

STATE OF CONNECTICUT

**AUDITORS' REPORT
THE AMERICAN SCHOOL,
AT HARTFORD, FOR THE DEAF
FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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January 23, 2003

**AUDITORS' REPORT
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FISCAL YEARS ENDED JUNE 30, 2000 AND 2001**

We examined various records of the American School, at Hartford, for the Deaf, (hereinafter referred to as American School for the Deaf or School) for the fiscal years ended June 30, 2000 and 2001. The audits of the General Purpose Financial Statements and Federal award programs for those same fiscal years, incorporating reporting requirements of the State Single Audit Act, were performed by an independent public accounting firm. Our examination was limited to a review of the work performed by this independent public accountant, to establish a basis for our reliance on those statements presented. We also reviewed contributions by eligible School employees participating in the State Employees' Retirement System and procurement activity of State financed construction projects administered by the School.

This report consists of the following Comments, Condition of Records and Recommendations.

COMMENTS

FOREWORD:

The American School for the Deaf is a private, nonprofit, educational institution. Founded in 1817, the American School for the Deaf is the country's oldest and Connecticut's only educational organization exclusively devoted to serving the deaf community. The School provides comprehensive educational services for the deaf and multi-handicapped hearing impaired infants, children, youth, adults and their families.

The American School for the Deaf is accredited by the Conference of Educational Administrators of Schools and Programs Serving the Deaf, and the Commission on Accreditation of Rehabilitation Facilities; and is approved by the Connecticut and Massachusetts Departments

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of Education as a “Private Special Education Facility”. The residential program is licensed by the Connecticut Department of Children and Families and is approved by the Massachusetts Department of Children and Youth Services.

Administration:

The School is operated by a corporate membership and according to the bylaws established for the operation and the organizational structure of such membership. These bylaws provide for the election of new corporate members, the election of corporate officers, the election of a board of directors and certain ex-officio members of the board. Section 13 of the School’s bylaws provides that the Governor of the State of Connecticut is an ex-officio member of the Board of Directors; section 14 of the bylaws provides that the Governor may appoint two persons to serve as ex-officio directors. As of June 30, 2001, the corporate officers and directors were:

Brian Clemow, President
Fred A. Larson, First Vice President
Barbara J. Cassin, Second Vice President
Carl T. Chadburn, Secretary
Dennis T. Cardello, Treasurer
Dr. R. Eileen Baccus
Martha Brackeen-Harris
Elizabeth L. Chapin, gubernatorial appointee
Joseph H. Fisher
John Ruben Flores
Ronald E. Foley
Frank M. Gionfriddo
Jerry Goehring
C. James Lawlor
Valerie R. Marino, gubernatorial appointee
Alexandra McGee
Arthur Moore
Carleton N. Mowell
Mark J. Myers
Susan V. Pedersen
John Phelan
Barbara W. Puffer
James H. Steane II
Brian B. Stephens
Edward G. Tomlinson

The Board of Directors appoints an Executive Director. Winfield McChord, Jr. served as the Executive Director throughout the audited period and was succeeded by Dr. Harvey J. Corson on November 1, 2001. In accordance with Section 46a-28 of the General Statutes, the superintendent (Executive Director) of the School serves as an ex-officio member of the Commission on the Deaf and Hearing Impaired.

Fund Structure:

The School's accounts are maintained by fund categories. Separate funds account for net resources available for specific activities or objectives. Funds with similar characteristics are combined into fund groups and financial transactions are reported by fund groups. A brief description of each fund group and its purpose follows:

Unrestricted Funds - This group accounts for available resources over which the School has functional control to use for operational purposes. It finances the School's main operations. Unrestricted funds allocated for specific purposes by the Board of Directors are accounted for as "Appropriated for Special Projects". The net assets of these funds are unrestricted.

Restricted Funds - These account for net resources that are available for current operational purposes but have a functional limitation because of donor stipulations, grant or contract agreement, or fiduciary responsibility. These include Federal and State grants and contracts, a private grant, restricted contributed monies or investment income thereon, and student organization and class monies. The net assets of these funds are temporarily restricted.

Endowment and Similar Funds - These account for the principal of maintained resources of which only the net income is currently spendable for operations; the net assets are permanently restricted.

Plant Fund - This accounts for land, building and equipment; the net assets are permanently restricted.

