COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

DECEMBER 31, 2012 AND 2011

CPAs / ADVISORS

blue

Dave Yost • Auditor of State

Board of Directors
County Employees Benefit Consortium of Ohio, Inc.
209 E. State Street
Columbus, Ohio 43215

We have reviewed the *Report of Independent Auditors* of the County Employees Benefit Consortium of Ohio, Inc., Franklin County, prepared by Blue & Co., LLC, for the audit period January 1, 2012 through December 31, 2012. 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 of Ohio, Inc. is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

August 6, 2013

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COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

TABLE OF CONTENTS
DECEMBER 31, 2012 AND 2011

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REPORT OF INDEPENDENT AUDITORS

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the County Employee Benefits Consortium of Ohio, Inc. (CEBCO) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise CEBCO's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CEBCO as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CEBCO's basic financial statements. The reconciliation of claims liability by type of contract and claims development are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The reconciliation of claims liability by type of contract and claims development are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the reconciliation of claims liability by type of contract and claims development are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013, on our consideration of CEBCO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CEBCO's internal control over financial reporting and compliance.

Columbus, Ohio

June 17, 2013

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, 2012, 2011 and 2010. 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 CCAO. 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, nineteen additional counties have joined CEBCO for medical and prescription drug coverage, and no county has withdrawn from CEBCO. CEBCO has a total of 25 member counties, and also provides insurance benefits for CCAO.

CEBCO is a self-funded, joint self-insurance consortium authorized pursuant to Section 9.833 of the Ohio Revised Code to offer medical, dental, vision, and prescription drug coverage. There are five preferred provider organization plans, two health savings accounts plans and five prescription drug plans for the counties to choose to create their benefit structure. Each county has a fully insured equivalent rate that is issued to each county on an annual basis, and premiums are paid into CEBCO monthly. Each county makes a three-year commitment to the CEBCO program.

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 Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position 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 Position.

The Statement of Revenues, Expenses, and Changes in Net Position present information on the change in net Position (revenues minus expenses) during the fiscal year. Whereas the Statement of Net Position is a snapshot of the financial position of CEBCO on December 31, the Statement of Revenues, Expenses, and Changes in Net Position presents the activities of CEBCO for the entire fiscal year. Since the financials are presented on an accrual basis, the Changes in Net Position 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 Position

The following table presents the summarized financial position of CEBCO on December 31, 2012, 2011 and 2010. More detailed information is available in the accompanying basic financial statements.

Table 1:

Assets	**2012**	**2011**	**2010**
Cash and cash equivalents	$ 14,255,148	$ 16,486,438	$ 16,050,262
Investments	52,562,897	42,087,363	32,206,663
Other assets	1,766,829	1,603,122	1,534,200
Total assets	68,584,874	60,176,923	49,791,125
Total liabilities	13,994,733	12,277,475	9,642,410
Net position	$ 54,590,141	$ 47,899,448	$ 40,148,715

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 $49,791,125 at December 31, 2010; $60,176,923 at December 31, 2011 and $68,584,874 December 31, 2012. The increase in cash and investments in 2012 is mainly due to the premium increase exceeding the increase in claims actually paid out in 2012. CEBCO added two member counties in 2012, which contributed to the increase in premiums.

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 increased 27% between 2010 and 2011, and 14% between 2011 and 2012. In 2012, the reserve for unpaid claims increased by approximately $1,747,000.

At the end of its ninth year of operations, CEBCO realized net position of $54,590,141. This is an increase from the previous year in which CEBCO's total net assets were $47,899,448. The change is due to an increase in premiums and membership in 2012, receipts that totaled more than expenses, and a gain in the value of investments.

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

The following table presents a summary of CEBCO's revenues and expenses for the fiscal years ending December 31, 2012, 2011 and 2010. More detailed information is available in the accompanying basic financial statements.

