

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

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

**DECEMBER 31, 2007 AND 2006**





# Mary Taylor, CPA

Auditor of State

Board of Directors  
County Employee Benefits Consortium of Ohio  
37 West Broad Street, Suite 650  
Columbus, Ohio 43215-4195

We have reviewed the *Report of Independent Auditors* of the County Employee Benefits Consortium of Ohio, Franklin County, prepared by Blue & Co., LLC, for the audit period January 1, 2007 through December 31, 2007. 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 is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 18, 2008

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## REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of net assets of County Employee Benefits Consortium of Ohio, Inc. as of December 31, 2007 and 2006, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2007 and 2006, and the results of its changes in net assets and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Board of Directors  
County Employee Benefits Consortium, Inc.  
Page two

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2008, 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 read in conjunction with this report when considering the results of our audit.

*Bauer & Co., LLC*

May 28, 2008

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2007 AND 2006**

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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, 2007, 2006 and 2005. 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. Since then, eight counties have joined CEBCO for medical coverage, and no county has withdrawn from the Consortium. Additionally, four more counties have joined with benefits effective on January 1, 2008.

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.  
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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 Consortium on December 31, the Statement of Revenues, Expenses, and Changes in Net Assets presents the activities of the Consortium 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 of CEBCO on December 31, 2007, 2006 and 2005. More detailed information is available in the accompanying basic financial statements.

Table 1:

<b>Assets</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 9,371,666	\$ 12,362,724	\$ 16,116,002
Investments	23,926,913	13,366,783	-
Other assets	606,397	471,031	17,461
<b>Total assets</b>	<b>33,904,976</b>	<b>26,200,538</b>	<b>16,133,463</b>
<b>Total liabilities</b>	<b>8,843,771</b>	<b>8,561,429</b>	<b>8,418,108</b>
<b>Net assets</b>	<b>\$ 25,061,205</b>	<b>\$ 17,639,109</b>	<b>\$ 7,715,355</b>

The majority of CEBCO's assets are cash and investments. Other assets include fixed assets, interest receivable, and prepaid expenses. The statements show that CEBCO's total assets were \$16,133,463 at December 31, 2005; \$26,200,538 at December 31, 2006 and \$33,904,976 at December 31, 2007. This increase is due mainly to the increases in membership and employee lives covered under the program during the latter part of 2006 and 2007, which increased premiums received. Also, a factor in the increase was the purchase of investment grade bonds, which generated increased interest income.

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

At the end of its fourth year of operations, CEBCO realized net assets of \$25,061,205. This is a significant change from the previous year, in which CEBCO's total net assets were \$17,639,109. The change is due primarily to the large increase in reserve cash and investments supplied by an increased membership and interest income, with a relatively smaller increase to the liability estimated for unpaid claims.

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

The following table presents a summary of CEBCO's revenues and expenses for the fiscal years ending December 31, 2007, 2006 and 2005. 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, 2007 AND 2006**

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Table 2:

<b>Revenues</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Premiums earned (member contributions)	\$ 58,037,037	\$ 53,441,307	\$ 44,253,426
Less: commercial insurance coverage	(1,430,626)	(1,353,094)	(1,267,476)
Interest and other income	1,398,667	797,913	283,247
<b>Total revenues</b>	<u>58,005,078</u>	<u>52,886,126</u>	<u>43,269,197</u>
 <b>Expenses</b>			
Claims paid and loss adjustments	46,682,808	39,315,661	31,811,962
Claims administration	2,812,028	2,631,033	2,087,243
Other general and administrative expenses	1,088,146	1,015,678	825,609
<b>Total expenses</b>	<u>50,582,982</u>	<u>42,962,372</u>	<u>34,724,814</u>
 <b>Excess of revenues over expenses</b>	 7,422,096	 9,923,754	 8,544,383
 <b>Net assets (deficiency) beginning of year</b>	 <u>17,639,109</u>	 <u>7,715,355</u>	 <u>(829,028)</u>
 <b>Net assets end of year</b>	 <u>\$ 25,061,205</u>	 <u>\$ 17,639,109</u>	 <u>\$ 7,715,355</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 stop loss insurance. CEBCO purchases stop loss insurance to cover the risk of large claims. In 2007, CEBCO covered the first \$175,000 of each medical claimant. The stop loss carrier (Anthem) reimbursed amounts above this level. The Board of Directors and the CEBCO staff review the stop loss amount annually and increase the amount when warranted. For 2008, the specific stop loss amount was set at \$250,000.

