UFCW Unions and Participating Employers Health and Welfare Fund

Financial Statements

For the Years Ended December 31, 2013 and 2012

BOND BEEBE
ACCOUNTANTS & ADVISORS

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the UFCW Unions and Participating Employers Health and Welfare Fund (the Plan), which comprise the statements of net assets available for benefits as of December 31, 2013 and 2012 and the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Plan's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its financial status for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brad Beebe

A Professional Corporation
Bethesda, MD
October 15, 2014

UFCW UNIONS AND PARTICIPATING EMPLOYERS HEALTH AND WELFARE FUND
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Investments - at fair value		
U.S. government and agency securities	$ 4,344,439	$ 4,970,578
Corporate bonds	6,872,886	8,478,382
Short-term investment funds	2,169,674	1,810,549
	13,386,999	15,259,509
Receivables		
Employer contributions	1,974,459	3,308,768
Prescription rebates	96,839	193,897
Accrued interest	90,072	124,102
Other	482,660	184,794
	2,644,030	3,811,561
Other assets		
Cash	25,091	25,352
Prepaid expenses	12,012	-
	37,103	25,352
TOTAL ASSETS	16,068,132	19,096,422
LIABILITIES		
Accounts payable and accrued expenses	221,973	204,429
NET ASSETS AVAILABLE FOR BENEFITS	$ 15,846,159	$ 18,891,993

UFCW UNIONS AND PARTICIPATING EMPLOYERS HEALTH AND WELFARE FUND
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
Contributions		
Employers	$ 45,150,562	$ 47,595,739
Participants	1,099,123	1,149,940
	46,249,685	48,745,679
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	(565,979)	55,498
Interest and dividend income	414,180	545,443
Investment expenses	(28,562)	(33,828)
	(180,361)	567,113
Other income	5,304	4,166
TOTAL ADDITIONS	46,074,628	49,316,958
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
Benefits	44,204,868	46,241,820
Claims administration fees	3,037,332	2,990,709
Administrative expenses		
Contract administrator fees	924,807	907,736
Legal fees	378,187	162,954
Conference and meeting expenses	10,261	15,635
Audit fees	47,135	47,160
Payroll audit fees	-	25,850
Hospital audits	6,350	6,450
Actuary fees	372,424	20,930
Postage, printing and supplies	70,265	56,263
Bonding and insurance	13,853	22,768
Telephone	2,226	2,569
Consulting fees	25,500	93,145
Miscellaneous	27,254	10,358
	1,878,262	1,371,818
TOTAL DEDUCTIONS	49,120,462	50,604,347
NET DECREASE	(3,045,834)	(1,287,389)
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	18,891,993	20,179,382
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$ 15,846,159	$ 18,891,993

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).

Effective September 1, 2012, the Board of Trustees of the Plan approved separation of the health and welfare program for active participants and the health and welfare program for retirees by establishment of two separate plans under the Trust. The active plan is called the UFCW Unions and Participating Employers Active Health Plan and the retiree plan is called the UFCW Unions and Participating Employers Retiree Health Plan. The assets, liabilities, income and expenses of these two plans are separately accounted for and all activity of these two plans have been combined in these financial statements.

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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and benefit obligations and changes therein, 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 and agency 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Purchases and sales of securities are reflected on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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.

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 as of December 31, 2013 and 2012 represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to December 31, 2013 and 2012, 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

The Plan reports as employers' contributions receivable contributions due which relate to weeks worked on or before December 31, but not received by year end. Estimates may be used if remittance reports are not received timely.

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, 2013 for potential recognition or disclosure in the financial statements. These events and transactions were evaluated through October 15, 2014, 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.

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 table presents investments that represent 5% or more of the Plan's net assets available for benefits at December 31, 2013 and 2012:

	2013	2012
PNC Government Money Market Fund #405	$ 1,861,802	$ 1,427,333

During 2013 and 2012, the Plan's investments (including investments bought, sold and held during the year) appreciated (depreciated) in fair value as follows:

U.S. government and agency securities	$ (227,811)	$ (40,276)
Corporate bonds	(338,168)	95,774
	$ (565,979)	$ 55,498

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 unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2

Inputs are 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 that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3

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

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, 2013 and 2012.

