

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
(A NOT-FOR-PROFIT ORGANIZATION)**

**Financial Statements
and
Supplemental Schedules**

For the Years Ended September 30, 2017 and 2016



**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
(A NOT-FOR-PROFIT ORGANIZATION)
Financial Statements and Supplemental Schedules
For the Years Ended September 30, 2017 and 2016**

INDEX

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements	
Statements of Financial Position	3
Statement of Activities for the Year Ended September 30, 2017	4
Statement of Activities for the Year Ended September 30, 2016	5
Statements of Cash Flows	6
Notes to Financial Statements	7-21
Supplemental Schedules	
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
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 <i>Government Auditing Standards</i>	24-25
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	26-28
Schedule of Findings and Questioned Costs	29



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Academy McAllister Institute
of Funeral Service, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of American Academy McAllister Institute of Funeral Service, Inc. (the "Institute"), a not-for-profit organization, which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

One Pennsylvania Plaza
Suite 3500
New York, New York 10119
212.695.5003

6720-A Rockledge Drive
Suite 510
Bethesda, Maryland 20817
240.200.1400

150 Clove Road
5th Floor
Little Falls, New Jersey 07424
973.812.0100

Buchbinder Tunick & Company LLP
Certified Public Accountants
buchbinder.com
Follow us on [LinkedIn](#)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Academy McAllister Institute of Funeral Service, Inc. as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 January 29, 2018 on our consideration of American Academy McAllister Institute of Funeral Service, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American Academy McAllister Institute of Funeral Service, Inc.'s internal control over financial reporting and compliance.

Buchbinder Tunick & Company LLP

BUCHBINDER TUNICK & COMPANY LLP

New York, NY
January 29, 2018

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
(A NOT-FOR-PROFIT ORGANIZATION)
Statements of Financial Position
September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Assets:		
Cash and cash equivalents	\$ 1,411,911	\$ 2,258,086
Restricted Cash	1,313,770	-
Accounts receivable, net	1,176,132	1,047,364
Investments	-	744,117
Prepaid expense and other assets	119,376	178,948
Property and equipment, at cost	1,256,734	1,209,237
Less: accumulated depreciation and amortization	<u>(1,037,048)</u>	<u>(992,840)</u>
 Total assets	 <u>\$ 4,240,875</u>	 <u>\$ 4,444,912</u>
 Liabilities:		
Accounts payable and accrued expenses	\$ 233,611	\$ 315,315
Deferred tuition income	1,156,952	1,120,838
Deferred rent	1,074,557	1,076,162
Pension liability	<u>2,089,135</u>	<u>2,493,468</u>
 Total liabilities	 <u>4,554,255</u>	 <u>5,005,783</u>
 Net assets:		
Unrestricted	<u>(313,380)</u>	<u>(560,871)</u>
 Total net assets	 <u>(313,380)</u>	 <u>(560,871)</u>
 Total liabilities and net assets	 <u>\$ 4,240,875</u>	 <u>\$ 4,444,912</u>

See notes to financial statements.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
(A NOT-FOR-PROFIT ORGANIZATION)
Statement of Activities
For the year ended September 30, 2017**

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Revenue, net:				
Campus tuition	\$ 1,400,429	\$ -	\$ -	\$ 1,400,429
Online tuition	3,928,051	-	-	3,928,051
Total tuition	5,328,480	-	-	5,328,480
Less: provision for uncollectible	(70,000)	-	-	(70,000)
Net tuition	5,258,480	-	-	5,258,480
Miscellaneous income	6,518	-	-	6,518
Investment gain	37,245	-	-	37,245
Net assets released from restrictions	-	-	-	-
Total revenue	5,302,243	-	-	5,302,243
Expenses:				
Direct instructional expenses	1,418,557	-	-	1,418,557
Academic support	304,937	-	-	304,937
Student services	522,175	-	-	522,175
Institutional support	1,603,467	-	-	1,603,467
Plant and maintenance expenses	1,125,457	-	-	1,125,457
Litigation costs	346,631	-	-	346,631
Total expenses	5,321,224	-	-	5,321,224
Change in net assets before pension related changes other than net periodic pension cost	(18,981)	-	-	(18,981)
Pension related changes other than net periodic pension cost	266,472	-	-	266,472
Change in net assets	247,491	-	-	247,491
Net assets:				
Beginning of year	(560,871)	-	-	(560,871)
End of year	\$ (313,380)	\$ -	\$ -	\$ (313,380)

