

**COUNTY EMPLOYEE BENEFITS
CONSORTIUM OF OHIO, INC.**

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

DECEMBER 31, 2005 AND 2004



**Auditor of State
Betty Montgomery**

Board of Directors
County Employee Benefits Consortium of Ohio, Inc.
37 W. Broad Street, Suite 650
Columbus, Ohio 43215

We have reviewed the *Report of Independent Auditors* of the County Employee Benefits Consortium of Ohio, Inc., Franklin County, prepared by Blue & Co., LLC, for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The County Employee Benefits Consortium of Ohio, Inc. is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 16, 2006

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Blue & Co., LLC / 8800 Lyra Drive, Suite 325 / Columbus, OH 43240

main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Directors
County Employee Benefits Consortium of Ohio, Inc.
Columbus, Ohio

We have audited the accompanying statement of net assets of County Employee Benefits Consortium of Ohio, Inc. as of December 31, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets and cash flow for the years then ended. These financial statements are the responsibility of County Employee Benefits Consortium of Ohio, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of County Employee Benefits Consortium of Ohio, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
County Employee Benefits Consortium, Inc.
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Management's discussion and analysis, on pages i through vi, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2006, on our consideration of the County Employee Benefits Consortium of Ohio, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Blue & Co., LLC

March 22, 2006

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005 AND 2004**

The Management of the County Employee Benefits Consortium of Ohio, Inc. (CEBCO) offers this narrative overview of the organization and analysis of the financial activities of CEBCO for the fiscal years ended December 31, 2005 and 2004. Readers are encouraged to consider the information presented here in conjunction with CEBCO's financial statements and notes to the financial statements to enhance their understanding of CEBCO's financial performance.

Introduction

In 2002, the County Commissioners Association of Ohio (CCAO) set out to establish a health benefits program for Ohio counties that belonged to the Association. The goal was to provide the highest quality yet most cost-effective medical and related benefits for county employees. CCAO funded and sponsored the development of the program, which would become CEBCO. CEBCO was incorporated as a non-profit, governmental health insurance pool on October 28, 2003. Operations and plan coverage officially began on January 1, 2004. On that date, CEBCO had six member counties. During its first two years of operations, 5 new counties joined the Pool, and no counties withdrew from the Pool.

CEBCO is a self-funded, joint self insurance program authorized pursuant to Section 9.833 of the Ohio Revised Code to offer medical, dental, vision, and prescription drug coverage, as well as a fully insured life insurance product. Various plan options are available to members. Members sign a three-year commitment to CEBCO. Premiums are paid on a monthly basis. The assigned rates are set to cover administrative fees, stop loss fees, expected claims costs, and reserves.

Overview of the Financial Statements

CEBCO reports its activities as an enterprise fund. An enterprise fund is a proprietary fund, and as such uses full accrual accounting. Revenues are recognized when earned, and expenses are recognized when incurred. CEBCO is not legally required to adopt a budget. However, management does maintain an administrative budget in order to monitor administrative revenues and expenses. Budget comparisons are not required for CEBCO and therefore are not presented as required supplementary information in this report.

Following the pronouncements of the Governmental Accounting Standards Board (GASB), CEBCO's financial information is presented in three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005 AND 2004**

The Statement of Net Assets presents CEBCO's financial position as of the end of the fiscal year. Information is displayed about CEBCO's assets and liabilities, with the difference between the two reported as Net Assets.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information on the change in net assets (revenues minus expenses) during the fiscal year. Whereas the Statement of Net Assets is a snapshot of the financial position of the Pool on December 31, the Statement of Revenues, Expenses, and Changes in Net Assets presents the activities of the Pool for the entire fiscal year. Since presented on an accrual basis, the changes in net assets shown do not necessarily coincide with the cash flows. The Statement of Cash Flows presents the actual cash flows from activities during the fiscal year.

Financial Analysis – Statements of Net Assets

The following table presents the summarized financial position for the fiscal years ending December 31, 2005 and 2004. More detailed information is available in the accompanying basic financial statements.