Total revenues increased from \$52,886,126 to \$58,005,078 between 2006 and 2007, a 9.7% increase. This increase is due primarily to new member counties joining CEBCO in late 2006 and staying with the consortium throughout 2007, with the subsequent increase in premiums received. Interest income also significantly increased due to funds being invested in bonds with higher interest rates than the checking and money market accounts in which the funds were held previously.

Expenses increased about 17.7% between 2006 and 2007. Claims paid, claims administration, and general administrative expenses increased as new members joined CEBCO, and new programs and expanded coverages were implemented.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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The excess over revenues, or net income, was \$7,422,096 in fiscal year 2007. This is a decrease from the previous year's net income of \$9,923,754. The increase in members and premiums in 2007 was less than the increase in claims and administrative expenses. This can be attributed to some new programs added to CEBCO lines of coverage this year, and expanded coverage to include preventive care benefits. These enhanced benefits may cost more in the early years, but should result in lower claims in the future, resulting in higher net incomes in the coming years.

**Financial Analysis – Statement of Cash Flows**

This statement reviews how CEBCO's cash balance changed from January 1, 2007 to December 31, 2007. 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.

The net cash provided by operating activities was \$6,717,842 in 2007 compared to \$9,020,683 in 2006. Again, this was caused by a greater increase in claims and administrative expenses than the increase in member premiums. This trend should reverse in subsequent years when the benefits of enhanced programs are realized.

**Trends and Strategic Planning**

CEBCO continues to look for ways to enhance its benefits programs for its members and to control claims costs. In 2007, an Employee Assistance Program was added to the benefits offered by CEBCO. This program offers counseling, accounting, and legal services to employees. This not only allows the employees to spend more time on the job and be more productive on the job, but also may reduce mental health related claims costs in the long run. This program also provides crisis management and employer referral benefits. Also in 2007, the CEBCO Board of Directors voted to enhance preventive care benefits for CEBCO members and to expand coverage to include a smoking cessation program. The intended results are healthier employees and lower overall health care costs. Effective January 1, 2008 are the Caremark quality control programs: Custom Care Retail, Advanced Guideline Management and the Patient Safety and Quality Program. Each of these programs provides a more in-depth safety and clinical intervention. CEBCO is growing not just in an increase in numbers, but in strength of the program and services provided.

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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. Its third year ended with net assets of over \$17.6 million. And at December 31, 2007, CEBCO realized net assets of over \$25 million. This indicates substantial growth and a conservative approach to funding, investing, and reserving assets. The Management and Board of Directors of CEBCO understand the need to be prudent in these areas because of the volatility of the health care industry and the possibility of trend factor claims increases as the consortium matures. That is why CEBCO maintains reserves above the claims liability to cover unforeseen contingencies and future large claims losses.

**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 Managing Director of Health and Wellness - CEBCO at 37 West Broad Street, Suite 650, Columbus, Ohio 43215-4195.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## STATEMENTS OF NET ASSETS DECEMBER 31, 2007 AND 2006

	<b>ASSETS</b>	
<b>Assets</b>	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 9,371,666	\$ 12,362,724
Investments	23,926,913	13,366,783
Prepaid expenses	459,053	376,970
Interest receivable	123,941	81,822
Other receivable	15,362	5,081
Property and equipment, net of depreciation	8,041	7,158
Total assets	<u>\$ 33,904,976</u>	<u>\$ 26,200,538</u>
	<b>LIABILITIES AND NET ASSETS</b>	
<b>Liabilities</b>		
Accounts payable	\$ 882,082	\$ 1,070,469
Unearned premium	3,226,089	3,019,808
Reserve for unpaid claims	4,735,600	3,931,300
Related party payables	-	539,852
Total liabilities	<u>8,843,771</u>	<u>8,561,429</u>
<b>Net assets</b>		
Net assets - unrestricted	25,053,164	17,631,951
Net assets - invested in capital assets	8,041	7,158
Total net assets	<u>25,061,205</u>	<u>17,639,109</u>
Total liabilities and net assets	<u>\$ 33,904,976</u>	<u>\$ 26,200,538</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, 2007 AND 2006