See notes to financial statements.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
(A NOT-FOR-PROFIT ORGANIZATION)
Statement of Activities
For the year ended September 30, 2016**

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Revenue, net:				
Campus tuition	\$ 1,761,378	\$ -	\$ -	\$ 1,761,378
Online tuition	3,896,298	-	-	3,896,298
Total tuition	5,657,676	-	-	5,657,676
Less: provision for uncollectible	(129,000)	-	-	(129,000)
Net tuition	5,528,676	-	-	5,528,676
Miscellaneous income	22,520	-	-	22,520
Investment gain - designated for current operations	101,562	-	-	101,562
Net assets released from restrictions	124,547	(124,547)	-	-
Total revenue	5,777,305	(124,547)	-	5,652,758
Expenses:				
Direct instructional expenses	1,423,572	-	-	1,423,572
Academic support	299,388	-	-	299,388
Student services	421,643	-	-	421,643
Institutional support	1,814,232	-	-	1,814,232
Plant and maintenance expenses	1,113,352	-	-	1,113,352
Litigation costs	546,627	-	-	546,627
Total expenses	5,618,814	-	-	5,618,814
Change in net assets before pension related changes other than net periodic pension cost	158,491	(124,547)	-	33,944
Pension related changes other than net periodic pension cost	(574,256)	-	-	(574,256)
Change in net assets	(415,765)	(124,547)	-	(540,312)
Net assets:				
Beginning of year	(145,106)	124,547	-	(20,559)
End of year	\$ (560,871)	\$ -	\$ -	\$ (560,871)

See notes to financial statements.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
(A NOT-FOR-PROFIT ORGANIZATION)
Statements of Cash Flows
For the years ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 247,491	\$ (540,312)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	44,208	40,336
Realized and unrealized (gain) on investments, net	(16,963)	(48,962)
Bad debt expense	70,000	129,000
Deferred tuition	36,114	(189,064)
Deferred rent	(1,605)	28,260
Change in operating assets:		
Accounts receivable	(198,768)	64,001
Prepaid expense and other assets	59,572	(6,807)
Change in operating liabilities:		
Accounts payable and accrued expenses	(81,704)	26,912
Pension liability	(404,333)	894,309
Net cash (used in) provided by operating activities	<u>(245,988)</u>	<u>397,673</u>
Cash flows from investing activities:		
Proceeds on sales of securities	829,922	-
Purchase of securities	(68,842)	(32,537)
Acquisition of property and equipment	(47,497)	(10,223)
Net cash provided by (used in) investing activities	<u>713,583</u>	<u>(42,760)</u>
Net (decrease) increase in cash and cash equivalents	467,595	354,913
Cash and cash equivalents - beginning of year	<u>2,258,086</u>	<u>1,903,173</u>
Cash and cash equivalents - end of year	<u>\$ 2,725,681</u>	<u>\$ 2,258,086</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements
September 30, 2017 and 2016**

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The American Academy McAllister Institute of Funeral Service, Inc. (the "Institute"), a not-for-profit educational institution, was founded in 1926. The Institute is accredited by the American Board of Funeral Services Education and is located in New York City. It is authorized by the State Board of Regents to confer an associate degree in occupational studies and is a member of the National Association of Colleges of Mortuary Science. The Institute is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Institute's main source of revenue is from tuition fees from courses they offer both at their campus facility and online.

Basis of Accounting

The Institute prepares its financial statements on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Institute has adopted the accounting and reporting standards established by the Financial Accounting Standards Board. Under the Accounting Standards Codification Topic 958 (*Not-for-Profit Entities*), the assets, liabilities and net assets of the Institute are reported as follows:

Permanently Restricted - net assets resulting from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Institute.

