UFCW Unions and Participating Employers Health and Welfare Fund

Financial Statements

For the Years Ended December 31, 2011 and 2010

BOND BEEBE
ACCOUNTANTS & ADVISORS

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FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

BOND BEEBE
ACCOUNTANTS & ADVISORS

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
UFCW Unions and Participating
Employers Health and Welfare Fund
4301 Garden City Dr., Ste. 201
Landover, MD 20785-6102

We have audited the accompanying statements of net assets available for benefits of the UFCW Unions and Participating Employers Health and Welfare Fund as of December 31, 2011 and 2010 and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial 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 status of the UFCW Unions and Participating Employers Health and Welfare Fund as of December 31, 2011 and 2010 and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Bond Beebe

A Professional Corporation
Bethesda, MD
October 14, 2012

UFCW UNIONS AND PARTICIPATING EMPLOYERS HEALTH AND WELFARE FUND
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Investments - at fair value		
U.S. government and agency securities	$ 7,191,002	$ 6,773,739
Corporate bonds	7,714,582	6,786,409
Short-term investment funds	3,384,136	5,164,498
	18,289,720	18,724,646
Receivables		
Employer contributions	1,310,250	3,875,363
Prescription rebates	202,979	258,627
Accrued interest	154,028	140,633
Early retiree reinsurance program	-	101,093
Other	205,826	635,331
	1,873,083	5,011,047
Cash	256,855	24,775
TOTAL ASSETS	20,419,658	23,760,468
LIABILITIES		
Accounts payable and accrued expenses	240,276	276,328
NET ASSETS AVAILABLE FOR BENEFITS	$ 20,179,382	$ 23,484,140

UFCW UNIONS AND PARTICIPATING EMPLOYERS HEALTH AND WELFARE FUND
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
Contributions		
Employers	$ 48,005,440	$ 46,971,535
Participants	1,042,948	1,067,408
	49,048,388	48,038,943
Investment income		
Net appreciation in fair value of investments	367,523	370,973
Interest income	593,901	783,898
Investment expenses	(35,633)	(37,714)
	925,791	1,117,157
Other income		
Early retiree reinsurance program	61,545	101,093
Other	34,626	387,207
	96,171	488,300
TOTAL ADDITIONS	50,070,350	49,644,400
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
Benefits	48,676,975	47,535,014
Claims administration fees	3,038,712	2,899,134
Administrative expenses		
Contract administrator fees	993,473	1,071,642
Legal fees	285,818	263,001
Conference and meeting expenses	18,564	10,722
Audit fees	47,150	47,165
Payroll audit fees	5,421	7,205
Hospital audits	16,385	19,200
Actuary fees	31,680	9,441
Postage, printing and supplies	74,300	70,407
Bonding and insurance	34,020	25,482
Telephone	3,839	6,824
Consulting fees	136,377	38,954
Miscellaneous	12,394	9,520
	1,659,421	1,579,563
TOTAL DEDUCTIONS	53,375,108	52,013,711
NET DECREASE	(3,304,758)	(2,369,311)
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	23,484,140	25,853,451
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 20,179,382	$ 23,484,140

See Notes to Financial Statements

NOTE 1: PLAN DESCRIPTION

General

The UFCW Unions and Participating Employers Health and Welfare Fund (the Plan) is a multi-employer collectively bargained health benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Benefits

The Plan covers employees working in jobs covered by the collective bargaining agreements between certain employers and UFCW Local Unions 400 and 27, and participating employers for which contributions are required to be made to the Plan. The Plan provides benefits such as medical, hospitalization, surgical, mental health/substance abuse, life and accidental death and dismemberment insurance, accident and sickness, prescription drug, dental and optical benefits. Benefit levels vary, and are determined by the amount of the contributions as agreed to in the collective bargaining agreements. Under the provisions of COBRA, participants and their dependents may continue their eligibility for benefits under the Plan for a certain period after the occurrence of a qualifying event.

