STRENGTH IN NUMBERS

ASSOCIATED WHOLESALE GROCERS, INC.

ANNUAL REPORT 2019

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DEAR **SHAREHOLDERS**

March 25, 2020

Dear Shareholders,

Your Board of Directors and management are pleased to present the audited results for our fiscal year 2019. Consolidated company sales reached $9.7 billion, up .54%. Total year-end patronage after retainage was $213.8 million, up $3.3 million, another record, which was 2.72% of qualifying sales. Total distribution including patronage, allowances and interest back to members was $552 million, a slight decrease of 1.2%, due to shifts in vendor funding models. Additionally, AWG stock trading value increased 4.35% to $2,400 per share.

Net sales for the cooperative were $8.5 billion, decreasing .45% from the prior year. This nominal sales decline was primarily due to a large member that converted to self-supply early in 2019. Member equity increased to $522.8 million, an all-time high, reflecting continued strengthening of the balance sheet.

Beyond the financial results, we also made significant progress on our strategic initiatives. Same store retail sales for AWG member stores (utilizing FMS accounting) increased 1.77% or .80% more than peer (non-AWG) retailers. AWG operational expenses improved 20 points and VMC had a stellar year, improving 34 points. Our full-year inbound service level from vendor partners was up 100 points to 97.4% and to stores was 98.32%, up 22 points. Shrink and freshness improved as our year-ending inventory was down $46 million, with shrink declining 4 points. On-time delivery departures to stores was 97.5%, up 1.4%. Year-over-year, employee productivity improved 7%, employee turnover improved 11%, and overtime improved 5.7%.

While overall sales growth was not our best, we had exceptional growth in the high-demand categories of meat, produce, deli-bakery, and foodservice. AWG Brands continues to be an increasingly important competitive tool for members. We invested at record levels by selling our entry price-point Always Save label to members for $7.8 million below cost. AWG Brands also launched 275 exciting new products with great consumer acceptance.

In summary, 2019 was a year of real progress for AWG and our members. We are very thankful for the leadership of our board, the support of our members, and the efforts of our vendor partners and AWG teammates.

The focus for 2020 is the fulfillment of our mission: "to provide our member retailers all the tools, products, and services they need to compete favorably in all markets served. This includes top quality supermarket merchandise and support services, all at the lowest possible cost." Accomplishing this requires successfully executing our four core strategies for success: accelerate profitable member growth; attract, develop and retain top talent; strengthen core services and support; and leverage technology and organizational assets for sustainable member success. Be on the lookout for updates throughout 2020 as we continue to build a better supply chain for you.

We truly appreciate your contributions to this year's success. You have our commitment to diligently and passionately pursue the best opportunities we can provide for you and your business.

