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SUPERMARKET & GROCERS INSURANCE TRUST FUND

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 1996

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CONTENTS

INDEPENDENT AUDITORS' REPORT.....	PAGE 1
FINANCIAL STATEMENTS	
Balance Sheets.....	2
Statements of Operations and Members' Equity.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5

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INDEPENDENT AUDITORS' REPORT

To The Board of Trustees
Supermarket & Grocers Insurance Trust Fund
Syracuse, New York

We have audited the accompanying balance sheets of Supermarket & Grocers Insurance Trust Fund as of December 31, 1996 and 1995, and the related statements of operations and members' equity, and cash flows, for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 statements. 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 reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Supermarket & Grocers Insurance Trust Fund as of December 31, 1996 and 1995, and results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Kruth, Stein, Squadrito & Liberman, CPAs

October 23, 1997

SUPERMARKET & GROCERS INSURANCE TRUST FUND

BALANCE SHEETS

DECEMBER 31, 1996 AND 1995

	<u>1996</u>	<u>1995</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and certificate of deposit - Note A	\$ 136,057	\$ 298,329
Restricted cash and investments - Note C	450,000	450,000
Accounts receivable	33,251	13,809
Prepaid trust re-insurance - Note D	34,836	18,327
Prepaid expenses	-0-	14,019
Accrued interest income	-0-	1,637
TOTAL CURRENT ASSETS	<u>654,144</u>	<u>796,121</u>
OTHER ASSETS		
Deferred tax asset - Note I	<u>21,450</u>	<u>-0-</u>
TOTAL ASSETS	<u>\$ 675,594</u>	<u>\$ 796,121</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Claims reserve - Note E	\$ 518,907	\$ 262,993
Notes payable - Note F	-0-	435,000
Accrued administration fee - Note G	-0-	6,228
Accrued taxes	29,399	-0-
Members' security deposits - Note H	<u>103,698</u>	<u>113,574</u>
TOTAL LIABILITIES	<u>652,004</u>	<u>817,795</u>
MEMBERS' EQUITY		
Members' equity (deficit)	<u>23,590</u>	<u>(21,674)</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 675,594</u>	<u>\$ 796,121</u>

See accompanying notes to financial statements.

SUPERMARKET & GROCERS INSURANCE TRUST FUND
STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

	<u>1996</u>	<u>1995</u>
INCOME		
Contributions	\$ <u>641,810</u>	\$ <u>423,633</u>
OPERATING EXPENSES		
Advertising	10,198	-0-
Assessments	2,836	-0-
Claims	138,515	59,380
Claims reserve - Note E	256,403	256,943
Administration fee - Note G	131,723	84,727
Interest	38,800	55,555
Trust re-insurance - Note D	42,836	21,306
Professional services	9,024	1,400
Miscellaneous expenses	<u>1,072</u>	<u>867</u>
TOTAL OPERATING EXPENSES	<u>631,407</u>	<u>480,178</u>
INCOME (LOSS) FROM OPERATIONS	10,403	(56,545)
OTHER INCOME		
Interest income	<u>45,442</u>	<u>32,463</u>
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	55,845	(24,082)
PROVISION FOR INCOME TAXES - Note I	<u>10,581</u>	<u>797</u>
NET INCOME (LOSS)	45,264	(24,879)
MEMBERS' (DEFICIT) EQUITY-BEGINNING OF YEAR	(<u>21,674</u>)	<u>3,205</u>
MEMBERS' EQUITY (DEFICIT)-END OF YEAR	\$ <u><u>23,590</u></u>	\$ (<u><u>21,674</u></u>)

See accompanying notes to financial statements.

SUPERMARKET & GROCERS INSURANCE TRUST FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995

	<u>1996</u>	<u>1995</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ <u>45,264</u>	\$ (<u>24,879</u>)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for claim reserve	255,914	256,943
(Increase) in accounts receivable	(19,442)	(13,809)
(Increase) in prepaid expenses	(2,490)	(17,149)
(Increase) in deferred taxes	(21,450)	-0-
Decrease (increase) in accrued interest	1,637	(1,637)
Increase in accrued income taxes	29,399	-0-
(Decrease) increase in accrued expenses	(6,228)	5,453
(Decrease) increase in customer deposits	(9,876)	34,329
TOTAL ADJUSTMENTS	<u>227,464</u>	<u>264,130</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>272,728</u>	<u>239,251</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(435,000)	-0-
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(435,000)</u>	<u>-0-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(162,272)	239,251
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>298,329</u>	<u>59,078</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	\$ <u><u>136,057</u></u>	\$ <u><u>298,329</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 38,800	\$ 55,555
Income taxes (refunds)	\$ (3,867)	\$ 8,072

See accompanying notes to financial statements.