Eligible retirees may elect health and welfare coverage, including prescription drug coverage, subject to Plan rules and co-payments, if applicable.

Participants should refer to the Summary Plan Description for more complete information.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, benefit obligations and changes therein, IBNR, claims payable, liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Valuation of Investments and Income Recognition

Investments are presented at fair value, as follows:

- Certain U.S government securities are valued based on quoted market prices.
- Certain U.S. government and agency securities and corporate bonds are valued using quoted prices of similar assets, corroborated market data, indices and/or yield curves.
- Short-term investment funds are valued at cost, which approximates fair value.

Purchases and sales of securities are reflected on a trade-date basis. Interest income is recognized as earned.

In accordance with the policy of stating investments at fair value, net appreciation or depreciation includes the Plan's gains and losses on investments bought and sold as well as held during the period.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Claims Payable and Amounts Incurred but Not Reported

Amounts currently payable to or for participants, beneficiaries and dependents represent actual and estimated amounts paid or payable after year end for all reported claims for benefits occurring during the respective accounting periods, days lost due to disabilities that began during those periods, and other miscellaneous benefits related to services performed in those respective periods.

Postretirement Benefit Obligations

The postretirement benefit obligation represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to December 31, 2011 and 2010, reduced by the actuarial present value of contributions expected to be received in the future from or on behalf of current plan participants. Postretirement benefits include future benefits for (1) currently eligible retired employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with participating employers. The postretirement benefit obligation represents the amount that is to be funded by contributions from the plan's participating employers and from existing plan assets. Prior to an active employee's full eligibility date, the postretirement benefit is the portion of the expected postretirement benefit that is attributed to that employee's service in the industry rendered to the valuation date. However, as stated under the terms of the Plan, the Trustees and/or collective bargaining parties reserve the right to amend, modify, or terminate the Plan and the benefits provided thereunder, in whole or in part, at any time.

The actuarial present value of the expected benefit obligations is determined by the Plan's actuary and is the amount that results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims cost per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

Payment of Benefits

Benefits are recognized when paid.

Contributions from employers

Contributions from employers are accrued based upon subsequent employer remittance reports and cash receipts. Accordingly, no provisions for uncollectible amounts are recorded.

Contributions from participants

Participant contributions represent premium copayments received from current retirees. All retirees are required to pay for Medicare Part B when they become eligible for that benefit.

Subsequent Events

In preparing these financial statements, management of the Plan has evaluated events and transactions that occurred after December 31, 2011 for potential recognition or disclosure in the financial statements. These events and transactions were evaluated through October 14, 2012, the date that the financial statements were available to be issued.

NOTE 3: RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

NOTE 3: RISKS AND UNCERTAINTIES - continued

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could materially affect the amounts reported and disclosed in the financial statements.

NOTE 4: INVESTMENTS

The following summary presents the cost and fair value for investments held at the end of the year. Investments representing 5% or more of the Plan's net assets available for benefits are separately identified:

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Short-term investment funds				
PNC government money market fund #405	$ 3,312,071	$ 3,312,071	$ 4,693,798	$ 4,693,798
Other	72,065	72,065	470,700	470,700
U.S government and agency securities	6,809,050	7,191,002	6,501,466	6,773,739
Corporate bonds	7,203,978	7,714,582	6,357,868	6,786,409
	$ 17,397,164	$ 18,289,720	$ 18,023,832	$ 18,724,646

During 2011 and 2010, the Plan's investments (including investments bought, sold and held during the year) appreciated (depreciated) in fair value as follows:

	2011	2010
Investments at fair value as determined by quoted market prices		
U.S. government and agency securities	$ 132,936	$ 27,431
Investments at estimated fair value		
U.S government and agency securities	12,328	112,349
Corporate bonds	222,259	231,193
	$ 367,523	$ 370,973

NOTE 5: FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a fair value reporting hierarchy and define three broad levels of inputs (the assumption that market participants would use in pricing the asset or liability) as noted below:

Level 1

Inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets may include securities that are traded in an active exchange market or actively traded in over-the-counter markets.