NOTE 5: FAIR VALUE MEASUREMENTS - continued

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, 2013, there were no transfers in or out of levels 1, 2 or 3.

As of December 31, 2013 and 2012, assets measured at fair value on a recurring basis are summarized by level within the fair value hierarchy as follows:

	2013			
	Level 1	Level 2	Level 3	Total Fair Value
U.S. government and agency securities	$ 1,890,462	$ 2,453,977	$ -	$ 4,344,439
Corporate bonds	-	6,872,886	-	6,872,886
Short-term investment funds	-	2,169,674	-	2,169,674
	$ 1,890,462	$ 11,496,537	$ -	$ 13,386,999

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
U.S. government and agency securities	$ 1,605,752	$ 3,364,826	$ -	$ 4,970,578
Corporate bonds	-	8,478,382	-	8,478,382
Short-term investment funds	-	1,810,549	-	1,810,549
	$ 1,605,752	$ 13,653,757	$ -	$ 15,259,509

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 Plan 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, 2013 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 2010.

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 96% and 95% of total contributions for the years ended December 31, 2013 and 2012, respectively, with two employers with common ownership representing 50% and 47%, 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, 2013 and 2012 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, 2013 and 2012, is determined by the Plan's actuaries. Information regarding the present value of the Plan's benefit obligations as of December 31, 2013 and 2012, is shown below:

	2013	2012
Amounts currently payable to or for participants, beneficiaries, and dependents		
Claims currently payable and amounts incurred but not reported	$ 3,800,000	$ 6,500,000
Group insurance and service providers payable	39,038	50,117
	3,839,038	6,550,117
Benefit obligations		
Current retirees	62,700,000	61,700,000
Other participants fully eligible for benefits	40,800,000	30,900,000
Participants not fully eligible for benefits	63,800,000	58,100,000
	167,300,000	150,700,000
Total benefit obligations	$ 171,139,038	$ 157,250,117

NOTE 9: BENEFIT OBLIGATIONS - continued

Information regarding the changes in benefit obligations for the years ended December 31, 2013 and 2012 is shown below:

	2013	2012
Amounts currently payable to or for participants, beneficiaries, and dependents		
Balance at beginning of year	$ 6,550,117	$ 5,320,542
Increase (decrease) during year attributable to		
Changes in medical claims and claims incurred but not reported	(2,700,000)	1,200,000
Changes in group insurance and service providers payable	(11,079)	29,575
Balance at end of year	3,839,038	6,550,117
Postretirement benefit obligations		
Balance at beginning of year	150,700,000	145,400,000
Increase (decrease) during year attributable to		
Changes due to passage of time	6,800,000	6,600,000
Benefits paid	(4,900,000)	(4,500,000)
Changes in actuarial assumptions	6,300,000	-
Plan amendments	27,400,000	-
Other changes	(19,000,000)	3,200,000
Balance at end of year	167,300,000	150,700,000
Total plan benefit obligations	$ 171,139,038	$ 157,250,117

Some of the more significant actuarial assumptions used to calculate the benefit obligations at December 31, 2013 and 2012 are as follows:

- Discount Rate - 4.5% for 2013 and 2012.
- Medical trend for Medicare - For 2013: 6.0% for the change from 2014 to 2015 grading to 4% for 2029 to 2030 and later. For 2012: 6.0% for the change from 2012 to 2013 grading to 4% for 2027 to 2028 and later.
- Medical trend for non-Medicare and drug - For 2013: 8.0% for the change from 2014 to 2015 grading to 4% for 2029 to 2030 and later. For 2012: 8.0% for the change from 2012 to 2013 grading to 4% for 2027 to 2028 and later.
- Rate of Mortality - For 2013 and 2012: Based on the RP-2000 combined healthy mortality table for males and females.
- Changes in actuarial assumptions - The claims curves and trend assumptions were updated to reflect actual experience and future anticipated experience.
- Plan amendments - Prescription drug benefits for Kroger retirees are now provided by the Trust.

