

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

FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES

DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the County Employee Benefits Consortium of Ohio, Inc., Franklin County, prepared by Blue & Co., LLC, for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

November 23, 2005

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2004, and the results of its operations and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Board of Directors
County Employee Benefits Consortium, Inc.
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In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2005, on our consideration of the County Employee Benefits Consortium of Ohio, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Blue & Co., LLC

June 16, 2005

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

The management's discussion and analysis of County Employee Benefits Consortium of Ohio, Inc. (CEBCO) provides an overall review of CEBCO's financial activities. The intent of this discussion and analysis is to provide further information on CEBCO's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of CEBCO's financial performance.

Overview of the Organization

Beginnings

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.

The Program

CEBCO is a self-funded, group purchasing consortium that offers medical, dental, vision, and prescription drug coverage, as well as life insurance. Various plan options are available to members. 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.

Operations

CEBCO has agreements with several separate organizations whereby each provides certain administrative, executive, accounting, actuarial, marketing or other services to CEBCO.

CCAO provides management and administrative services to CEBCO. Under an agreement with CEBCO, CCAO and the County Risk Sharing Authority (CORSA), a property and liability insurance pool for Ohio counties, furnish professional and support staff to CEBCO. The staff, besides providing managerial oversight, performs bookkeeping and accounting functions for CEBCO.

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

Anthem Blue Cross Blue Shield provides medical claims settlement and adjustment services to CEBCO. Under a contract, Anthem pays CEBCO members' claims and CEBCO subsequently reimburses Anthem. Membership cards for CEBCO members show both Anthem's and CEBCO's logos. CEBCO has similar contracts with Caremark (formerly Advance/PCS) for prescription claims, and Delta Dental for dental claims.

Aon Consulting Group provides consulting and actuarial services to CEBCO. Aon is responsible for the collection and management of data, rate setting, marketing and sales functions, and vendor oversight management.

MedBen provides billing and bookkeeping services to CEBCO. MedBen bills CEBCO members for their monthly premiums, and monitors and maintains several bank accounts in the name of CEBCO. MedBen also furnishes bank reconciliations for these accounts.

Overview of the Financial Statements

This annual report consists of financial statements and notes to those statements. The financial statements include the accounts and transactions of CEBCO. The Statement of Net Assets, Statement of Revenue, Expenses, and Changes in Net Assets, and the Statement of Cash Flows provide an indication of CEBCO's financial health. The Statement of Net Assets includes CEBCO's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes. The Statement of Revenue, Expenses, and Changes in Net Assets report the revenues and expenses during the time periods indicated. The Statement of Cash Flows report the sources and uses of cash during the year.

These statements are organized to present CEBCO as a whole.

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

Financial Analysis of CEBCO

Table 1 provides a summary of CEBCO's Statement of Net Assets for 2004.

Table 1:

Assets	
Current	\$ 6,251,955
Long-term	16,193
Total assets	<u>6,268,148</u>
Total liabilities	<u>7,097,176</u>
Net assets	<u><u>\$ (829,028)</u></u>

The majority of CEBCO's assets are in the "current asset" category, meaning that they are either cash, can be converted to cash quickly, or are expected to become cash soon. The statement shows CEBCO's total current assets at December 31, 2004 to be \$6,251,955, which is primarily cash in banks. Assets in the long-term category are fixed assets, valued net of depreciation at year-end, at \$16,193.

Liabilities represent amounts owed to outside companies for 2004 services that were paid in 2005 of \$545,451, amounts calculated as reasonable estimates for claims incurred but not reported to the claims administrators of \$4,243,743, unearned premium of \$1,496,384 and related party payables of \$811,598. Unearned premium is the amount of premiums for the upcoming fiscal year that have been received but have not yet been earned.

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

The liabilities shown on the statement reflect amounts received by CEBCO from the County Commissioners Association of Ohio and the County Risk Sharing Authority. CCAO and CORSA funded the start-up of the CEBCO program. This included paying consulting fees, incorporation and legal fees, and general and administrative costs to start operations. In 2004, CCAO and CORSA provided funds to CEBCO to cover administrative expenses as needed. The agreement between the three parties, as approved by the Boards of Directors of each entity, was that CEBCO would repay CCAO and CORSA when fiscally prudent to do so. There were no fees attached to the funds provided, and no interest was to be charged and no date by which the amounts had to be repaid was mandated. The total amount provided to CEBCO was \$811,598.

At the end of its first year of operations, CEBCO had a deficiency in net assets of \$829,028. Prior to operations, CEBCO incurred \$588,182 in pre-operating costs that were expensed as incurred.

Statement of Changes in Net Assets

The following table shows the changes in net assets for 2004.