Table 1:

Assets	<u>2005</u>	<u>2004</u>
Current	\$ 16,122,031	\$ 6,251,955
Long-term	11,432	16,193
Total assets	<u>16,133,463</u>	<u>6,268,148</u>
Total liabilities	<u>8,418,108</u>	<u>7,097,176</u>
Net assets	<u>\$ 7,715,355</u>	<u>\$ (829,028)</u>

The majority of CEBCO's assets are in the "current asset" category, meaning that they are either cash, can be converted to cash quickly, or are expected to become cash soon. CEBCO's current assets are primarily cash in banks. Assets in the long-term category are fixed assets, valued net of depreciation at year-end.

The statements show that CEBCO's current assets were \$6,251,955 at December 31, 2004 and \$16,122,031 at December 31, 2005. This increase is due mainly to the increases during the 2005 year in membership and employee lives covered under the program, which increased member premiums received.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005 AND 2004

Liabilities represent amounts owed to outside companies for fiscal year services that were not paid until the next year, amounts calculated as reasonable estimates for claims incurred but not reported to the claims administrators, unearned premium, and related party payables. Unearned premium is the amount of premiums for the upcoming fiscal year that have been received but have not yet been earned.

CEBCO's total liabilities increased approximately \$1.3 million, an 18.6% increase, between 2004 and 2005. This increase is due primarily to the increase in unearned premium. Unearned premium increased because of new membership in the program and the fact that more premiums were received in 2005 for 2006 coverage than were received in 2004 for 2005 coverage.

At the end of its second year of operations, CEBCO realized net assets of \$7,715,355. This is a significant change from the previous year, in which CEBCO had a deficiency in net assets of \$829,028. The change is due primarily to the large increase in reserve cash supplied by an increased membership, and little change to the liability estimated for unpaid claims. Because 2004 was CEBCO's first year as a health insurance pool, data was limited on which to base actuarial estimates of unpaid claims. CEBCO took a conservative approach and estimated needed reserves on the high end. At the end of 2005, more data was available and a more reasonable estimate was possible. This accounts for the fact that the liability for unpaid claims did not increase even though there was a substantial increase in covered lives.

Financial Analysis - Statements of Revenues, Expenses, and Changes in Net Assets

The following table presents the summarized results of operations for the fiscal years ending December 31, 2005 and 2004. More detailed information is available in the accompanying basic financial statements.

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005 AND 2004**

Table 2:

	<u>2005</u>	<u>2004</u>
Revenues		
Premiums earned (member contributions)	\$ 44,253,426	\$ 24,655,411
Less: commercial insurance coverage	(1,267,476)	(632,208)
Interest and other income	283,247	29,764
Total revenues	<u>43,269,197</u>	<u>24,052,967</u>
Expenses		
Claims paid and loss adjustments	31,811,962	22,378,126
Claims administration	2,087,243	1,178,104
General and administrative expenses	648,503	640,080
Commission	169,921	90,047
Depreciation	4,761	5,323
Investment fees	2,424	2,133
Total expenses	<u>34,724,814</u>	<u>24,293,813</u>
Excess (deficit) of revenues over expenses	8,544,383	(240,846)
Net assets (deficiency) beginning of year	<u>(829,028)</u>	<u>(588,182)</u>
Net assets (deficiency) end of year	<u>\$ 7,715,355</u>	<u>\$ (829,028)</u>

Premium earned is the amount of premium paid or due for the fiscal year. This amount is reduced by the amount paid by CEBCO for reinsurance. CEBCO purchases reinsurance to cover the risk of large claims. CEBCO insures the first \$150,000 of each medical claim. The reinsurer reimburses amounts above this level.

Premiums earned increased from \$24,655,411 to \$44,253,426 between 2004 and 2005, a 79% increase. This increase is due primarily to new member counties joining CEBCO and the subsequent increase in employee lives covered. Interest income also significantly increased due to more money being invested in higher interest rate money market accounts.

Expenses increased about 43% between 2004 and 2005. Claims paid and claims administration and marketing expenses increased as new members joined CEBCO.

Because revenues increased by \$19.5 million and expenses increased by only \$10.5 million, there was a significant increase in the excess of revenues over expenses between 2004 and 2005. Due to a considerable increase in membership and a less than expected claims loss experience, CEBCO's excess of revenues over expenses for the year 2005 was \$8,544,383.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005 AND 2004

The Statement of Cash Flows

This statement reviews how CEBCO's cash balance changed from January 1, 2005 to December 31, 2005. It is divided into three different sections, each explaining where CEBCO was provided or used cash during the year. These sections relate to CEBCO's operations, investing activities, and capital and related financing activities. This statement provides detail regarding the increases and decreases in CEBCO's cash position during the year.