Sincerely,

Barry Queen
Chairman of the Board

David Smith
President and CEO

A DECADE OF
GROWTH

$213.8 MILLION
TOTAL PATRONAGE DISTRIBUTED
ON A 60/40 BASIS *(60% CASH & 40% CERTIFICATES)*

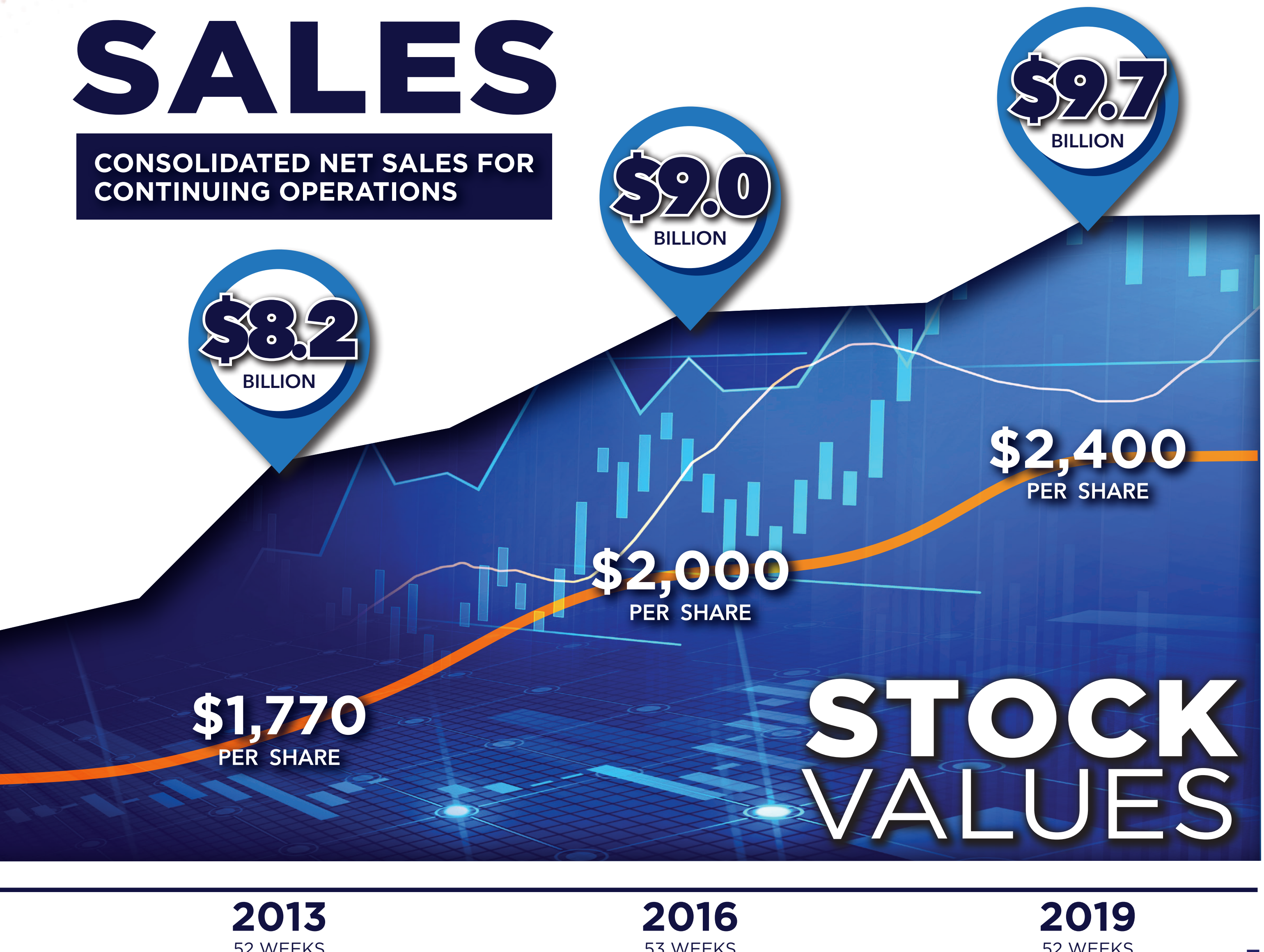
$219.3 MILLION
OPERATING INCOME

$215.4 MILLION
NET INCOME

$553.4 MILLION
TOTAL MEMBERS' INVESTMENTS & EQUITY

NET SALES

CONSOLIDATED NET SALES FOR CONTINUING OPERATIONS



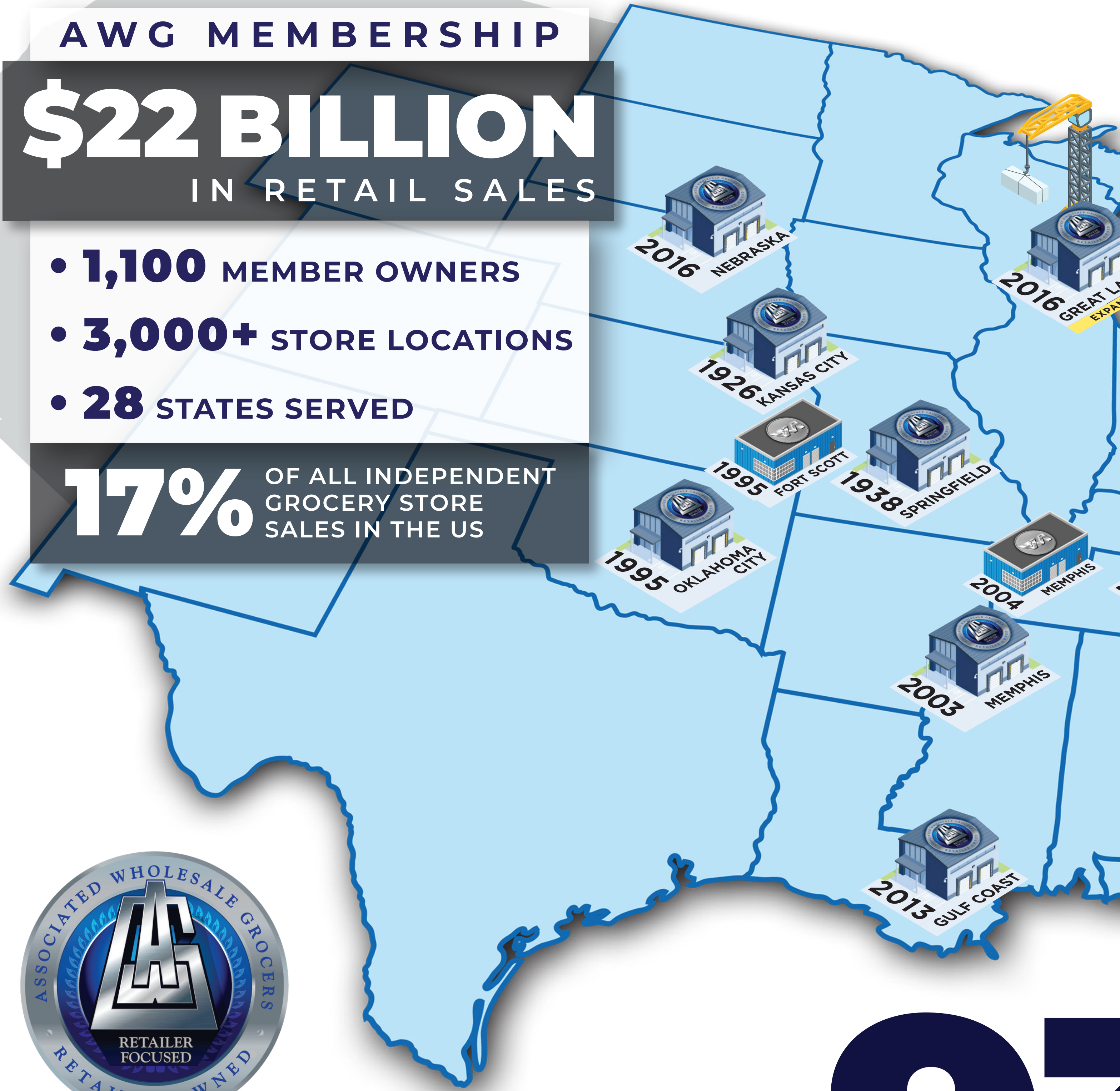
AWG MEMBERSHIP

$22 BILLION

IN RETAIL SALES

- **1,100** MEMBER OWNERS
- **3,000+** STORE LOCATIONS
- **28** STATES SERVED

17% OF ALL INDEPENDENT GROCERY STORE SALES IN THE US

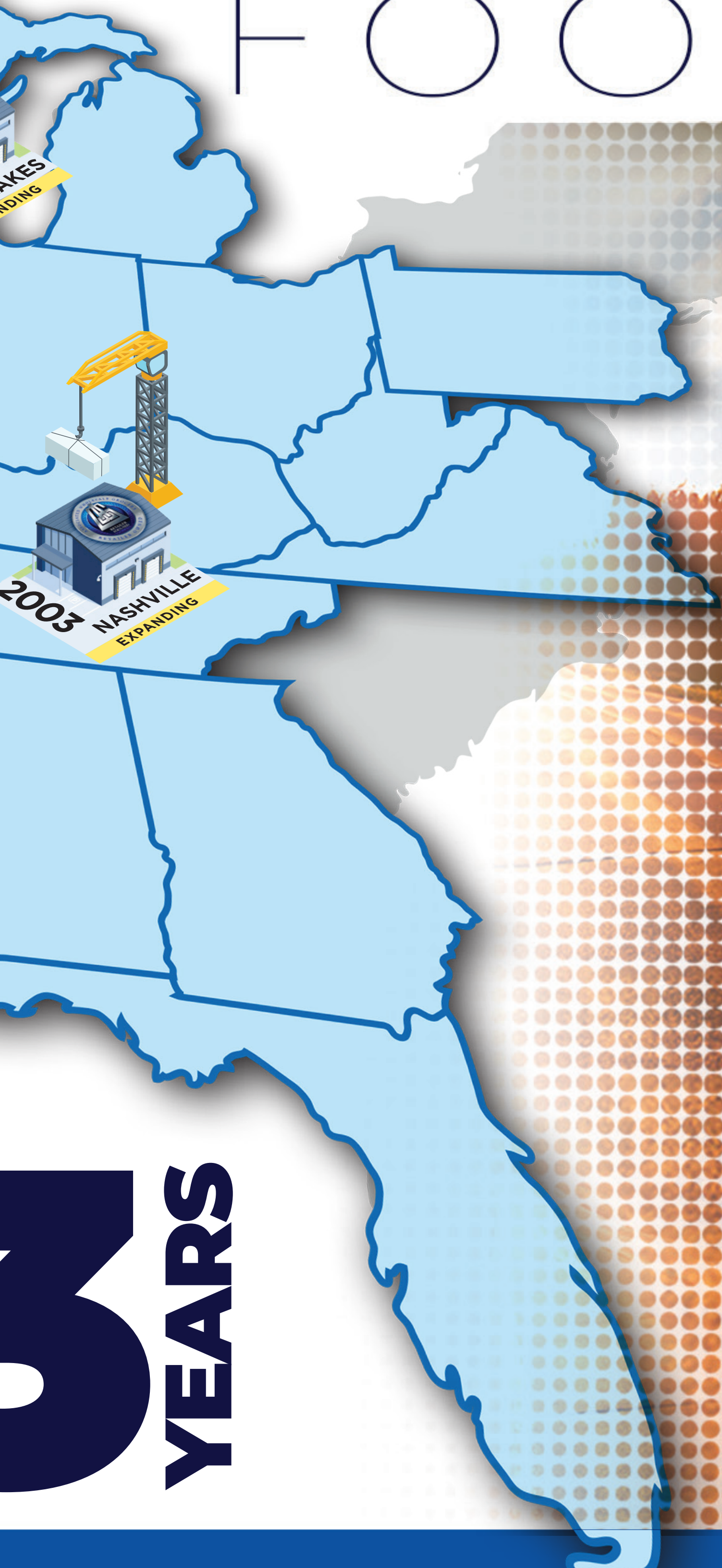


ASSOCIATED WHOLESALE GROCERS
RETAILER FOCUSED
RETAILER OWNED

SERVING MEMBERS FOR **93**

STRENGTH

EXPANDING FOOTPRINT



Associated Wholesale Grocers, Inc. (AWG) is the largest retailer owned cooperative in the United States with nearly $10 billion in annual sales. AWG has 8 full-line divisions and 2 VMC distribution centers offering health and beauty care, general merchandise, specialty foods and natural and organic products employing more than 4,200 dedicated associates. With some distribution centers at near capacity, AWG is currently in the process of expanding the Great Lakes & Nashville divisions.

3 YEARS

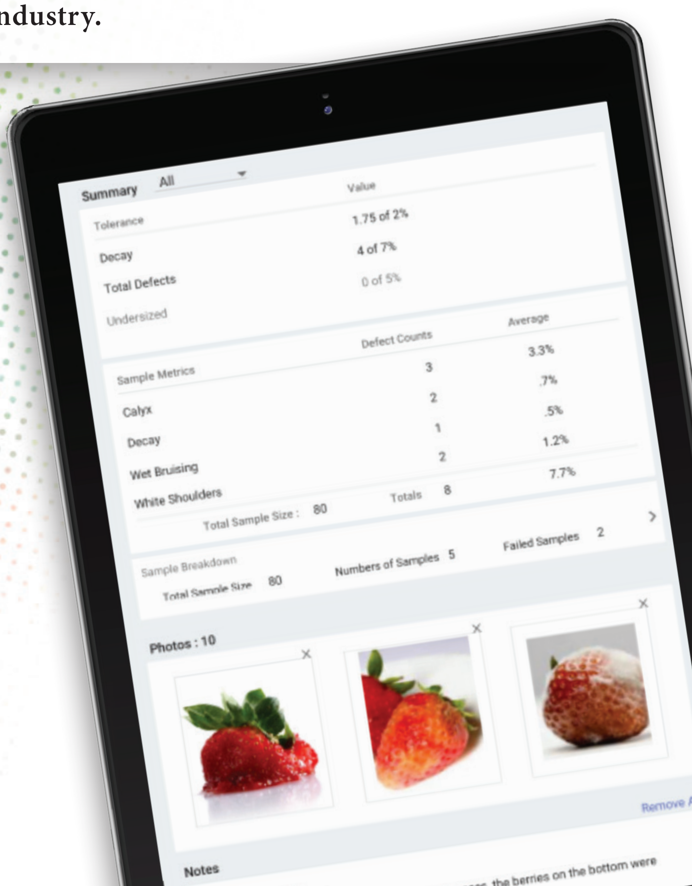
IN NUMBERS

STRENGTH IN FRESH

While the number of vegetarians and vegans in the U.S. remains small, many consumers are interested in pursuing more plant-based eating. A new term "flexitarian" was coined for consumers who continue to eat meat, but add plant-based options to their diet.