Table 2:

Revenues	2012	2011	2010
Premiums earned (member contributions)	$ 106,456,236	$ 102,887,779	$ 93,167,023
Less: commercial insurance coverage	(1,114,484)	(840,548)	(739,999)
Total revenues	105,341,752	102,047,231	92,427,024
Expenses			
Claims paid and loss adjustments	95,143,928	89,406,818	77,972,249
Claims administration	4,232,644	4,019,961	3,924,200
Other general and administrative expenses	1,834,568	1,697,076	1,491,672
Total expenses	101,211,140	95,123,855	83,388,121
Operating gains	4,130,612	6,923,376	9,038,903
Non-operating income	2,560,081	827,357	776,101
Change in net assets	6,690,693	7,750,733	9,815,004
Net position beginning of year	47,899,448	40,148,715	30,333,711
Net position end of year	$ 54,590,141	$ 47,899,448	$ 40,148,715

Premium earned is recognized evenly over the period covered. 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 2010 and 2011, CEBCO covered the first $400,000 for each medical claim. The stop loss carrier (Anthem) reimbursed amounts above this level. For 2012, the specific stop loss remained at $400,000, but coverage included prescription claims over that amount as well as medical claims. The Board of Directors and the CEBCO staff review the stop loss coverage and amount annually and increase the amount when warranted.

Total net revenues increased from $102,047,231 in 2011 to $105,341,752 in 2012, a 3.2% increase. This was caused by an overall premium increase as well as the addition to CEBCO in 2012 of two new members.

Total net revenues increased from $92,427,024 in 2010 to $102,047,231 in 2011, a 10.4% increase. This was caused by an overall premium increase as well as the addition to CEBCO in 2011 of one larger county with 500 employees with medical, prescription, dental, and vision coverage.

Expenses increased 14.1% between 2010 and 2011, and increased 6.4% between 2011 and 2012. The increase in 2012 was mainly due to the increase in claims paid and in claims incurred in 2012 but not yet paid.

In 2008, CEBCO entered into a joint venture with CCAO and the County Risk Sharing Authority (CORSA) 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 2012, the LLC realized a net gain of $5,391. CEBCO's share in the gain was $1,797. In 2011, the LLC realized a net loss of $78,482, and CEBCO's share in this loss was $26,161.

The operating gain was $9,038,903 in 2010, $6,923,376 in 2011, and $4,130,612 in 2012. Although the operating gain in 2012 was less than in previous years, there was still net operating income in 2012 due to premiums exceeding expenses.

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 following table presents a summary of CEBCO's cash flows for the fiscal years ending December 31, 2012, 2011 and 2010. More detailed information is available in the accompanying basic financial statements.

Table 3:

Operating activities	**2012**	**2011**	**2010**
Cash received for premiums and other	$ 106,241,993	$ 103,167,306	$ 94,128,666
Cash paid for claims	(97,522,600)	(91,559,043)	(83,406,054)
Cash payments to vendors for services and goods	(1,288,527)	(698,290)	(3,217,125)
Cash paid for excess insurance	(1,203,335)	(934,282)	(811,729)
Cash paid to employees for wages	(423,648)	(448,859)	(383,353)
Net cash flows from operating activities	5,803,883	9,526,832	6,310,405
Investing activities			
Purchase of investments	(10,475,534)	(9,880,700)	(143,378)
Contribution to Joint Venture	(58,291)	-	-
Interest received on investments and cash equivalents	2,498,652	790,044	975,852
Net cash flows from investing activities	(8,035,173)	(9,090,656)	832,474
Net change in cash and cash equivalents	(2,231,290)	436,176	7,142,879
Cash and cash equivalents - beginning of year	16,486,438	16,050,262	8,907,383
Cash and cash equivalents - end of year	$ 14,255,148	$ 16,486,438	$ 16,050,262

The net cash from operating activities was $5,803,883 in 2012 compared to $9,526,832 and $6,310,405 in 2011 and 2010, respectively. This number fluctuates with the timing of events, as expenses are not always paid out in the year they are incurred.

