



**SOURCING OFFICE
FORMERLY NORTHEAST OHIO SOURCING OFFICE
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2009 & 2008



Mary Taylor, CPA
Auditor of State

**SOURCING OFFICE
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Sourcing Office
(formerly Northeast Ohio Sourcing Office)
Cuyahoga County
5422 East 96th Street
Cleveland, Ohio 44125

To the Board:

We have audited the accompanying financial statements of the business-type activities of Sourcing Office, Cuyahoga County, Ohio, as of and for the years ended December 31, 2009 and 2008, which collectively comprise Sourcing Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sourcing Office's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the business-type activities of Sourcing Office, Cuyahoga County, Ohio, as of August 12, 2010, and the respective changes in cash financial position for the years then ended in conformity with the basis of accounting Note 1 describes.

The accompanying financial statements have been prepared assuming that Sourcing Office will continue as a going concern. As discussed in Note 9 to the basic financial statements, Sourcing Office has a loan due to the Cleveland Foundation in 2010, which if processed would result in a negative fund balance that raises substantial doubt about its ability to continue as a going concern. Note 9 describes Management's lack of payment plans regarding this matter. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2010, on our consideration of Sourcing Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

August 12, 2010

**SOURCING OFFICE
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008
Unaudited

This discussion and analysis of the financial performance of Sourcing Office, Cuyahoga County, Ohio, formerly Northeast Ohio Sourcing Office, provides an overall review of Sourcing Office's financial activities for the years ended December 31, 2009 and 2008 within the limitations of Sourcing Office's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of Sourcing Office's financial performance.

Highlights

Key highlights are as follows:

Net assets of business type activities decreased \$338,776 or 84.3% in 2009 and increased \$2,356 or 0.6% in 2008. Sourcing Office repaid its outstanding line of credit during 2009, which accounted for the significant decrease in net assets between 2008 and 2009.

Sourcing Office's operating receipts are primarily fee revenues it receives from companies and governmental entities participating in its programs. These receipts represent 92% and 86% of total cash received during 2009 and 2008, respectively.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to Sourcing Office's cash basis of accounting.

Overview of the Financial Statements

The financial report consists of three parts – management's discussion and analysis, the basic financial statements, and the notes to the financial statements. These statements are organized so the reader can understand the financial position of Sourcing Office. Sourcing Office uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, and financial position. The statements of fund net assets represent the financial position of Sourcing Office. The statements of cash receipts, disbursements, and changes in fund net assets present increases (e.g., receipts) and decreases (e.g., disbursements) in net total assets. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

Financial Analysis of Sourcing Office as a Whole

Sourcing Office is not required to present government-wide financial statements as Sourcing Office is engaged in only business-type activities. Therefore, no condensed financial information derived from governmental-wide financial statements is included in the management's discussion and analysis.

The following tables represent a summary of Sourcing Office's financial information for 2009 and 2008 derived from the statements of fund net assets and the statements of cash receipts, disbursements, and changes in fund net assets.

**SOURCING OFFICE
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008
Unaudited
(Continued)

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. Sourcing Office has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under Sourcing Office's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting Sourcing Office's Most Significant Funds

Fund financial statements provide detailed information about Sourcing Office's major fund. Sourcing Office's fund is classified as proprietary.

Proprietary Funds – When Sourcing Office receives revenues from contracted service providers for the services they provide to participating local governments, these services are reported in a proprietary fund. Sourcing Office's only fund is the enterprise fund.

Sourcing Office

Table 1 provides a summary of Sourcing Office's fund net assets for 2009 and 2008 compared to 2007 on a cash basis:

(Table 1)

Net Assets

	<u>Business-Type Activities</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Equity if Pooled Cash and Cash Equivalents	\$63,180	\$401,956	\$399,600
Total Assets	<u>63,180</u>	<u>401,956</u>	<u>399,600</u>
Net Assets			
Restricted	63,180	401,956	399,600
Total Net Assets	<u>\$63,180</u>	<u>\$401,956</u>	<u>\$399,600</u>

As mentioned previously, net assets of business type activities decreased \$338,776 or 84.3% in 2009 and increased \$2,356 or 0.6% in 2008. The decrease in 2009 is mainly due to Sourcing Office repaying its \$400,000 line of credit.

