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A Financial Study of the Mt. Auburn School District

Robert H. Sample

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A Financial Study of the

Mt. Auburn School District
(TITLE)

BY

Robert H. Sample

Field Experience

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
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I HEREBY RECOMMEND THIS THESIS BE ACCEPTED AS FULFILLING
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Abstract

The purpose of this field experience was to determine the financial condition of the Mt. Auburn Community Unit School District Number 5, Christian County, State of Illinois, from the 1986-87 school year through the 1990-91 school year. The financial condition of the district during 1991-92 school year was reviewed from July, 1991 through April, 1992. The education fund, operations, building, and maintenance fund, bond and interest fund, transportation fund, and retirement fund were all reviewed for stated time period. Tables were prepared for these major accounting funds to clarify the developing financial trend. Revenues received during 1986 through 1991 from local sources and the Illinois State Board of Education were compared to district expenditures from the same time period. Data sheets were completed from various attendance and financial documents located within the district office. The documents included certificates of tax levies, district financial ledgers, general state aid entitlement forms, state summaries on district allocations, annual financial statements for publication, and district attendance books. By reviewing the financial history of the district, the researcher hoped to determine some guidelines for the future of the district. Various district reorganizational studies were reviewed along with the Mt. Auburn School District's current operating modifications. The operating modifications for the district included the tuitioning of high school students and professional staff reduction. Current legislation and proposed legislation concerning the types of school district reorganizations were reviewed. The options for school district reorganization included annexation, consolidation, and status quo. The researcher recommended annexation of the Mt. Auburn School District into the Taylorville School District.

Chapter 1

Background Information

Introduction

The Mt. Auburn School Community Unit School District Number 5 has been plagued with weak financial support for several years. The purpose of this field experience was to determine the financial condition of the Mt. Auburn Community Unit School District Number 5, Christian County, State of Illinois, from 1986-87 school year through the 1990-91 school year. The financial condition of the district during the 1991-92 school year was reviewed from July, 1991 through April, 1992. A long term goal of this study was to avoid placement of the Mt. Auburn School District upon the Illinois State Board of Education's financial watch list. The Mt. Auburn School District was placed upon this financial watch list for several years. The district had used all reserve funds and continued to have expenditures exceeding revenues.

The researcher had a direct interest in maintaining a balanced budget, for the school district. During the time period of investigation for the field experience, the researcher was responsible for all financial transactions of the district under the supervision of the district superintendent. To enable the district to continue operating with a positive general fund balance, the board of education needed sound financial advice generated by the field experience.

During November, 1989, the voters of the district approved the issuance of working cash bonds and a high school student tuitioning agreement. With the combination of the bonds and tuitioning, the district achieved a positive general fund balance. Board members and the administration of the district would like to maintain this current status

(R. Oakes, personal communication, January 14, 1992).

On Tuesday, March 17, 1992, the voters of five central and northern Christian County school districts defeated a proposed school district consolidation. The five districts involved in the consolidation package were Edinburg School District Number 4, Mt. Auburn School District Number 5, South Fork School District Number 14, Stonington School District Number 7, and Taylorville School District Number 3. Two issues were placed to the voters of each district. The first issue was the consolidation of the five districts and the second issue was a building bond proposal which would permit the construction of new classrooms at Taylorville High School.

The Taylorville School District and the South Fork School District defeated the proposal by landslides. The Mt. Auburn School District and the Stonington School District passed the proposal by a large margin. The Edinburg School District passed the consolidation proposal by one vote and defeated the building bond proposal by 128 votes (Orr, 1992a).

This study reviewed the financial condition of the Mt. Auburn district from 1986 to April, 1992. A historical review of expenditures and revenues presented to the reader a clear picture of the financial problems of the past and the current financial status of the district. The long term goal of the district was to remain off the financial watch list; the short term goal was to balance expenditures and revenues for each operating year. Achieving the short term goal would automatically secure the long term goal. The recommendations of this study, if applied properly, should improve the financial management of the district during the 1992-1993 school year.

Statement of the Problem

The Mt. Auburn Community Unit School District Number 5 is a small

rural school district within Christian County, 15 miles north of Taylorville, Illinois. The Mt. Auburn School District includes 64 square miles and currently has an enrollment of 238 students from the kindergarten level to the twelfth grade level. The district employs 10.5 full-time teachers, one full-time administrator, one part-time administrator, and eight non-certified personnel. The district is tuitioning 66 high school students to Taylorville High School. All full-time high school teachers from the Mt. Auburn School District were transferred to Taylorville High School (R. Oakes, personal communication, January 14, 1992).

The tax rates in the education fund, operations and maintenance fund, and the transportation fund are \$2.00, \$.4950, and \$.20 per \$100 of assessed valuation respectively. Table 1 gives the revenue generated by this assessment and other local sources from 1986 to 1991 (Annual Financial, 1986-91).

Table 1

Revenue Received from Local Taxes and Other Sources for Mt. Auburn Unit #5

School Term	Revenue
1986-1987	\$638,045
1987-1988	\$571,076
1988-1989	\$552,401
1989-1990	\$532,885
1990-1991	\$497,153

Farmland assessed valuation has been declining for several years within the Mt. Auburn School District along with many other school

districts within the State of Illinois. The Mt. Auburn School District has suffered a decline of \$140,892 in revenues from local sources from the 1986-87 school year to the 1990-91 school year. This decline has resulted in a 22% reduction in local revenues from 1986-87 to 1990-91. The county assessor made a prediction to the district that farmland assessment would increase at the rate of 5% to 10% for the 1991-92 school term. This prediction proved to be false. The district received \$344,834 in the educational fund in 1990-91 compared to \$469,960 in 1986-87. During the past few years, the district has experienced an increase in state revenues. Table 2 gives the state revenues provided to the district from 1986-87 to 1990-91 (Annual Financial, 1986-91).