NOTE 5: FAIR VALUE MEASUREMENTS - continued

Level 2

Valuation is based on directly or indirectly observable inputs other than quoted prices included within Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or inputs other than quoted prices that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.

Level 3

Valuation is based on unobservable inputs for the asset or liability. Level 3 assets may include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. See Note 2 for more specific detail on valuation methodology. There have been no changes in the valuation methodology used at December 31, 2011 and 2010.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for benefits. For the year ended December 31, 2011, there were no significant transfers in or out of levels 1, 2 or 3.

As of December 31, 2011 and 2010, assets measured at fair value on a recurring basis are summarized by level within the fair value hierarchy as follows:

	2011			
	Level 1	Level 2	Level 3	Total Fair Value
U.S. government and agency securities	$ 2,278,581	$ 4,912,421	$ -	$ 7,191,002
Corporate bonds	-	7,714,582	-	7,714,582
Short-term investment funds	-	3,384,136	-	3,384,136
	$ 2,278,581	$ 16,011,139	$ -	$ 18,289,720

	2010			
	Level 1	Level 2	Level 3	Total Fair Value
U.S. government and agency securities	$ 2,776,344	$ 3,997,395	$ -	$ 6,773,739
Corporate bonds	-	6,786,409	-	6,786,409
Short-term investment funds	-	5,164,498	-	5,164,498
	$ 2,776,344	$ 15,948,302	$ -	$ 18,724,646

NOTE 6: TAX STATUS

The Internal Revenue Service has recognized the trust as exempt from federal income taxation under Section 501(a) of the Internal Revenue Code, as described at Section 501(c)(9), as stated in its latest determination letter in 1994. The Internal Revenue Service stated the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (the Code). The Plan has been amended since receiving the determination letter. However, the Plan's Trustees believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code.

Generally accepted accounting principles require management to evaluate tax positions taken and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has evaluated the tax positions taken by the Plan and concluded that as of December 31, 2011 there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that the Plan is no longer subject to tax examinations for years prior to 2008.

NOTE 7: PRIORITIES UPON TERMINATION

It is the intent of the trustees to continue the Plan in full force and effect. However, in order to safeguard against any unforeseen contingencies, the right to discontinue the Plan is reserved to the trustees. In the event of termination, the trustees shall first satisfy or make provisions to satisfy the obligations of the Plan. Any remaining plan assets will be distributed in such manner as will, in the opinion of the trustees, bring about the purpose of the Plan. Termination shall not permit any part of the plan assets to be used for or diverted to purposes other than the exclusive benefit of the participants.

NOTE 8: CONTRIBUTIONS FROM MAJOR EMPLOYERS

Three employers accounted for approximately 95% of total contributions for the years ended December 31, 2011 and 2010, with two employers with common ownership representing 53% and 61%, respectively, of total contributions for those years.

NOTE 9: BENEFIT OBLIGATIONS

The Plan reports its benefit obligations in conformity with generally accepted accounting principles. Information regarding amounts currently payable to or for participants, beneficiaries, and dependents for service providers and insurance premiums as of December 31, 2011 and 2010 are determined by the Plan's management. Information regarding amounts amounts incurred but not reported and the present value of the Plan's benefit obligations as of December 31, 2011 and 2010, is determined by the Plan's actuaries. Information regarding the present value of the Plan's benefit obligations as of December 31, 2011 and 2010, is shown below:

	2011	2010
Amounts currently payable to or for participants, beneficiaries, and dependents		
Claims currently payable and amounts incurred but not reported	$ 5,300,000	$ 6,000,000
Group insurance and service providers payable	20,542	290,115
	5,320,542	6,290,115
Benefit obligations		
Current retirees	59,500,000	37,400,000
Other participants fully eligible for benefits	29,800,000	29,900,000
Participants not fully eligible for benefits	56,100,000	63,500,000
	145,400,000	130,800,000
Total benefit obligations	$ 150,720,542	$ 137,090,115