Temporarily Restricted - net assets resulting from contributions and other inflows of assets whose use by the Institute is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Institute pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and statements of assets.

Unrestricted - the part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

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

Functional Expenses

The costs of providing various academic programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Tuition and Fees

Tuition and fee revenues are recognized in the fiscal year during which the academic services are rendered. Student tuition and fees received in advance of services to be rendered are reported as deferred revenue.

Cash and Cash Equivalents

The Institute considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable, net, represents billed charges primarily to students for tuition. The Institute maintains an allowance for doubtful accounts for estimated losses resulting from the inability of students to make their required payments. The Institute provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Institute's estimate is based on historical collection experience and its assessment of the collectability of existing specific accounts.

The Institute periodically evaluates the adequacy of the allowance for doubtful accounts. This evaluation is based on the Institute's historical losses and existing economic conditions. Specific accounts are charged off against the allowance for doubtful accounts when the Institute believes that the specific account is not collectible. The Institute believes that the concentration of credit risk with respect to its trade receivables is limited. The Institute controls credit risk through credit approvals. Students who commence a semester and fail to pay during a period of time will also be denied access to their courses.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

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

Property and Equipment

Property and equipment are recorded at cost less applicable depreciation and amortization. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets.

Fair Value of Financial Instruments

At September 30, 2017 and 2016, the carrying amounts of the Institute's financial instruments, which include cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses, deferred rent and pension liabilities, approximate their fair value due to their generally short maturities.

Accounting for Uncertainty for Income Taxes

The Institute believes that there are no uncertain tax positions, therefore no recognition or disclosure is required in these financial statements. All appropriate income tax returns for the past three years have been filed and are subject to possible audit.

Subsequent Events

The Institute has evaluated events and transactions that occurred between September 30, 2017 and January 29, 2018, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

Note 2 - Cash and Cash Equivalents

For purposes of the statements of cash flows, the Institute considers all highly liquid investments available for current use with initial maturities of three months or less to be cash equivalents.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 3 - Restricted Cash

During the year ended September 30, 2017, the Institute was required to deposit funds with the Department of Education in the amount of \$1,313,770. This deposit was necessary to meet the requirement of the Department of Education's standards of fiscal responsibility as described in 34 C.F.R. 668.172, "Financial Ratios".

Note 4 - Accounts Receivable

At September 30, accounts receivable, net, consists of the following:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 1,799,132	\$ 1,600,364
Less: allowance for doubtful accounts	<u>(623,000)</u>	<u>(553,000)</u>
Accounts receivable, net	<u>\$ 1,176,132</u>	<u>\$ 1,047,364</u>

For the years ended September 30, 2017 and 2016, bad debt expense was \$70,000 and \$129,000, respectively.

Note 5 - Net Assets

Unrestricted net assets as of September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 1,689,394	\$ 1,576,236
Unrestricted - defined benefit pension	<u>(2,002,774)</u>	<u>(2,137,107)</u>
Total	<u>\$ (313,380)</u>	<u>\$ (560,871)</u>

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 6 - Investments

Marketable securities consist of shares in exchange-traded funds, mutual funds and unit investment trusts. Cash funds were classified as cash equivalents. Impairments are considered temporary due to market conditions. All investments owned by the Institution were sold during the year ended September 30, 2017. The fair value of investments at September 30, 2016 is as follows:

	<u>Cost</u>	<u>Fair Value</u>
Exchange-traded and closed-end funds:		
Fixed income and preferred	\$ 327,500	\$ 305,754
Equities	21,956	18,238
Alternatives	186,902	136,700
Mutual funds:		
Equities	55,523	51,361
Unit investment trust:		
Equities	<u>259,713</u>	<u>232,064</u>
Total investments	<u>\$ 851,594</u>	<u>\$ 744,117</u>

The Institute's investment returns included in net investment income for each year are as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 20,282	\$ 52,600
Net realized and unrealized gain	<u>16,963</u>	<u>48,962</u>
Investment gain	<u>\$ 37,245</u>	<u>\$ 101,562</u>