Table 2

State Revenues Provided to Mt. Auburn Unit #5

School Term	State Revenue
1986-1987	\$125,667
1987-1988	\$149,304
1988-1989	\$166,249
1989-1990	\$242,873
1990-1991	\$290,589

The increase of revenue from the state is basically due to the temporary increase in the state income tax. The Illinois General Assembly has debated the temporary income tax increase on an annual basis. The district cannot depend upon the additional revenue provided by the state in planning financial conditions for the future (R. Oakes, personal

communication, January 14, 1992) The increase in revenues from the state amounted to \$164,922 from 1990-91 school term over the revenues provided in the 1986-87 school term.

Most small districts within Illinois would experience annual increase in expenditures if they continued a constant plan of operation due to inflation within the economy. The Mt. Auburn School District is not an exception. Table 3 gives the district expenditures from 1986-87 to 1990-91 (Annual Financial, 1986-1991).

Table 3

Expenditures for Mt. Auburn Unit #5

School Term	District Expenditures
1986-1987	\$815,219
1987-1988	\$837,215
1988-1989	\$861,552
1989-1990	\$839,526
1990-1991	\$879,574

The moderate increase in expenditures presented in Table 3 are the result of high school program cuts made during the given years to provide for inflationary increases in the budget. The agricultural teacher was reduced to half-day employment within the district along with the complete removal of the home economics program. The librarian was reduced from full-time to five instructional hours per day and the counselor from five days to two days per week. Also, the administration was reduced from two full-time to one full-time administrator and one part-time administrator.

The Mt. Auburn School District is currently operating on deficit spending, but on a small margin in comparison to expenditures prior to the deactivation of the high school in Mt. Auburn. The 1991-1992 school operational budget would be close to balanced if the State of Illinois would reverse its decision to make the final two general state-aid payments in the next rather than the current fiscal year. One of the basic financial problems within the Mt. Auburn School District is the rising cost of high school student tuitioning. The tuitioning charge is determined by the operating cost of the Taylorville School District. Taylorville's per capita tuition charge for the 1990-91 school year was \$2,761, whereas the charge for the 1991-1992 school year was \$3,073. The number of students from Mt. Auburn attending Taylorville High School is increasing approximately 16% per year. Currently, the Mt. Auburn District has a large number of students in 7th and 8th grades. Students enrolled in grades nine through twelve from Mt. Auburn during 1991-92, represented less than normal enrollment for the district. During the 1993-1994 school year, the Mt. Auburn School District could be paying tuition charges on 81 high school students in comparison to 60 students in the 1990-91 school year. This increase of 21 students would cost Mt. Auburn \$64,533 in additional fees at the 1991-1992 tuition charge (General State Aid, 1990-92)

Due to loss of local tax support and declining enrollment the district was gradually reducing the fund balances each year. For several years the district had experienced annual expenditures over annual revenues. Eventually a district operating in this mode will be unable to meet the accumulated debts. Table 4 gives the end of the year balances in the basic operating funds for the Mt. Auburn School District over the past five years (Annual Financial, 1986-91).

Table 4

End of the Year Balances for Mt. Auburn Unit #5

School Term	Education	Building	Transportation
1986-1987	- 21,534	13,625	116,593
1987-1988	-118,819	-8,536	133,714
1988-1989	-217,957	-21,043	144,174
1989-1990	- 19,286	-22,908	154,455
1990-1991	135	-15,110	143,641

A working cash bond issued by the district during the 1989-90 school year in the amount of \$230,000 saved the district from immediate financial problems. The tuitioning agreement helped to decrease expenditures and maintain a reasonable balance in the education fund (R. Oakes, personal communication, January 14, 1992).

The financial condition of any school district should be a concern to all people living within the school district boundaries. Taxpayers expect their school district to offer a good curriculum to the children of the community while at the same time, remaining financially solvent. A district must be able to financially meet its obligations. If a district begins to have financial problems, the children are usually the population to suffer. Programs are removed from the schedules or reduced in effectiveness. Extracurricular activities can be a target area for expenditure reduction (S. Ryan, personal communication, February 20, 1992).

The Mt. Auburn School District will be unable to continue the current

operation without increased revenues or becoming involved in a district reorganization. The major problem of the study was to determine what financial method or direction the Mt. Auburn School District should take to remain solvent for next several years.

Limitations of the Study

Little attempt was made within this study to discuss the advantages or disadvantages of the district's organization in relation to the student's basic education. This study simply reviewed the financial condition of the district. To discuss an appropriate educational plan for students was considered beyond the scope of this study. Too many factors can enter a discussion on appropriate education for students. Public education is not uniformly placed in the minds of voters or lawmakers. There is no common understanding of what purposes schools are supposed to serve or what tools and steps would be necessary to serve these purposes. Recommendations within the paper were made in reference to maintaining a financially solvent district.

This study considered the last five years of audited financial documents of the district's operation. An extension beyond five years of financial history would have little relevance to the current operation. The study investigated non-audited financial materials from the 1991-92 school term.