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<b>Revenues</b>	<b>2007</b>	<b>2006</b>
Premiums	\$ 58,037,037	\$ 53,441,307
Ceded premiums	(1,430,626)	(1,353,094)
Net premiums earned	56,606,411	52,088,213
Interest income	1,395,973	797,913
Other income	2,694	-
Total revenue	58,005,078	52,886,126
<b>Expenses</b>		
Claims paid and loss adjustments	46,682,808	39,315,661
Claims administration	2,812,028	2,631,033
General and administrative	872,711	791,322
Commission	166,175	190,720
Depreciation	4,008	7,466
Investment fees	45,252	26,170
Total expenses	50,582,982	42,962,372
<b>Excess of revenues over expenses</b>	7,422,096	9,923,754
<b>Net assets at beginning of year</b>	17,639,109	7,715,355
<b>Net assets at end of year</b>	\$ 25,061,205	\$ 17,639,109

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See accompanying notes to financial statements.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Cash received for premiums and other	\$ 58,235,731	\$ 53,417,798
Cash paid for claims	(45,878,508)	(39,177,961)
Cash payments to vendors for services and goods	(3,800,690)	(3,514,580)
Cash paid for excess insurance	(1,430,626)	(1,353,094)
Cash paid to employees for wages and benefits	(408,065)	(351,480)
Net cash flows from operating activities	6,717,842	9,020,683
<b>Capital and related financing activities</b>		
Purchase of property and equipment	(4,891)	(3,192)
Related party payables	(539,852)	(201,899)
Net cash flows from capital and related financing activities	(544,743)	(205,091)
<b>Investing activities</b>		
Purchase of investments	(10,560,130)	(13,366,783)
Interest received on investments and cash equivalents	1,395,973	797,913
Net cash flows from investing activities	(9,164,157)	(12,568,870)
Net change in cash and cash equivalents	(2,991,058)	(3,753,278)
<b>Cash and cash equivalents - beginning of year</b>	12,362,724	16,116,002
<b>Cash and cash equivalents - end of year</b>	\$ 9,371,666	\$ 12,362,724
<b>Reconciliation of excess of revenues over expenses to net cash from operating activities:</b>		
Excess of revenues over expenses	7,422,096	9,923,754
Interest income considered investing activity	(1,395,973)	(797,913)
Accrued interest receivable considered investing activity	(42,119)	(75,793)
Amortization and depreciation	4,008	7,466
<b>Changes in operating assets and liabilities</b>		
Reserve for unpaid claims	804,300	137,700
Other receivable	(10,281)	(5,081)
Prepaid expenses	(82,083)	(376,970)
Unearned premium	206,281	63,394
Accounts payable	(188,387)	144,126
Net cash flows from operating activities	\$ 6,717,842	\$ 9,020,683

*See accompanying notes to financial statements.*



# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 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. CEBCO was incorporated as a governmental health insurance pool on October 28, 2003. Operations and plan coverage officially began on January 1, 2004.

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.

As of December 31, 2007, fourteen Ohio counties were members of CEBCO as medical coverage participants. Two other counties opted for CEBCO's life insurance program only. During the fiscal year 2007, no new counties joined CEBCO's medical coverage program, and no counties withdrew from the program. The County Commissioners Association of Ohio was also a program member in 2007.

### 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.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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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.

### 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 Equivalents

Cash equivalents consist of funds in interest-bearing checking accounts and short-term money market securities. 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 reserving standards. The reserve represents an estimate of the ultimate net cost of all claims incurred which were unpaid at December 31, 2007. This includes an estimate of claims incurred but not yet reported as of December 31, 2007. 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.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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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 the statements of revenue, expenses, and changes in net assets in the period in which estimates are changed. Reserves are not discounted.

### 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.

### 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. CASH AND INVESTMENTS

### *Cash and cash equivalents*

Funds are maintained in cash and cash equivalents to meet the requirements for the payment of claims. The funds are kept in checking accounts, interest-bearing money market accounts, and in highly liquid securities in the investment pools. At December 31, 2007 the carrying amount of CEBCO's cash and cash equivalents was \$9,371,666 and the bank balance was \$9,371,666. Of this amount, \$100,000 was insured or collateralized with securities held by CEBCO in CEBCO's name. \$9,271,666 of the remaining balance was collateralized with securities held by the financial institution's trust department or agent in CEBCO's name.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### *Investments*

Investments held by CEBCO at December 31, 2007 are presented below, categorized by investment type and credit quality rating.