SOURCING OFFICE
CUYAHOGA COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008
Unaudited
(Continued)

Table 2 reflects the changes in fund net assets in 2009 and 2008 compared to 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Receipts:			
Operating Receipts:			
Reimbursements	\$442	\$50,263	\$1,358
Management Fees	58,468	0	0
Fees	763,182	437,081	0
Miscellaneous	800	400	19,855
Total Operating Receipts	<u>822,892</u>	<u>487,744</u>	<u>21,213</u>
Operating Disbursements:			
Payroll	49,123	51,976	329,427
Contracted Service Materials	327,922	283,884	0
Consulting	0	12,225	176,208
Outsourced Services	12,260	47,692	91,520
Research and Development	0	52	42,748
Software and Technology	1,115	10,041	9,170
Insurance	6,350	5,671	15,606
Legal Fees	0	40,555	25,231
Utilities	0	1,830	14,037
Fees	188,100	500	525
Employee Training	500	1,688	562
Office Expenses	162,586	52,389	63,919
Debt Service:			
Principle	399,900	0	100,000
Interest and Bank Fees	6,339	9,358	8,273
Repayment of Overdraft Protection	13,560	8,250	25,080
Total Operating Disbursements:	<u>1,167,755</u>	<u>526,111</u>	<u>902,306</u>
Non-Operating Receipts:			
Grants	5,000	20,000	725,295
Proceeds of Overdraft Protection	0	0	25,080
Proceeds of Loan	0	0	50,000
Proceeds of Credit Card Advances	1,087	20,723	0
Total Non-Operating Receipts	<u>6,087</u>	<u>40,723</u>	<u>800,375</u>
Change in Net Assets	<u>(338,776)</u>	<u>2,356</u>	<u>(80,718)</u>
Net Assets, January 1	<u>401,956</u>	<u>399,600</u>	<u>480,318</u>
Net Assets, December 31	<u>\$63,180</u>	<u>\$401,956</u>	<u>\$399,600</u>

**SOURCING OFFICE
CUYAHOGA COUNTY**

Management's Discussion and Analysis
For the Years Ended December 31, 2009 and 2008
Unaudited
(Continued)

The organization was formed in 2005 and received an initial grant from The Cleveland Foundation. Sourcing Office continued to receive grant funding from community foundations in 2006 and 2007, with two significant one-time grants from the Fund for Our Economic Future. Sourcing Office also generated revenue from administrative fees paid by suppliers and service providers offering products and services to Sourcing Office's members through Sourcing Office's group purchasing programs.

Capital Assets and Debt Administration

Capital Assets

Sourcing Office maintains a listing of equipment and other assets. Capital assets are not required to be presented in the financial statements.

Debt

In 2005, Sourcing Office received a \$400,000 recoverable grant loan from The Cleveland Foundation. This amount was held by National City Bank as collateral for a \$400,000 line of credit. In 2009, Sourcing Office repaid the outstanding balance of the line of credit. The term of the loan is five years and comes due in 2010.

See Note 6 for the schedule of outstanding debt.

Contacting Sourcing Office's Financial Management

This financial report is designed to provide our readers with a general overview of Sourcing Office's finances and to reflect Sourcing Office's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Bruce Tague, Executive Director, Sourcing Office, 5422 East 96th Street, Suite 120, Cleveland, Ohio, 44125.

SOURCING OFFICE
CUYAHOGA COUNTY
Statement of Fund Net Assets - Cash Basis
Proprietary Fund
December 31, 2009 and 2008

	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	
	<u>2009</u>	<u>2008</u>
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$63,180</u>	<u>\$401,956</u>
<i>Total Assets</i>	<u><u>\$63,180</u></u>	<u><u>\$401,956</u></u>
 Net Assets		
Restricted	<u><u>\$63,180</u></u>	<u><u>\$401,956</u></u>

See accompanying notes to the basic financial statements

SOURCING OFFICE
CUYAHOGA COUNTY
Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Fund
December 31, 2009 and 2008

	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	
	<u>2009</u>	<u>2008</u>
Operating Receipts:		
Reimbursements	\$442	\$50,263
Management Fees	58,468	0
Fees	763,182	437,081
Miscellaneous	800	400
Total Operating Receipts	<u>822,892</u>	<u>487,744</u>
Operating Disbursements:		
Payroll	49,123	51,976
Contracted Service Materials	327,922	283,884
Consulting	0	12,225
Outsourced Services	12,260	47,692
Research and Development	0	52
Software and Technology	1,115	10,041
Insurance	6,350	5,671
Legal Fees	0	40,555
Utilities	0	1,830
Fees	188,100	500
Employee Training	500	1,688
Office Expenses	162,586	52,389
Debt Service:		
Principle	399,900	0
Interest and Bank Fees	6,339	9,358
Repayment of Credit Card Advances	13,560	8,250
Total Operating Disbursements:	<u>1,167,755</u>	<u>526,111</u>
Non-Operating Receipts:		
Grants	5,000	20,000
Proceeds of Credit Card Advances	1,087	20,723
Total Non-Operating Receipts	<u>6,087</u>	<u>40,723</u>
Change in Net Assets	<u>(338,776)</u>	<u>2,356</u>
Net Assets, January 1	<u>401,956</u>	<u>399,600</u>
Net Assets, December 31	<u><u>\$63,180</u></u>	<u><u>\$401,956</u></u>

