



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

North Bass Local School District
Ottawa County
P.O. Box 8
Isle Saint George, Ohio 43436-9999

To the Board of Education:

We have audited the accompanying financial statements of the North Bass Local School District (the District) as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the District's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Ohio Administrative Code §117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the North Bass Local School District, Ottawa County, as of June 30, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

This report is intended solely for the information and use of management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 19, 2002

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$16,076			\$16,076
State Sources:				
Unrestricted Grants-in-Aid	129,949			129,949
Restricted Grants-in-Aid		\$13,338		13,338
Miscellaneous	6,360			6,360
Total Cash Receipts	152,385	13,338		165,723
Cash Disbursements:				
Instruction:				
Regular	75,757	7,889	\$2,719	86,365
Other Instruction	15,133			15,133
Supporting Services:				
Pupils	5,015	88		5,103
Instructional	108			108
Board of Education	4,402			4,402
Administration	810			810
Fiscal Services	11,381	3,155		14,536
Operation and Maintenance - Plant	17,536			17,536
Pupil Transportation	11,970			11,970
Total Cash Disbursements	142,112	11,132	2,719	155,963
Total Receipts Over/(Under) Cash Disbursements	10,273	2,206	(2,719)	9,760
Other financing receipts:				
Refund of Prior Years Disbursement	1,782			1,782
Total Other Financing Receipts	1,782			1,782
Excess of Cash Receipts and Other Financing Receipts Over (Under) Cash Disbursements and Other Financing Disbursements	12,055	2,206	(2,719)	11,542
Fund Cash Balances, July 1, 2001	59,831	11,722	2,819	74,372
Fund Cash Balances, June 30, 2002	\$71,886	\$13,928	\$100	\$85,914

The notes to the financial statements are an integral part of this statement.

At June 30, 2002, there is a restricted balance of \$753. See Note 9 to these financial statements.

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001**

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$14,949			\$14,949
State Sources:				
Unrestricted Grants-in-Aid	102,016			102,016
Restricted Grants-in-Aid		\$10,878	\$9,000	19,878
Federal Sources:				
Restricted Grants-in-Aid		63		63
Miscellaneous	4,776			4,776
Total Cash Receipts	<u>121,741</u>	<u>10,941</u>	<u>9,000</u>	<u>141,682</u>
Cash Disbursements:				
Instruction:				
Regular	57,383	7,927	7,181	72,491
Special	8			8
Supporting Services:				
Pupils	3,058	202		3,260
Board of Education	2,440			2,440
Administration	556			556
Fiscal Services	14,607	2,096		16,703
Operation and Maintenance - Plant	16,800			16,800
Pupil Transportation	883	280		1,163
Total Cash Disbursements	<u>95,735</u>	<u>10,505</u>	<u>7,181</u>	<u>113,421</u>
Total Receipts Over Cash Disbursements	26,006	436	1,819	28,261
Fund Cash Balances, July 1, 2000	<u>33,825</u>	<u>11,286</u>	<u>1,000</u>	<u>46,111</u>
Fund Cash Balances, June 30, 2001	<u>\$59,831</u>	<u>\$11,722</u>	<u>\$2,819</u>	<u>\$74,372</u>

The notes to the financial statements are an integral part of this statement.

At June 30, 2001, there is a restricted balance of \$1,188. See Note 9 to these financial statements.

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001**

1. DESCRIPTION OF THE ENTITY

The North Bass Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by § 3311.03 of the Ohio Revised Code. The District operates under a five-member elected Board of Education and is responsible for the provision of public education to residents of the District.

Management believes the financial statements included in this report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code §117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosures of material matters in accordance with the basis of accounting described in the preceding paragraph.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place a District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

B. Cash and Investments

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

C. Fund Accounting

The District uses fund accounting to segregate cash and investments that are restricted as to use. The District classifies its funds into the following types:

1. **General Fund** - The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

2. **Special Revenue Funds** - These funds are used to account for proceeds from specific sources (other than from capital projects) that are restricted to expenditure for specific purposes. The District had the following significant Special Revenue Funds:

Management Information System Fund - A fund provided for hardware and software development, or other costs associated with the requirements of the management information system.

Disadvantaged Pupil Impact Aid Fund - A fund used to account for monies received for disadvantaged pupil impact aid.

3. **Capital Project Funds** - These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects. The District had the following significant capital project fund:

School Net Grant Fund - A fund provided to account for wiring to all classrooms in the State and to provide a computer workstation and related technology for every classroom in Ohio's low-wealth school districts.

D. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. **Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Education must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. **Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of July 1. The County Budget Commission must also approve estimated resources.

3. **Encumbrances**

The Ohio Revised Code requires the District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

F. Unpaid Sick Leave

Employees are entitled to cash payments for unused sick leave in certain circumstances, such as upon leaving employment. Unpaid sick leave is not reflected as a liability under the cash basis of accounting used by the District.