CEBCO had a positive cash flow for the year ended December 31, 2005. The net cash provided by operating activities was \$9,665,069. Most of this cash flow went into the Claims Reserve and other accounts to cover the claims costs as determined by the consulting actuary.

The Future

CEBCO ended its first year of operations with a deficiency in net assets. Its second year of operations resulted in positive net assets of over \$7.7 million. This indicates substantial growth and a conservative approach to funding and reserving assets. CEBCO continues to grow in 2006, with two new counties joining CEBCO in the first quarter.

In December 2005, an Investment Committee was formed to establish an Investment Policy for CEBCO to maximize the investment income of its reserve funds while still maintaining adequate reserves for claims payments and contingencies. The Investment Policy requires that CEBCO funds be invested in a diversified portfolio of investment grade fixed income securities. As with other policies, CEBCO is taking a conservative approach to the investment of its funds while the joint self-insurance program is still in a growth period.

CEBCO also continues to look for ways to enhance its benefits programs for its members. The CEBCO Board of Directors voted to add a patient care collaboration program for all counties. The care collaboration program combines innovative technology and professional expertise to identify potential medical problems before they become dangerous, costly situations. The intended results are healthier employees and lower health care costs. The technology also enhances the predictability of claims projections. CEBCO is continuously providing information to the Board of Directors, Member Counties, and Members on health and wellness initiatives and changes in the health care industry.

The Management and Board of Directors of CEBCO realize that an increase in the net assets of a governmental health insurance pool is not a "profit" and is not indicative of over-funding.

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005 AND 2004**

What it does indicate is a healthy and strong organization that can meet the needs of its members as it continues to grow. It is not unusual for a year with a good claims experience to be followed by a year with unexpectedly large claims.

That is why CEBCO will continue its conservative plan to reserve assets for unforeseen contingencies that are common in the industry.

Contacting CEBCO Financial Management

This financial report is designed to provide the users of CEBCO's services, governments, taxpayers and creditors with a general overview of the organization's finances. If you have any questions about this report or need additional information, contact the CEBCO Managing Director at 37 West Broad Street, Suite 650, Columbus, Ohio 43215-4195.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENTS OF NET ASSETS DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	\$ 16,116,002	\$ 6,251,955
Interest receivable	6,029	-
Property and equipment, net of depreciation	11,432	16,193
Total assets	<u>\$ 16,133,463</u>	<u>\$ 6,268,148</u>
Liabilities		
Accounts payable	\$ 926,343	\$ 545,451
Unearned premium	2,956,414	1,496,384
Reserve for unpaid claims	3,793,600	4,243,743
Related party payables	741,751	811,598
Total liabilities	<u>8,418,108</u>	<u>7,097,176</u>
Net Assets		
Net assets - unrestricted	7,703,923	(845,221)
Net assets - invested in capital assets net of related debt	11,432	16,193
Total net assets	<u>7,715,355</u>	<u>(829,028)</u>
Total liabilities and net assets	<u>\$ 16,133,463</u>	<u>\$ 6,268,148</u>

See accompanying notes to financial statements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2005 AND 2004

Revenues	2005	2004
Premiums	\$ 44,253,426	\$ 24,655,411
Ceded premiums	(1,267,476)	(632,208)
Net premiums earned	42,985,950	24,023,203
Interest income	268,825	29,764
Other income	14,422	-
Total revenue	43,269,197	24,052,967
Expenses		
Claims paid and loss adjustments	31,811,962	22,378,126
Claims administration	2,087,243	1,178,104
General and administrative	648,503	640,080
Commission	169,921	90,047
Depreciation	4,761	5,323
Investment fees	2,424	2,133
Total expenses	34,724,814	24,293,813
Excess (deficit) of revenues over expenses	8,544,383	(240,846)
Net assets at beginning of year	(829,028)	(588,182)
Net assets at end of year	\$ 7,715,355	\$ (829,028)