Total plant-based meat sales have surpassed $800 million, accounting for 2% of U.S. retail packaged meat sales. AWG has partnered with several major CPG companies to bring their plant-based products to retail.

The U.S. Hispanic population is approaching 20%, with buying power estimated to reach $1.7 trillion in 2020. Currently 81% of Hispanics make more than one trip to the grocery store weekly, with over 50% averaging more than $100 a trip. AWG is continuing to expand it's offerings to address these growing trends in our industry.



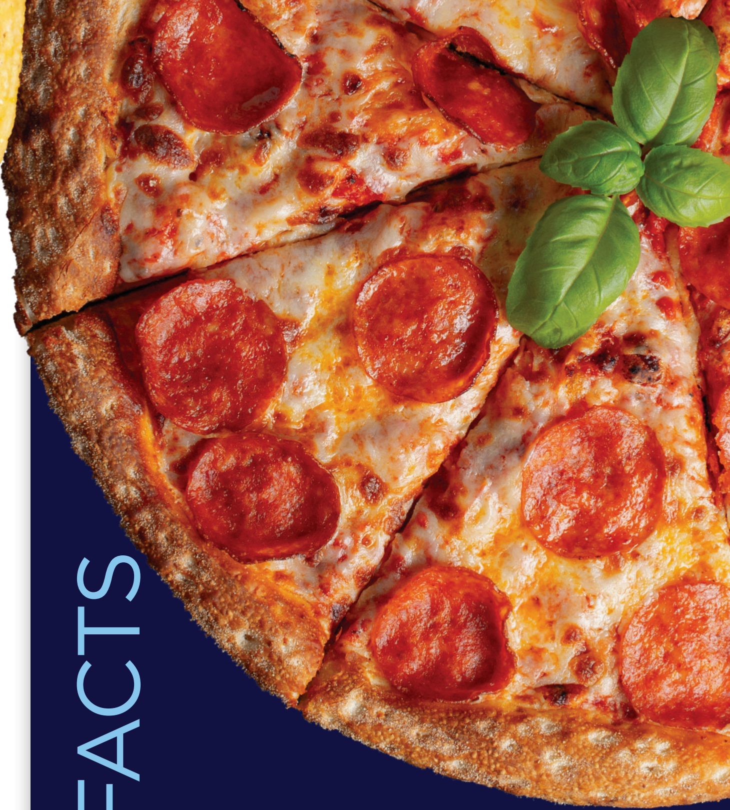
There has been a revolution going on right before our eyes with everything fresh. Over the last decade we have seen steady growth in all fresh categories including produce, meat, seafood, bakery and foodservice offerings. In just the past 5 years, our industry has seen an increase of nearly $1.8 billion in food service sales in grocery stores alone.

While consumers are eating more fresh, they are also demanding more from retailers. AWG is addressing the demands of today's consumer with new offerings in fresh including an expansive variety of healthier options in the natural, organic and "free-from" categories as well as plant-based meat and dairy alternatives. AWG also offers a wide range of convenient options in foodservice including turnkey solutions for chicken, ethnic, taco bars and more. AWG has added hundreds of new foodservice items allowing retailers of all sizes and types to bring freshly prepared foods to their customers.