3. EQUITY IN POOLED CASH AND INVESTMENTS

The District maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at June 30 was as follows:

	2002	2001
Demand deposits	\$4,777	\$9,429
STAR Ohio	81,137	64,943
Total deposits and investments	\$85,914	\$74,372

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending June 30, 2002 and 2001 was as follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$115,178	\$154,167	\$38,989
Special Revenue	11,375	13,338	1,963
Total	\$126,553	\$167,505	\$40,952

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$176,013	\$142,112	\$33,901
Special Revenue	22,037	11,132	10,905
Capital Projects	2,819	2,719	100
Total	\$200,869	\$155,963	\$44,906

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$85,844	\$121,741	\$35,897
Special Revenue	9,390	10,941	1,551
Capital Projects	6,000	9,000	3,000
Total	\$101,234	\$141,682	\$40,448

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$119,669	\$95,735	\$23,934
Special Revenue	20,676	10,505	10,171
Capital Projects	9,451	7,181	2,270
Total	\$149,796	\$113,421	\$36,375

Contrary to Ohio law, 2001 School Net fund appropriations exceeded estimated resources by \$2,451

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the April 1 date for which rates are adopted by the District. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to Ottawa County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the District.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the District.

6. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District's full time employees belong to the School Employee Retirement System (SERS). SERS is a cost sharing, multiple-employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, members of SERS contributed 9 percent of their gross salaries. The District contributed an amount equal to 14

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

percent of the participant's gross salaries. The District has paid all contributions required through June 30, 2002.

B. State Teachers Retirement System

The District's teacher belongs to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, members of STRS contributed 9.3 percent of their gross salaries. The District contributed an amount equal to 14 percent of the participant's gross salaries. The District has paid all contributions required through June 30, 2002.

7. RISK MANAGEMENT

The District has obtained commercial insurance for the following risks:

- Commercial property;
- Commercial general liability;
- Commercial auto; and
- Equipment breakdown.

8. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

9. SET-ASIDE CALCULATIONS AND FUND RESERVES

The District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. The District is also required to set aside money for budget stabilization.

The following cash basis information describes the changes in the year-end set-aside amounts for textbook, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisitions	Budget Stabilization	Totals
Set-aside balance as of June 30, 2001	(\$2,562)	\$435	\$753	
Current Year Set-aside Requirement	386	386		
Current Year Offsets				
Qualifying Disbursements	(2,186)	(2,531)		
Total	(\$4,362)	(\$1,710)	\$753	
Balance Carried Forward to Fiscal Year 2003	(\$4,362)		\$753	
Total Restricted Cash				\$753

2001 Set-aside Amounts

	Textbooks	Capital Acquisitions	Budget Stabilization	Totals
Set-aside balance as of June 30, 2000	(\$312)		\$1,206	
Current Year Set-aside Requirement	935	935		
Reduction of Budget Stabilization Set-Aside in Accordance with S.B. 345			(453)	
Current Year Offsets				
Qualifying Disbursements	(3,185)	(500)		
Total	(\$2,562)	\$435	\$753	
Cash Balance Carried Forward to Fiscal Year 2002	(\$2,562)	\$435	\$753	
Total Restricted Cash				\$1,188

Although the District has offsets and qualifying disbursements during the period that reduced the textbook and capital acquisition set-aside requirements below zero, only the excess spent for textbooks may be used to reduce the set-aside requirements of future years.

Effective April 10, 2001, Am. Sub. Senate Bill 345 amended Ohio Revised Code § 5705.29 effectively

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002 AND 2001
(Continued)**

345 place special restrictions of the use of the Bureau of Workers Compensation (BWC) rebate money remaining in the budget stabilization as of April 10, 2001, which is \$753 as June 30, 2002, and 2001. Other non-BWC monies previously reported in the budget stabilization reserve are now reported as unreserved and undesignated fund balance in the General Fund. The District is still required to maintain the textbook reserve and capital acquisition reserve.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

North Bass Local School District
Ottawa County
P.O. Box 8
Isle Saint George, Ohio 43436-9999

To the Board of Education:

We have audited the financial statements of the North Bass Local School District (the District) as of and for the years ended June 30, 2002 and 2001, and have issued our report thereon dated November 19, 2002, in which we noted that the District has prepared its annual financial report on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-10162-001 and 2002-10162-002. We have also noted certain immaterial instances of noncompliance that we have reported to the management of the District in a separate letter dated November 19, 2002.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the District in a separate letter dated November 19, 2002.

This report is intended for the information and use of management and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

November 19, 2002

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002 AND 2001**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2002-10162-001

Noncompliance Citation

Ohio Administrative Code § 117-2-03 (B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the District prepared its annual financial reports for the fiscal years ending June 30, 2002 and 2001 in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the District in a Fiscal Caution Status. This status requires the District to submit a corrective action plan to the Department. The Auditor of State is referring this report to the Ohio Department of Education.

We recommend that the District make arrangements to prepare and file their financial report in accordance with generally accepted accounting principles. The District understands this requirement but feels there are no cost-benefits to converting to GAAP.

FINDING NUMBER 2002-10162-002

Noncompliance Citation

Ohio Revised Code § 5705.39 states that the total appropriations from each fund should not exceed the total estimated revenue. For fiscal year 2001, appropriations in the School Net Fund exceeded estimated resources by \$2,451. The failure to limit appropriations to estimated resources could allow expenditures to exceed available resources. We recommend that the District monitor budgetary activity throughout the year to determine if modifications are needed.

**NORTH BASS LOCAL SCHOOL DISTRICT
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-10162-001	Ohio Administrative Code § 117-2-01, (New § 117-2-03 (B)), Failure to file GAAP report	No	Not corrected. Reissued as Finding 2002-10162-001.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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NORTH BASS LOCAL SCHOOL DISTRICT

OTTAWA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 23, 2002**