Note 7 - Property and Equipment, Net

Property and equipment, net consist of the following at September 30:

	<u>2017</u>	<u>2016</u>	<u>Estimated Life (in Years)</u>
Software development cost	\$ 631,783	\$ 591,783	3
Instructional equipment	240,653	233,156	5
Furniture and fixtures	101,531	101,531	5 - 10
Leasehold improvements	<u>282,767</u>	<u>282,767</u>	15
	1,256,734	1,209,237	
Less: accumulated depreciation and amortization	<u>(1,037,048)</u>	<u>(992,840)</u>	
Property and equipment, net	<u>\$ 219,686</u>	<u>\$ 216,397</u>	

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 7 - Property and Equipment, Net (Continued)

Depreciation and amortization expense was \$44,208 and \$40,336 for the years ended September 30, 2017 and 2016, respectively.

Note 8 - Fair Value Measurements

Financial Accounting Standards Board ("FASB") *Accounting Standards Codification* ("ASC") 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. It defines fair value as an exit price, which is the price that would be received for an asset or paid to transfer a liability in the Institute's principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date.

The fair value hierarchy generally requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions based on market data and the entity's judgments about the assumptions that market participants would use in pricing the asset or liability, and are to be developed based on the best information available in the circumstances.

The Institute determines the fair market value of its investment in securities based on the established fair value definition and hierarchy levels. The three levels within the hierarchy that may be used to measure fair value are:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs, including Level 1 prices that have been adjusted; quoted prices for similar assets or liabilities; quoted prices in markets that are less active than traded exchanges; and other inputs that are observable or can be substantially corroborated by observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 8 - Fair Value Measurements (Continued)

The lowest level of input that is a significant component of the fair value measurements determines the placement of the entire fair value measurement in the hierarchy. The Institute's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2017 and 2016.

Exchange-traded funds, closed-end funds and mutual funds:

Exchange-traded funds, closed-end funds and mutual funds are valued at the daily closing price as reported by the fund. The exchange-traded funds, closed-end funds and mutual funds held by the Institute are deemed to be actively traded.

Unit investment trust:

The unit investment trust is valued at the net asset value ("NAV") as determined by the custodian of the fund. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based upon the fair value of the investments in the trust, less any liabilities. Transactions may occur daily. Were the Institute to initiate a full redemption of the unit investment trust, the investment adviser reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

The preceding valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 8 - Fair Value Measurements (Continued)

The Institute measures its investment in the Unit Investment Trust fund at its net asset value per share, which is determined and published daily and is the basis for current transactions. There have been no changes in this methodology during the years ended September 30, 2017 and 2016, and there have been no transfers between levels in the hierarchy.

All investments owned by the Institute were sold during the year ended September 30, 2017. The following table presents the Institute's assets within the fair value hierarchy level utilized to measure fair value as of September 30, 2016:

	2016			
	Total	Level 1	Level 2	Level 3
Investments at fair value:				
Exchange-traded and closed-end funds	\$ 460,692	\$ 460,692	\$ -	\$ -
Mutual funds	51,361	51,361	-	-
Unit investment trust	<u>232,064</u>	<u>-</u>	<u>232,064</u>	<u>-</u>
Total investments at fair value	<u>\$ 744,117</u>	<u>\$ 512,053</u>	<u>\$ 232,064</u>	<u>\$ -</u>

Note 9 - Defined Benefit Pension Plan

The Institute sponsors a defined benefit pension plan (the "Plan"), which covers substantially all full-time employees. The Plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Institute and annual compensation. The Institute's funding policy is to contribute to the Plan the amounts necessary to satisfy funding requirements of ERISA. Pension plan assets consist primarily of common stocks and mutual funds. The Plan was amended effective February 27, 2017 to freeze benefit accruals for all participants as of that date.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 9 - Defined Benefit Pension Plan (Continued)

The changes in the accumulated projected benefit obligation ("PBO") as of September 30 are as follows:

	<u>2017</u>	<u>2016</u>
Projected benefit obligation beginning of the year	\$ 4,866,301	\$ 3,770,151
Service cost	-	312,412
Interest cost	173,049	162,471
Actuarial loss	18,991	635,597
Curtailment (gain)	(100,496)	-
Benefits paid	<u>(34,393)</u>	<u>(14,330)</u>
Projected benefit obligation end of the year	<u>\$ 4,923,452</u>	<u>\$ 4,866,301</u>

The changes in the fair value of plan assets, the funded status of the Plan and the status of the accrued postretirement obligation recognized in the accompanying statements of financial position as of September 30 are as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets, beginning of year	\$ 2,372,833	\$ 2,170,993
Actual return on plan assets	225,877	116,170
Employer contribution	270,000	100,000
Benefits paid	<u>(34,393)</u>	<u>(14,330)</u>
Fair value of plan assets, end of year	<u>\$ 2,834,317</u>	<u>\$ 2,372,833</u>
Funded status - accrued postretirement benefit cost recognized in the statements of financial position	<u>\$ (2,089,135)</u>	<u>\$ (2,493,468)</u>

The Institute uses a measurement date of September 30 to determine the Plan's assets and benefit obligations.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.**
Notes to Financial Statements (Continued)
September 30, 2017 and 2016

Note 9 - Defined Benefit Pension Plan (Continued)

Actuarial assumptions used to determine the values of the PBO and the benefit costs for the years ended September 30, 2017 and 2016 included a discount rate of 3.5% and 4.25%, respectively. The estimated long-term rate on plan assets was 6.0% for both years.

The components of net periodic postretirement benefit cost for the years ended September 30 were as follows:

	<u>2017</u>	<u>2016</u>
Service cost of benefits earned	\$ -	\$ 312,412
Interest cost on PBO	173,049	162,471
Expected return on plan assets	(151,367)	(131,294)
Amortization of transition obligation	-	539
Loss due to curtailment	6,575	-
Amortization of net loss	<u>103,882</u>	<u>75,926</u>
Net periodic pension cost	<u>\$ 132,139</u>	<u>\$ 420,054</u>

Change in plan assets and benefit obligations
recognized in the statements of activities:

	<u>2017</u>	<u>2016</u>
Net (gain) loss	\$ (55,519)	\$ 650,721
Amortization of initial net (asset)	-	(539)
Transition (asset)	(6,575)	-
(Loss) due to curtailment	(100,496)	-
Amortization of actuarial (loss)	<u>(103,882)</u>	<u>(75,926)</u>
Total (gain) loss recognized in the statements of activities	<u>\$ (266,472)</u>	<u>\$ 574,256</u>

Amounts not yet recognized as a component of net periodic benefit cost:

	<u>2017</u>	<u>2016</u>
Initial net (obligation)	\$ -	\$ (6,575)
Net (loss)	<u>(1,870,636)</u>	<u>(2,130,533)</u>
Amount recognized in accumulated other comprehensive (loss)	<u>\$ (1,870,636)</u>	<u>\$ (2,137,108)</u>

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 9 - Defined Benefit Pension Plan (Continued)

Plan Assets

The Investment Committee of the Institute's Board of Directors approves the investment guidelines and asset allocation targets for the postretirement benefits plan. The primary objective of the investments is to ensure the solvency of the Plan over time to meet plan obligations. The secondary objective is to meet or exceed the Plans' actuarial assumed rates of return over time, without taking excess risk. The funds are diversified by asset class in accordance with established allocation targets and rebalanced as needed. Specific investments are apportioned to a combination of common stocks, exchange-traded and closed-end funds, and mutual funds. Plan assets as of September 30 (all Level 1 assets) are as follows:

	<u>2017</u>	<u>2016</u>
Common stock:		
Equities	\$ -	\$ 85,081
Alternatives	-	172,210
Exchange-traded and closed-end funds:		
Equities	1,593,570	1,294,149
Alternatives	94,575	293,286
Fixed income and preferred	100,400	-
Cash and money market funds	305,244	134,331
Mutual funds:		
Equities	740,528	390,578
Cash	<u>-</u>	<u>3,198</u>
Pension assets at fair value	<u>\$ 2,834,317</u>	<u>\$ 2,372,833</u>

