

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

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

**DECEMBER 31, 2010 AND 2009**





# Dave Yost • Auditor of State

Board of Directors  
County Employees Benefit Consortium  
209 East State Street  
Columbus, Ohio 43215

We have reviewed the *Report on Independent Auditors* of the County Employees Benefit Consortium, Franklin County, prepared by Blue & Co., LLC, for the audit period January 1, 2010 through December 31, 2010. 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 Employees Benefit Consortium is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

June 14, 2011

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# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

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FORTY YEARS &amp; COUNTING

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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, 2010 and 2009, 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 audits 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, 2010 and 2009, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vi be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2011, 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.



May 26, 2011



**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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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, 2010, 2009 and 2008. 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, sixteen more counties have joined CEBCO for medical coverage, and no county has withdrawn from the Consortium. With the CCAO as a member also, CEBCO has a total of 23 members.

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. 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 (UNAUDITED)**

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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 the financials are 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, 2010, 2009 and 2008. More detailed information is available in the accompanying basic financial statements.

Table 1:

<b>Assets</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Cash and cash equivalents	\$ 16,050,262	\$ 8,907,383	\$ 13,155,084
Investments	32,206,663	32,063,285	29,818,824
Other assets	1,534,200	1,332,947	1,861,865
Total assets	<u>49,791,125</u>	<u>42,303,615</u>	<u>44,835,773</u>
<b>Total liabilities</b>	<u>9,642,410</u>	<u>11,969,904</u>	<u>12,620,465</u>
<b>Net assets</b>	<u>\$ 40,148,715</u>	<u>\$ 30,333,711</u>	<u>\$ 32,215,308</u>

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 \$44,835,773 at December 31, 2008; \$42,303,615 at December 31, 2009 and \$49,791,125 December 31, 2010. The increase in 2010 is due mainly to a decrease in claims paid compared to 2009 and an increase in premiums received in the current year for the next fiscal year.

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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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. Total liabilities decreased 5.2% between 2008 and 2009, and decreased 19% between 2009 and 2010. In 2010, reserve for unpaid claims decreased by approximately \$1,900,000.

At the end of its seventh year of operations, CEBCO realized net assets of \$40,148,711. This is an increase from the previous year in which CEBCO's total net assets were \$30,333,711. The change is due primarily to a decrease in claims made during the year and a decrease in the claims reserve liability.

**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, 2010, 2009 and 2008. More detailed information is available in the accompanying basic financial statements.

Table 2:

<b>Revenues</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Premiums earned (member contributions)	\$ 93,167,023	\$ 91,843,023	\$ 82,503,283
Less: commercial insurance coverage	(739,999)	(1,347,182)	(1,379,739)
<b>Total revenues</b>	<b>92,427,024</b>	<b>90,495,841</b>	<b>81,123,544</b>
<b>Expenses</b>			
Claims paid and loss adjustments	77,972,249	88,496,545	71,137,607
Claims administration	3,924,200	3,975,425	3,795,139
Other general and administrative expenses	1,491,672	1,342,006	1,207,867
<b>Total expenses</b>	<b>83,388,121</b>	<b>93,813,976</b>	<b>76,140,613</b>
<b>Excess of revenues over expenses/ (expenses over revenues)</b>	<b>9,038,903</b>	<b>(3,318,135)</b>	<b>4,982,931</b>
<b>Non-operating (expenses) income</b>	<b>776,101</b>	<b>1,436,538</b>	<b>2,171,172</b>
<b>Change in net assets</b>	<b>9,815,004</b>	<b>(1,881,597)</b>	<b>7,154,103</b>
<b>Net assets beginning of year</b>	<b>30,333,711</b>	<b>32,215,308</b>	<b>25,061,205</b>
<b>Net assets end of year</b>	<b>\$ 40,148,715</b>	<b>\$ 30,333,711</b>	<b>\$ 32,215,308</b>

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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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. For 2009 and 2010, CEBCO covered the first \$300,000 and \$400,000, respectively, for each medical claim. The stop loss carrier (Anthem) reimbursed amounts above this level. Raising the amount to \$400,000 lowered the stop loss fees in 2010. For 2011, the specific stop loss will remain at \$400,000. The Board of Directors and the CEBCO staff review the stop loss amount annually and increase the amount when warranted.