Cash from investing activities changed from $832,474 and ($9,090,656) in 2010 and 2011, respectively, to ($8,035,173) in 2012 due to there being more purchases of investments in 2012 offset by an increase in interest received on investments and cash equivalents.

Trends and Strategic Planning

With the uncertainty of what the Affordable Care Act will ultimately bring to health care consumers, CEBCO remains committed to finding 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 continually strives to provide the most comprehensive program available so that members and their employees can achieve and maintain personal physical, mental and social wellness. To this end, CEBCO launched several wellness campaigns and made benefit plan design changes a priority for the 2012 program year.

CEBCO remains committed to providing a stable health insurance program to its members and is continually striving to control program costs. For example, CEBCO conducts a vendor Request For Proposal process every three years for the provided services. This competitive process results in lower program costs for all vendor provided services and also provides a regular opportunity to enhance services to CEBCO's members.

CEBCO ended its first year of operations in 2004 with a deficiency in net position, but every year after that the program has ended with positive net position. The net position has increased from $17.6 million in 2005 to $54.6 million in 2012. This is due to growth in the program as well as a conservative approach to funding, investing and reserving. This approach has enabled CEBCO to utilize $1 million of member equity to reduce program costs for 2012. CEBCO's Management and Board of Directors understand the need to be fiscally prudent, market savvy, and cognizant of the volatility in the health care 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 Managing Director of Health and Wellness – 209 E State Street, Columbus, Ohio 43215.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

Assets	2012	2011
Cash and cash equivalents	$ 14,255,148	$ 16,486,438
Investments	52,562,897	42,087,363
Prepaid expenses	405,063	401,568
Interest receivable	302,309	242,677
Other receivable	81,217	38,625
Property and equipment, net of depreciation	1,493	3,593
Investment in joint venture	976,747	916,659
Total assets	$ 68,584,874	$ 60,176,923

LIABILITIES AND NET POSITION

	2012	2011
Liabilities		
Accounts payable	$ 2,231,972	$ 2,047,970
Unearned premium	1,748,861	1,963,104
Reserve for unpaid claims	10,013,900	8,266,401
Total liabilities	13,994,733	12,277,475
Net position		
Net position - unrestricted	54,588,648	47,895,855
Net position - invested in capital assets	1,493	3,593
Total net position	54,590,141	47,899,448
Total liabilities and net position	$ 68,584,874	$ 60,176,923

See accompanying notes to financial statements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Revenues		
Premiums	$ 106,456,236	$ 102,887,779
Ceded premiums	(1,114,484)	(840,548)
Net premiums earned	105,341,752	102,047,231
Expenses		
Loss expenses	95,143,928	89,406,818
Claims administration	4,232,644	4,019,961
General and administrative	929,620	954,979
Consulting	402,230	412,174
Legal	10,374	21,683
Wellness initiative program	331,505	150,103
Commission	158,739	154,940
Depreciation	2,100	3,197
Total expenses	101,211,140	95,123,855
Operating gains	4,130,612	6,923,376
Non-operating (expenses) income		
Investment income	1,181,127	786,398
Unrealized gain (losses) on investments	1,485,263	110,750
Gains on sale of investments	21,996	71,061
Gain (loss) on ownership interest	1,797	(26,161)
Investment fees	(130,102)	(114,691)
Non-operating income	2,560,081	827,357
Change in net position	6,690,693	7,750,733
Net position at beginning of year	47,899,448	40,148,715
Net position at end of year	$ 54,590,141	$ 47,899,448