See accompanying notes to financial statements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Operating activities		
Cash received for premiums and other	\$ 45,727,878	\$ 26,151,795
Cash paid for claims	(32,262,104)	(17,724,895)
Cash payments to vendors for services and goods	(2,248,100)	(1,617,049)
Cash paid for excess insurance	(1,267,476)	(632,208)
Cash paid to employees for wages and benefits	(285,129)	(157,352)
Net cash flows from operating activities	<u>9,665,069</u>	<u>6,020,291</u>
Capital and related financing activities		
Purchase of property and equipment	-	(21,516)
Related party payables	(69,847)	223,416
Net cash flows from capital and related financing activities	<u>(69,847)</u>	<u>201,900</u>
Investing activities		
Interest received on cash and cash equivalents	<u>268,825</u>	<u>29,764</u>
Net change in cash and cash equivalents	9,864,047	6,251,955
Cash and cash equivalents - beginning of year	<u>6,251,955</u>	<u>-</u>
Cash and cash equivalents - end of year	<u>\$ 16,116,002</u>	<u>\$ 6,251,955</u>
Reconciliation of excess of expenses over revenues to net cash from operating activities:		
Excess of expenses over revenues	8,544,383	(240,846)
Interest income considered investing activities	(268,825)	(29,764)
Amortization and depreciation	4,761	5,323
Changes in operating assets and liabilities		
Reserve for unpaid claims	(450,143)	4,243,743
Accrued interest receivable	(6,029)	-
Unearned premium	1,460,030	1,496,384
Accounts payable	380,892	545,451
Net cash flows from operating activities	<u>\$ 9,665,069</u>	<u>\$ 6,020,291</u>

See accompanying notes to financial statements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

1. ORGANIZATION AND PLAN OF OPERATION

The County Employee Benefits Consortium of Ohio, Inc. (CEBCO) is an Ohio non-profit organization formed by the County Commissioners Association of Ohio (CCAO) to provide cost effective employee benefit programs for Ohio county governments. CEBCO is a self-funded, group purchasing consortium that offers medical, dental, vision, and prescription drug coverage as well as life insurance. Various plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit copays, and out-of-pocket maximums. CEBCO is governed by a Board of Directors comprised mainly of representatives of counties that participate in the program.

Members sign a three-year commitment to CEBCO. Premiums are paid on a monthly basis. Pursuant to participation agreements with CEBCO, each member agrees to pay all funding rates associated with the coverage it elects, as such funding rates are set and billed to the members by CEBCO. The assigned funding rates consist of the following components: administrative fees, stop loss fees, expected claims costs, and reserves. Reserves are actuarially determined and allocated based on expected claim activity. Rates are calculated to cover the administrative expenses and expected claims costs of the program.

CEBCO was incorporated as a governmental health insurance pool on October 28, 2003. Operations and plan coverage officially began on January 1, 2004. On that date, CEBCO had six member counties. Two new counties joined the program in 2004 and three new counties joined the program in 2005. No counties withdrew from the program in either year. The County Commissioners Association of Ohio was also a program member in 2004 and 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

CEBCO uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, CEBCO has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consists of funds on deposits in banks. CEBCO maintains cash balances, which are in excess of those insured by the federal Depository Insurance Corporation. However, to date, no losses have been experienced.

Premiums Revenue and Unearned Premiums

Premiums are paid monthly by participating entities and are recognized as revenue over the policy period. Receivables are recorded when earned. Premiums collected in advance of applicable coverage periods are classified as unearned premiums.

Reserve for Unpaid Claims

CEBCO's reserve for unpaid claims is determined using actuarial analysis and is computed in accordance with accepted loss standards. The reserve represents an estimate of the ultimate cost of all claims incurred which were unpaid at December 31, 2005. This includes an estimate of claims incurred but not yet reported as of December 31, 2005. While information is available for the known losses, the liability for which has been established on a case-by-case basis, the unknown losses are based on the CEBCO's best estimate of such liabilities. Although CEBCO considers its experience and industry data in determining such reserves, assumptions and projections as to future events are necessary and ultimate losses may differ significantly from amounts projected. The effects of changes in reserve estimates are included in statements of revenues, expenses and changes in net assets in the period in which estimates are changed. Reserves are not discounted.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

Capital Assets

CEBCO's capital assets are reported at historical cost net of depreciation. All capital assets are depreciated using the straight-line method of depreciation.