Credit quality ratings provide information about the investments' credit risk, which is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The CEBCO Investment Policy stipulates that assets may be invested only in obligations and securities of investment grade quality.

<b>Investment Type</b>	<u>Fair Value</u>	<u>AAA</u>
US Agency Bonds	\$ 14,727,389	\$ 14,727,389
Mortgage-Backed Bonds	<u>9,199,524</u>	<u>9,199,524</u>
Total	<u>\$ 23,926,913</u>	<u>\$ 23,926,913</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is primarily managed by establishing guidelines for portfolio duration. The CEBCO Investment Policy stipulates that for fixed income securities, the maximum maturity for any single security is 5 years. The following table presents CEBCO's bond investments as of December 31, 2007 by length of maturity.

<b>Investment Type</b>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>&gt; than 1 year</u>	<u>1-5 years</u>
US Agency Bonds	\$ 14,727,389	\$ 2,556,287	\$ 12,171,102
Mortgage-Backed Bonds	<u>9,199,524</u>	<u>-</u>	<u>9,199,524</u>
Total	<u>\$ 23,926,913</u>	<u>\$ 2,556,287</u>	<u>\$ 21,370,626</u>

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 4. PROPERTY AND EQUIPMENT

Capital assets activity for the years ended December 31, 2007 and 2006 was as follows:

	12/31/06	Additions	Retirements	12/31/07	Depreciable Life
Computer equipment	\$ 3,436	\$ -	\$ -	\$ 3,436	3 years
Furniture	21,272	4,891	-	26,163	5 years
Total	24,708	4,891	-	29,599	
Less accumulated depreciation					
Computer and equipment	3,437	-	-	3,437	
Furniture	14,113	4,008	-	18,121	
Total	17,550	4,008	-	21,558	
Net carrying amount	<u>\$ 7,158</u>			<u>\$ 8,041</u>	

	12/31/05	Additions	Retirements	12/31/06	Depreciable Life
Computer equipment	\$ 3,436	\$ -	\$ -	\$ 3,436	3 years
Furniture	18,080	3,192	-	21,272	5 years
Total	21,516	-	-	24,708	
Less accumulated depreciation					
Computer and equipment	2,386	1,051	-	3,437	
Furniture	7,698	6,415	-	14,113	
Total	10,084	7,466	-	17,550	
Net carrying amount	<u>\$ 11,432</u>			<u>\$ 7,158</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 reserving standards. The reserve represents a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in the reserves for unpaid losses for CEBCO for the years ended December 31, 2007 and 2006:

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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	2007	2006
Reserve for unpaid claims, beginning of year	\$ 3,931,300	\$ 3,793,600
Incurred losses and loss adjustment expenses	46,682,808	39,315,661
Less payment of benefits	<u>45,878,508</u>	<u>39,177,961</u>
Reserve for unpaid claims, end of year	<u>\$ 4,735,600</u>	<u>\$ 3,931,300</u>

### 6. EXCESS INSURANCE COVERAGE

CEBCO obtained specific excess insurance from a reinsurer covering individual medical health claims in excess of \$175,000 for the years then ended December 31, 2007 and 2006.

### 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 were \$0 at December 31, 2007 and \$539,852, at December 31, 2006.

CEBCO rents space from CCAO for its administrative activities. Rent expense for this space was \$44,976 for 2007 and \$39,987 for 2006.

### 8. TAX STATUS

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.

### 9. COMMITMENTS

Future minimum lease payments under contractually noncancellable operating lease for years subsequent to 2007 are as follows: \$6,960 in fiscal year 2008, and \$5,220 in fiscal year 2009.



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## 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 required supplementary information on pages 13-15 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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*

May 28, 2008

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF CONTRACT YEARS ENDED DECEMBER 31, 2007 AND 2006

The schedule below presents the changes in claims liabilities for CEBCO's four types of contracts in the year 2007: employee medical, pharmacy, dental, and vision benefits.