NOTE 9: BENEFIT OBLIGATIONS - continued

The benefit obligations are reported net of the present value of estimated contributions expected to be paid by retirees of $44,900,000 and $42,000,000 as of December 31, 2013 and 2012, 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, 2013 and 2012 by $27,100,000 and $24,000,000, respectively.

The Plan made prescription drug benefit payments of $5,851,680 and $6,970,092 during the years ended December 31, 2013 and 2012, respectively. The Plan received $442 and $28,350 of Medicare subsidy during the years ended December 31, 2013 and 2012, 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 2013 and 2012 financial statements to the Form 5500:

	2013	2012
Net assets available for benefits per the financial statements	$ 15,846,159	$ 18,891,993
Amounts currently payable to or for participants, beneficiaries, and dependents at end of year	(3,839,038)	(6,550,117)
Net assets per Form 5500	$ 12,007,121	$ 12,341,876

The following is a reconciliation of benefits paid per the financial statements to the Form 5500 for the year ended December 31, 2013:

Benefits paid per the financial statements	$ 44,204,868
Amounts currently payable to or for participants, beneficiaries, and dependents at end of year	3,839,038
Amounts currently payable to or for participants, beneficiaries, and dependents at beginning of year	(6,550,117)
Benefits paid per Form 5500	$ 41,493,789

Benefits paid recorded on the Form 5500 include benefit claims that have been processed and approved for payment prior to December 31, 2013 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 2013 and 2012 are as follows:

	2013	2012
Benefits paid	$ 10,168,928	$ 9,847,824
Reimbursements received	9,687,834	9,664,596
Net amounts due from employer	$ 481,094	$ 183,228

NOTE 11: BENEFIT REIMBURSEMENT ARRANGEMENT - continued

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 2013 and 2012, respectively.

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, 2013 and 2012, and our report thereon dated October 15, 2014 which expressed an unmodified opinion on those financial statements, appears on pages 1 - 2. 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 15, 2014

	2013	2012
EMPLOYER CONTRIBUTIONS		
Associated Administrators, LLC	$ 68,663	$ 73,480
Perkins Management Services	16,773	33,545
Retail Brand Alliance	170,245	192,944
David Prosten Associates	29,185	29,185
Delmarva UFCW	29,008	29,008
Kel-Co Federal Credit Union	121,536	125,219
Kroger Food Stores	21,259,022	23,425,129
Magruders	63,399	790,753
Metro	5,694,722	5,506,221
Safeway	94,802	120,001
Shoppers Food Warehouse	17,598,025	17,189,420
UFCW Local 400	5,182	80,834
	45,150,562	47,595,739
INDIVIDUAL PARTICIPANT CONTRIBUTIONS	1,099,123	1,149,940
	$ 46,249,685	$ 48,745,679

	2013	2012
MEDICAL BENEFITS PAID DIRECTLY BY THE PLAN		
Accident and sickness	$ 1,596,101	$ 1,593,127
Health claims	24,542,906	25,593,455
	26,139,007	27,186,582
BENEFITS AND ADMINISTRATIVE FEES PAID TO SERVICE PROVIDERS		
Pharmaceutical		
Informed RX	4,616,373	5,752,945
Kroger	1,101,725	951,512
Optical		
Fidelity	302,857	315,964
Fidelity - Richmond Tidewater	49,545	50,308
Mental Health and Substance Abuse Benefits		
Value Options	589,162	722,544
Other Medical		
Anthem Health Insurance - Kroger	7,608,117	7,497,351
	14,267,779	15,290,624
INSURANCE PREMIUMS		
Dental		
Group Dental Services, Inc.	2,270,080	2,168,305
Health Maintenance Organizations		
Aetna U.S. Healthcare - Richmond Tidewater	394,459	440,902
Kaiser Permanente	898,291	914,043
Life, AD&D insurance		
Reliastar	159,620	165,071
Metlife	75,632	76,293
	3,798,082	3,764,614
TOTAL BENEFITS	$ 44,204,868	$ 46,241,820