Income Taxes

CEBCO is a not-for-profit corporation as defined under Section 115 of the Internal Revenue Code. Accordingly, CEBCO is exempt from federal, state and local taxes.

Risk Management

CEBCO is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. CORSA, a property and liability risk sharing pool sponsored by the County Commissioners Association of Ohio (CCAO), provides General Liability, Errors and Omissions, Property, and Crime coverage to CEBCO. Since the CCAO, along with its related corporations, is a member of CEBCO, the medical and dental coverage for CEBCO employees is provided by CEBCO.

3. DEPOSITS

CEBCO's deposits are all cash and cash equivalents and consist of the following:

Deposits

Amount of deposits reflected on the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit)	<u>2005</u>	<u>2004</u>
	\$ 16,353,846	\$ 6,284,574
Amount of deposits covered by federal depository insurance	<u>200,000</u>	<u>200,000</u>
Amount of deposits uninsured	<u>\$ 16,153,846</u>	<u>\$ 6,084,574</u>

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

4. PROPERTY AND EQUIPMENT

Capital assets activity for the years ended December 31, 2005 and 2004 was as follows:

	12/31/2004	Additions	Retirements	12/31/2005	Depreciable Life
Computer equipment	\$ 3,436	\$ -	\$ -	\$ 3,436	3 years
Furniture	18,080	-	-	18,080	5 years
Total	<u>21,516</u>	<u>-</u>	<u>-</u>	<u>21,516</u>	
Less accumulated depreciation					
Computer and equipment	1,241	1,145	-	2,386	
Furniture	4,082	3,616	-	7,698	
Total	<u>5,323</u>	<u>4,761</u>	<u>-</u>	<u>10,084</u>	
Net carrying amount	<u>\$ 16,193</u>			<u>\$ 11,432</u>	

	12/31/2003	Additions	Retirements	12/31/2004	Depreciable Life
Computer equipment	\$ -	\$ 3,436	\$ -	\$ 3,436	3 years
Furniture	-	18,080	-	18,080	5 years
Total	<u>-</u>	<u>21,516</u>	<u>-</u>	<u>21,516</u>	
Less accumulated depreciation					
Computer and equipment	-	1,241	-	1,241	
Furniture	-	4,082	-	4,082	
Total	<u>-</u>	<u>5,323</u>	<u>-</u>	<u>5,323</u>	
Net carrying amount	<u>\$ -</u>			<u>\$ 16,193</u>	

5. RESERVE FOR UNPAID CLAIMS

As discussed in Note 1, the reserve for unpaid claims is determined using actuarial analysis and is computed in accordance with accepted loss reserve standards. The reserve represents a liability for both reported and unreported claims. The following represents changes in the reserves for unpaid claims for the year ended December 31, 2005:

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Balance at beginning of year	\$ 4,243,743	\$ -
Incurred losses and loss adjustment expenses	31,811,962	22,378,126
Less payment of benefits	<u>32,262,105</u>	<u>18,134,383</u>
Balance at December 31	<u>\$ 3,793,600</u>	<u>\$ 4,243,743</u>

6. EXCESS INSURANCE COVERAGE

CEBCO obtained specific excess insurance from a reinsurer covering individual medical health claims in excess of \$150,000 for the year ended December 31, 2005.

7. RELATED PARTIES

CEBCO received advances from CORSA and CCAO to pay for expenses related to CEBCO start-up activities. Amounts due to CORSA and CCAO relating to these start-up expenses for 2005 and 2004 were \$741,751 and \$811,598, respectively. There are no formal repayment terms.

CEBCO had a line of credit available from CORSA in the amount of \$1,000,000 at an interest rate of 5%. There were no borrowings under the line-of-credit, which expired in December 2005.

CEBCO rents space from CCAO for its administrative activities. Rent expense for this space was \$12,272 for both 2004 and 2005.



