



Dave Yost · Auditor of State



**SOURCING OFFICE  
CUYAHOGA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Sourcing Office  
Cuyahoga County  
5422 East 96<sup>th</sup> Street  
Cleveland, Ohio 44125

To the Board:

### ***Report on the Financial Statements***

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, 2012 and 2011, and the related notes to the financial statements, which collectively comprise Sourcing Office's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to Sourcing Office's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of Sourcing Office's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

***Opinion***

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, 2012 and 2011, and the respective changes in cash financial position thereof for the years then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

***Other Matters***

*Supplemental and Other Information*

We audited to opine on Sourcing Office's financial statements that collectively comprise its basic financial statements. *Management's Discussion & Analysis* includes tables of net position and changes in net position. These tables provide additional analysis and are not a required part of the basic financial statements.

These tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sourcing Office's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

August 8, 2013

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**SOURCING OFFICE  
CUYAHOGA COUNTY**

Management's Discussion and Analysis  
For the Years Ended December 31, 2012 and 2011  
Unaudited

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This discussion and analysis of the financial performance of the Sourcing Office, Cuyahoga County, Ohio, provides an overall review of Sourcing Office's financial activities for the years ended December 31, 2012 and 2011 within the limitations of Sourcing Office's cash basis accounting. Sourcing Office is a council of governments organized under Section 167 of the Ohio Revised Code and a 501(c)3 not for profit organization. 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 position of business-type activities decreased \$71,995 or 63.49% in 2012. This decrease in net position is attributed to Sourcing Office receiving a reduction in fee income in 2012 as compared to 2011.

Net position of business-type activities increased \$72,004 or 173.96% in 2011. This increase in net position is attributed to Sourcing Office receiving a retention bonus from one of its customers in 2011 as compared to 2010.

Sourcing Office's operating receipts are comprised of fees, 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 position, and financial position. The statement of fund net position represents the financial position of Sourcing Office. The statement of cash receipts, disbursements, and changes in fund net position presents increases (e.g., receipts) and decreases (e.g., disbursements) in net position. 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 2012 and 2011 derived from the statement of fund net position and the statement of cash receipts, disbursements, and changes in fund net position.

**SOURCING OFFICE  
CUYAHOGA COUNTY**

Management's Discussion and Analysis  
For the Years Ended December 31, 2012 and 2011  
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 position for 2012 compared to 2011 on a cash basis:

(Table 1)  
**Net Position**  
**Business-Type Activities**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>			
Equity if Pooled Cash and Cash Equivalents	\$41,401	\$113,396	\$41,392
Total Assets	<u>\$41,401</u>	<u>\$113,396</u>	<u>\$41,392</u>
<b>Net Position</b>			
Unrestricted	\$41,401	\$113,396	\$41,392
Total Net Position	<u>\$41,401</u>	<u>\$113,396</u>	<u>\$41,392</u>

As mentioned previously, net position of business-type activities decreased \$71,995 or 63.49% in 2012. This decrease in net position is attributed to Sourcing Office receiving a reduction in fees between periods. The net position of business-type activities increased \$72,004 or 173.96% in 2011. This increase in net position is attributed to Sourcing Office receiving a retention bonus from one of its customers in the month of December.

**SOURCING OFFICE  
CUYAHOGA COUNTY**

Management's Discussion and Analysis  
For the Years Ended December 31, 2012 and 2011  
Unaudited  
(Continued)

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Table 2 reflects the changes in fund net position in 2012 and 2011 compared to 2010:

(Table 2)  
**Changes in Fund Net Position**  
**Business-Type Activities**

	2012	2011	2010
<b>Operating Receipts:</b>			
Fees	\$479,375	\$559,948	\$648,199
Rebates	187,559	202,988	35,654
Interest	71	41	17
<b>Total Operating Receipts</b>	<b>667,005</b>	<b>762,977</b>	<b>683,870</b>
<b>Operating Disbursements:</b>			
Payroll	86,225	67,386	80,881
Contracted Service Materials	0	0	3,337
Fees	369,712	415,793	460,591
Office Expenses	34,634	33,723	118,180
Professional Services	19,559	37,888	45,467
Rebates	205,298	99,486	29,146
Marketing	950	2,196	9,093
Travel	1,268	414	6,687
Insurance	6,636	10,645	6,210
Cellular Phone	1,605	1,525	2,855
Software and Technology	4,416	11,015	0
Annual Meeting	2,790	0	0
Meals and Entertainment	940	1,237	1,083
Employee Training	145	478	0
Dues and Subscriptions	300	250	250
Debt Service:			
Principal	5,000	10,000	0
<b>Total Operating Disbursements</b>	<b>739,478</b>	<b>692,036</b>	<b>763,780</b>
<b>Non-Operating Receipts (Disbursements)</b>			
Collaborent Group, LTD Shared Costs	55,794	57,589	48,806
Reimbursements	(55,304)	(56,517)	10,971
Bank Fees	(12)	(9)	0
Repayment of Excess Grant	0	0	(1,655)
<b>Total Non-Operating Receipts</b>	<b>478</b>	<b>1,063</b>	<b>58,122</b>
<b>Changes in Net Position</b>	<b>(71,995)</b>	<b>72,004</b>	<b>(21,788)</b>
<b>Net Position, January 1</b>	<b>113,396</b>	<b>41,392</b>	<b>63,180</b>
<b>Net Position, December 31</b>	<b>\$41,401</b>	<b>\$113,396</b>	<b>\$41,392</b>