Table 2:

Revenues	
Premiums earned (member contributions)	\$ 24,655,411
Less: commercial insurance coverage	(632,208)
Interest income	29,764
Total revenues	<u>24,052,967</u>
Expenses	
Claims paid and loss adjustments	22,378,126
Claims administration expenses	1,178,104
Other expenses	737,583
Total expenses	<u>24,293,813</u>
Excess of expenses over revenues	(240,846)
Net assets (deficiency) beginning of year	(588,182)
Net assets (deficiency) end of year	<u><u>\$ (829,028)</u></u>

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

Premium earned is the amount of premium paid or due for the 2004 fiscal year. This amount is reduced by the amount paid by CEBCO for reinsurance. CEBCO purchases reinsurance to cover the risk of large claims. CEBCO insures the first \$150,000 of each medical claim. The reinsurer reimburses amounts above this level.

Interest income consists of the interest earned on CEBCO's various checking accounts. In 2004, CEBCO held its funds in highly liquid money market accounts.

Loss and loss adjustment expenses consist of claims paid during the year, plus the ultimate cost of claims determined by the consulting actuary to be incurred for the current year but not yet reported. This "reserve for unpaid claims" amount is an estimate that is computed by the actuary in conformity with accepted loss reserving standards.

Claims paid and loss adjustment expenses are mainly the fees to the vendors who process the claims and perform billing services for CEBCO. Other expenses are general and administrative costs incurred during the year. Organizational costs are those expenses that were incurred before operations began, including consulting and legal fees in the start-up of the consortium.

In its first year of operations, CEBCO's expenses exceeded its revenues by \$240,846.

The Statement of Cash Flows

This statement reviews how CEBCO's cash balance changed from January 1, 2004 to December 31, 2004. It is divided into three different sections, each explaining where CEBCO was provided or used cash during the year. These sections relate to CEBCO's operations, investing activities, and capital and related financing activities. This statement provides detail regarding the increases and decreases in CEBCO's cash position during the year.

CEBCO had a positive cash flow for the year ended December 31, 2004. The net cash provided by operating activities was \$6,020,291. Most of this cash flow went into the Claims Reserve and other accounts to cover the claims costs as determined by the consulting actuary.

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

The Second Year of Operations

CEBCO ended its first year of operations with a deficiency in net assets. In its second year of operations, as of the date of this report, CEBCO has experienced changes that indicate to its management that CEBCO will continue to meet the obligations of its members, vendors, and related parties.

- Two Ohio counties became new CEBCO members in the first quarter of 2005. A third county joined as of May 1, 2005. This represents an increase of 2,100 lives in the program, a 64% increase, since December 31, 2004.

In addition, the Management and Board of Directors of CEBCO have put into place the following measures to ensure that CEBCO will continue to meet the obligations of its members, vendors, and related parties.

- In October of 2004, the Board of Directors approved a change in the administrative fee portion of premium. In 2004, the administrative fee was 1.5% of premium. In 2005 the administrative fee was changed to \$11.39 per employee per month. This will create an increase in cash flow to cover administrative expenses.
- As of February, 2005, funds in certain reserve accounts were moved from money market accounts into sweep accounts supplying a higher interest rate and therefore providing increased cash flow.

Contacting CEBCO Financial Management

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

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENT OF NET ASSETS DECEMBER 31, 2004

ASSETS

Assets

Cash and cash equivalents	\$ 6,251,955
Property and equipment, net of depreciation	16,193
Total assets	<u>\$ 6,268,148</u>

Liabilities

Accounts payable	\$ 545,451
Unearned premium	1,496,384
Reserve for unpaid claims	4,243,743
Related party payables	811,598
Total liabilities	<u>7,097,176</u>

Net Assets

Net assets - unrestricted	(845,221)
Net assets - invested in capital assets net of related debt	16,193
Total net assets	<u>(829,028)</u>
Total liabilities and net assets	<u>\$ 6,268,148</u>

See accompanying notes to financial statements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2004

Revenues

Premiums	\$ 24,655,411
Ceded premiums	(632,208)
Net premiums earned	<u>24,023,203</u>
Interest income	<u>29,764</u>
Total revenue	<u>24,052,967</u>

Expenses

Claims paid and loss adjustments	22,378,126
Claims administration	1,178,104
General and administrative expenses	640,080
Commission	90,047
Depreciation	5,323
Investment fees	<u>2,133</u>
Total expenses	<u>24,293,813</u>

Excess of expenses over revenues (240,846)

Net assets at beginning of year (588,182)

Net assets at end of year \$ (829,028)

See accompanying notes to financial statements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2004

Operating activities

Cash received for premiums	\$ 26,151,795
Cash paid for claims	(17,724,895)
Cash payments to vendors for services and goods	(1,617,049)
Cash paid for excess insurance	(632,208)
Cash paid to employees for wages and benefits	(157,352)
Net cash flows from operating activities	<u>6,020,291</u>

Capital and related financing activities

Purchase of property and equipment	(21,516)
Related party payables	223,416
Net cash flows from capital and related financing activities	<u>201,900</u>

Investing activities

Interest received on cash and cash equivalents	<u>29,764</u>
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Net change in cash and cash equivalents 6,251,955

Cash and cash equivalents - beginning of year

-

Cash and cash equivalents - end of year

\$ 6,251,955

Reconciliation of excess of expenses over revenues to net cash from operating activities:

Excess of expenses over revenues	(240,846)
Interest income considered investing activities	(29,764)
Amortization and depreciation	5,323