Several personal interviews conducted during the study provided financial guidance to the researcher. Opinions of the current superintendent of the Mt. Auburn School District provided the researcher with valuable insight concerning the financial condition of the district.

Definitions of Terms

A number of terms used in school financing can be confusing or even

unfamiliar to the general reader. The clarification of terms was necessary for the reader's comprehension of the entire financial picture of the district. Each school term, the Illinois State Board of Education provides each district with a copy of "State, Local, and Federal Financing for Illinois Public Schools." The following definitions can be found within the 1990-1991 publication.

Assessed Value. The value placed on property for tax purposes and used as a basis for division of the tax burden. This amount is subject to the State issued equalization factor and the deduction of the homestead exemptions.

Average Daily Attendance. The aggregate number of pupil days in attendance divided by the number of days in the regular school session.

Bond. A written promise, signed by the president and clerk or secretary of the board, to pay a specified sum of money at a fixed time in the future and at a fixed rate of interest.

Working Cash Bond. Proceeds of this bond may be used to supplement any major fund within the school district. The board may issue these bonds without voter approval unless a voter petition is presented in opposition to this method.

Bond Power Limitation. The statutory debt limitation set by the state. A unit district limitation is 13.8% of the equalized assessed valuation.

Categorical Aid. Money from state or federal government that is allocated to local school districts for special children or special programs.

Consolidation. The process whereby a school district becomes part of another district. The question must be put before the voters, and it must

pass in all districts involved in the proposed consolidation.

Corporate Personal Property Replacement Funds. These are funds paid in lieu of taxes paid in 1978 and prior years on Corporate Personal Property assessed valuation.

Deactivation. The process by which a district chooses not to operate several grade levels of instruction and uses tuitioning to educate its students.

Equalized Assessed Value. The assessed value multiplied by the State equalization factor; which gives the value of the property from which the tax rate is calculated after deducting homestead exemptions, if applicable.

Foundation Level. A dollar level of financial support per student representing the combined total of state and local resources available as a result of the state aid formula.

Interfund Loans. Loans between funds as authorized by sections 1-22.33 and 20-4, of the Illinois School Code.

Levy. The amount of money a school district certifies to be raised from the property tax.

Per Capita Tuition Charge. The amount a local school district charges as tuition to nonresident students as defined by Section 18-3 of the Illinois School Code.

Tax Anticipation Warrants. Warrants are issued by a school district in anticipation of the collection of taxes and may be issued to the extent of 85 percent of the total amount levied.

Tuitioning. The process whereby one school district pays tuition to another school district to educate the high school students of their district (Ey, 1991).

Chapter 2

Rationale

The future of the Mt. Auburn School District was uncertain after the failure of the consolidation proposal. By reviewing the financial history of the district, the researcher hoped to determine some guidelines for the future of the district. The board of education and administration of the Mt. Auburn School District wished to continue offering the children of the district an appropriate education under a stable program of finances (R. Oakes, personal communication, January 14, 1992).

Review of Related Research and Literature

C. Robert Leininger, Illinois State Superintendent of Education, indicated that state leaders need to find a solution to the financial crisis facing Illinois schools or they may find themselves facing a tax revolt (Leininger, 1991). This revolt would undercut any progress toward establishing a school funding system which provides for equity and adequacy.

Based on the 1989-90 annual financial reports of school districts within Illinois, the operating expenditures per pupil ranged from \$2,253 to \$14,315. The increase in state spending has not been sufficient to offset the burden placed upon the local tax dollar. During the 1990-91 school term, the State of Illinois was only funding 37.73 percent of the expenditures that districts were incurring. The local tax dollar was picking up 54.52 percent of expenditures (Adkins, 1991a).

Seventy-seven counties within Illinois have experienced decreases in equalized assessed valuation. This loss can be found in the increases granted in homestead exemptions, senior citizen and disabled veterans' homestead exemptions and to the decrease in the Illinois farmland.

assessments. According to Calvin Jackson, Superintendent of the Illinois Prairie Central Community Unit School District Number 8, his district has lost about one-third of its original assessed valuation since 1984. More than one-half of the school districts within Illinois have experienced declining equalized assessed valuation from 1985 to 1991. One in three school districts have achieved success in passing school referendums (Adkins, 1991a).

Inequity has been an important issue in Illinois school districts during the recent years. The gap between state funding and school spending continues to widen every year. This gap is important to school districts that do not have the local tax base to make up the difference. The foundation level set by the state is not sufficient to cover expenditures of most districts. The average district in Illinois is operating at approximately \$1500 above the foundation level set by the state (Glaub, 1992a).

Categorical funding provides about \$400 to \$500 per pupil on top of the foundation level. The problem with categorical funding is that the wealth of the district has no bearing on the money received. Categorical funding provides the wealthy district with the same dollar as the poor district.

The current overall economy of Illinois is very poor. In general, the suburban counties of the Chicago area are prospering while the rest of the state is falling behind. If property values increase in one area and decline in another, the gap will continue to widen. Currently, the State of Illinois has been unwilling to compensate for the differences in property tax bases or to fund schools on an equal base.

Public school advocates contend that the foundation level must be

increased to meet the expenditures of the schools. They would like the state to assume a greater share in educating the children of Illinois. This increased share would cost the state several billion dollars in addition to the current funds allocated for elementary and secondary education (Glaub, 1990a).