Résumé of Operations:

Total revenue for the fiscal years ended June 30, 2000 and 2001, is summarized below, with amounts for the 1998-1999 fiscal year presented for comparative purposes:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
State of Connecticut Appropriation	\$6,501,558	\$6,816,865	\$7,176,295
Out of State Tuition	1,708,400	1,100,558	953,364
Deaf Special Needs Program	1,641,993	2,496,965	2,390,804
PACES Programs	1,702,171	2,011,483	3,123,862
Other Programs	<u>699,860</u>	<u>879,073</u>	<u>812,947</u>
Total Operating Revenues	12,253,982	13,304,944	14,457,272
All Other Revenue	<u>2,274,231</u>	<u>2,585,937</u>	<u>2,588,533</u>
Total Revenues	<u>\$14,528,213</u>	<u>\$15,890,881</u>	<u>\$17,045,805</u>

The appropriation from the State of Connecticut represented 51.4 and 49.5 percent of the operating revenue of the American School for the Deaf, for the years ended June 30, 2000 and 2001, respectively. In addition to the appropriation through the State Department of Education, the American School for the Deaf receives funding through other State agencies, various cities and towns within the State and out-of-state tuition from the states of Massachusetts, New Hampshire and Vermont. Contributing to the growth in revenues during the audited period were

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increases in both in-state and out-of-state enrollment, increases in tuition rates and expansion in the Positive Attitudes Concerning Education and Socialization (PACES) program.

Included in the "All Other Revenue" category were tuition/fee income from non-core programs, excess service reimbursements (tuition from local education authorities), gifts and contributions from the public and foundations and miscellaneous revenue primarily from rental of facilities to educational organizations and staff. Also included as all other revenues were Federal contributions for programs sponsored by the U. S. Department of Education, the U. S. Department of Agriculture, and the U. S. Department of Labor. Federal funding was received as pass-through grants from State agencies and the City of Hartford. These funds were audited by an independent public accounting firm, as discussed in a later section of this report.

Student enrollment, kindergarten through twelfth grade, (mandated programs) for the 1999-2000 and 2000-2001 fiscal years totaled 217 and 225, respectively. In addition, non-mandated programs offered by the School brought the total number of students and youths served to 592 and 614, during each of the two years covered by our review. Community based programs are also offered by the School. All School services are provided free of charge to students and families.

A summary of operating expenses for the School derived from the financial statements during the audited period is presented below, with amounts for the 1998-1999 fiscal year presented for comparative purposes:

	<u>Fiscal Year Ended June 30,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Instruction and academic support	\$7,824,353	\$9,220,927	\$10,072,724
Auxiliary activities	1,785,377	1,759,897	1,911,512
Operation and maintenance	1,694,634	1,889,951	1,987,534
General and administrative	1,179,550	1,265,160	1,769,038
General institution	1,174,398	1,184,963	1,075,428
Development and public relations	310,336	328,865	320,232
Summer program	106,870	119,209	111,741
Capital campaign	<u>128,513</u>	<u>-0-</u>	<u>-0-</u>
Total Operating Expenditures	<u>\$14,204,031</u>	<u>\$15,768,972</u>	<u>\$17,248,209</u>

For the fiscal years ended June 30, 2000 and 2001, the State appropriation financed 48 and 46 percent, respectively, of the School's operating expenditures. Increases in total expenditures over the audited period mainly reflected increases in personal services costs caused by increased enrollment and from salary increases mandated by collective bargaining agreements. Additionally, the increase in general institution costs reflected the board of directors' authorized increased spending of endowment funds to meet the needs of the School.

A summary of overall changes in combined fund balances during the audited period together with combined fund balances at the close of each fiscal year is shown below:

	<u>2000</u>	<u>2001</u>
Excess (or deficit) of operating revenues over expenses (Summarized from preceding tables)	\$121,909	(\$202,404)
Other changes in unrestricted net assets:		
Realized gains on sale of investments	4,464,583	1,333,102
Unrealized gain (loss) on investments	(4,089,973)	(3,309,332)
State of Connecticut plant additions	110,602	1,112,335
Depreciation	<u>(689,447)</u>	<u>(801,389)</u>
Change in unrestricted net assets	(82,326)	(1,867,688)
Change in temporally restricted net assets	141,515	(3,898)
Change in permanently restricted net assets	<u>29,335</u>	<u>(32,465)</u>
Change in combined net assets	<u>88,524</u>	<u>(1,904,046)</u>
Combined net assets, beginning of year	<u>\$41,610,664</u>	<u>\$41,699,188</u>
Combined net assets, end of year	<u>\$41,699,188</u>	<u>\$39,795,142</u>

The net loss in the School's operating accounts (Unrestricted Fund) over the audited period of (\$80,495), renovations and improvements to plant assets (Plant Fund) funded from State resources totaling \$1,222,937, gains on sales of investments of \$5,797,685 (Endowment Fund), and the unrealized losses from the decline in value of investments totaling (\$7,399,305) accounted for most of the School's decrease in combined net assets.