Cash Flows

The Institute's estimated expected employer contribution to be made during the plan year ending September 30, 2018 is \$200,000.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 9 - Defined Benefit Pension Plan (Continued)

Cash Flows (Continued)

The following benefits are expected to be paid from the Plan in the fiscal year indicated:

<u>Years Ending September 30,</u>	<u>Amount</u>
2018	\$ 62,023
2019	66,097
2020	70,307
2021	105,001
2022	271,894
2023 - 2027	<u>1,433,553</u>
Total	<u>\$ 2,008,875</u>

2017 Pension Expense and Disclosure Under FASB ASC Topic 715

Pre-retirement mortality	None.
Post-retirement mortality:	The unisex combined RP-2000 mortality table for annuitants and non-annuitants with mortality improvements projected using scale AA through 2015 with a further 7 years for annuitants and 15 for non-annuitants.
Discount rate:	3.5% per annum, compounded annually.
Expected long-term return:	6.00% per annum, compounded annually.
Turnover rates:	Terminations are not assumed prior to normal retirement age.
Salary scale:	Salaries are assumed to remain constant until retirement.
Retirement age:	The later of age 65 or the fifth anniversary of initial entry to the plan.
Asset valuation method:	Market value.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 10 - Salary Deferral Plan

The Institute sponsors a salary deferral plan (the "Deferral Plan"), which covers substantially all full-time employees. The Deferral Plan calls for employees to contribute specified amounts in accordance with IRS guidelines. No matching contributions were made to the Deferral Plan by the Institute during the years ended September 30, 2017 and 2016.

Note 11 - Commitments and Contingencies

Leases

In June 2010, the Institute entered into a new lease agreement for its academic facility by extending its lease that was to terminate in March 2014 to December 2026. Provisions of the lease include incentives covering the cost of leasehold improvements. In addition, the lease requires fixed annual rent payments, including escalations for certain operating expenses and real estate taxes.

Future minimum lease payments for the years ended September 30 are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2018	\$ 895,906
2019	916,064
2020	936,676
2021	996,268
2022	1,026,490
Thereafter	<u>3,591,367</u>
Total	<u>\$ 8,362,771</u>

Rent expense was approximately \$875,000 and \$878,000 for the years ended September 30, 2017 and 2016, respectively.

Rent for the hospital laboratory facility, for services attributable to the purpose of the Institute, was \$6,290 and \$40,718 for the years ended September 30, 2017 and 2016, respectively, and is cancelable by either party with sixty days written notice. The Institute ceased using the hospital laboratory facility during 2017.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 11 - Commitments and Contingencies (Continued)

Other

All funds expended by the Institute in connection with government sponsored grants and contracts are subject to audit by governmental agencies. The ultimate liability, if any, from such audits, is not expected to have a material adverse effect on the Institute's financial position.

Note 12 - Litigation

In November 2013, a lawsuit (the "Action") was filed by the International Conference of Funeral Service Examining Board (the "Examining Board") against the Institute. The Examining Board is a national association which administers the National Board Exam ("NBE") for funeral directors and embalmers in the United States. In the Action, the Examining Board claimed that the Institute infringed upon their copyrights and misappropriated trade secrets by allegedly harvesting and disseminating NBE test exam questions. The Examining Board also claimed that the Institute tortuously interfered with its contractual agreements with NBE registrants, who were required to sign non-disclosure agreements. In October 2014, both parties agreed to a settlement whereby the Institute agreed to pay the Examining Board \$800,000 and other noncash actions as defined. In addition, the Institute's insurance company agreed to pay the Examining Board an additional \$200,000.

In conjunction with the above action, the Examining Board has notified numerous graduates ("Graduates") of the Institute that, based on an internal investigation, their scores on the National Board Exam ("NBE") have been nullified. In certain instances, former students have been barred up to five years from retaking the NBE. One student was also permanently barred. The Institute is currently paying the legal fees on behalf of these graduates.