80% OF SHOPPERS AGREE THAT QUALITY OF FRESH PRODUCE IS THE SINGLE MOST IMPORTANT FACTOR WHEN CHOOSING A GROCERY STORE

Shoppers of today are more price conscious than ever before and fresh is no exception. AWG uses its leverage and vast resources across the country to bring its members the right offerings at the lowest possible cost so our retailers can compete favorably in the markets they serve. In 2019 alone, member purchases of produce web blasts and opportunity buys rose to record levels.

Quality is of the highest priority in our fresh departments, particularly in produce where every AWG Quality Control inspector goes through extensive training and certification by USDA standards. AWG's partnership with companies like iTrade Fresh allow for daily inbound load inspections at a high rate.



FOOD SERVICE FAST FACTS

$36.9B ANNUAL SALES TOTAL DELI

$21.5B ANNUAL SALES FOODSERVICE WITH BEVERAGES

$12.7B ANNUAL SALES DELI PREPARED

ANNUAL GROWTH

+7.0% TOTAL DELI

+7.9% DELI PREPARED

+8.2% FOODSERVICE WITH BEVERAGES

94.1% HOUSEHOLD PENETRATION DELI PREPARED

28.3x ANNUAL TRIPS TOTAL DELI

$7.92 AVERAGE PURCHASE SIZE DELI PREPARED

SOURCE: AC NIELSEN

AWG BRANDS

$1.2B

2019 **SALES**

In 2019, AWG Brands products sold $1.2 billion in wholesale dollars. With more than 4,400 products across four labels, AWG Brands provide member retailers a competitive advantage while helping drive sales and profitability and inspiring consumer loyalty. Shelf-ready packaging, an Always Save logo refresh, and a continued focus on the Clearly by Best Choice line all took center stage for AWG Brands in 2019. There were 275 new items across the grocery and VMC categories introduced. Quality assurance is also a key component of the AWG Brands promise as more than 2,800 quality control audits and tests in the laboratory were performed. Additionally, the customer service team fulfilled the brands' 100% guarantee by helping 3,789 customers. Throughout the year, more than 3,400 organizations submitted labels as part of the Save-A-Label program, with donations topping $270,000 to support the communities in which our member retailers operate. The mission of AWG Brands to support AWG member retailers in-store and in their community was alive and well in 2019.

4,400

2019 **PRODUCTS**

3789

2019 **CUSTOMERS HELPED**

$270,000

2019 **DONATIONS MADE**

S T R
CEN

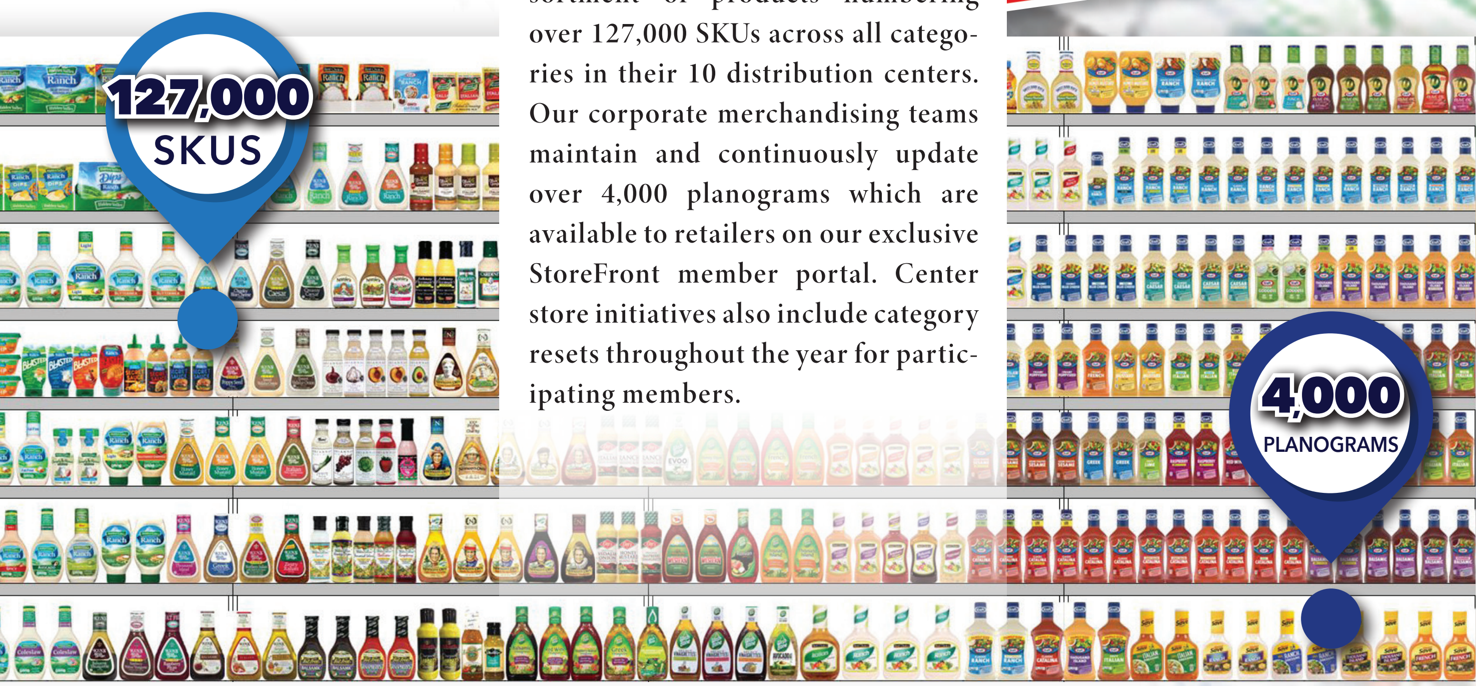
While under siege, the demise of center store has been greatly exaggerated as sales continue to be in excess of 60% of all volume in most supermarkets.

To understand our commitment to protecting center store volume you need not go any further than our category management team. Our category managers and business analytics teams utilize the latest industry tools available to blueprint category promotional and advertising strategies for our membership. In 2019, AWG's category management team drove significant product cost reductions in a high inflation year. In addition, the team provided members with over 22 web blasts and opportunity buy events resulting in record purchases through these programs. These were in addition to the normal robust Super Sale and event promotions throughout the year.

A key component to AWG's center store strategy includes AWG Brands. AWG has one of the best private brand offerings in the industry today with our Best Choice, IGA, Always Save, Clearly by Best Choice & Superior Selections brands offering more than 4,400 high quality private brand SKUs. AWG invests heavily in promoting AWG Brands to combat dollar & hard discount competitors as nearly 50% of all consumers say that private brands influence where they shop.

ENGTH IN
TER STORE

AWG & VMC have an extensive assortment of products numbering over 127,000 SKUs across all categories in their 10 distribution centers. Our corporate merchandising teams maintain and continuously update over 4,000 planograms which are available to retailers on our exclusive StoreFront member portal. Center store initiatives also include category resets throughout the year for participating members.