Blue & Co., LLC / 8800 Lyra Drive, Suite 325 / Columbus, OH 43240

main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

REPORT OF INDEPENDENT AUDITORS ON OTHER FINANCIAL INFORMATION

Board of Directors
County Employee Benefits Consortium of Ohio, Inc.
Columbus, Ohio

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following information on pages 12-14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blue & Co., LLC

March 22, 2006

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF CONTRACT YEAR ENDED DECEMBER 31, 2005

The schedule below presents the changes in claims liabilities for CEBCO's contracts in 2005:

	Medical	Pharmacy	Dental	Vision	Total
Unpaid losses and loss adjustment expenses, beginning of year	\$ 4,013,732	\$ 215,620	\$ 14,391	\$ -	\$ 4,243,743
Plus: Incurred losses and loss adjustment expenses					
Provision for insured events of the current year	25,233,369	6,252,253	249,567	76,773	31,811,962
Less: Payments					
Benefits attributable to insured events of the current year	24,291,325	6,168,873	246,658	67,473	30,774,329
Benefits attributable to insured events of the prior year	1,487,776	-	-	-	1,487,776
Total Payments	25,779,101	6,168,873	246,658	67,473	32,262,105
Total unpaid losses and loss adjustment expenses, end of year	\$ 3,468,000	\$ 299,000	\$ 17,300	\$ 9,300	\$ 3,793,600

The schedule below presents the changes in claims liabilities for CEBCO's contracts in 2004:

	Medical	Pharmacy	Dental	Vision	Total
Unpaid losses and loss adjustment expenses, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Plus: Incurred losses and loss adjustment expenses					
Provision for insured events of the current year	18,567,718	3,711,112	99,296	-	22,378,126
Less: Payments					
Benefits attributable to insured events of the current year	14,553,986	3,495,492	84,905	-	\$ 18,134,383
Total unpaid losses and loss adjustment expenses, end of year	\$ 4,013,732	\$ 215,620	\$ 14,391	\$ -	\$ 4,243,743

See report of independent auditors on page 11.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

CLAIMS DEVELOPMENT YEARS ENDED DECEMBER 31, 2005 AND 2004

The following table illustrates how CEBCO's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by CEBCO as of the end of the fiscal period. The rows of the table are defined as follows: (1) This line shows the total of the fiscal period's earned contribution revenues and investment revenues. (2) This line shows the fiscal year's other operating costs including overhead and claims expense not allocable to individual claims. (3) This line shows CEBCO's estimated incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first and second year in which the claim occurred (called the policy year). (4) This section shows the cumulative amounts paid as of the end of the policy year. (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. In future fiscal year claim development reports, the columns of the table will show data for successive policy years.

See report of independent auditors on page 11.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

CLAIMS DEVELOPMENT YEARS ENDED DECEMBER 31, 2005 AND 2004

1. Required contribution and investment revenue		
	2005	2004
Earned	\$ 44,253,426	\$ 24,655,411
Ceded	1,267,476	632,208
Net earned	<u>42,985,950</u>	<u>24,023,203</u>
2. Unallocated expenses	2,912,851	1,915,686
3. Estimated claims and expenses, end of policy year:		
Incurred	31,971,528	22,523,420
Ceded	159,566	145,294
Net incurred	<u>31,811,962</u>	<u>22,378,126</u>
4. Net paid claims as of:		
End of policy year	30,774,329	18,134,383
One year later		1,487,776
Two years later		
Three years later		
Four years later		
Five years later		
Six years later		
Seven years later		
Eight years later		
Nine years later		
5. Re-estimated net incurred claims and expense, as of:		
End of policy year	31,811,962	22,378,126
One year later		22,378,126
Two years later		
Three years later		
Four years later		
Five years later		
Six years later		
Seven years later		
Eight years later		
Nine years later		
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ -	\$ -

See report of independent auditors on page 11.



Blue & Co., LLC / 8800 Lyra Drive, Suite 325 / Columbus, OH 43240
main 614.885.BLUE (2583) fax 614.885.0580 email blue@blueandco.com

blueandco.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
County Employee Benefits Consortium of Ohio, Inc.
Columbus, Ohio

We have audited the financial statements of County Employee Benefits Consortium of Ohio, Inc., as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated March 22, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered County Employee Benefits Consortium of Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain matters that we reported to management of County Employee Benefits Consortium of Ohio, Inc. in a separate letter dated March 22, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether County Employee Benefits Consortium of Ohio, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and the Ohio Auditor of State and is not intended to be an should not be used by anyone other than those specified parties.

Blue & Co., LLC

March 22, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

COUNTY EMPLOYEES BENEFITS CONSORTIUM OF OHIO

FRANKLIN 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
AUGUST 29, 2006**