See accompanying notes to financial statements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating activities		
Cash received for premiums and other	$ 106,241,993	$ 103,167,306
Cash paid for claims	(97,522,600)	(91,559,043)
Cash payments to vendors for services and goods	(1,288,527)	(698,290)
Cash paid for excess insurance	(1,203,335)	(934,282)
Cash paid to employees for wages	(423,648)	(448,859)
Net cash flows from operating activities	5,803,883	9,526,832
Investing activities		
Purchase of investments	(10,475,534)	(9,880,700)
Contribution to joint venture	(58,291)	-
Unrealized gain (losses) on investments	1,485,263	110,750
Interest received on investments and cash equivalents	1,013,389	679,294
Net cash flows from investing activities	(8,035,173)	(9,090,656)
Net change in cash and cash equivalents	(2,231,290)	436,176
Cash and cash equivalents - beginning of year	16,486,438	16,050,262
Cash and cash equivalents - end of year	$ 14,255,148	$ 16,486,438
Reconciliation of operating gains to net cash from operating activities:		
Operating gains	$ 4,130,612	$ 6,923,376
Depreciation	2,100	3,197
Changes in operating assets and liabilities		
Reserve for unpaid claims	1,747,499	1,171,201
Other receivable	(42,592)	(10,872)
Prepaid expenses	(3,495)	(23,934)
Unearned premium	(214,243)	279,527
Accounts payable	184,002	1,184,337
Net cash flows from operating activities	$ 5,803,883	$ 9,526,832

See accompanying notes to financial statements.

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, 2012, twenty-five Ohio counties were members of CEBCO as medical coverage participants. During the fiscal year 2012, two new counties joined CEBCO's medical coverage program, and no counties withdrew from the program.

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.

Newly Effective Accounting Standards

During 2012, CEBCO adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on CEBCO's net position, changes in net position, cash flows or financial reporting disclosures.

Also during 2012, CEBCO adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, which primarily resulted in renaming net assets to net position within the financial statements. GASB No. 63 has been applied retroactively in the accompanying financial statements.

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 non-operating (expenses) income unless the income or loss is restricted by 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.

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, 2012 and 2011. This includes an estimate of claims incurred but not yet reported as of December 31, 2012 and 2011.

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 position 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. The County Risk Sharing Authority (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. CEBCO also utilizes outside Directors and Officer coverage through Lloyds of London. Since CCAO, along with its related corporations, are members of CEBCO, the medical and dental coverage for CEBCO employees is provided by CEBCO.

Reclassification

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

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 June 17, 2013.

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, 2012, the carrying amount of CEBCO's cash and cash equivalents was $14,255,148 and the bank balance was $14,255,148. Of this amount, $250,000 was insured by Federal Depository Insurance Corporation (FDIC) and $250,000 was insured by Securities Investor Protection Corporation (SIPC). CEBCO maintains balances that are in excess of those insured by the FDIC and SIPC. However, to date no losses have been experienced.

Investments

Investments held by CEBCO at December 31, 2012 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 the fixed income portion of the portfolio be invested in obligations and securities of investment grade quality, with the exception of high yield bonds, which are allowable assets up to a specified maximum.

Investment Type	Fair Value	AAA	AA	A	BAA
US Agency Bonds	$ 13,212,584	$ 11,676,478	$ 1,280,633	$ 255,473	$ -
Mortgage-Backed Bonds	12,921,873	12,921,873	-	-	-
Corporate Bonds	18,619,767	2,134,011	1,150,940	7,608,425	7,726,391
Mutual Funds-High Yield Bond	1,929,951	n/a	n/a	n/a	n/a
Mutual Funds-Large-Cap Mutual	3,782,553	n/a	n/a	n/a	n/a
Equities-Foreign Sector	2,096,169	n/a	n/a	n/a	n/a
Total	$ 52,562,897				

The following table presents CEBCO's investment holdings at December 31, 2011.