On Friday, November 22, 1991, delegates from 376 local boards of education in Illinois adopted several resolutions aimed at preserving or adding revenue and cutting expenses. These delegates voted to:

1. Encourage the State of Illinois to totally fund the extra costs of educating children with special needs.
2. Support legislation to cut utility rates for school districts.
3. Oppose any reduction in residential real estate assessment that is not offset on a one-to-one ratio by other revenues.
4. Request that the state should provide a stable, reliable and predictable commitment of revenue.
5. Request that state funding levels should reflect the actual cost of providing an appropriate education.
6. Request that adequate funding be provided by adding new state revenues for schools and that increased state funding should not reduce access to local property tax bases.
7. Request that specified local tax effort be required to qualify for state aid.
8. Request that taxing authority without referendum for unit districts in all funds should be equal to the sum of the taxing authority in dual districts.
9. Request that (a) differentials for various levels of

schooling be considered appropriate only if based on verified costs; (b) consideration be given to regional differences in the cost of providing an appropriate education; (c) the method of calculating the number of students coming from disadvantaged backgrounds should be based on current, verifiable data; and (d) size of school district be considered important only as it affects the district's ability to provide an appropriate education (Glaub, 1992b).

A number of legislative leaders as well as the Governor of Illinois have stated that the school districts within Illinois were treated fairly by the marathon session of the 1991 General Assembly. Many school board members and district superintendents thought that schools "took a beating." School officials thought that state officials were less than honest about the financial hand dealt the schools. Actually, it does not take a financial wizard to figure out that skipping a monthly state aid payment was an actual loan to the state government (Adkins, 1991a).

A most disturbing fact is that the State of Illinois is in deep financial trouble and this condition will not change immediately. The State of Illinois could be put on a financial watch list if it existed for states. The school districts of Illinois are currently depending upon the state government to come to their aid. A state with a troubled cash flow situation cannot aid a school district with a cash flow problem. Several school superintendents believe that school districts will need to develop financial plans without visions of state assistance beyond current funding (V.Bundy, personal communication, January 1992).

Uniqueness of the Study

This research study included one small rural school district in central Illinois. The school district's local revenue is basically received from farmland. The school district has been extremely solvent for many years, and the financial decline has been a shock to the citizens of the district. The Mt. Auburn School District had not depended upon state revenue assistance prior to the late 80's. The local tax revenues combined with the small general state aid payments were sufficient to operate the school district. The financial situation changed during the late 80's, the district was faced with necessary changes within financial operation. The study also included an financial review of the neighboring school districts.

Chapter 3

Methodology

The purpose of this study was to provide recommendations to the Mt. Auburn Board of Education and the current administration for future financial planning. The financial status of the district from 1986 to April, 1992, was reviewed and trends identified. District financial documents from 1986 to 1991 were examined, with current operating estimations included in the review. The researcher determined quickly that the district was in a down mode financially; the study was to center around solutions. A down mode would relate to the situation when expenses continue to exceed revenues.

Data Collection and Instrumentation

Data sheets were completed from various attendance and financial documents located within the district office. The documents include certificates of tax levies, district financial ledgers, general state aid entitlement forms, state summaries on district allocations, annual financial statements for publication, and district attendance books. District data were compared to state averages listed in a publication entitled "State, Local, and Federal Financing for Illinois Public Schools." Several studies completed on consolidation of various districts in Christian and Sangamon Counties, including the Mt. Auburn School District, were reviewed which provided direction for this study. Several interviews, conducted by the researcher, gave guidance and produced a global concept for this financial study (Dee, 1991).

Data Analysis

The Mt. Auburn School District operates on the cash accounting method described within the "Illinois Program Accounting Manual for Local

Education Agencies" (Illinois Accounting, 1991). Revenue is recorded when the actual cash is received and expenditures are recorded at the time of disbursement. Liabilities are recorded at the actual cash transaction time and posted to appropriate funds. The district receives revenue from local, state, and federal sources. Expenditures fall into several categories: salaries; supplies and contractual services; operation and maintenance; capital outlay; and fixed charges (R. Oakes, personal communication, January 14, 1992).

Chapter 4

Results of the Study

The Mt. Auburn School District creates a school operating budget prior to the end of the first quarter of each fiscal year. This budget states the objectives and purposes of expenditures and the revenues necessary to meet the anticipated expenses and liabilities of the district. The budget contains a statement of the year's beginning and ending cash and estimated cash receipts and disbursements for the budget year. Once the board has adopted the annual budget, this actually certifies the revenue required from local taxes.

Prior to the last Tuesday in December, the board presents to the county clerk a certificate of tax levy. The county clerk checks the extensions of taxes to confirm that the levy is within the constraints of the school district tax rate limitations. Receipt and transfer of revenues for the district are accomplished through the county treasurer's office. The district has stayed in compliance with the Truth in Taxation Act of 1989. The Truth in Taxation Act of 1989 requires that a school district wishing to increase its aggregate levy by more than 105 percent of its prior year's extension to publish a public notice of the intent. This notice must be published in an English language newspaper of general circulation published in the county and having circulation in the taxing district. The board of education within the Mt. Auburn School District has historically chosen not to exceed the 105 percent limit on its levy (Ey, 1991).

Review of Revenue Received in the Education Fund

During the 1989-90 school term, the district received \$375,362 in local revenues to be placed into the education fund in comparison to

\$344,834 in local revenues received in 1990-91 school term. Revenues from state sources in the education fund increased from \$201,376 in 1989-90 to \$260,845 in 1990-91. The state surcharge is responsible for the increase in revenues received from state sources. The surcharge is actually the increase in Illinois income tax granted by the Illinois General Assembly. Without that substantial increase from the state, the district would have a current problem with fund balances.