STRENGTH
TECHNOLOG

AWG provides the best available retail technology solutions for our member retailers with a primary focus on enhancing the customer shopping experience. We also strive to help make their stores more fun and easier to shop, while providing affordable access to products and information. Whether it's self-checkout, e-commerce, scan-n-go or digital marketing, the goal is to provide a "frictionless" shopping experience for the customer.

OMNICHANNEL
(OM·NI·CHAN·NEL)

A cross-channel strategy whereby consumers obtain the optimum combination of e-commerce shopping integrated seamlessly with the in-store experience. Successful execution of omnichannel drives customer satisfaction and loyalty. Consumers are increasingly choosing channels that allow them to get what they want, when they want it, and how they want it. Rather than treating channels as independent silos, retailers must create a hassle-free integrated process. For the consumer, the distinction between channels-online, social, mobile, email, and face-to-face interactions, must become one hassle-free or "frictionless" shopping experience. They need to be aligned with why consumers use a given channel and show awareness of their individual stage in their path to purchase.

AWG, in conjunction with our vendor partners, has seamless omnichannel solutions for our retail members. These solutions are immersive and put member retailer's customers, not products, at the core. It's about communicating in ways that are aligned with the consumers use of a given channel on their path to purchase.

I N
GY

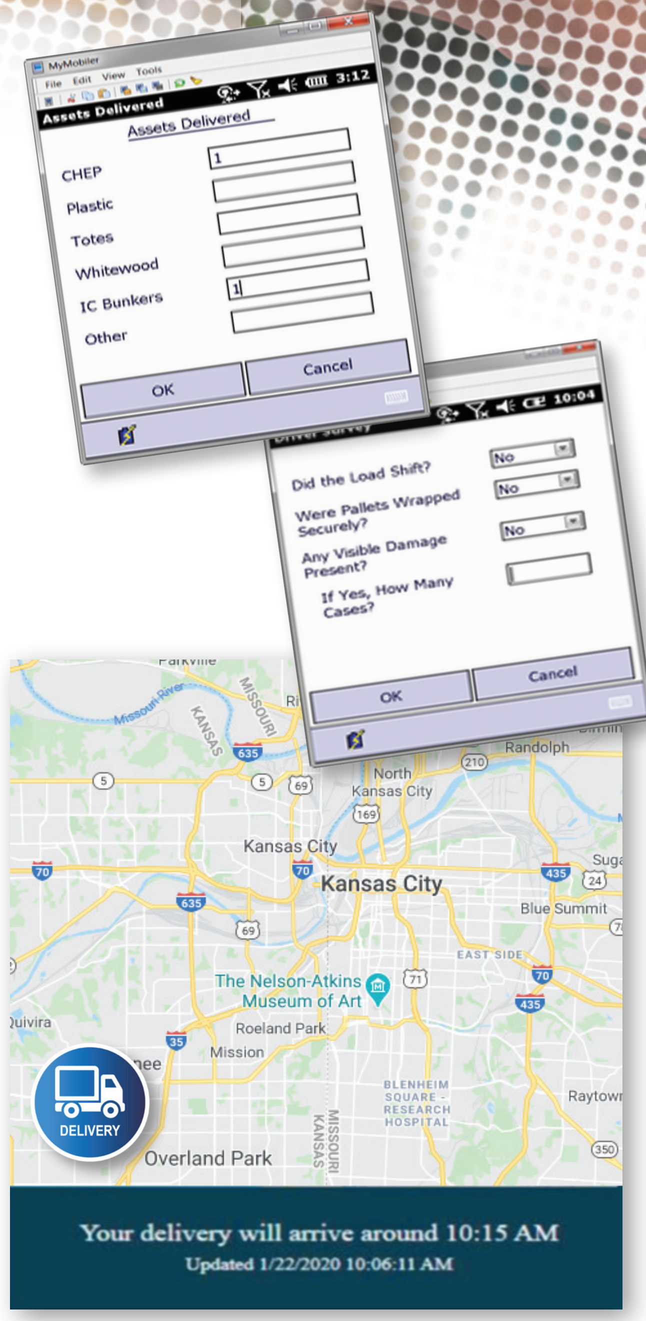
AWG is also focused on finding the best technology solutions that will enhance our members' operational productivity and profitability. Many of these technologies are on display at our "Innovation Showcase" held each Spring, allowing our member retailers the opportunity to see the newest and best technologies available.

DISTRIBUTION & LOGISTICS TECHNOLOGY

As part of AWG's continued investment in state of the art technology in distribution and logistics, AWG is continually adding new innovative solutions. Our next round of improvements will provide real-time delivery tracking and mapping as well as improve the delivery experience by increasing accuracy and provide asset tracking to reduce expenses. In this process, we will be asking our stores' receivers key questions regarding our performance and will capture information from member stores. This will provide real-time feedback to drive continuous improvements for our members' stores.

To ensure our member stores are prepared for the challenges of today and tomorrow, it is our responsibility to provide our member retailers all the tools, products, and services needed to compete favorably in all markets served. This includes top quality supermarket merchandise and support services, all at the lowest possible cost.

Our AWG teammates are committed to delivering on that promise every day for every member.



2019 EXCELLENCE IN BAKERY

RUSS'S MARKET - LINCOLN, NEBRASKA

Shoppers in Lincoln, Nebraska know Russ's Market is THE best bakery around. Bakery Manager Liz Bishop leads a full-service counter that heavily promotes some of their Eastern European favorites like paczki, kolaches and crusty breads. Their top-tier staff is always drawing in customers with samples.

Through the creative use of social media, Russ's has seen a 95 percent increase in sales of French bread. Events such as National Donut Day were publicized through Facebook posts. They also donate proceeds from events at the bakery to the Salvation Army and other charitable organizations in their community.

Cake decorating also sets the Russ's Market bakery team apart. Their wedding cake business is consistently booked solid and benefits from both word-of-mouth advertising and strong promotion.

5 REASONS WHY RUSS'S MARKET BAKES UP SUCCESS

- ACTIVE SAMPLING
- CATERING TO LOCAL HERITAGE
- SOCIAL MEDIA PROMOTIONS
- WEDDING CAKE SUCCESS PERPETUATES ITSELF
- BUILT A STRONG TEAM

DIVISION WINNERS

Store # 6703 - MARKET BASKET Bridge City, TX
Store # 3634 - FOOD GIANT Warren, AR
Store # 4338 - PRUETT'S FOODS Ada, OK
Store # 1967 - STRACK & VAN TIL MARKET Highland, IN
Store # 2924 - PRICE CUTTER Springfield, MO
Store # 5417 - COOKE'S FOOD STORE Cleveland, TN
Store # 350 - McKEEVER'S MARKET Lenexa, KS

2019 EXCELLENCE IN PRODUCE

LOU'S THRIFTY WAY - NORFOLK, NEBRASKA

Every season brings new produce to Lou's Thrifty Way produce section in Norfolk, Nebraska. The produce experts at Lou's help consumers navigate the section and host events in the produce department to grow sales and engage customers.