Investment Type	Fair Value	AAA	AA	A	BAA
US Agency Bonds	$ 13,726,212	$ 12,258,734	$ 1,217,861	$ 249,617	$ -
Mortgage-Backed Bonds	11,345,699	11,345,699	-	-	-
Corporate Bonds	11,592,925	-	1,330,158	5,986,409	4,276,358
Mutual Funds-High Yield Bond	1,402,955	n/a	n/a	n/a	n/a
Mutual Funds-Large-Cap Mutual	2,872,593	n/a	n/a	n/a	n/a
Equities-Foreign Sector	1,146,979	n/a	n/a	n/a	n/a
Total	$ 42,087,363				

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 following table presents CEBCO's bond investments as of December 31, 2012 by length of maturity.

		Maturities	
Investment Type	Fair Value	< than 1 year	1-5 years
US Agency Bonds	$ 13,212,584	$ 1,267,972	$ 11,944,612
Mortgage-Backed Bonds	12,921,873	-	12,921,873
Corporate Bonds	18,619,767	382,132	18,237,635
Total	$ 44,754,224	$ 1,650,104	$ 43,104,120

The following table presents CEBCO's bond investments as of December 31, 2011 by length of maturity.

		Maturities	
Investment Type	Fair Value	< than 1 year	1-5 years
US Agency Bonds	$ 13,726,212	$ 170,456	$ 13,555,756
Mortgage-Backed Bonds	11,345,699	358,877	10,986,822
Corporate Bonds	11,592,925	431,681	11,161,244
Total	$ 36,664,836	$ 961,014	$ 35,703,822

In 2011, CEBCO used a percentage of investment income to lower the medical and prescription premium rates. Beginning in 2012, CEBCO applied a flat amount of $1,000,000 from net position to lower the medical and prescription premium rates. The amounts used in each year were determined by approval of the Board of Directors.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation 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). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CEBCO has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

There were no transfers between hierarchy levels during 2012 and 2011. CEBCO's policy is to recognize transfers between levels as of the end of the reporting period.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

Mutual Funds: Valued at the daily closing prices as reported by the fund. Mutual funds held by CEBCO are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by CEBCO are deemed to be actively traded.

Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Bonds:				
Mortgage-backed bonds	$ -	$ 12,921,873	$ -	$ 12,921,873
US agency bonds	-	13,212,584	-	13,212,584
Corporate	-	18,619,767	-	18,619,767
Mutual Funds:				
High-yield bond mutual funds	1,929,951	-	-	1,929,951
Large-cap mutual funds	3,782,553	-	-	3,782,553
Equities:				
Foreign sector equity	2,096,169	-	-	2,096,169
Total assets	$ 7,808,673	$ 44,754,224	$ -	$ 52,562,897

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Bonds:				
Mortgage-backed bonds	$ -	$ 11,345,699	$ -	$ 11,345,699
US agency bonds	-	13,726,212	-	13,726,212
Corporate	-	11,592,925	-	11,592,925
Mutual Funds:				
High-yield bond mutual funds	1,402,955	-	-	1,402,955
Large-cap mutual funds	2,872,593	-	-	2,872,593
Equities:				
Foreign sector equity	1,146,979	-	-	1,146,979
Total assets	$ 5,422,527	$ 36,664,836	$ -	$ 42,087,363

5. PROPERTY AND EQUIPMENT

Capital assets activity for the years ended December 31, 2012 and 2011 was as follows:

	12/31/11	Additions	Retirements	12/31/12	Depreciable Life
Furniture and equipment	$ 37,987	$ -	$ -	$ 37,987	5 years
Total	37,987	-	-	37,987	
Less accumulated depreciation					
Furniture and equipment	34,394	2,100	-	36,494	
Total	34,394	2,100	-	36,494	
Net carrying amount	$ 3,593			$ 1,493	

	12/31/10	Additions	Retirements	12/31/11	Depreciable Life
Computer	$ 3,436	$ -	$ (3,436)	$ -	3 years
Furniture and equipment	37,987	-	-	37,987	5 years
Total	41,423	-	(3,436)	37,987	
Less accumulated depreciation					
Computer	3,436	-	(3,436)	-	
Furniture and equipment	31,197	3,197	-	34,394	
Total	34,633	3,197	(3,436)	34,394	
Net carrying amount	$ 6,790			$ 3,593	