As of January 29, 2018, one claim has been made by a graduate against the Institute, which was settled. Although the Institute does not believe that it has any liability to the Graduates in this matter, should any other claims be made, the outcome of litigation is always uncertain. It is the view of all legal counsels handling this matter on behalf of the Institute that as of the date of this report, the likelihood of an unfavorable outcome or an estimate of an amount or range cannot be determined.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016**

Note 13 - Concentration of Credit Risk

Financial instruments that potentially subject the Institute to concentrations of credit risk consist principally of cash and cash equivalents or accounts in financial institutions, which from time to time may exceed the Federal Depository Insurance Corporation ("FDIC") coverage limits.

For the years ended September 30, 2017 and 2016, accounts at banking institutions are insured by the FDIC up to \$250,000. The Institute reduces its exposure to credit risk by maintaining cash in major financial institutions and monitoring their credit rating. The Institute does not anticipate any losses on these accounts.

**AMERICAN ACADEMY MCALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Schedule of Expenditures of Federal Awards
For the year ended September 30, 2017**

<u>Federal Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education		
Cluster: Student Financial Assistance Programs		
Federal Pell Grant Program	84.063	\$ 696,984
Federal Direct Student Loans	84.268	<u>2,142,772</u>
Total Major Programs and Expenditures of Federal Awards		<u>\$ 2,839,756</u>

See independent auditor's report.

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.**
Notes to Schedule of Expenditures of Federal Awards
For the year ended September 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of American Academy McAllister Institute of Funeral Service, Inc. under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of American Academy McAllister Institute of Funeral Service, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of American Academy McAllister Institute of Funeral Service, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



**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**

To the Board of Directors
American Academy McAllister Institute
of Funeral Service, Inc.

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 financial statements of American Academy McAllister Institute of Funeral Service, Inc. (a not-for-profit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered American Academy McAllister Institute of Funeral Service, Inc.'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of American Academy McAllister Institute of Funeral Service, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of American Academy McAllister Institute of Funeral Service, Inc.'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 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.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Buchbinder Tunick & Company LLP

BUCHBINDER TUNICK & COMPANY LLP

New York, NY
January 29, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
American Academy McAllister Institute
of Funeral Service, Inc.

Report on Compliance for Each Major Federal Program

We have audited American Academy McAllister Institute of Funeral Service, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of American Academy McAllister Institute of Funeral Service, Inc.'s major federal programs for the year ended September 30, 2017. American Academy McAllister Institute of Funeral Service, Inc.'s major federal program is 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

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

- 26 -

One Pennsylvania Plaza
Suite 3500
New York, New York 10119
212.695.5003

6720-A Rockledge Drive
Suite 510
Bethesda, Maryland 20817
240.200.1400

150 Clove Road
5th Floor
Little Falls, New Jersey 07424
973.812.0100

Buchbinder Tunick & Company LLP
Certified Public Accountants
buchbinder.com
Follow us on [LinkedIn](#)

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 American Academy McAllister Institute of Funeral Service, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, American Academy McAllister Institute of Funeral Service, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of American Academy McAllister Institute of Funeral Service, Inc. 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 American Academy McAllister Institute of Funeral Service, Inc.'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 American Academy McAllister Institute of Funeral Service, Inc.'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 or 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.

Buchbinder Tunick & Company LLP

BUCHBINDER TUNICK & COMPANY LLP

New York, NY
January 29, 2018

**AMERICAN ACADEMY McALLISTER INSTITUTE
OF FUNERAL SERVICE, INC.
Schedule of Findings and Questioned Costs
For the year ended September 30, 2017**

1. Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

____yes X no

Significant deficiency(s) identified that are
not considered to be material weakness(es)

____yes X none reported

Noncompliance material to financial statements noted?

____yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

____yes X no

Significant deficiency(ies) identified?

____yes X none reported

Type of auditor's report issued on compliance
for major programs:

Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of OMB Circular A-133?

____yes X no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
-----------------------	---

84.063

Student Financial Assistance - Federal Pell Grant Program

84.268

Student Financial Assistance - Federal Direct Loan Program

Dollar threshold used to distinguish
between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

X yes ____no