Total revenues increased from \$90,495,841 in 2009 to \$92,427,024 in 2010, a 2.1% increase. In 2010, two new counties joined CEBCO, increasing the total members to twenty three.

Total revenues increased from \$81,123,544 in 2008 to \$90,495,841 in 2009, an 11.6% increase. In 2009, two new counties joined CEBCO, adding more than 500 employee lives.

Expenses increased 23.2% between 2008 and 2009, and decreased 11.1% between 2009 and 2010. The decrease in 2010 was due to the decrease in claims paid and a decrease in expected claims.

In 2008, CEBCO entered into a joint venture with CCAO and the County Risk Sharing Authority (CORSAs) as partners to form a limited liability company, called the County Governance Facility, LLC (the LLC). Each partner contributed \$1,000,000 to the formation of the LLC. The LLC purchased a building which houses the office space for CCAO, CORSA and CEBCO. CCAO, CORSA and CEBCO each share a one-third interest in the LLC. In 2009 and 2010, the LLC realized a net loss of \$40,845 and \$76,554, respectively. CEBCO's share in the loss was \$13,615 and \$25,518. The LLC losses were mainly due to the building's depreciation.

The operating gain/(loss), was \$4,982,931 in 2008, (\$3,318,135) in 2009, and \$9,038,899 in 2010. The increase in net income can be attributed to a significant decrease in claims and claims liability.

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Financial Analysis – Statement of Cash Flows**

This statement reviews how CEBCO's cash balance changed during the fiscal year. It is divided into three different sections. Each explains 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 from operating activities was \$6,310,401 in 2010 compared to (\$3,464,585) in 2009. This increase was caused by a decrease in claims paid during the year and an increase in premiums received. This number may fluctuate over the years as new programs are implemented and as new premiums come in to cover the increases in lives covered. CEBCO maintains a healthy cash balance to cover claims and contingencies.

Cash from capital and financing activities changed from (\$2,671) in 2009 to \$0 in 2010. Cash from investment activities changed from (\$780,445) in 2009 to \$832,478 in 2010 due to there being less purchases of investments in 2010.

**Trends and Strategic Planning**

CEBCO has always looked for ways to enhance its benefits and programs provided for the membership and to control claims costs. Through the partnerships with Anthem, CVS/Caremark, Delta Dental, VSP, and ComPsych, CEBCO is working to provide the most comprehensive program available so that members and their employees can achieve and maintain personal physical, mental and social wellness. CEBCO understands that too many people are not reaching their full potential in life because of preventable health conditions. Almost 50% of adult Americans live with at least one chronic medical condition and more than 70% of all chronic diseases can be directly attributed to the lifestyle choices that are made. CEBCO is committed to helping individuals achieve a complete sense of wellness and is excited to implement new Wellness Initiatives in 2011.

CEBCO remains committed to providing a stable health insurance program to its members and is continually striving to control program costs. To that end, CEBCO conducts a vendor Request For Proposal process every three years for all of the provided services. The latest RFP process was conducted in 2010 for a January 1, 2011 effective date. This competitive process resulted in lower program costs for all vendors and also provided enhanced services to CEBCO's members.

CEBCO ended its first year of operation in 2004 with a deficiency in net assets. But every year after that has ended with positive net assets, increasing from \$17.6 million in 2005 to \$40.1 million in 2010. This is due to growth in the program as well as a conservative approach to funding, investing and reserving. This approach over time made it possible to sustain a year with higher than expected claims costs such as the 2009 program year.

**COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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CEBCO's management and Board of Directors understand the need to be prudent in these areas because of the volatility of the health care industry and the possibility of claims increases as the consortium matures.