The Mt. Auburn School District is operating from the special equalization method for state aid. The Illinois General State Aid formula is designed to provide higher levels of funding to districts with lower levels of wealth. District wealth is determined by annual measurements of the equalized assessed valuation of local property and a per-student standardization. A district's average daily attendance and concentration of students at the poverty level create the per-student standardization. The State of Illinois has a guaranteed per student level of financial support. This support is referred to as the State Aid Foundation Level. The 1990-91 foundation level was set at \$2,501.63. This basically means a district with \$0 property assessment base would receive \$2501.63 per student. The Mt. Auburn School District received \$1,119.50 per student for the 1990-91 school term (Annual Financial, 1990-91)

State aid entitlements are partially based upon monthly average weighted attendance figures for each district. The attendance figures used are based upon the previous year's best three months of attendance. Pupils in pre-kindergarten through grade six are weighted at 1.00, pupils in grades seven and eight are weighted at 1.05, and pupils in grades nine through twelve are weighted at 1.25. Also, the state aid formula calculation includes an adjustment for federally defined ESEA, Chapter I

low-income students. Chapter I additional weighting has a limitation of .625 per low-income student (Ey, 1991).

The state aid received during 1990-91 for the Mt. Auburn School District was based upon attendance figures from the 1989-90 school term. The district had 55 students enrolled within the high school level and 35 students enrolled at the seventh and eighth grade levels. The weighting factor above 1.00 was applied to a small number of students. The assessed valuation was \$14,173,013, giving a \$58,566.16 assessment per student. The state range for property wealth is \$5,685 per student to \$1.1 million per student. The Mt. Auburn School District is far from the top but not in the lower category (Ey, 1991).

A school district has no control over the number of students residing within the district or the number of children classified at the poverty level. The property wealth of the district is determined by the county assessor, processed through the county clerk, with payments made to the district by the county treasurer. The voters have control of the taxing rates in the major funds, such as the educational fund. The school code has stated maximum rates for districts without voter approval.

Revenue received by the district from federal sources in 1989-90 school term amounted to \$30,737 in the education fund. Federal revenue increased to \$32,916 in the 1990-91 school term. The federal sources provided the district with an additional \$2,179 in revenue. Federal financial support for the district was provided by grants and reimbursements from the U.S. Department of Education and the U.S. Department of Agriculture. Most of the financial aid was directed toward the students coming from low-income households or limited to special programs or populations.

The Mt. Auburn School District receives the largest portion of federal assistance from the Chapter I program and the school lunch program. Federal funding is provided to the district indirectly through a cooperative agreement with Mid-State Special Education Cooperative. This cooperative provides special education services for the Mt. Auburn School District on a need basis. The district is involved in the federal funded Chapter II program which involves less than \$2,000 annually. Chapter II funds have very little impact upon the district's total budget. Table 5 gives the federal revenue received by the district from 1986 to 1991 under the educational fund (Annual Financial, 1986-91).

Table 5

Federal Revenue Received in the Educational Fund for Mt. Auburn Unit #5

School Term	Revenue
1986-1987	\$25,430
1987-1988	\$25,423
1988-1989	\$31,450
1989-1990	\$30,737
1990-1991	\$32,916

Review of Expenditures in the Education Fund

Expenditures in the education fund developed a new trend plus a different record of account totals in the 1990-91 school term. At that time, the high school students from Mt. Auburn were tuitioned to Taylorville High School. Instruction costs during 1989-90 were \$428,346, and during 1990-91 these costs were \$281,359. The tuition fees were placed

under function 400 during 1990-91 school term. Function 400 is the accounting identification for payment to another district for educating student residents of a district. This change increased charges from \$61,742 to \$230,535. Adding the combination of the two functions, the net increase was \$21,806. This increase included instructional staff salary increases for the 1990-91 school term. The definite savings came in function 200, supporting services. Supporting services during 1989-90 school term amounted to \$173,274 and, in the 1990-91 school term, this figure was reduced to \$121,076. Supporting services included payment for services rendered to the district that were not direct student instruction services. The reduction amounted to \$52,198. This savings is 6.2 percent of the total expenditures during the 1989-90 school term. Total expenditures were reduced \$32,273 from June 30, 1990 to June 30, 1991 (Annual Financial, 1989-91).

Review of the Operations, Building, and Maintenance

The researcher will refer to the operations, building, and maintenance fund as the building fund. The building fund within the Mt. Auburn School District was in deficit spending from 1986 to 1990. The building fund receives funding from local revenues. Farmland assessment has been decreasing in the district and the local tax rate has remained the same. Table 6 gives the revenue and expenditures for the building fund from 1986 to 1991 (Annual Financial, 1986-91). The deactivation of the high school building during June of 1990 decreased the district expenditures in the building fund. The building fund balance on June 30, 1991 was -\$22,908. The building fund accumulated a large debt during the years of deficit spending, and the positive operation during 1990-91 was too weak to give the fund a positive balance. Historically, this fund is aided during the

Table 6

Revenue and Expenditures for Mt. Auburn Unit #5

School Term	Revenue Received	Expenditures
1986-1987	\$91,619	\$119,638
1987-1988	\$88,446	\$110,607
1988-1989	\$96,889	\$109,397
1989-1990	\$91,546	\$ 93,411
1990-1991	\$91,458	\$ 83,660

year by an interfund loan from the transportation fund. This interfund loan amounted to \$25,000 in 1990-91 and the fund continues to need assistance.