Events are huge at Lou's Thrifty Way. Their attention to detail during their Halo train display contest made the mandarins a focal point, helped Lou's win Halo's 2019 AWG display contest, and drove sales of mandarins. During their Lou Wow tropical event, the Lou's Thrifty Way team utilized all marketing channels from print to Facebook to highlight the produce department, featuring mangoes and coconuts to entice customers.

Through demos and merchandising, the produce staff at Lou's further engages the customer. They have shown customers how to core pineapples, while also making all of their selections enticing through attractive and exciting merchandising. To this team, the details are essential.

5 ESSENTIALS FOR LOU'S PRODUCE PAYOFF

- CREATE EXCITEMENT FOR STAFF AND CUSTOMERS THROUGH EVENTS AND PRODUCT DEMONSTRATIONS
- AGGRESSIVELY PROMOTE PRODUCE
- USE ALL MARKETING AVENUES TO PROMOTE EVENTS AND DEALS
- SUPPORT LOCAL GROWERS
- ENSURE FRESH EVERY DAY

DIVISION WINNERS

Store # 6139 - MAIN'S MARKET Folsom, LA
Store # 3419 - PIGGLY WIGGLY Olive Branch, MS
Store # 4950 - JUMBO FOODS Enid, OK
Store # 8448 - FAIRPLAY Oak Lawn, IL
Store # 2936 - PRICE CUTTER PLUS Lebanon, MO
Store # 5527 - RIESBECK'S St. Clairsville, OK
Store # 191 - THE CAMERON MARKET Cameron, MO

2019 OUTSTANDING MERCHANDISING EVENT

QUEEN'S PRICE CHOPPER - STANLEY, KANSAS

Barry Queen and his staff at Queen's Price Chopper in Stanley, Kansas know that brides-to-be are a lucrative and passionate demographic. That's why for the second consecutive year, Queen's Price Chopper has held its Bridal Spectacular in April to show brides the vast array of choices they have for wedding cakes, floral displays and catering options.

Bakery Director Robin Byrd and Catering Director Grace Callison have vast experience attending bridal fairs throughout Kansas City and took advantage of what they learned, creating the Queen's in-store event. Their in-store Spectacular gives customers an idea of all the services the store offers, not only for weddings but also for large parties, family reunions, graduations, company functions, and special events. Queen's team has also created and published their own catering brochure so customers can reference all available service options.

5 WAYS QUEEN'S PRICE CHOPPER HELPS BRIDES GET SPECTACULAR WEDDING RESULTS

- PUBLICIZE THE EVENT THROUGH IN-STORE MARKETING, SOCIAL MEDIA POSTS, AND IN THE WEEKLY CIRCULAR
- ATTEND SEVERAL LOCAL BRIDAL FAIRS TO GET IDEAS AND HELP IN THE PLANNING PROCESS
- CREATE AND PUBLISH CATERING BROCHURES
- BUILD A LARGE DISPLAY OF WEDDING CAKES COORDINATED WITH AN ARRAY OF WEDDING FLOWERS
- PUT IN PLACE A DEDICATED CATERING MANAGER

DIVISION WINNERS

Store # 3318 & 3327 - TATE'S FAMILY FOODS Maury City & Greenfield, TN
All Stores - DOC'S FOODS Bixby, OK
Store # 8155 - PTACEKS IGA Prescott, WI
Store # 9207 - ELDENS FRESH FOODS Alexandria, MN
Store # 2119 - HARP'S MARKETPLACE Springdale, AR
All Stores - FOOD GIANT Sikeston, MO

2019 EXCELLENCE IN CENTER STORE

ALLEN'S GROCERY - BELLA VISTA, ARKANSAS

Allen's Grocery takes pride in making sure its store is in grand-opening condition every day. While fully stocked shelves are a constant, Allen's also strategically places stocked bins and pallet offerings in the entrance and lobby to invite customers to begin loading their cart right away.

Merchandising is also a cornerstone of Allen's appeal. They feature national and private brands on endcaps, cross merchandise on endcaps and in-aisle, and ensure their varieties of natural, organic, and specialty foods are easy to find.

If that wasn't good enough - they take their deals online with daily specials found on Facebook or Instagram. When a customer buys one of those specials, they get a special shout-out over the intercom system, further enhancing the deal-seeker's pride.

5 ASPECTS THAT MAKE ALLEN'S GROCERY THE CENTER STORE CHAMPIONS

- CENTER STORE LOOKS GRAND OPENING CONDITION EVERY DAY
- EXCELLENT USE OF SOCIAL MEDIA: SPECIALS ARE POSTED TO FACEBOOK & INSTAGRAM DAILY, CELEBRATED WHEN REDEEMED IN-STORE
- DISPLAYS BEGIN OUTSIDE THE STORE WITH PALLET & BIN OFFERINGS UPON ENTERING STORE
- EXCELLENT VARIETY OF NATURAL, ORGANIC & SPECIALTY FOOD ITEMS
- OUTSTANDING CUSTOMER SERVICE

DIVISION WINNERS

Store # 6129 - PIC-N-SAVE Albany, GA
Store # 3711 - MAC'S CASH SAVER El Dorado, AR
Store # 4029 - WAREHOUSE MARKET Tulsa, OK
Store # 8838 - PETE'S FRESH MARKET Chicago, IL
Store # 9092 - PLUM CREEK MARKET PLACE Lexington, NE
Store # 5102 - CASH SAVER Hendersonville, TN
Store # 489 - CARLSON'S GROCERY Marion, KS

2019 EXCELLENCE IN FLORAL

ROUSES MARKET - HOUMA, LOUISIANA

Rouses Market floral department in Houma, Louisiana creates amazing atmospheres inside and outside of its store walls. Department manager Theresa Dyson helped lead a 16 percent sales increase over the previous year. Theresa and her team believe in utilizing all the Rouses Market resources to create a superior floral selling atmosphere that truly endorses the Rouses philosophy.

Rouses Market is extremely selective of the flowers they sell, and fresh new flowers are brought in daily. They offer arrangements for everything from weddings to gift baskets and include complimentary consultation in their offerings. They also add volume displays that infuse bakery and center store, driving sales.

In true Gulf Coast style, the Rouses team also utilizes local artisan products in their designs. They support local sports teams and big cultural events, like Mardi Gras, where they have a massive following and create countless custom-made decor items.