Retirement Plans:

Section 5-175 of the General Statutes extends the benefits of the State Employees' Retirement System to employees of the School. The expense of this participation is funded directly by the State and employee contributions. School employees, who were hired before January 1, 1984, are members of Tier I and retirement contributions are withheld from their compensation. School employees hired after December 31, 1983 are members of Tier IIa, which is a noncontributory plan. Public Act 92-226, codified at Section 5-192nn, continued membership in the system to employees who were members of the system on December 31, 1992, but excluded employees hired after that date. In January 1998 a Pension Subcommittee that reports to the Investment-Finance Committee was established to supervise the pension program for employees hired after December 31, 1992; the Executive Director was named as Plan Administrator and a publicly traded financial institution was named as Trustee and Investment Manager. As of June 30, 2001, the fair value of the pension assets exceeded the accumulated benefit obligation; therefore, no unfunded liability exists.

Capital Projects:

The State of Connecticut also provides the School with financial assistance for major repairs and improvements to the physical plant through the sale of State of Connecticut general obligation bonds. Special Act 97-1 (June 5, 1997 Special Session), section 2(j)(5)(A), as amended by section 75 of Public Act 99-242 authorized \$700,000 for alterations, renovations and improvements to buildings and grounds; section 2(j)(5)(B), as amended by section 77 of Special Act 01-2 authorized \$1,213,000 for alterations, renovations and improvements to various campus buildings and grounds. Section 21(i)(4) of Special Act 97-1 (June 5, 1997 Special Session), as amended by section 83 of Public Act 99-242, authorized \$2,890,000 for various site

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improvements including roads, parking, sidewalks and lighting. Section 2(h)(2) of Special Act 01-2 (June Special Session) authorized \$10,000,000 for alterations, renovations and improvements to buildings and grounds, including new construction, effective July 1, 2001. Section 17(e)(2) of Special Act 01-2 (June Special Session), as amended by sections 17(d) and 96 of Special Act 02-1 (May 9 special Session), authorized \$5,000,000 as of July 1, 2001 and \$5,000,000 as of July 1, 2003.

This assistance consists of direct payments by Department of Public Works to vendors, contractors, architects, etc. for capital projects. Capital expenditures financed by the State for the fiscal years under review totaled \$110,602 and \$1,112,335, respectively. These amounts are reflected in the changes in combined fund balances, presented earlier, as "State of Connecticut plant additions". The American School for the Deaf recognizes the costs incurred for these repairs and improvements in its plant fund and the depreciation, on these improvements, is computed by the straight line method over the various useful lives. These expenditures are reviewed as part of our audit of the State Department of Public Works.

Financial Audits:

As previously mentioned, a firm of certified public accountants has audited the books and accounts of the School during each of the fiscal years under review. In order not to duplicate their efforts we have accepted the financial statements as audited, after satisfying ourselves as to the independence of the other auditors and verifying that generally accepted accounting principles and auditing standards were followed. Our review was not intended to enable us to express, and we do not express, an opinion on the School's financial statements, a conclusion about the effectiveness of its internal controls, or conclusions on compliance with laws and regulations.

The independent auditors' opinion stated that the School's financial statements for fiscal years ended June 30, 2000 and 2001 were fairly presented in all material respects in conformity with generally accepted accounting principles. Also, as required by generally accepted government auditing standards and the State Single Audit Act, the auditors issued reports on the School's internal control structure and its compliance with laws and regulations. These reports disclosed no material internal control weaknesses or noncompliance with laws and regulations. The auditors also issued management letters to the School offering comments to help improve financial management and accounting operations. These issues, although not material with respect to the financial statements, were intended to improve operations. All observations and recommendations offered by the independent auditors in their management letters and reports were accepted and addressed by the School's Investment/Finance Committee.

CONDITION OF RECORDS

Our review of the records of the American School for the Deaf revealed no areas that warrant attention.

RECOMMENDATION

In our prior report, there were no recommendations. There are no recommendations as a result of our current audit.

CONCLUSION

In conclusion we wish to express our appreciation to the management and staff at the American School, at Hartford, for the Deaf for the courtesies to our staff during the performance of this audit.

Harold Colvocoresses
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

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