



Dave Yost • Auditor of State



**SOURCING OFFICE  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Sourcing Office  
Cuyahoga County  
5422 East 96<sup>th</sup> 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 year ended December 31, 2010, which collectively comprise Sourcing Office's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 2, 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 December 31, 2010, and the respective changes in cash financial position for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

June 3, 2011

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
Unaudited

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This discussion and analysis of the financial performance of Sourcing Office, Cuyahoga County, Ohio, provides an overall review of Sourcing Office's financial activities for the year ended December 31, 2010 within the limitations of Sourcing Office's cash basis accounting. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of Sourcing Office's financial performance.

**Highlights**

Key highlights are as follows:

Net assets of business type activities decreased \$21,788 or 34.5% in 2010. This decrease in net assets is attributed to Sourcing Office repaying the majority of its outstanding obligations for operating expenses incurred prior to 2010 to Collaborent Group, LTD. during the year.

Sourcing Office's operating receipts are comprised of fee revenues, rebates and interest income.

**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 statement of fund net assets represents the financial position of Sourcing Office. The statement 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 tables on the following pages represent a summary of Sourcing Office's financial information for 2010 and 2009 derived from the statement of fund net assets and the statement of cash receipts, disbursements, and changes in fund net assets.

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
Unaudited  
(Continued)

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**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 accounting principles generally accepted in the United States of America. 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 2010 compared to 2009 on a cash basis:

(Table 1)

**Net Assets  
Business-Type Activities**

	2010	2009	Change
<b>Assets</b>			
Equity if Pooled Cash and Cash Equivalents	\$41,392	\$63,180	(\$21,788)
Total Assets	41,392	63,180	(21,788)
<b>Net Assets</b>			
Restricted	41,392	63,180	(21,788)
Total Net Assets	\$41,392	\$63,180	(\$21,788)

As mentioned previously, net assets of business-type activities decreased \$21,788 or 34.5% in 2010. This decrease in net assets is attributed to Sourcing Office repaying the majority of its outstanding obligations for operating expenses incurred prior to 2010 to Collaborent Group, LTD. during the year.

**SOURCING OFFICE**  
**CUYAHOGA COUNTY**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
Unaudited  
(Continued)

Table 2 reflects the changes in fund net assets in 2010 compared to 2009:

(Table 2)

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>Operating Receipts:</b>			
Fees	\$648,199	\$821,650	(\$173,451)
Rebates	35,654	0	35,654
Interest	17	0	17
Miscellaneous	0	800	(800)
<b>Total Operating Receipts</b>	<u>683,870</u>	<u>822,450</u>	<u>(138,580)</u>
<b>Operating Disbursements:</b>			
Payroll	80,881	49,123	31,758
Contracted Service Materials	3,337	327,922	(324,585)
Outsourced Services	0	12,260	(12,260)
Professional Services	45,467	0	45,467
Rebates	29,146	0	29,146
Marketing	9,093	0	9,093
Insurance	6,210	6,350	(140)
Fees	460,591	188,100	272,491
Office Expenses	118,180	162,586	(44,406)
Travel	6,687	0	6,687
Cellular Phone	2,855	0	2,855
Software and Technology	0	1,115	(1,115)
Meals and Entertainment	1,083	0	1,083
Employee Training	0	500	(500)
Dues and Subscriptions	250	0	250
Debt Service:			0
Principle	0	399,900	(399,900)
Interest and Bank Fees	0	6,339	(6,339)
Repayment of Credit Card Advances	0	13,560	(13,560)
<b>Total Operating Disbursements</b>	<u>763,780</u>	<u>1,167,755</u>	<u>(403,975)</u>
<b>Non-Operating Receipts (Disbursements):</b>			
Repayment of Excess Grant	(1,655)	0	(1,655)
Grants	0	5,000	(5,000)
Reimbursements	10,971	442	10,529
Collaborent Group, LTD. Shared Costs	48,806	0	48,806
Proceeds of Credit Card Advances	0	1,087	(1,087)
<b>Total Non-Operating Receipts</b>	<u>58,122</u>	<u>6,529</u>	<u>51,593</u>
<b>Change in Net Assets</b>	<u>(21,788)</u>	<u>(338,776)</u>	<u>316,988</u>
<b>Net Assets, January 1</b>	<u>63,180</u>	<u>401,956</u>	<u>(338,776)</u>
<b>Net Assets, December 31</b>	<u>\$41,392</u>	<u>\$63,180</u>	<u>(\$21,788)</u>

**SOURCING OFFICE  
CUYAHOGA COUNTY**

Management's Discussion and Analysis  
For the Year Ended December 31, 2010  
Unaudited  
(Continued)

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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 loan from The Cleveland Foundation. The term of the recoverable grant was five years and was initially due in 2010, but was extended until June 30, 2016.

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 Sourcing Office, 5422 East 96<sup>th</sup> Street, Suite 120, Cleveland, Ohio 44125.