5 WAYS ROUSES MARKET FLORAL BLOOMS INTO CUSTOMERS' HEARTS

- USING LOCALLY MADE ARTISAN PRODUCTS THAT SUPPORT THE REGIONS OF THE GULF COAST
- CREATING VOLUME DISPLAYS THAT HELP DRIVE FLORAL SALES THROUGHOUT THE STORE
- CERTIFIED LOUISIANA FLORIST WITH THE CAPABILITY TO DESIGN TO FIT CUSTOMER DESIRES
- TAKING ADVANTAGE OF STRONG SUPPORT FOR LOCAL SPORTS TEAMS AND EVENTS, LIKE MARDI GRAS
- UTILIZING ALL RESOURCES OF THE ORGANIZATION TO CREATE A SUPERIOR SELLING ATMOSPHERE

DIVISION WINNERS

Store # 4219 - HOMELAND Norman, OK
Store # 9645 - RUSS'S MARKET Hastings, NE
Store # 2963 - COUNTRY MART Freeburg, IL
Store # 5408 - RIESBECK'S St. Clairsville, OH
Store # 249 - COSENTINO'S PRICE CHOPPER Shawnee, KS

2019 EXCELLENCE IN MEAT

TONY'S FINER FOODS - BOLINGBROOK, ILLINOIS

When it comes to the meat department, Tony Ingraffia of Tony's Finer Foods in Bolingbrook, Illinois is hands-on, selecting the best cuts from a variety of sources to bring his customers the best quality at the lowest possible price.

Tony's team makes a concerted effort to stand out from other meat departments in the Chicagoland area by offering a full-service meat case with Certified Angus Beef, as well as USDA Choice Beef, pork, and chicken. Tony's also brings in fresh seafood from all over the world. They offer fresh cuts daily and a variety of pre-made grillers, marinated meats, handmade sausage, and pre-seasoned ready-made cook and plate options.

Presentation is vitally important at Tony's, and they also focus on value-add items and have several sales events throughout the year to maximize sales.

5 TACTICS TONY'S FIRES UP FOR MEAT MASTERY

- DISPLAYS DESIGNED TO CAPTURE THE MOST SALES
- OFFER GREAT VARIETY WITH BEEF, PORK AND CHICKEN
- VALUE-ADDED ITEMS INTEGRATED WITH FRESH MEAT
- CUSTOMER SERVICE-DRIVEN WITH MEAT EXPERTISE AT CUSTOMERS' DISPOSAL
- EVENTS AND SALES DESIGNED TO MOVE THE NEEDLE IN THE MEAT DEPARTMENT

DIVISION WINNERS

Store # 6577 - RAMSEY'S CASH SAVER Blountstown, FL
Store # 3896 - VOWELL'S MARKETPLACE Cleveland, MS
Store # 4008 - CREST MARKET Oklahoma City, OK
Store # 9529 - FRESH FOODS Gering, NE
Store # 2474 - WOODS SUPERMARKET El Dorado Springs, MO
Store # 5444 - VALU MARKET Louisville, KY
Store # 471 - C&R MARKET Shelbina, MO

2019 EXCELLENCE IN SEAFOOD

RIESBECK'S FOOD MARKETS - OHIO & WEST VIRGINIA

Riesbeck's, a 12-store group located in Ohio and West Virginia, has placed a strong emphasis on its fresh departments, which include full presentations and a focus on signature items. Riesbeck's highlights its seafood department several times throughout the year with seafood roadshows. Their mobile seafood cases are fully stocked with a vast variety of seafood options and are brought center stage to the sales floor. This incremental placement entices shoppers to take advantage of great deals during this engaging sales event.

Riesbeck's seafood displays are carefully cross merchandised with products that enhance products and increases basket size. They also prepare a variety of heat-and-eat seafood items for shoppers with that on-the-go lifestyle. The focus on a visually appealing department along with a high-profile presentation in advertising led to seafood sales increases of 271 percent.

5 SMART WAYS RIESBECK'S SWIMS TO SEAFOOD SUCCESS

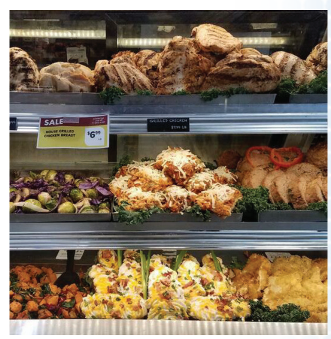
- CROSS MERCHANDISING AND MAINTAINING FRESH AND VISUALLY APPEALING DISPLAYS
- ROADSHOW EVENTS OFFER LIMITED-TIME OFFERINGS IN UNIQUE WAYS
- SPECIAL EVENTS, INCLUDING A 12-HOUR SALES 4 TIMES A YEAR IN ALL STORES
- FOCUS ON CENTER PLATE ITEMS IN ADS
- CURATION OF SIGNATURE ITEMS

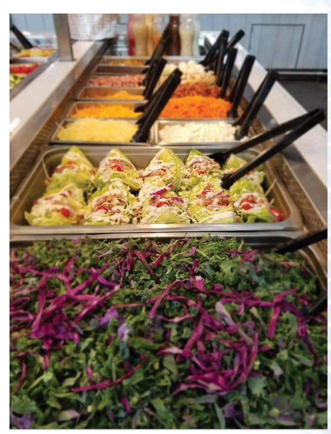
DIVISION WINNERS

Store # 6890 - RAMEY'S MARKETPLACE Columbia, MS
Store # 4454 - UPTOWN GROCERY Edmond, OK
Store # 8820 - TONY'S FINER FOODS Berwyn, IL
Store # 9045 - DIDLERS MARKET Schuyler, NE
Store # 2119 - HARPS MARKETPLACE Springdale, AR
Store # 1928 - NORTH SCOTT FOODS Eldridge, IA

2019 EXCELLENCE IN DELI

UPTOWN GROCERY - OKLAHOMA CITY, OKLAHOMA





Uptown Grocery, located in Northwest Oklahoma City, has helped change the supermarket scene in Oklahoma City with its modern atmosphere. That comes through in living color in its dining offerings, which features a chef-inspired menu for diners.

Daily specials feature Asian, Italian, Caribbean and BBQ-inspired grilling options. Shoppers can choose from meals for one, family meals, grab and go, and rotisserie items. Additionally, a large salad bar provides a variety of meal options for any pallet. Pizzas from their brick oven, paninis, sushi, and a jam-packed cheese island also capture the attention of Uptown fans.

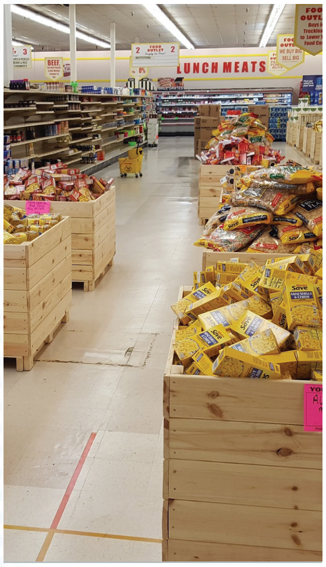
Uptown's deli is very popular in catering, supplying a minimum of 6 events per week with their catering needs and earns high acclaim from consumers. The deli also gets plenty of promotion on Uptown's digital channels, including social media and its app.