SUPERMARKET & GROCERS INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1996 AND 1995

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Income Recognition: Contributions are considered short-duration contracts and are recognized as income over the period of the contract.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Trust considers all cash and invested cash with original maturities not in excess of three months to be cash equivalents.

Contributions: Contributions are recorded based on estimated payroll of the participating members. No final adjustment has been made for the difference between estimated contributions and contributions calculated based on audited payrolls of the members. Such final adjustments will be made prospectively upon completion of such audits.

Income Taxes: The Trust Fund is a Trust which pays the appropriate taxes based on the nature of its operations.

NOTE B - NATURE OF OPERATIONS, RISKS, AND UNCERTAINTIES

Nature of Operations: The Trust is a group, self-insurance organization providing Workers' Compensation coverage in the State of New York to employers in the retail distribution and sale of food products.

Concentration of Credit Risk: The Trust maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

Use of Estimates: The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE C - RESTRICTED CASH AND INVESTMENTS

The Trust is required to have \$450,000 deposited with the Worker's Compensation Board as a security deposit. For the year ended December 31, 1995, the securities consisted of the following:

- Direct U.S. Treasury note, \$225,000 par value, maturing August 31, 1996 earning interest at 6.25% per annum.
- Cash deposit of \$225,000 earning interest at a variable rate.

For the year ended December 31, 1996, the entire \$450,000 was deposited in a Worker's Compensation account earning interest at a variable rate.

SUPERMARKET & GROCERS INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1996 AND 1995

NOTE D - TRUST RE-INSURANCE

The Trust provides specific excess insurance as required by the State of New York, to meet statutory requirements for Workers' Compensation. The Trust also provides coverage of \$5,000,000 for employers liability. Both are for excess of the retention of \$300,000 per each claim.

NOTE E - CLAIMS RESERVE

Liabilities for reported claims and for incurred but not reported claims are estimated by the Trust. The Trust's policy is to establish a reserve for losses for reported claims on a case basis and for unreported claims on a basis of historically established industry statistical data and the Trust's own historical experience. Changes in the estimated liability are charged or credited to operations as the estimates are revised.

Since the Trust was recently organized, sufficient historical claims experience does not exist to support its estimate of amounts ultimately payable for future claims incurred as of December 31, 1996 and 1995. However, management believes the recorded amounts fairly present the liability for estimated future claims based upon current assumptions and levels of activity.

Management hired an actuarial service for assistance in the calculation of this estimated liability.

NOTE F - NOTES PAYABLE

Notes Payable as of December 31, 1995 consist of various notes payable to investors which bear interest at 12% per annum. The notes were due on October 1, 1996. Certain members of the Trust are also investors in the Trust. Interest paid on these notes during 1996 and 1995 was \$38,800 and \$52,000, respectively.

NOTE G - ADMINISTRATION FEE

The Trust utilizes New York Compensation Managers, Inc. for administrative and management purposes. Fees paid are based on terms of an informal agreement. Administration fees for 1996 and 1995 were \$131,723 and \$84,727, respectively.

NOTE H - MEMBERS' SECURITY DEPOSITS

Members are required to maintain cash deposits based on an estimated two month contribution with the Trust as a condition of membership.

SUPERMARKET & GROCERS INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1996 AND 1995

NOTE I - INCOME TAXES

The provision (benefit) for taxes for 1996 is composed of the following:

Current	\$	32,031
Deferred (benefit)	(<u>21,450</u>)
	\$	<u>10,581</u>

The deferred tax asset results from the temporary difference of recognizing the full claims reserve for financial statement purposes and the discounting of the claims reserve for Federal income tax purposes.