**SOURCING OFFICE  
CUYAHOGA COUNTY**

Management's Discussion and Analysis  
For the Years Ended December 31, 2012 and 2011  
Unaudited  
(Continued)

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The organization formerly known as the Northeast Ohio Sourcing Office 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 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. The new terms also allow for partial loan forgiveness pursuant to payments made by December 31, 2013.

See Note 7 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 Donald Iannone, Executive Director, Sourcing Office, 5422 East 96<sup>th</sup> Street, Suite 120, Cleveland, Ohio, 44125.

**SOURCING OFFICE**  
**CUYAHOGA COUNTY**  
*Statement of Fund Net Position - Cash Basis*  
*Proprietary Funds*  
*December 31, 2012 and 2011*

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	Business-Type Activities	
	Enterprise Fund	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$41,401	\$113,396
<i>Total Assets</i>	<b>\$41,401</b>	<b>\$113,396</b>
 <b>Net Position</b>		
Unrestricted	\$41,401	\$113,396
<i>Total Net Position</i>	<b>\$41,401</b>	<b>\$113,396</b>

See accompanying notes to the basic financial statements

**SOURCING OFFICE  
CUYAHOGA COUNTY**

*Statement of Receipts, Disbursements and Changes in Fund Net Position - Cash Basis  
Proprietary Funds  
For the Years Ended December 31, 2012 and 2011*

	Business-Type Activities	
	Enterprise Fund	
	<b>2012</b>	<b>2011</b>
<b>Operating Receipts</b>		
Fees	\$479,375	\$559,948
Rebates	187,559	202,988
Interest	71	41
<i>Total Operating Receipts</i>	<u>667,005</u>	<u>762,977</u>
<b>Operating Disbursements</b>		
Payroll	86,225	67,386
Fees	369,712	415,793
Office Expenses	34,634	33,723
Professional Services	19,559	37,888
Rebates	205,298	99,486
Marketing	950	2,196
Travel	1,268	414
Insurance	6,636	10,645
Cellular Phone	1,605	1,525
Software and Technology	4,416	11,015
Annual Meeting	2,790	0
Meals and Entertainment	940	1,237
Employee Training	145	478
Dues and Subscriptions	300	250
Debt Service:		
Principal	<u>5,000</u>	<u>10,000</u>
<i>Total Operating Disbursements</i>	<u>739,478</u>	<u>692,036</u>
<i>Operating Income (Loss)</i>	<u>(72,473)</u>	<u>70,941</u>
<b>Non-Operating Receipts (Disbursements)</b>		
Collaborent Group, LTD Shared Costs	55,794	57,589
Reimbursements	(55,304)	(56,517)
Bank Fees	<u>(12)</u>	<u>(9)</u>
<i>Total Non-Operating Receipts</i>	<u>478</u>	<u>1,063</u>
<i>Change in Net Position</i>	<u>(71,995)</u>	<u>72,004</u>
<i>Net Position, January 1</i>	<u>113,396</u>	<u>41,392</u>
<i>Net Position, December 31</i>	<u>\$41,401</u>	<u>\$113,396</u>

See accompanying notes to the basic financial statements

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Notes to the Basic Financial Statements  
December 31, 2012 and 2011

**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 originally established to create and manage group purchasing programs for local governments and other public sector entities. Sourcing Office serves local governments, education institutions, and private nonprofit entities with group purchasing, shared services, and strategy and operational consulting services.

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 Sourcing Office's 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. Following are the more significant of Sourcing Office's accounting policies.

**A. Basis of Presentation and Measurement Focus**

Sourcing Office's basic financial statements consist of a Statement of Fund Net Position and a Statement of Cash Receipts, Disbursements, and Changes in Fund Net Position. 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.

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Notes to the Basic Financial Statements  
December 31, 2012 and 2011  
(Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Fund Accounting**

Sourcing Office uses 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 2012 and 2011, Sourcing Office had no investments.

