction	$ 5,687,540	$ 4,658,818
Endowments	1,377,349	1,377,349
Total net assets with donor restrictions	$ 7,064,889	$ 6,036,167

Net assets were released from donor restrictions for the years ended December 31, 2018 and 2017 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.

	2018	2017
Youth Center Program	$ 624,686	$ 608,520
Target Investment Zone Expansion	471,420	400,070
Crossroads School	325,262	262,326
Fleetweek Management	174,195	102,230
Education Programs	165,000	993,500
USS Constellation Maintenance	145,025	-0-
Trash Cage Capital Project	124,827	181,811
Financial Literacy	117,267	164,863
Patterson Park Program	51,298	8,702
NCR Dent House	50,000	-0-
Project Serve	43,012	201,806
Fresh Start Program	35,900	105,000
Safe Streets Program	35,084	3,451
GEM Program	27,356	5,981
Healthy Lifestyle and Violence Prevention	20,795	31,533
Kingman Island Environmental Center	18,171	13,062
NCR Workforce Development	8,426	8,426
NCR Robotics	5,820	-0-
NCR Summer Stem Camp	4,812	23,994
Friends of Fort McHenry	4,049	4,951
Flick Tower Maintenance	3,073	-0-
Youth Center Capital Project	-0-	1,304,761
Masonville Program	-0-	17,117
NCR Environmental Education	-0-	14,152
Heritage Center Capital Project	-0-	5,113
	$ 2,455,478	$ 4,461,369

Note 9: Endowments

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 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 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.

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.

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, 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

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

	Purpose and Time Restricted	Endowed in Perpetuity	Total
Endowment net assets, beginning of year	$ 1,042,322	$ 1,361,349	$ 2,403,671
Net investment income	279,715	-0-	279,715
Contributions	-0-	16,000	16,000
Donor restricted endowment funds	$ 1,322,037	$ 1,377,349	$ 2,699,386

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 $138,278 and $126,714 for 2018 and 2017, respectively.

Note 11: 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 September 2023. Additionally, the Foundation leases office equipment under leases that expire through December 2023. As of December 31, 2018, future minimum lease payments under the operating leases, summarized by year, are as follows:

	Facilities	Equipment	Total
2019	$ 177,645	$ 12,320	$ 189,965
2020	138,676	7,352	146,028
2021	138,550	1,379	139,929
2022	49,820	1,379	51,199
2023	3,200	1,379	4,579
	$ 507,891	$ 23,809	$ 531,700

Rent expense for the year ended December 31, 2018 and 2017 totaled $586,710 and $382,661, 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, 2018 and 2017, the Foundation contributed $13,270 and $11,803, 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 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 2018 and 2017.

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. The Foundation is currently in negotiations and operating 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, 2018 and 2017 was $275,000 and $260,000, 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.

Commitments: The Foundation has two 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.

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, 2018 AND 2017

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, 2018

Contract #14-PD-006

	January 1, 2018 to June 30, 2018	July 1, 2018 to December 31, 2018
Sources of Revenues and Support		
State Governments:		
State of Maryland:		
Department of Juvenile Services	$ 163,943	$ 100,761
Personnel Expenditures		
Salaries and wages	137,700	140,368
Payroll taxes and employee benefits	19,824	20,423
Staff training	360	-0-
Total Personnel Expenditures	157,884	160,791
Administrative Costs	27,942	29,539
Other Expenditures		
Partner Expense	10,320	14,160
Program Supplies	4,570	2,334
Transportation	2,880	2,544
Uniforms	2,116	40
Food and kitchen supplies	966	1,064
Telephone	640	637
Miscellaneous	523	1,413
Fuel	237	250
Insurance	-0-	6,668
Rent	-0-	-0-
Total Other Expenditures	22,252	29,110
Total Expenditures	208,078	219,440
Excess Expense	$ (44,135)	$ (118,679)
Service Days Provided	1,731	1,042
Service Rate Per Day (Weighted average)	$ 94.71	$ 96.70
Total Earned Revenue	$ 163,943	$ 100,761

LIVING CLASSROOMS FOUNDATION, INC. AND AFFILIATES
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

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 (Hispanic Environmental Awareness)	10.664	1301-17-055746	$ -0-	$ 14,422
U.S. Department of Housing and Urban Development				
Passed through from the City of Baltimore				
Community Development Block Grants/Entitlement Grants	14.218	37941 38635 38633 37942 37940 38634	-0-	583,071
U.S. Department of the Interior				
National Wildlife Refuge System Enhancements (Urban Initiative with Masonville Cove)	15.654		-0-	1,894
Conservation Activities by Youth Service Organizations (National Park Service - Cultural Landscapes Program)	15.931		-0-	339,143
Total U.S. Department of the Interior			-0-	341,037
U.S. Department of Labor				
Reentry Employment Opportunities (Project S.E.R.V.E.)	17.270		-0-	111,395
U.S. Environmental Protection Agency				
Passed through from the District of Columbia Department of Energy and Environment				
Chesapeake Bay Program (Trash - Focused Watershed Educational Experiences)	66.466	2016-1609-WPD-Watershed Projects -09-2	-0-	28,340
U.S. Department of Education				
Passed through from the Maryland State Department of Education				
21st Century Community Learning Centers	84.287	181134 191254 191129	-0-	191,634
Total Expenditures of Federal Awards			$ -0-	$ 1,269,899

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, 2018. 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.

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, 2018, 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 25, 2019.

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 25, 2019

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, 2018. 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, 2018.

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 25, 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 Community Development Block Grants/Entitlement Grants (CFDA 14.218) 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

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