**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 – 209 E State Street, Columbus, Ohio 43215.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## STATEMENTS OF NET ASSETS DECEMBER 31, 2010 AND 2009

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<b>ASSETS</b>		
<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 16,050,262	\$ 8,907,383
Investments	32,206,663	32,063,285
Prepaid expenses	377,634	211
Interest receivable	179,204	353,437
Other receivable	27,753	-
Property and equipment, net of depreciation	6,790	10,962
Investment in joint venture	942,819	968,337
Total assets	<u>\$ 49,791,125</u>	<u>\$ 42,303,615</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 863,632	\$ 2,252,369
Unearned premium	1,683,578	721,935
Reserve for unpaid claims	7,095,200	8,995,600
Total liabilities	<u>9,642,410</u>	<u>11,969,904</u>
<b>Net assets</b>		
Net assets - unrestricted	40,141,925	30,322,749
Net assets - invested in capital assets	6,790	10,962
Total net assets	<u>40,148,715</u>	<u>30,333,711</u>
Total liabilities and net assets	<u>\$ 49,791,125</u>	<u>\$ 42,303,615</u>

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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, 2010 AND 2009

<b>Revenues</b>	<b>2010</b>	<b>2009</b>
Premiums	\$ 93,167,023	\$ 91,843,023
Ceded premiums	(739,999)	(1,347,182)
Net premiums earned	<u>92,427,024</u>	<u>90,495,841</u>
<b>Expenses</b>		
Claims paid and loss adjustments	77,972,249	88,496,545
Claims administration	3,924,200	3,975,425
General and administrative	1,318,776	1,177,100
Commission	168,724	161,193
Depreciation	4,172	3,713
Total expenses	<u>83,388,121</u>	<u>93,813,976</u>
<b>Operating Gains/(Loss)</b>	9,038,903	(3,318,135)
<b>Non-operating (expenses) income</b>		
Investment income	711,219	1,101,340
Unrealized gain (loss) on investments	(1,034,150)	376,686
Gains on sale of investments	1,213,605	45,740
Loss on ownership interest	(25,518)	(13,615)
Investment fees	(89,055)	(73,613)
Other income	-	-
Non-operating income	<u>776,101</u>	<u>1,436,538</u>
<b>Change in net assets</b>	9,815,004	(1,881,597)
<b>Net assets at beginning of year</b>	<u>30,333,711</u>	<u>32,215,308</u>
<b>Net assets at end of year</b>	<u>\$ 40,148,715</u>	<u>\$ 30,333,711</u>

*See accompanying notes to financial statements.*



# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009

	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Cash received for premiums and other	\$ 94,128,666	\$ 88,656,903
Cash paid for claims	(81,269,312)	(85,886,903)
Cash payments to vendors for services and goods	(5,353,867)	(4,638,114)
Cash paid for excess insurance	(811,729)	(1,234,034)
Cash paid to employees for wages	(383,353)	(362,437)
Net cash flows from operating activities	6,310,405	(3,464,585)
<b>Capital and related financing activities</b>		
Purchase of property and equipment	-	(2,671)
Net cash flows from capital and related financing activities	-	(2,671)
<b>Investing activities</b>		
Purchase of investments	(143,378)	(2,244,461)
Interest received on investments and cash equivalents	975,852	1,464,016
Net cash flows from investing activities	832,474	(780,445)
Net change in cash and cash equivalents	7,142,879	(4,247,701)
<b>Cash and cash equivalents - beginning of year</b>	8,907,383	13,155,084
<b>Cash and cash equivalents - end of year</b>	\$ 16,050,262	\$ 8,907,383
<b>Reconciliation of operating gains/(losses) to net cash from operating activities:</b>		
Operating gains/(losses)	\$ 9,038,903	\$ (3,318,135)
Depreciation	4,172	3,713
<b>Changes in operating assets and liabilities</b>		
Reserve for unpaid claims	(1,900,400)	1,547,900
Other receivable	(27,753)	-
Prepaid expenses	(377,423)	500,398
Unearned premium	961,643	(3,186,120)
Accounts payable	(1,388,737)	987,659
Net cash flows from operating activities	\$ 6,310,405	\$ (3,464,585)

*See accompanying notes to financial statements.*

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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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. 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, 2010, twenty two 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 2010, two 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 2010.