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, 2012 and 2011:

	2012	2011
Reserve for unpaid claims, beginning of year	$ 8,266,401	$ 7,095,200
Incurred losses and loss adjustment expenses	95,143,928	89,406,818
Less payment of benefits	93,396,429	88,235,617
Reserve for unpaid claims, end of year	$ 10,013,900	$ 8,266,401

7. EXCESS INSURANCE COVERAGE

CEBCO obtained specific excess insurance from a reinsurer covering individual medical health claims in excess of $400,000 for both years ended December 31, 2012 and 2011. In 2012, the excess insurance also covered individual prescription claims in excess of $400,000.

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. 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. During 2012, CEBCO contributed an additional $58,291 to County Governance Facility, LLC, for capital improvements on the property. CBCO's interest in the County Governance Facility, LLC at December 31, 2012 and 2011 was $976,747 and $916,659, respectively. CEBCO accounts for the investment under the equity method.

10. COMMITMENTS

CEBCO leased two vehicles in 2012 for use by certain employees. In 2012, $4,882 was spent on these leases. One of the leases expired during 2012. CEBCO's liability for future payments is $4,196 in 2013 and $350 in 2014.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF CONTRACT
YEARS ENDED DECEMBER 31, 2012 AND 2011

The schedule below presents the changes in claims liabilities for CEBCO's four types of contracts in the year 2012 medical, pharmacy, dental, and vision benefits.

	Medical	Pharmacy	Dental	Vision	Total
Unpaid losses and loss adjustment expenses, beginning of fiscal year	$ 7,452,000	$ 756,300	$ 50,000	$ 8,101	$ 8,266,401
Plus: Incurred losses and loss adjustment expenses					
Provision for insured events of the current year	77,589,555	17,621,027	1,226,453	179,700	96,616,735
Provision (benefit) for events of prior years	(1,402,677)	(48,376)	(19,731)	(2,023)	(1,472,807)
	76,186,878	17,572,651	1,206,722	177,677	95,143,928
Less: Payments					
Benefits attributable to insured events of the current year	68,527,555	16,731,327	1,171,953	172,000	86,602,835
Benefits attributable to insured events of prior years	6,049,323	707,924	30,269	6,078	6,793,594
Total payments	74,576,878	17,439,251	1,202,222	178,078	93,396,429
Total unpaid losses and loss adjustment expenses, end of fiscal year	$ 9,062,000	$ 889,700	$ 54,500	$ 7,700	$ 10,013,900

The schedule below presents the changes in claims liabilities for CEBCO's four types of contracts in the year 2011: medical, pharmacy, dental, and vision benefits.

	Medical	Pharmacy	Dental	Vision	Total
Unpaid losses and loss adjustment expenses, beginning of fiscal year	$ 6,345,000	$ 713,000	$ 33,600	$ 3,600	$ 7,095,200
Plus: Incurred losses and loss adjustment expenses					
Provision for insured events of the current year	74,016,770	14,728,048	958,369	140,422	89,843,609
Provision (benefit) for events of prior years	(389,684)	(44,122)	(4,004)	1,019	(436,791)
	73,627,086	14,683,926	954,365	141,441	89,406,818
Less: Payments					
Benefits attributable to insured events of the current year	66,564,770	13,971,748	908,369	132,321	81,577,208
Benefits attributable to insured events of prior years	5,955,316	668,878	29,596	4,619	6,658,409
Total payments	72,520,086	14,640,626	937,965	136,940	88,235,617
Total unpaid losses and loss adjustment expenses, end of fiscal year	$ 7,452,000	$ 756,300	$ 50,000	$ 8,101	$ 8,266,401

See report of independent auditors on page 1.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

CLAIMS DEVELOPMENT
YEARS ENDED DECEMBER 31, 2012, 2011, 2010, 2009,
2008, 2007, 2006, 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 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.