	Medical	Pharmacy	Dental	Vision	Total
Unpaid losses and loss adjustment expenses, beginning of year	\$ 3,523,000	\$ 390,100	\$ 13,900	\$ 4,300	\$ 3,931,300
Plus: Incurred losses and loss adjustment expenses					
Provision for insured events of the current year	37,732,967	8,859,133	244,668	75,923	46,912,691
Provision for insured events of prior years	<u>(229,883)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(229,883)</u>
Less: Payments					
Benefits attributable to insured events of the current year	37,503,084	8,859,133	244,668	75,923	46,682,808
Benefits attributable to insured events of the prior year	33,367,540	8,819,833	245,368	75,223	42,507,964
Benefits attributable to insured events of the prior year	<u>3,370,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,370,544</u>
Total payments	<u>36,738,084</u>	<u>8,819,833</u>	<u>245,368</u>	<u>75,223</u>	<u>45,878,508</u>
Total unpaid losses and loss adjustment expenses, end of year	<u>\$ 4,288,000</u>	<u>\$ 429,400</u>	<u>\$ 13,200</u>	<u>\$ 5,000</u>	<u>\$ 4,735,600</u>

The schedule below presents the changes in claims liabilities for CEBCO's four types of contracts in the year 2006: employee medical, pharmacy, dental, and vision benefits.

	Medical	Pharmacy	Dental	Vision	Total
Unpaid losses and loss adjustment expenses, beginning of year	\$ 3,468,000	\$ 299,000	\$ 17,300	\$ 9,300	\$ 3,793,600
Plus: Incurred losses and loss adjustment expenses					
Provision for insured events of the current year	32,540,385	8,152,231	245,479	61,623	40,999,718
Provision for insured events of prior years	<u>(1,684,057)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,684,057)</u>
Provision for insured events of prior years	30,856,328	8,152,231	245,479	61,623	39,315,661
Less: Payments					
Benefits attributable to insured events of the current year	28,691,784	8,061,131	248,879	66,623	37,068,417
Benefits attributable to insured events of the prior year	<u>2,109,544</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,109,544</u>
Total Payments	<u>30,801,328</u>	<u>8,061,131</u>	<u>248,879</u>	<u>66,623</u>	<u>39,177,961</u>
Total unpaid losses and loss adjustment expenses, end of year	<u>\$ 3,523,000</u>	<u>\$ 390,100</u>	<u>\$ 13,900</u>	<u>\$ 4,300</u>	<u>\$ 3,931,300</u>

See report of independent auditors on page 12.



# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## CLAIMS DEVELOPMENT YEARS ENDED DECEMBER 31, 2007 AND 2006

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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 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.

See report of independent auditors on page 12.

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# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## CLAIMS DEVELOPMENT YEARS ENDED DECEMBER 31, 2007, 2006, 2005, AND 2004

	2007	2006	2005	2004
1. Required contribution and investment revenue				
Earned	\$ 59,435,704	\$ 54,239,220	\$ 44,536,673	\$ 24,685,175
Ceded	(1,430,626)	(1,353,094)	(1,267,476)	(632,208)
Net earned	58,005,078	52,886,126	43,269,197	24,052,967
2. Unallocated expenses	3,900,174	3,646,713	2,912,851	1,915,686
3. Estimated claims and expenses, end of policy year:				
Incurred	47,289,943	41,368,758	31,971,528	22,523,420
Ceded	(377,252)	(369,040)	(159,566)	(145,294)
Net incurred	46,912,691	40,999,718	31,811,962	22,378,126
4. Net paid claims as of:				
End of policy year	42,507,964	37,068,417	30,774,328	18,134,383
One year later		40,498,922	32,909,168	19,622,159
Two years later			32,901,826	19,596,863
Three years later				19,544,244
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	46,912,691	40,999,718	31,811,962	22,378,126
One year later		40,829,796	32,909,168	22,378,126
Two years later			32,901,826	19,596,863
Three years later				19,544,244
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	\$ -	\$ (169,922)	\$ (7,342)	\$ (52,619)

See report of independent auditors on page 12.



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**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, 2007 and 2006, and have issued our report thereon dated May 28, 2008. 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, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Employee Benefits Consortium of Ohio Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of County Employee Benefits Consortium of Ohio Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

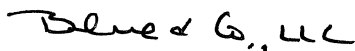
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify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

**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(continued)**

**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 and should not be used by anyone other than those specified parties.



May 28, 2008



**Mary Taylor, CPA**  
Auditor of State

**COUNTY EMPLOYEE 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  
JULY 1, 2008**