### 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, 2010 AND 2009

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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, certificate of deposits, 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.

### Investments

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

### 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.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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, 2010. This includes an estimate of claims incurred but not yet reported as of December 31, 2010. 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 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.

### Subsequent Events

CEBCO has evaluated events or transactions occurring subsequent to the statement of net assets date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued which is May 26, 2011.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 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, 2010 the carrying amount of CEBCO's cash and cash equivalents was \$16,050,262 and the bank balance was \$16,050,262. Of this amount, \$250,000 was insured or collateralized with securities held by the banks in CEBCO's name. \$15,800,262 of the remaining balance was uninsured and is uncollateralized.

#### *Investments*

Investments held by CEBCO at December 31, 2010 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>	<b>Fair Value</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BAA</b>
US Agency Bonds	\$ 14,262,091	\$ 14,108,422	\$ 153,669	\$ -	\$ -
Mortgage-Backed Bonds	10,824,967	10,824,967	-	-	-
Corporate Bonds	7,119,605	-	702,603	2,607,651	3,809,351
Total	<u>\$ 32,206,663</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.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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The following table presents CEBCO's bond investments as of December 31, 2010 by length of maturity.

Investment Type	Fair Value	Maturities	
		< than 1 year	1-5 years
US Agency Bonds	\$ 14,262,091	\$ 7,073,354	\$ 7,188,737
Mortgage-Backed Bonds	10,824,967	1,124,301	9,700,666
Corporate Bonds	<u>7,119,605</u>	<u>257,550</u>	<u>6,862,055</u>
Total	<u>\$ 32,206,663</u>	<u>\$ 8,455,205</u>	<u>\$ 23,751,458</u>

In 2010 and 2009, CEBCO used a percentage of investment income to lower the medical and prescription premium rates. The percentages used in each year were determined by approval of the Board of Directors. The premium increase was therefore reduced by 0.7% in 2010 and 1.3% in 2009.

#### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Mortgage-backed bonds	\$ -	\$ 10,824,967	\$ -	\$ 10,824,967
US Agency bonds	-	14,262,091	-	14,262,091
Corporate bonds	-	7,119,605	-	7,119,605
Total assets	<u>\$ -</u>	<u>\$ 32,206,663</u>	<u>\$ -</u>	<u>\$ 32,206,663</u>

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Mutual funds	\$ 1,905,153	\$ -	\$ -	\$ 1,905,153
Mortgage-backed bonds	-	17,662,893	-	17,662,893
US Agency bonds	-	10,339,419	-	10,339,419
Corporate bonds	-	2,155,820	-	2,155,820
Total assets	<u>\$ 1,905,153</u>	<u>\$ 30,158,132</u>	<u>\$ -</u>	<u>\$ 32,063,285</u>

## 5. PROPERTY AND EQUIPMENT

Capital assets activity for the years ended December 31, 2010 and 2009 was as follows:

	12/31/09	Additions	Retirements	12/31/10	Depreciable Life
Computer	\$ 3,436	\$ -	\$ -	\$ 3,436	3 years
Furniture and equipment	37,987	-	-	37,987	5 years
Total	41,423	-	-	41,423	
Less accumulated depreciation					
Computer	3,436	-	-	3,436	
Furniture and equipment	27,025	4,172	-	31,197	
Total	<u>30,461</u>	<u>4,172</u>	<u>-</u>	<u>34,633</u>	
Net carrying amount	<u>\$ 10,962</u>			<u>\$ 6,790</u>	