See report of independent auditors on page 1.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

CLAIMS DEVELOPMENT
YEARS ENDED DECEMBER 31, 2012, 2011, 2010, 2009, 2008, 2007, 2006, 2005 AND 2004

	2012	2011	2010	2009	2008	2007	2006	2005	2004
1. Required contribution and investment and other revenue									
Earned	$ 109,146,419	$ 103,829,827	$ 94,032,182	$ 93,353,175	$ 84,755,353	$ 59,435,704	$ 54,239,220	$ 44,536,673	$ 24,685,175
Ceded	(1,114,484)	(840,548)	(739,999)	(1,347,182)	(1,379,739)	(1,430,626)	(1,353,094)	(1,267,476)	(632,208)
Net earned	108,031,935	102,989,279	93,292,183	92,005,993	83,375,614	58,005,078	52,886,125	43,269,197	24,052,967
2. Unallocated expenses	6,197,311	5,831,729	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	98,454,324	90,620,600	81,920,983	89,093,702	71,585,326	47,289,943	41,368,758	31,971,528	22,523,420
Ceded	(1,837,589)	(776,991)	(386,511)	(756,131)	(294,902)	(377,252)	(369,040)	(159,566)	(145,294)
Net incurred	96,616,735	89,843,609	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	86,602,835	81,577,208	74,439,272	79,958,391	64,793,613	42,507,964	37,068,417	30,774,328	18,134,383
One year later		88,502,097	81,049,187	85,861,606	71,723,792	46,107,576	40,498,922	32,909,168	19,622,159
Two years later			80,963,771	85,937,305	71,557,873	45,848,055	40,547,249	32,901,826	19,596,863
Three years later				85,892,231	71,537,984	45,819,905	40,592,450	32,885,945	19,544,244
Four years later					71,531,177	45,818,589	40,591,131	32,885,945	19,544,080
Five years later						45,818,592	40,591,131	32,885,889	19,544,080
Six years later							40,591,131	32,885,889	19,544,080
Seven years later								32,885,889	19,544,080
Eight years later									19,544,080
Nine years later									
5. Re-estimated net incurred claims and expense, as of:									
End of policy year	96,616,735	89,843,609	81,534,472	88,337,571	71,290,424	46,912,691	40,999,718	31,811,962	22,378,126
One year later		88,502,097	81,049,187	85,861,606	71,723,793	46,775,919	40,829,796	32,909,168	22,378,126
Two years later			80,963,771	85,937,305	71,557,873	46,501,524	40,829,796	32,901,826	19,596,863
Three years later				85,892,231	71,531,984	45,819,905	40,829,795	32,885,945	19,544,244
Four years later					71,531,177	45,818,589	40,591,131	32,885,945	19,544,080
Five years later						45,818,582	40,591,131	32,885,889	19,544,080
Six years later							40,591,131	32,885,889	19,544,080
Seven years later								32,885,889	19,544,080
Eight years later									19,544,080
Nine years later									
6. Increase (decrease) in estimated incurred claims from previous year		(1,341,512)	(85,416)	(45,074)	(807)	(7)	-	-	-
7. Increase (decrease) in estimated incurred claims from original estimate		(1,341,512)	(570,701)	(2,445,340)	240,753	(1,094,109)	(408,587)	1,073,927	(2,834,046)

See report of independent auditors on page 1.

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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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of County Employee Benefits Consortium of Ohio, Inc. (CEBCO), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise CEBCO's basic financial statements and have issued our report thereon dated June 17, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of CEBCO's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether CEBCO's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

June 17, 2013

Dave Yost • Auditor of State

COUNTY EMPLOYEE BENEFIT CONSORTIUM OF OHIO, INC

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 20, 2013

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