Review of the Transportation Fund

The transportation fund has been the most solvent fund within the district. The Mt. Auburn School District has used the transportation fund balance to aid the building and education funds for several years. Until the 1991-1992 school term, the state had paid a respectable amount of the transportation expenditures. Table 7 gives the revenues and expenditures from the transportation fund during 1986 to 1991 (Annual Financial, 1986-91). During 1990-91 school term, the district purchased a 72 passenger bus at the cost of \$50,000. The district acquired a loan from the local bank to finance the purchase and agreed to make annual installments of \$11,703 (R. Oakes, personal communication, January 14, 1992). The district's last purchase was in 1985 for a new 53-passenger bus. The district claimed the 1990 purchase upon the annual state

Table 7

Revenue and Expenditures in the Transportation Fund for Mt. Auburn Unit #5

School Term	Revenues Received	Expenditures
1986-1987	\$87,624	\$53,390
1987-1988	\$73,382	\$56,261
1988-1989	\$66,291	\$55,831
1989-1990	\$71,683	\$61,402
1990-1991	\$65,686	\$76,500

transportation depreciation schedule. Of course, the reimbursement from this claim could not be paid within the same year. The fund balance for transportation was \$143,641 on June 30, 1991. The fund balance for all funds on June 30, 1991 was \$157,166. The transportation fund accounted for 91.3 percent of the positive district balance (Annual Financial, 1990-91).

Review of the Municipal Retirement and Social Security Fund

The researcher will refer to the municipal retirement and social security fund as the retirement fund. The Mt. Auburn School District has developed a considerable savings within the retirement fund. The district has reduced the number of non-certified employees over the past five years. Municipal retirement and social security regulations require school districts to contribute to the employee retirement benefits. Only a few teachers within the Mt. Auburn School District fall into the medicare contribution category. With a small number of non-certified employed and a few teachers classified under the medicare requirement, the district's total contribution expenditure is low. Table 8 gives the revenues received and expenditures for the district from 1986 to 1991 (Annual Financial,

1986-91). The fund balance on June 30, 1991, for the retirement fund was \$29,363. The problem with the fund balance is that the revenue cannot be transferred to other funds needing assistance. District administration determines the amount of revenues needed for payment of employee benefits and this amount is requested during the December tax levy. The amount received for retirement benefits can be used only for the stated purpose and cannot be transferred to other funds within the system.

Table 8

Municipal Retirement and Social Security Fund for Mt. Auburn Unit #5

School Term	Revenue Received	Expenditures
1986-1987	\$16,511	\$15,417
1987-1988	\$17,332	\$16,159
1988-1989	\$22,877	\$19,029
1989-1990	\$22,357	\$18,995
1990-1991	\$24,919	\$13,517

Review of the Bond and Interest Fund

During November of 1989, the voters within the Mt. Auburn School District approved the tuitioning of high school students to Taylorville and allowed the district to issue \$230,000 in working cash bonds. The bonds were used to assist the education and building funds. Most expenditures of the Mt. Auburn School District are paid from the education fund and, as presented earlier in this paper, this fund needs help. The working cash bonds were borrowed for a period of four years with annual installments due on December 1 of each year. The first installment was paid on December 1,

1990, in the amount of \$72,452. The county treasurer failed to receive the entire amount of revenue for the bond payment. The payment exceeded the revenues by \$863. A local grain elevator operation had protested its annual taxes and this action produced the negative balance within the bond and interest fund (R. Oakes, personal communication, January 16, 1992).

Unexpected Expenditures during 1991-1992 School Term

The researcher could not include revenues and expenditures from the 1991-1992 school term. The school term was currently in operation during the researcher's investigation of the financial condition of the Mt. Auburn School District. The district incurred several large expenditures during the 1991-1992 school term that were not anticipated by budget allotments. The researcher cannot reveal the details of the expenditures due to personnel confidentiality. These additional expenditures were be recorded at \$50,000. These additional expenditures will have a major impact upon the year-end balance within the educational fund. This fund, as mentioned earlier within this paper, is in strong need of revenue assistance (R. Oakes, personal communication, January 16, 1992).

Consolidation Proposal

On March 17, 1992, five school districts in central and northern Christian County presented to the voters of each district a consolidation proposal. The Edinburg, Mt. Auburn, Stonington, South Fork, and Taylorville School Districts were to be combined into one large district. The following was a ballot proposition presented to the Mt. Auburn School District's voting residents: Shall a community unit school district with a board of education to be elected from seven different school board districts, and with the authority to levy taxes at the rate of 2.465% for the educational fund, .435% for the operations and maintenance fund and

improvements of school grounds, 20% for the transportation fund, and .05% for fire prevention and safety purposes, each upon all as equalized or assessed by the department of revenue, be established by the consolidation of Taylorville C.U. District No. 3, Edinburg C.U. District No. 4, Mt. Auburn C.U. District No. 5, Stonington C.U. District No. 7, and South Fork School District No. 14 (Christian County, 1992)? A separate proposition concerning building bonds was included upon the ballot. This proposition was seeking approval for the new board of education to issue \$5,500,000 in building bonds for the purpose of remodeling and expanding the existing high school building in the City of Taylorville.