See accompanying notes to the basic financial statements

**SOURCING OFFICE
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements
December 31, 2009 and 2008

1. REPORTING ENTITY

Sourcing Office, Cuyahoga County, Ohio, formerly, Northeast Ohio Sourcing Office, is a regional council of governments under authority of Chapter 167 of the Ohio Revised Code and a 501 (c)(3) not-for-profit organization. The regional council of government was established to create and manage group purchasing programs for local governments and other public sector entities. Sourcing Office specializes in identifying group purchasing opportunities that provide value to its members by managing the sourcing and contracting process.

The regional council is comprised of any municipality, county, public and private school district, public and private institution of higher education, special government district, and not-for-profit organization electing to join Sourcing Office and utilize our group purchasing programs at no charge to the participant.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading. The primary government of Sourcing Office consists of all funds, departments, boards, and agencies that are not legally separate from Sourcing Office. For Sourcing Office, this includes general operations, and community education and recreation related activities of Sourcing Office.

Component units are legally separate organizations for which Sourcing Office is financially accountable. Sourcing Office is financially accountable for an organization if Sourcing Office appoints a voting majority of the organization's governing board and (1) Sourcing Office is able to significantly influence the programs or services performed or provided by the organization; or (2) Sourcing Office is legally entitled to or can otherwise access the organization's resources; Sourcing Office is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or Sourcing Office is obligated for the debt of the organization. Sourcing Office is also financially accountable for any organizations that are fiscally dependent on Sourcing Office in that Sourcing Office approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of Sourcing Office, are accessible to Sourcing Office and are significant in amount to Sourcing Office. Sourcing Office does not have any component units.

Sourcing Office's management believes these financial statements present all activities for which Sourcing Office is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Sourcing Office does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise fund. Following are the more significant of Sourcing Office's accounting policies.

**SOURCING OFFICE
CUYAHOGA COUNTY**
Notes to the Basic Financial Statements
December 31, 2009 and 2008
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation and Measurement Focus

Sourcing Office's basic financial statements consist of a statement of fund net assets and a Statement of Cash Receipts, Disbursements, and Changes in Fund Net Assets. Sourcing Office uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, and financial position.

B. Fund Accounting

Sourcing Office use funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Sourcing Office's fund is classified as proprietary.

Proprietary Fund

Sourcing Office classifies its fund, which is financed from user revenues from contracted service providers for the services they provide to participating local governments, grants and contributions, as a proprietary fund. Sourcing Office's proprietary fund is classified as an enterprise fund.

Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. Sourcing Office's enterprise fund is used to account for the operation of the education and recreation programs of Sourcing Office.

C. Basis of Accounting

Sourcing Office's financial statements are prepared using the cash basis of accounting. Receipts are recorded in Sourcing Office's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Cash and Investments

To improve cash management, cash received by Sourcing Office is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Sourcing Office records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal years 2009 and 2008, Sourcing Office had no investments.

**SOURCING OFFICE
CUYAHOGA COUNTY**
Notes to the Basic Financial Statements
December 31, 2009 and 2008
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

F. Inventory and Prepaid Items

Sourcing Office reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

H. Employer Contributions to Social Security

Sourcing Office recognizes the disbursement for employer contributions to Social Security when they are paid. Note 4, describes the employer contributions made to Social Security.

I. Long-Term Obligations

Sourcing Office's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. See Note 6 for Sourcing Office's outstanding debt.

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Sourcing Office had restricted net assets during fiscal years 2009 and 2008.

**SOURCING OFFICE
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements
December 31, 2009 and 2008
(Continued)

3. DEPOSITS AND INVESTMENTS

Monies held by Sourcing Office are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon Sourcing Office's treasury. Active monies must be maintained as cash in Sourcing Office's treasury, in commercial accounts, payable or available for withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Sourcing Office has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by Sourcing Office can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

**SOURCING OFFICE
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements
December 31, 2009 and 2008
(Continued)

3. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of Sourcing Office, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

DEPOSITS

Custodial credit risk is the risk that in the event of bank failure, Sourcing Office will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end December 31, 2009, Sourcing Office did not have any deposits exposed to custodial credit risk because those deposits were uninsured by the FDIC. At year end December 31, 2008, \$151,956 of Sourcing Office's bank balance of \$401,956 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in Sourcing Office's name. Although the securities were held by pledging institution's trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject Sourcing Office to a successful claim by the FDIC.