NOTE 9: BENEFIT OBLIGATIONS - continued

Information regarding the changes in benefit obligations for the years ended December 31, 2011 and 2010 is shown below:

	2011	2010
Amounts currently payable to or for participants, beneficiaries, and dependents		
Balance at beginning of year	$ 6,290,115	$ 6,095,130
Increase (decrease) during year attributable to		
Changes in medical claims and claims incurred but not reported	(700,000)	300,000
Changes in group insurance and service providers payable	(269,573)	(105,015)
Balance at end of year	5,320,542	6,290,115
Postretirement benefit obligations		
Balance at beginning of year	130,800,000	122,200,000
Increase (decrease) during year attributable to		
Changes in actuarial assumptions	7,900,000	-
Changes due to passage of time	7,700,000	7,500,000
Benefits paid	(3,800,000)	(3,200,000)
Other changes	2,800,000	4,300,000
Balance at end of year	145,400,000	130,800,000
Total plan benefit obligations	$ 150,720,542	$ 137,090,115

Changes in actuarial assumptions reflect a change in the discount rate from 6.0% to 4.5% to reflect the current economic environment. In addition, the claims curves were updated to reflect actual experience and future anticipated experience. The trend assumption has also been updated. Finally, the retirement, termination and mortality assumptions were all updated to reflect future anticipated experience. Some of the more significant actuarial assumptions used to calculate the benefit obligations at December 31, 2011 and 2010 are as follows:

Economic Assumptions

- Discount Rate - 4.5% for 2011 and 6.0% for 2010.
- Medical trend for Medicare:
  - 2011: 6.0% for the change from 2012 to 2013 grading to 4% for 2027 to 2028 and later.
  - 2010: 7.0% for the change from 2010 to 2011 grading to 5% for 2025 and later.
- Medical trend for non-Medicare and drug:
  - 2011: 8.0% for the change from 2012 to 2013 grading to 4% for 2027 to 2028 and later.
  - 2010: 9.5% for the change from 2010 to 2011 grading to 5% for 2025 and later.

NOTE 9: BENEFIT OBLIGATIONS - continued

Rate of Mortality

- 2011: Based on the RP-2000 combined healthy mortality table for males and females.
- 2010: Based on the UP-1984 mortality table, set forward one year for males and set back four years for females.

The benefit obligations are reported net of the present value of estimated contributions expected to be paid by retirees of $41,300,000 and $43,600,000 as of December 31, 2011 and 2010, respectively. The medical trend rate has a significant effect on the amounts reported. If the assumed rates increased by one-percentage point in each year, that would increase (decrease) the benefit obligations as of December 31, 2011 and 2010 by $23,200,000 and $20,400,000, respectively.

The Plan made prescription drug benefit payments of $7,271,335 and $7,011,418 during the years ended December 31, 2011 and 2010, respectively. The Plan received $225,517 and $198,023 of Medicare subsidy during the years ended December 31, 2011 and 2010, respectively. Medicare subsidies are netted with benefits that are shown on the statements of changes in net assets available for benefits.

NOTE 10: RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of the Plan's net assets available for benefits per the accompanying 2011 and 2010 financial statements to the Form 5500:

	2011	2010
Net assets available for benefits per the financial statements	$ 20,179,382	$ 23,484,140
Amounts currently payable to or for participants, beneficiaries, and dependents at end of year	(5,320,542)	(6,290,115)
Net assets available for benefits per Form 5500	$ 14,858,840	$ 17,194,025

The following is a reconciliation of benefits paid per the financial statements to the Form 5500 for the year ended December 31, 2011:

Benefits paid per the financial statements	$ 48,676,975
Amounts currently payable to or for participants, beneficiaries, and dependents at end of year	5,320,542
Amounts currently payable to or for participants, beneficiaries, and dependents at beginning of year	(6,290,115)
Benefits paid per Form 5500	$ 47,707,402

Benefits paid recorded on the Form 5500 include benefit claims that have been processed and approved for payment prior to December 31, 2011 but not yet paid as of that date, and claims incurred but not reported at the end of the Plan year.