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

	12/31/08	Additions	Retirements	12/31/09	Depreciable Life
Computer	\$ 3,436	\$ -	\$ -	\$ 3,436	3 years
Furniture and equipment	35,316	2,671	-	37,987	5 years
Total	38,752	2,671	-	41,423	
Less accumulated depreciation					
Computer	3,436	-	-	3,436	
Furniture and equipment	23,312	3,713	-	27,025	
Total	26,748	3,713	-	30,461	
Net carrying amount	<u>\$ 12,004</u>			<u>\$ 10,962</u>	

### 6. 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Reserve for unpaid claims, beginning of year	\$ 10,057,342	\$ 7,447,700
Incurred losses and loss adjustment expenses	77,972,249	88,496,545
Less payment of benefits	<u>81,269,312</u>	<u>85,886,903</u>
 Reserve for unpaid claims, end of year	 <u>\$ 6,760,279</u>	 <u>\$ 10,057,342</u>

### 7. EXCESS INSURANCE COVERAGE

CEBCO obtained specific excess insurance from a reinsurer covering individual medical health claims in excess of \$400,000 and \$300,000 for the years ended December 31, 2010 and 2009.

### 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.



# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010 AND 2009

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### 9. JOINT VENTURE

During 2008, CEBCO entered into a joint venture with CORSA and CCAO to form County Governance Facility, LLC, for which CEBCO owns 33.3% of the joint venture. County Governance Facility, LLC, was formed to improve, operate, and otherwise manage the company property located at 209 East State Street, Columbus, Ohio 43215. During 2008, CEBCO contributed \$1,000,000 to fund their portion of the joint venture. CEBCO's interest in the County Governance Facility, LLC at December 31, 2010 and 2009 was \$942,819 and \$968,337, respectively. CEBCO accounts for the investment under the equity method.

### 10. COMMITMENTS

CEBCO, CORSA and CCAO committed to pay \$300,000 to County Governance Facility, LLC, for maintenance, repairs and up-keep relating to their property during 2011. CEBCO's portion of this commitment is \$63,750.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF CONTRACT YEARS ENDED DECEMBER 31, 2010 AND 2009

The schedule below presents the changes in claims liabilities for CEBCO's four types of contracts in the year 2010: medical, pharmacy, dental, and vision benefits.

	Medical	Pharmacy	Dental	Vision	Total
Unpaid losses and loss adjustment expenses, beginning of fiscal year	\$ 8,173,000	\$ 799,100	\$ 18,500	\$ 5,000	\$ 8,995,600
Plus: Incurred losses and loss adjustment expenses					
Provision for insured events of the current year	65,249,580	15,469,285	726,546	89,061	81,534,472
Provision (benefit) for events of prior years	<u>(3,562,224)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,562,224)</u>
Less: Payments					
Benefits attributable to insured events of the current year	61,687,356	15,469,285	726,546	89,061	77,972,248
Benefits attributable to insured events of prior years	58,091,980	15,555,385	711,446	90,461	74,449,272
	<u>5,423,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,423,376</u>
Total payments	63,515,356	15,555,385	711,446	90,461	79,872,648
Total unpaid losses and loss adjustment expenses, end of fiscal year	<u>\$ 6,345,000</u>	<u>\$ 713,000</u>	<u>\$ 33,600</u>	<u>\$ 3,600</u>	<u>\$ 7,095,200</u>

The schedule below presents the changes in claims liabilities for CEBCO's four types of contracts in the year 2009: medical, pharmacy, dental, and vision benefits.

	Medical	Pharmacy	Dental	Vision	Total
Unpaid losses and loss adjustment expenses, beginning of fiscal year	\$ 6,743,000	\$ 681,800	\$ 18,200	\$ 4,700	\$ 7,447,700
Plus: Incurred losses and loss adjustment expenses					
Provision for insured events of the current year	70,311,706	17,551,953	364,695	109,217	88,337,571
Provision (benefit) for events of prior years	<u>158,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,974</u>
Less: Payments					
Benefits attributable to insured events of the current year	70,470,680	17,551,953	364,695	109,217	88,496,545
Benefits attributable to insured events of prior years	62,050,426	17,434,653	364,395	108,917	79,958,391
	<u>6,990,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,990,254</u>
Total payments	69,040,680	17,434,653	364,395	108,917	86,948,645
Total unpaid losses and loss adjustment expenses, end of fiscal year	<u>\$ 8,173,000</u>	<u>\$ 799,100</u>	<u>\$ 18,500</u>	<u>\$ 5,000</u>	<u>\$ 8,995,600</u>

