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SUPERMARKET & GROCERS INSURANCE TRUST FUND

AUDITED FINANCIAL STATEMENTS

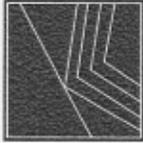
DECEMBER 31, 1999



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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, 1999 and 1998, and the related statements of operations and members' deficit, 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 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 Supermarket & Grocers Insurance Trust Fund as of December 31, 1999 and 1998, and results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Kruth, Stein, Squadrito & Liberman, CPA's

Kruth, Stein, Squadrito & Liberman, CPA's, P.C.

March 6, 2000

MEMBERS

American Institute of Certified Public Accountants
New York State Society of Certified Public Accountants

SUPERMARKET & GROCERS INSURANCE TRUST FUND

BALANCE SHEETS

DECEMBER 31, 1999 AND 1998

	<u>ASSETS</u>	
	<u>1999</u>	<u>1998</u>
CURRENT ASSETS		
Cash and certificate of deposit	\$ 607,285	\$ 311,288
Restricted cash and investments	450,000	450,000
Accounts receivable	122,367	191,613
Interest receivable	12,454	12,509
Prepaid expenses	<u>31,500</u>	<u>51,360</u>
TOTAL CURRENT ASSETS	1,223,606	1,016,770
 OTHER ASSETS		
Deferred tax asset	<u>55,200</u>	<u>44,500</u>
 TOTAL ASSETS	\$ <u>1,278,806</u>	\$ <u>1,061,270</u>
	 <u>LIABILITIES AND MEMBERS' DEFICIT</u>	
CURRENT LIABILITIES		
Accounts payable	\$ 595	\$ 24,880
Claims reserve	1,335,342	1,079,513
Accrued taxes	<u>651</u>	<u>3,839</u>
 TOTAL LIABILITIES	1,336,588	1,108,232
 MEMBERS' DEFICIT		
Members' deficit	<u>(57,782)</u>	<u>(46,962)</u>
 TOTAL LIABILITIES AND MEMBERS' DEFICIT	\$ <u>1,278,806</u>	\$ <u>1,061,270</u>

See accompanying notes to financial statements.

SUPERMARKET & GROCERS INSURANCE TRUST FUND
STATEMENTS OF OPERATIONS AND MEMBERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
INCOME		
Contributions	\$ <u>834,491</u>	\$ <u>1,090,862</u>
OPERATING EXPENSES		
Advertising	-0-	1,438
Assessments	59,562	23,538
Claims	302,370	456,032
Claims reserve	255,829	455,823
Administration fee	177,112	187,134
Trust re-insurance	69,510	38,246
Professional services	13,465	13,635
Miscellaneous expenses	<u>11,333</u>	<u>2,318</u>
TOTAL OPERATING EXPENSES	<u>889,181</u>	<u>1,178,164</u>
LOSS FROM OPERATIONS	(54,690)	(87,302)
OTHER INCOME		
Interest income	<u>40,019</u>	<u>34,576</u>
LOSS BEFORE PROVISION FOR INCOME TAXES	(14,671)	(52,726)
(CREDIT) PROVISION FOR INCOME TAXES	<u>(3,851)</u>	<u>(11,170)</u>
NET LOSS	(10,820)	(41,556)
MEMBERS' DEFICIT - BEGINNING OF YEAR	<u>(46,962)</u>	<u>(5,406)</u>
MEMBERS' DEFICIT - END OF YEAR	\$ <u>(57,782)</u>	\$ <u>(46,962)</u>

See accompanying notes to financial statements.

SUPERMARKET & GROCERS INSURANCE TRUST FUND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (10,820)	\$ (41,556)
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax credit provision	(10,700)	(18,716)
Provision for claims reserve	255,829	455,823
Decrease (increase) in accounts receivable	69,246	(140,519)
Decrease (increase) in prepaid expenses	19,860	(435)
Decrease (increase) in accrued interest receivable	55	(12,509)
Decrease in prepaid taxes	-0-	6,230
(Decrease) increase in accounts payable	(24,285)	24,880
(Decrease) customer deposits	-0-	(115,083)
(Decrease) increase in income taxes payable	(3,188)	2,449
TOTAL ADJUSTMENTS	<u>306,817</u>	<u>202,120</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>295,997</u>	 <u>160,564</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 295,997	 160,564
 CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	 <u>311,288</u>	 <u>150,724</u>
 CASH AND CASH EQUIVALENTS- END OF YEAR	 \$ <u><u>607,285</u></u>	 \$ <u><u>311,288</u></u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ <u><u>-0-</u></u>	\$ <u><u>-0-</u></u>
Income taxes (refund)	\$ <u><u>7,288</u></u>	\$ <u><u>(2,015)</u></u>

See accompanying notes to financial statements.

SUPERMARKET & GROCERS INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998

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.

Accounts Receivable: The Trust considers accounts receivable to be fully collectible. Accordingly no allowance for doubtful accounts has been established. If accounts become uncollectible, they are charged to operations, as bad debts, when that determination is made.

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 in the year such audits are finalized.

Income Taxes: The Trust Fund is a self insured entity which essentially is taxed on the excess of members' contributions over expenses incurred.

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 preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SUPERMARKET & GROCERS INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998

NOTE C - RESTRICTED CASH AND INVESTMENTS

For the years ended December 31, 1999 and 1998, \$450,000 was deposited in a State of New York Worker's Compensation account earning interest at a variable rate.

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.

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

NOTE F - 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 1999 and 1998 were \$177,112 and \$187,134, respectively.

SUPERMARKET & GROCERS INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998

NOTE G - INCOME TAXES

The provision (benefit) for taxes for 1999 and 1998 are composed of the following:

	<u>1999</u>	<u>1998</u>
Current	\$ 6,849	\$ 7,546
Deferred (benefit)	(10,700)	(18,716)
	\$ <u>(3,851)</u>	\$ <u>(11,170)</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.

NOTE H- IMPACT OF YEAR 2000 (UNAUDITED)

Management of the Trust believes that the operation of its primary financial and business systems will not be disrupted due to the impact of Year 2000. The Trust has considered the impact of the Year 2000 on the operations of its significant suppliers and other third parties. Although the Trust is currently not aware of any significant problems with these third parties, there can be no guarantee that the systems of other companies on which the Trust's systems rely will be timely converted and would not have an adverse effect on the Trust's system.