Sourcing Office has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with Sourcing Office or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

4. SOCIAL SECURITY SYSTEM

Sourcing Office contributed to the Social Security System for the years ended December 31, 2009 and 2008. The contribution rate is 6.2 percent of wages for Social Security and 1.45 percent of wages for Medicare.

5. RISK MANAGEMENT

Sourcing Office is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2009, Sourcing Office contracted for various types of insurance coverage as follows:

Company	Type of Coverage	Amount of Coverage
Acuity Insurance Company	Director and Officer's and Entity Employment Practices	\$1,000,000 1,000,000

**SOURCING OFFICE
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements
December 31, 2009 and 2008
(Continued)

5. RISK MANAGEMENT (Continued)

During 2008, Sourcing Office contracted for various types of insurance coverage as follows:

Company	Type of Coverage	Amount of Coverage
Acuity Insurance Company	Business Personal Property	\$60,000
	General Liability	3,000,000
	Commercial Umbrella	2,000,000
	Employee Benefits	2,000,000
	Employee Dishonesty	2,500

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

Sourcing Office pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

Sourcing Office's employee health care is provided by Medical Mutual of Ohio. Sourcing Office did not have any employees covered under its insurance plan in 2009 or 2008.

6. DEBT

Sourcing Office's debt activity for the years ended December 31, 2009 and 2008 are as follows:

	<u>Interest Rate</u>	Balance December 31, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2008</u>
Cleveland Foundation Loan	0%	\$400,000	\$0	\$0	\$400,000
National City Bank Line of Credit	2.25%	399,900	0	0	399,900
		<u>\$799,900</u>	<u>\$0</u>	<u>\$0</u>	<u>\$799,900</u>

	<u>Interest Rate</u>	Balance December 31, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2009</u>
Cleveland Foundation Loan	0%	\$400,000	\$0	\$0	\$400,000
National City Bank Line of Credit	2.25%	399,900	0	399,900	0
		<u>\$799,900</u>	<u>\$0</u>	<u>\$399,900</u>	<u>\$400,000</u>

In 2005, Sourcing Office received a \$400,000 loan from The Cleveland Foundation. This amount was held by National City Bank as collateral for a \$400,000 line of credit. In 2009, Sourcing Office repaid the outstanding balance of the line of credit. The loan payable to the Cleveland Foundation is payable in full in 2010.

**SOURCING OFFICE
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements
December 31, 2009 and 2008
(Continued)

7. MANAGEMENT COMPENSATION

Sourcing Office was established in October 2005 for the purpose of competitively bidding contracts on behalf of government organizations to enable all members to take advantage of competitive pricing. Sourcing Office contracted with Collaborent, the management consulting firm hired to run Sourcing Office. The President and other partners of Collaborent were formerly employees of Sourcing Office. During the audit period, Collaborent paid Sourcing Office \$58,468 in Management Fees in 2009 and made reimbursable expenditures to Sourcing Office in the amount of \$50,263 in 2008. Sourcing Office paid Collaborent \$267,924 and \$30,381 in management fees in 2009 and 2008, respectively.

8. RELATED PARTY

In 2005 and 2006, Sourcing Office received a \$400,000 line of credit with National City Bank. The outstanding balance on the line of credit was paid off in 2009. Timothy Fitzwater, Board Member, is the retired President and CEO of National City Bank.

9. POSSIBLE FINANCIAL DISTRESS

As of December 31, 2009, Sourcing Office had a cash fund balance of \$63,180. However, as noted in Note 6, Sourcing Office has an outstanding loan payable to the Cleveland Foundation in 2010 of \$400,000. Sourcing Office is aware of the situation and is attempting to have the grant forgiven by the Cleveland Foundation.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Sourcing Office
(formerly Northeast Ohio Sourcing Office)
Cuyahoga County
5422 East 96th Street, Suite 120
Cleveland, Ohio 44125

To the Board:

We have audited the financial statements of the business-type activities of Sourcing Office, Cuyahoga County, as of and for the years ended December 31, 2009 and 2008, which collectively comprise Sourcing Office's basic financial statements and have issued our report thereon dated August 12, 2010, wherein we noted substantial doubt about Sourcing Office's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Sourcing Office's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Sourcing Office's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Sourcing Office's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 through 2009-003 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Sourcing Office's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Office Auditing Standards* which are described in the accompanying schedule of findings as items 2009-001 through 2009-003.