See report of independent auditors on page 1.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## CLAIMS DEVELOPMENT YEARS ENDED DECEMBER 31, 2010 AND 2009

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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 each 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 claims 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 estimated incurred claims increased or decreased as of the end of successive years. (6) This line shows the increase or decrease in the estimate from the previous year's estimate. (7) This line shows the increase or decrease in the latest estimate from the original estimate.

# COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

## CLAIMS DEVELOPMENT YEARS ENDED DECEMBER 31, 2010, 2009, 2008, 2007, 2006, 2005 AND 2004

	2010	2009	2008	2007	2006	2005	2004
1. Required contribution and investment and other revenue							
Earned	\$ 94,032,182	\$ 93,353,175	\$ 84,755,353	\$ 59,435,704	\$ 54,239,220	\$ 44,536,673	\$ 24,685,175
Ceded	(739,999)	(1,347,182)	(1,379,739)	(1,430,626)	(1,353,094)	(1,267,476)	(632,208)
Net earned	93,292,183	92,005,993	83,375,614	58,005,078	52,886,125	43,269,197	24,052,967
2. Unallocated expenses	5,415,876	5,317,431	5,083,904	3,900,174	3,646,713	2,912,851	1,915,686
3. Estimated claims and expenses, end of policy year:							
Incurred	81,920,983	89,093,702	71,585,326	47,289,943	41,368,758	31,971,528	22,523,420
Ceded	386,511	756,131	294,902	377,252	369,040	159,566	(145,294)
Net incurred	81,534,472	88,337,571	71,290,424	46,912,691	40,999,718	31,811,962	22,378,126
4. Net paid claims as of:							
End of policy year	74,439,272	79,958,391	64,793,613	42,507,964	37,068,417	30,774,328	18,134,383
One year later		85,861,606	71,723,792	46,107,576	40,498,922	32,909,168	19,622,159
Two years later			71,557,873	45,848,055	40,547,249	32,901,826	19,596,863
Three years later				45,819,905	40,592,450	32,885,945	19,544,244
Four years later					40,591,131	32,885,945	19,544,080
Five years later						32,885,889	19,544,080
Six years later							19,544,080
Seven years later							
Eight years later							
Nine years later							
5. Re-estimated net incurred claims and expense, as of:							
End of policy year	81,534,472	88,337,571	71,290,424	46,912,691	40,999,718	31,811,962	22,378,126
One year later		85,861,606	71,723,793	46,775,919	40,829,796	32,909,168	22,378,126
Two years later			71,557,873	46,501,524	40,829,796	32,901,826	19,596,863
Three years later				45,819,905	40,829,795	32,885,945	19,544,244
Four years later					40,591,131	32,885,945	19,544,080
Five years later						32,885,889	19,544,080
Six years later							19,544,080
Seven years later							
Eight years later							
Nine years later							
6. Increase (decrease) in estimated incurred claims from previous year	-	(2,475,965)	(165,920)	(681,619)	(238,664)	(56)	-
7. Increase (decrease) in estimated incurred claims from original estimate	-	(2,475,965)	267,449	(1,092,786)	(408,587)	1,073,927	(2,834,046)

See report of independent auditors on page 1.



FORTY YEARS &amp; COUNTING

Blue &amp; Co., LLC / 8800 Lyra Drive, Suite 450 / Columbus, OH 43240

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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, 2010 and 2009, and have issued our report thereon dated May 26, 2011. 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 deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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.

*Ben G., LLC*

May 26, 2011

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# Dave Yost • Auditor of State

**COUNTY EMPLOYEES BENEFITS CONSORTIUM**

**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  
JUNE 28, 2011**