**SOURCING OFFICE**  
**CUYAHOGA COUNTY**  
*Statement of Fund Net Assets - Cash Basis*  
*Proprietary Fund*  
*December 31, 2010*

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	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$41,392
<i>Total Assets</i>	<u>\$41,392</u>
<b>Net Assets</b>	
Restricted	<u>\$41,392</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*  
*For the Year Ended December 31, 2010*

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
<b>Operating Receipts:</b>	
Administrative Fees	\$249,265
Marketing Fees	236,934
Management Fees	150,000
Consulting Fees	12,000
Rebates	35,654
Interest	17
<b>Total Operating Receipts</b>	<b>683,870</b>
<b>Operating Disbursements:</b>	
Payroll	80,881
Contracted Service Materials	3,337
Professional Services	45,467
Rebates	29,146
Marketing	9,093
Insurance	6,210
Fees	460,591
Office Expenses	118,180
Travel	6,687
Cellular Phone	2,855
Meals and Entertainment	1,083
Dues and Subscriptions	250
<b>Total Operating Disbursements</b>	<b>763,780</b>
<b>Non-Operating Receipts (Disbursements):</b>	
Repayment of Excess Grant	(1,655)
Reimbursements	10,971
Collaborent Group, LTD Shared Costs	48,806
<b>Total Non-Operating Receipts</b>	<b>58,122</b>
<b>Change in Net Assets</b>	<b>(21,788)</b>
<b>Net Assets, January 1</b>	<b>63,180</b>
<b>Net Assets, December 31</b>	<b>\$41,392</b>

See accompanying notes to the basic financial statements

**SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2010

**1. REPORTING ENTITY**

Sourcing Office, Cuyahoga County, Ohio, 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 fund, 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, 2010  
(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 year 2010, Sourcing Office had no investments.

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Notes to the Basic Financial Statements  
December 31, 2010  
(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 year 2010.

**SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2010  
(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; and
7. The State Treasurer's investment pool (STAR Ohio).

**SOURCING OFFICE  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2010  
(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, 2010, Sourcing Office did not have any deposits exposed to custodial credit risk because those deposits were uninsured by the FDIC. 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 year ended December 31, 2010. 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 2010, Sourcing Office contracted for various types of insurance coverage as follows:

Company	Type of Coverage	Amount of Coverage
The G.F. Hoch Company	Business Personal Property	\$100,000
	General Liability/Occurrence	1,000,000
	General Liability in Aggregate	3,000,000
	Commercial Umbrella	2,000,000
	Employee Benefits	250,000
	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  
CUYAHOGA COUNTY**

Notes to the Basic Financial Statements  
December 31, 2010  
(Continued)

**5. RISK MANAGEMENT (Continued)**

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 2010.

**6. DEBT**

Sourcing Office's debt activity for the year ended December 31, 2010 is as follows:

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010
Cleveland Foundation Loan	\$400,000	\$0	\$0	\$400,000
	<u>\$400,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$400,000</u>

In 2005, Sourcing Office received a \$400,000 interest-free loan from The Cleveland Foundation. The term of the loan was five years and came due on December 31, 2010. However, the terms of the loan were extended until June 30, 2016 on April 22, 2011.

**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 entered into a contractual agreement with Collaborent Group, LTD., to oversee the procurement, sales, marketing and supplier and customer management processes.

During 2010, Sourcing Office paid Collaborent Group, LTD. \$31,700 for operating expenses that were shared between the two entities. Effective January 1, 2010, Sourcing Office began paying all of the shared cost invoices and receives reimbursement from Collaborent Group, LTD. Expenses were shared at a rate of 65% and 35% between Collaborent Group, LTD and Sourcing Office, respectively. In addition, Sourcing Office paid Collaborent Group, LTD. \$460,591 in marketing and administrative fees.

Also in 2010, Collaborent Group, LTD. paid Sourcing Office \$150,000 for management fees.

**8. SUBSEQUENT EVENT**

As described in Note 6, Sourcing Office has an outstanding loan payable to the Cleveland Foundation in the amount of \$400,000 that was due on December 31, 2010. On April 22, 2011, the terms of the loan were extended until June 30, 2016. The new terms also allow for partial loan forgiveness pursuant to payments made by December 31, 2013.



# Dave Yost • 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  
Cuyahoga County  
5422 East 96<sup>th</sup> 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 year ended December 31, 2010, which collectively comprise Sourcing Office's basic financial statements and have issued our report thereon dated June 3, 2011. 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 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 Sourcing Office's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of Sourcing Office's internal control over financial reporting.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of Sourcing Office's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of reasonably assuring whether 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to Sourcing Office's management in a separate letter dated June 3, 2011.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

June 3, 2011

**SOURCING OFFICE  
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	Finding for Recovery against former Executive Director David Akers	Yes	Corrected
2009-002	Finding for Recovery against former employee Jack Woods	Yes	Corrected
2009-003	Finding for Recovery against former employee Jani Memorich	Yes	Corrected

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# Dave Yost • 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  
JUNE 28, 2011**