NOTE 11: BENEFIT REIMBURSEMENT ARRANGEMENT

The Plan has one employer that negotiates a collective bargaining agreement establishing a 100% benefit reimbursement arrangement, whereby the employer pays all the health benefit costs of its employees, plus an administrative fee. The benefits paid and reimbursements received for 2011 and 2010 are as follows:

	2011	2010
Benefits paid	$ 7,537,206	$ 6,700,186
Reimbursements received	7,332,946	6,511,673
Net amounts due from employer	$ 204,260	$ 188,513

Benefits paid and reimbursements received or accrued are recorded as benefits and employer contributions, respectively, in the statements of changes in net assets available for benefits. The net amounts advanced by, or due from, the employer are recorded as deposits or other receivables on the statements of net assets available for benefits for 2011 and 2010, respectively.

BOND BEEBE
ACCOUNTANTS & ADVISORS

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTAL INFORMATION

Board of Trustees
UFCW Unions and Participating Employers Health
and Welfare Fund
4301 Garden City Dr., Ste. 201
Landover, MD 20785-6102

We have audited the financial statements of UFCW Unions and Participating Employers Health and Welfare Fund as of and for the years ended December 31, 2011 and 2010, and our report thereon dated October 14, 2012 which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of contributions and benefits are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bond Beebe

A Professional Corporation
Bethesda, MD
October 14, 2012

	2011	2010
EMPLOYER CONTRIBUTIONS		
Associated Administrators, LLC	$ 75,649	$ 60,712
Automated Communications System	28,514	26,836
Retail Brand Alliance	186,477	165,156
David Prosten Associates	28,928	27,888
Delmarva UFCW	27,317	25,844
Kel-Co Federal Credit Union	138,110	144,555
Kroger Food Stores	20,479,080	15,986,671
Magruders	766,496	811,804
Metro	7,038,813	7,354,509
Safeway	145,630	160,874
Shoppers Food Warehouse	18,997,831	22,112,265
UFCW Local 400	92,595	90,121
Union Leader Printing	-	4,300
	48,005,440	46,971,535
INDIVIDUAL PARTICIPANT CONTRIBUTIONS	1,042,948	1,067,408
	$ 49,048,388	$ 48,038,943

	2011	2010
MEDICAL BENEFITS PAID DIRECTLY BY THE PLAN		
Accident and sickness benefits	$ 1,897,251	$ 2,116,652
Health claims	28,974,733	28,408,227
	30,871,984	30,524,879
BENEFITS AND ADMINISTRATIVE FEES PAID TO SERVICE PROVIDERS		
Pharmaceutical		
Informed RX	6,057,299	5,927,332
Kroger	729,024	597,767
Optical		
Fidelity	339,399	389,755
Fidelity - Richmond Tidewater	47,447	-
VSP - Kroger	15,359	50,433
Mental Health and Substance Abuse Benefits		
Value Options	724,779	640,292
Other Medical		
Anthem Health Insurance - Kroger	5,333,167	4,798,763
	13,246,474	12,404,342
INSURANCE PREMIUMS		
Dental		
Group Dental Services, Inc.	2,405,084	2,418,654
Health Maintenance Organizations		
Aetna U.S. Healthcare - Richmond Tidewater	392,499	332,462
Kaiser Permanente	1,484,134	1,519,903
Life, AD&D insurance		
Reliastar	201,321	260,027
Metlife	75,479	74,747
	4,558,517	4,605,793
TOTAL BENEFITS	$ 48,676,975	$ 47,535,014