The voters within the Edinburg, Mt. Auburn, and Stonington School Districts gave approval for this new district. The consolidation proposal failed within the Taylorville and South Fork School Districts. The Edinburg School District recorded an approval of this new district by only one vote. The building bonds proposition was defeated in three of the school districts. The Mt. Auburn and Stonington School Districts received overwhelming approval of this proposition. The Edinburg, South Fork, and Taylorville School Districts received a strong disapproval of this proposition (Orr, 1992a). The entire package of consolidation failed and each district from this point forward was to decide its own direction.

Annexation

On March 18, 1992, Ron Mizer, Committee of Ten member and Taylorville school board member, stated he felt that annexation of the Mt. Auburn School District and Stonington School District into the Taylorville School District would be the next feasible step. He based his statement upon the approval presented by the voters of both districts within the consolidation proposal. Stonington School District must complete the annexation process

before the Mt. Auburn School District could apply (Orr, 1992a). The Illinois School Code states a school district must be contiguous to a district before annexation can be considered.

The Stonington School Board met on Monday, March 30, 1992, and voted in favor of a Taylorville annexation. The Stonington School Board will not officially apply for annexation until July 6, 1992. This date will allow the state incentive program to work effectively for the Stonington School District. The state incentive program will provide \$4,000 payment from the Illinois State Board of Education per certified staff member involved in the annexation for three years. Also, the state office will cover the past operating debts of the Stonington School District. Bond indebtedness will stay with the Stonington School District until the principal and interest on the bonds is retired (Orr, 1992b). This application for annexation allows the Mt. Auburn School District to be included in a similar consideration.

Financial Advantages of Annexation

The decision made by the Stonington School District on March 30, 1992, gave the Mt. Auburn School District the opportunity to take advantage of annexation with the Taylorville School District. Illinois legislation states, in annexations involving dissolution of a district under Article 7 of the Illinois School Code, the bonded indebtedness of the annexed district stays where it originated. The bonded indebtedness of the annexing district would be spread over the territory of both the annexing and the annexed districts. These provisions are contained in PA 87-0107 (HB 1752) with an effective date of January 1, 1992. During April, 1992, a bill was introduced to the Illinois House of Representatives and assigned to a committee that could change the bonded indebtedness arrangement. The

bill has not received a number during April. The new bill would not allow the annexing district to spread the bonded indebtedness over the new territory (R. Oakes, personal communication, April 7, 1992).

The Taylorville School District has an equalized assessed valuation of \$82,225,949 and the Stonington School District has an equalized assessed valuation of \$18,004,253. The Mt. Auburn School District would add \$12,736,191 of equalized assessed valuation to the new territory if a decision was made to process annexation with Taylorville. The combined equalized assessed valuation for the three districts would be \$112,966,393. Tables 9, 10, and 11 give the 1991-1992 taxing rates for the three school districts. Annexation into the Taylorville School District would allow students from Stonington and Mt. Auburn to continue their educations without increasing the taxing structures for both communities. The Stonington taxpayer would realize a reduction in taxes after one year of within new district. The Mt. Auburn taxpayer would realize a reduction in taxes after two years within the new district (V. Bundy, personal communication, April 1992). Tables 9, 10, and 11 give the 1991-1992 taxing rates for the Mt. Auburn, Taylorville, and Stonington School Districts.

The supervisor of assessments for Christian County has estimated that the equalized assessed valuation for school districts will increase by 3.90 per cent for the 1992-1993 fiscal year. This assessment, with the combined value of the three districts, should reduce the Taylorville School District's working cash bond rate to .3685. The factors influencing the Taylorville district should also reduce the Mt. Auburn School District's working cash bond rate to .4426. The Mt. Auburn School District will be required to pay the combination of the two until the bonds are retired. The last payment for both districts will come in the 1993-1994 fiscal year.

Table 9

1991-1992 Tax Rate for Mt. Auburn Unit #5

Fund	Tax Rate Per \$100 EAV
Educational	2.0000
Cash Bonds	.5579
Operations & Maintenance	.4950
Retirement	.0699
Transportation	.2000
Working Cash	.0500
Fire and Safety	.0500
Special Education	.0400
Insurance	.1799
Social Security	.0307
Total	3.6734

As mentioned previously, a House of Representatives bill within Illinois could change the double payment on bond indebtedness.

According to Verlin Bundy, superintendent of the Taylorville School District, the incentive payments for annexation from the Illinois State Board of Education could carry the combined districts for a period of three years. If this estimation is accurate, the combined district's tax rate could be reduced to 3.2023. He also stated, once the incentive revenues are used, the district's tax rate would need to be increase to keep a solvent operation.

Table 10

1991-1992 Tax Rate for Taylorville Unit #3

Fund	Tax Rate Per \$100 EAV
Educational	1.9600
Working Cash Bonds	.5261
Operations and Maintenance	.4350
Retirement	.1302
Transportation	.2000
Working Cash	.0500
Fire and Safety	.0500
Special Education	.0400
Insurance	.2130
Social Security	.1241
Total	3.7284

Table 11

1991-1992 Tax Rate for Stonington Unit #7

Fund	Tax Rate Per \$100 EAV
Educational	2.5000
Working Cash Bonds	.6284
Operations & Maintenance	.4350
Retirement	.1611
Transportation	.2000
Working Cash	.0500
Fire and Safety	.0000
Special Education	.0400
Insurance	.3166
Social Security	.1139
Lease	.0450
Total	4.4900

Chapter 5

Summary and Recommendations

The Mt. Auburn School District, along with many other school districts within Illinois, are faced with financial problems. This study investigated the financial condition of the Mt. Auburn School District from 1986 to 1992. The financial trend of the district from 1986 to 1992 dictated to the board of education that something needed to be done quickly. The financial condition of the district can be traced to the declining farmland assessment and the declining enrollment within the district. The uncertainty of state funding has added to the problem of developing long range plans.