Changes in operating assets and liabilities

Reserve for unpaid claims	4,243,743
Unearned premium	1,496,384
Accounts payable	545,451
Net cash flows from operating activities	<u><u>\$ 6,020,291</u></u>

See accompanying notes to financial statements.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

1. ORGANIZATION AND PLAN OF OPERATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

Use of Estimates

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

Cash and Cash Equivalents

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

Premiums Revenue and Unearned Premiums

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

Reserve for Unpaid Claims

CEBCO's reserve for unpaid claims is determined using actuarial analysis and is computed in accordance with accepted loss standards. The reserve represents an estimate of the ultimate cost of all claims incurred which were unpaid at December 31, 2004. This includes an estimate of claims incurred but not yet reported as of December 31, 2004. 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 results of operations in the period in which estimates are changed. Reserves are not discounted.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

Capital Assets

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

Income Taxes

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

Risk Management

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

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

3. DEPOSITS

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

Deposits

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

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

4. PROPERTY AND EQUIPMENT

Capital assets activity for the year ended December 31, 2004 was as follows:

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

5. RESERVE FOR UNPAID CLAIMS

As discussed in Note 1, the reserve for unpaid claims is determined using actuarial analysis and is computed in accordance with accepted loss reserve standards. The reserve represents a liability for both reported and unreported claims. The following represents changes in the reserves for unpaid claims for the year ended December 31, 2004:

Balance at January 1, 2004	\$ -
Incurred losses and loss adjustment expenses	22,378,126
Less payment of benefits	<u>18,134,383</u>
Balance at December 31, 2004	<u>\$ 4,243,743</u>

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

6. EXCESS INSURANCE COVERAGE

CEBCO obtained specific excess insurance from a reinsurer covering individual medical health claims in excess of \$150,000 for the year ended December 31, 2004.

7. RELATED PARTIES

CEBCO received advances from CORSA and CCAO to pay for expenses related to CEBCO start-up activities. Amounts due to CORSA and CCAO relating to these start-up expenses was \$811,598 at December 31, 2004. There are no formal repayment terms.

CEBCO has a line of credit available from CORSA in the amount of \$1,000,000. There were no borrowings under the line-of-credit at December 31, 2004. The line-of-credit expires in December 2005 at an interest rate of 5%.

CEBCO rents space from CCAO for its administrative activities. Rent expense for this space was \$12,000 for 2004.



REPORT OF INDEPENDENT AUDITORS
ON OTHER FINANCIAL INFORMATION

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

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

Blue & Co., LLC

June 16, 2005

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

**RECONCILIATION OF CLAIMS LIABILITY BY TYPE OF CONTRACT
YEAR ENDED DECEMBER 31, 2004**

The schedule below presents the changes in claims liabilities for CEBCO's three types of contracts in the year 2004: employee medical, pharmacy, and dental benefits.

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

See report of independent auditors on page 12.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

CLAIMS DEVELOPMENT YEAR ENDED DECEMBER 31, 2004

The following table illustrates how CEBCO's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by CEBCO as of the end of the fiscal period. The rows of the table are defined as follows: (1) This line shows the total of the fiscal period's earned contribution revenues and investment revenues. (2) This line shows the fiscal year's other operating costs including overhead and claims expense not allocable to individual claims. (3) This line shows CEBCO's estimated incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the claim occurred (called the policy year). (4) This section shows the cumulative amounts paid as of the end of the policy year. (5) This section will show how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation will result from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. Since this is CEBCO's first year of operations, there has been no re-estimation to date. (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. In future fiscal year claim development reports, the columns of the table will show data for successive policy years.

See report if independent auditors on page 12.

COUNTY EMPLOYEE BENEFITS CONSORTIUM OF OHIO, INC.

CLAIMS DEVELOPMENT YEAR ENDED DECEMBER 31, 2004

1. Required contribution and investment revenue	
Earned	\$ 24,655,411
Ceded	632,208
Net earned	<u>24,023,203</u>
2. Unallocated expenses	1,915,686
3. Estimated claims and expenses, end of policy year:	
Incurred	22,523,420
Ceded	145,294
Net incurred	<u>22,378,126</u>
4. Net paid claims as of:	
End of policy year	18,134,383
One year later	
Two years later	
Three years later	
Four years later	
Five years later	
Six years later	
Seven years later	
Eight years later	
Nine years later	
5. Re-estimated net incurred claims and expense, as of:	
End of policy year	22,378,126
One year later	
Two years later	
Three years later	
Four years later	
Five years later	
Six years later	
Seven years later	
Eight years later	
Nine years later	
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ -

See report of independent auditors on page 12.



**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 year ended December 31, 2004, and have issued our report thereon dated June 16, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered County Employee Benefits Consortium of Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted certain matters that we reported to management of County Employee Benefits Consortium of Ohio, Inc. in a separate letter dated June 16, 2005.

Compliance and Other Matters

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

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

Blue & Co., LLC

June 16, 2005



**Auditor of State
Betty Montgomery**

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COUNTY EMPLOYEES BENEFITS CONSORTIUM OF OHIO

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 22, 2005**