**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.

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Notes to the Basic Financial Statements  
December 31, 2012 and 2011  
(Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 5 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 capital outlay expenditure are reported at inception. Lease payments are reported when paid. See Note 7 for Sourcing Office's outstanding debt.

**J. Net Position**

Net position is 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 reported unrestricted net position during 2012 and 2011.

**3. CHANGES IN ACCOUNTING PRINCIPLES**

For 2011, Sourcing Office implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had no effect on Sourcing Office's fund balance.

For 2011, Sourcing Office also implemented GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in Sourcing Office's financial statements.

For 2011, Sourcing Office also implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in Sourcing Office's 2012 and 2011 comparative financial statements; however, there was no effect on beginning net position/fund balance.

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Notes to the Basic Financial Statements  
December 31, 2012 and 2011  
(Continued)

**4. 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 (STAROhio).

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Notes to the Basic Financial Statements  
December 31, 2012 and 2011  
(Continued)

**4. 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 December 31, 2012 and 2011, 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 the 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 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.

**5. SOCIAL SECURITY SYSTEM**

Sourcing Office contributed to the Social Security System for the years ended 2012 and 2011. The contribution rate is 6.2 percent of wages for Social Security and 1.45 percent of wages for Medicare.

**6. 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 2012 and 2011, Sourcing Office contracted for various types of insurance coverage as follows:

Company	Type of Coverage	Amount of Coverage
United Ohio Insurance Co.	Business Personal Property	\$100,000
	General Liability / Occurrence	1,000,000
	General Liability in Aggregate	2,000,000
	Commercial Umbrella	1,000,000
	Employee Benefits	1,000,000
	Employee Dishonest	5,000

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, 2012 and 2011  
 (Continued)

**6. 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.

**7. DEBT**

Sourcing Office's debt activities for the years ended December 31, 2012 and 2011 are as follows:

	Balance January 1, 2011	Additions	Reductions	Balance December 31, 2011
Cleveland Foundation Loan	\$400,000	\$0	\$20,000	\$380,000
	<u>\$400,000</u>	<u>\$0</u>	<u>\$20,000</u>	<u>\$380,000</u>
	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012
Cleveland Foundation Loan	\$380,000	\$0	\$10,000	\$370,000
	<u>\$380,000</u>	<u>\$0</u>	<u>\$10,000</u>	<u>\$370,000</u>

In 2005, Sourcing Office received a \$400,000 recoverable grant 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. During 2012, Sourcing Office made a \$5,000 principal repayment on the loan. In addition, The Cleveland Foundation forgave \$5,000 of the outstanding loan balance in 2012. This resulted in a total principal reduction of \$10,000 in 2012. During 2011, Sourcing Office mad a \$10,000 principal repayment on the loan. In addition, The Cleveland Foundation forgave \$10,000 of the outstanding loan balance in 2011. This resulted in a total principal reduction of \$20,000 in 2011.

**8. 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. In January 2008, Sourcing Office entered into a contractual agreement with Collaborant Group, LTD., a private contractor to Sourcing Office to manage the procurement, sales, marketing and supplier/customer management processes.

During 2012 and 2011, Sourcing Office paid Collaborant Group, LTD. \$971 and \$7,001, respectively, 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 Collaborant Group, LTD. Expenses were shared at a rate of 65% and 35% between Collaborant Group, LTD and Sourcing Office, respectively. In addition, Sourcing Office paid Collaborant Group, LTD. \$494,577 and \$430,615, in 2012 and 2011, respectively, for marketing and administrative fees.

Also, in 2012 and 2011, Collaborant Group, LTD. paid Sourcing Office \$72,000 and \$110,000, respectively, for management fees.

**SOURCING OFFICE  
CUYAHOGA COUNTY**  
Notes to the Basic Financial Statements  
December 31, 2012 and 2011  
(Continued)

**9. SUBSEQUENT EVENT**

As described in Note 7, Sourcing Office has a loan payable to the Cleveland Foundation due on June 30, 2016, which as of December 31, 2012, had an outstanding balance of \$370,000. On July 19, 2013, the Cleveland Foundation sent a letter to Sourcing Office forgiving the entire remaining balance.

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# Dave Yost • Auditor of State

## **INDEPENDENT AUDITOR'S 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  
Cleveland, Ohio 44125

To the Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of Sourcing Office, Cuyahoga County, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise Sourcing Office's basic financial statements and have issued our report thereon dated August 8, 2013.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered Sourcing Office's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of Sourcing Office's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of Sourcing Office's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Sourcing Office  
Cuyahoga County  
Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

***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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of Sourcing Office's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering Sourcing Office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

August 8, 2013



# 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.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED  
AUGUST 20, 2013