During the 1990-1991 school term, the Mt. Auburn School District began tuitioning the high school students to Taylorville High School. The savings was noted on the annual financial statement for the district. The tuitioning cost increased during 1991-1992 school term and the cost will continue to rise each year. The number of students tuitioning to Taylorville High School is also increasing each year. The total tuitioning expenditure will continue to rise while the revenue supporting this expenditure continues to fall.

On March 17, 1992, the voters of five Christian County schools failed to pass a consolidation proposal. Three school districts passed the proposal, with two of the three districts voting an overwhelming majority in favor of the reorganization of their school districts. These two districts were forced to look at reorganization from a different angle. Annexation became the topic on March 18, 1992, for the Stonington School District and the Mt. Auburn School District (Orr, 1992a).

After several public meetings, the Stonington Board of Education voted

in favor of annexing to the Taylorville School District. This agreement between the Taylorville School District and the Stonington School District gave the Mt. Auburn Board of Education the option to consider annexation. School districts in Illinois must be contiguous in boundaries before consolidation or annexation can be considered by the boards. After the Stonington School District agreed to annexation, the boundary problem was solved for Mt. Auburn. The Mt. Auburn School District is contiguous to the Stonington School District. The Mt. Auburn School District is not committed to any reorganization structure.

A new Illinois House of Representatives' bill was introduced during April of 1992 which would make annexation very attractive to the Mt. Auburn School District. The bonded indebtedness of all districts involved in annexation would remain within the originating district. The bill, as of April 29, 1992, has not been assigned a number but remains within committee (M. Wood, personal communication, April 29, 1992). If the bill would fail, the bonded indebtedness of the school district receiving the petitioning school districts would be shared by the new district. The petitioning school districts would retain their bonded indebtedness until the bonds are retired.

Recommendations

The Mt. Auburn voters have displayed their opinion concerning the reorganization of their district with the voting results from March 17, 1992. The parents of the district have voiced their approval of the Taylorville School District during the past two years of tuitioning high school students to this district. A small faction of parents from the extreme west section of the district have petitioned to detach and this should be allowed. A loss of \$333,390 equalized assessed valuation would

result from this detachment which is less than one-half of one per cent of the equalized assessed valuation of the proposed district. This completion of detachment would allow the Mt. Auburn School District to formally petition to annex with the Taylorville School District.

Annexation to Taylorville would save the Mt. Auburn School District from insolvency in the future. The two districts are basically \$.05 apart in tax rate and each district has only one year remaining on their bonded indebtedness. The tax rate will fall to approximately 3.20 after the bonds are retired. This tax rate will be possible due to the incentives offered to the district from the state for annexation. The combined equalized assessed valuation for the three districts will give the new district a solid base to operate from for several years.

Professional staff members from the Mt. Auburn School District will financially benefit from annexation. The professional salary schedule from the Taylorville School District benefits the professional who displays loyalty to the district from years served. Several past staff members from the Mt. Auburn School District were transferred to the Taylorville School District when the tuitioning agreement became effective. The actual new placement would involve four staff members. The recommendation to annex would include keeping the grade school in Mt. Auburn. Grades kindergarten through sixth grade would remain within the Mt. Auburn Elementary School. The researcher suggests the district develop plans to proceed with annexation before the end of the 1991-1992 school term.

If the Mt. Auburn Board of Education fails to see the need for annexation of the district, several financial problems will result. The current tax levy will not support the district. The education fund and operations and maintenance fund have been suffering for several years.

During the 1990-1991 and 1991-1992 school terms the district has been tuitioning high school students to Taylorville. The number of tuitioned high school students is increasing each year. The increase will continue for three years. The tuition cost per student will continue to increase, based upon increased operating expenses for the Taylorville School District. The tax rate of \$2.00 in the education fund will not develop enough revenue for the increasing expenses. The operations and maintenance fund has borrowed funds from the transportation fund for several years before completing the fiscal year. The tax rate of \$.4950 cannot meet coming expenses, and some type of action will be necessary.

The board of education could propose a tax referendum which would enable the district to continue operations. Approximately \$1.00 increase would be necessary for the district to continue with a positive balance in each fund mentioned. An increase of \$.75 in the education fund and an increase of \$.25 in the operations and maintenance fund would be necessary. The board of education could begin borrowing against taxes levied for the district but not received by the district. Borrowing revenues is a temporary solution to financing a district. All loans are repayable on a given date and, without increased revenues, the financial problem will be compounded.

Annexation of the Mt. Auburn School District into the Taylorville School District will actually lower the tax rate after two years of operation. Also, the state incentives offered to the districts for annexation will add stability to the new district. Annexation is the most reasonable course of action for the Mt. Auburn Board of Education. The disadvantages and advantages of the district's organization in relation to the student's basic education was not a topic within this field experience.

This study simply reviewed the financial condition of the district. To discuss an appropriate educational plan for students was beyond the scope of this field experience. The recommendation of annexation was based solely upon financial data.

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