We also noted certain matters not requiring inclusion in this report that we reported to Sourcing Office's management in a separate letter dated August 12, 2010.

Sourcing Office's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Sourcing Office's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the audit committee, the Board, and others within Sourcing Office. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 12, 2010

**SOURCING OFFICE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND DECEMBER 31, 2008**

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

FINDING NUMBER 2009-001

Noncompliance Citation/Material Weakness

Finding for Recovery Repaid Under Audit

Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During 2009 and 2008, former Sourcing Office Executive Director David Akers made credit card payments totaling \$12,045. Of this amount, Sourcing Office was not able to provide supporting documentation for \$2,075 and furthermore, we were unable to verify that \$2,075 of this amount was used on behalf of Sourcing Office.

Without appropriate support documentation it is not possible to determine if the expenditure included items that would not be considered a proper public purpose. The failure to maintain adequate support for these expenditures could result in a loss of accountability over Sourcing Office's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against David Akers, former Sourcing Office Executive Director, in the amount of \$2,075 and in favor of Sourcing Office.

MANAGEMENT'S RESPONSE:

This finding for recovery was repaid under audit by David Akers, former Sourcing Office employee, on August 19, 2010.

FINDING NUMBER 2009-002

Noncompliance Citation/Material Weakness

Finding for Recovery Repaid Under Audit

Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During 2009 and 2008, former Sourcing Office employee Jack Woods made credit card payments totaling \$8,571. Of this amount, Sourcing Office was not able to provide supporting documentation for \$805 and furthermore, we were unable to verify that \$805 of this amount was used on behalf of Sourcing Office.

**SOURCING OFFICE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND DECEMBER 31, 2008
(Continued)**

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

**FINDING NUMBER 2009-002
(Continued)**

Noncompliance Citation/Material Weakness (Continued)

Finding for Recovery Repaid Under Audit (Continued)

Without appropriate support documentation it is not possible to determine if the expenditure included items that would not be considered a proper public purpose. The failure to maintain adequate support for these expenditures could result in a loss of accountability over Sourcing Office's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Jack Woods in the amount of \$805 and in favor of Sourcing Office.

MANAGEMENT'S RESPONSE:

This finding for recovery was repaid under audit by Jack Woods, former Sourcing Office employee, on August 19, 2010.

FINDING NUMBER 2009-003

Noncompliance Citation/Material Weakness

Finding for Recovery

Ohio Revised Code Section 149.43(B) states, in part, that all public records shall be promptly prepared and made available for inspection to a person at all reasonable times during regular business hours. In order to facilitate broader access to public records, public offices shall maintain public records in a manner that they can be made available for inspection in accordance with this division.

During 2009, former Sourcing Office employee Jani Memorich made credit card payments totaling \$6,291. Of this amount, Sourcing Office was not able to provide supporting documentation for \$369 and furthermore, we were unable to verify that \$369 of this amount was used on behalf of Sourcing Office.

Without appropriate support documentation it is not possible to determine if the expenditure included items that would not be considered a proper public purpose. The failure to maintain adequate support for these expenditures could result in a loss of accountability over Sourcing Office's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures that are not for a proper public purpose.

**SOURCING OFFICE
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND DECEMBER 31, 2008
(Continued)**

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

**FINDING NUMBER 2009-003
(Continued)**

Noncompliance Citation/Material Weakness (Continued)

Finding for Recovery (Continued)

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Jani Memorich in the amount of \$369 and in favor of Sourcing Office.

MANAGEMENT'S RESPONSE:

This finding for recovery was repaid under audit by Jani Memorich, former Sourcing Office employee, on September 1, 2010.

**SOURCING OFFICE
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Finding for Recovery against former Executive Director David Akers	No	2007 Finding for Recovery Repaid. Reissued Finding As 2009-001 for 2008 and 2009 Finding for Recovery.
2007-002	Finding for Recovery against former employee Jack Woods	No	2007 Finding for Recovery Repaid. Reissued Finding As 2009-002 for 2008 and 2009 Finding for Recovery.
2007-003	Review of Grant Reimbursements	Yes	Corrected



Mary Taylor, CPA
Auditor of State

SOURCING OFFICE

CUYAHOGA 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
SEPTEMBER 21, 2010**