5 ASPECTS OF UPTOWN GROCERY'S DELI DOMINATION

- STRONG SOCIAL MEDIA PRESENCE
- COMMUNITY AWARENESS AND INVOLVEMENT
- CHEF-INSPIRED AND FRESH FOOD BUFFET
- LUNCH AND DINNER DESTINATION
- HEALTHY MENU CHOICES

DIVISION WINNERS

Store # 6881 - RAMEY'S Brandon, MS
Store # 3373 - FOOD CENTER Malvern, AR
Store # 8702 - BERKOT'S Mokena, IL
Store # 9119 - KEN'S SUPER FAIR Aberdeen, SD
Store # 2804 - MIDTOWNE MARKET St. Charles, MO
Store # 5417 - COOKE'S FOOD STORE Cleveland, TN
Store # 494 - WHITE'S FOODLINER St. John, KS



2019 EXCELLENCE IN AWG BRANDS

FOOD OUTLET - NEWNAN, GEORGIA

A massive two-week makeover at Food Outlet in Newnan, Georgia, has transformed this new AWG retailer into an AWG Brand sales mecca for value-minded customers. Food Outlet set a goal to make a big impact with the AWG Brands program and has succeeded in spades.

During the makeover, Food Outlet committed huge amounts of shelving and floor space to merchandising various Best Choice and Always Save products. Their cross-merchandising of products promotes consumer purchases of many secondary products throughout the store.

An aggressive strategy with advertising, both in print and on social media, promoting signature items like paper goods, coffee and dairy has proven to be a winning formula. The team's efforts have proven very effective, gaining them over 30 percent market penetration on AWG Brand products, 8 percent higher than warehouse average.

5 WAYS STORE BRANDS WINS WITH FOOD OUTLET

- COMMITTED TO BEING TOP STORE BRANDS OPERATOR IN AWG
- SIGNATURE ITEMS
- SPECIAL EVENTS
- AGGRESSIVE ADS
- STRONG SOCIAL MEDIA PRESENCE

DIVISION WINNERS

Store # 6674 - GREER'S CASH SAVER Bay Minette, AL
Store # 3072 - MARSHALL CASH SAVER Marshall, TX
Store # 4093 - CASH SAVER Dallas, TX
Store # 9171 - HANSEN'S Sparta, WI
Store # 9252 - CENTRAL MARKET Hebron, NE
Store # 2837 - RHODE'S FAMILY PRICE CHOPPER Branson, MO
Store # 563 - BRICK STREET MARKET Bondurant, IA

2019 EXCELLENCE IN VMC

CREST FOODS - OKLAHOMA CITY, OKLAHOMA

Crest Foods in Oklahoma City prides itself on "Rock Bottom Prices." The store offers a large variety of health and beauty care, general merchandise and specialty food products throughout. They utilize every inch of space available, including power panels and end caps to ensure the best selection of non-food and specialty food items. The store leverages signage throughout that promotes both the quality and "Rock Bottom Prices."

This store consistently supports VMC programs and takes regular advantage of VMC power buys, web blasts, seasonal, show deals and an extensive TPR program. They do all this with a view toward giving their customers the best possible value and selection for their dollar.

Owner Bruce Harroz and managers Chris Merrill and Will Houghtlin take great pride in offering a unique shopping experience for their customers, which shows through in each area that features VMC products.

5 ROCKS OF CREST'S SUCCESS WITH VMC

- OFFER A WIDE VARIETY ACROSS VMC SELECTIONS
- UTILIZE EVERY INCH OF SPACE AVAILABLE TO SELL
- SIGN THE STORE TO DRIVE PRICE MESSAGING
- TAKE ADVANTAGE OF POWER BUYS, WEB BLASTS, SHOW DEALS AND TPRS
- GIVE SAVINGS TO THE CUSTOMER, WHENEVER POSSIBLE

DIVISION WINNERS

Store # 1961 - STRACK & VAN TIL Cedar Lake, IN
Store # 6777 - ROUSES MARKET Denham Springs, LA
Store # 4375 - UNITED SUPERMARKET, Cherokee, OK
Store # 9650 - SUPER SAVER Lincoln, NE
Store # 2924 - PRICE CUTTER Springfield, MO

2019 OUTSTANDING MARKETING CAMPAIGN

EDWARDS FOOD GIANT - ARKANSAS

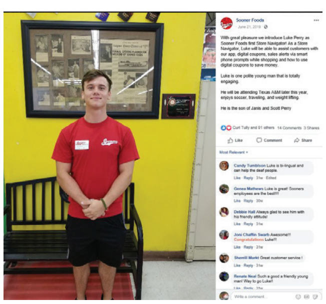
Steve Edwards' Edwards Food Giant is winning the fight to keep their customers coming back and attract newer, younger shoppers. They have found success with a thriving online shopping service, a rewards program and an active online presence.

Edwards Food Giant, based in Arkansas, introduced its online shopping service a little more than a year ago and has seen it grow exponentially. The intense support has led them to operating online shopping in six of its seven locations and boosted sales by 5 to 7 percent.

In another successful turn, Edwards Food Giant has also launched a rewards program, including digital coupons, which is featured heavily on their website and mobile app. The rewards program has added $4 to the average transaction and made the stores a one-stop shopping destination.

5 WAYS EDWARDS FOOD GIANT REWARDS OMNICHANNEL

- ATTRACT YOUNGER SHOPPERS
- HEAVILY PROMOTED REWARDS PROGRAM
- LEVERAGE DIGITAL COUPONS
- APP AND WEBSITE ARE HUBS FOR SHOPPERS
- ONLINE SHOPPING LEADS TO OVERALL SALES SUCCESS



2019 OUTSTANDING DIGITAL MARKETING CAMPAIGN

SOONERS FOODS - OKLAHOMA

With heavy competition from large national retail chains and dollar stores, Sooners Foods decided to invest heavily in a digital strategy in 2019. Eric Szalaj, Barry Shrader and the rest of the Sooners Foods team are highly active in supporting the three communities their stores serve and promote their stores through social media, which has led their Facebook page to have more than 7,000 followers.

Sooners Foods is highly active in utilizing AWG's Shopper Engagement Platform (SEP) along with AWG's marketing team to its full potential. Their continued usage of SEP's strategic marketing tools has allowed them to connect with shoppers like never before and increase their sales by 4.56 percent in 2019.

Going one step further, Sooners Foods introduced "Store Navigators" by hiring several energetic tech-savvy employees. Their Store Navigators assisted hundreds of customers one-on-one with learning how to use their smartphones to connect and use the new Sooners app, clip coupons, beacon technology and much more.

5 MOVES IN DIGITAL MARKETING PUSHING SOONERS FORWARD

- STRONG INVOLVEMENT IN SEP AND REWARDS PROGRAM WITH PROVEN RESULTS
- STRONG SUPPORT FROM THE AWG MARKETING TEAM
- HIGHLY INVOLVED IN COMMUNITY ACTIVITIES AND SUPPORT
- USING CREATIVE SOCIAL MEDIA TACTICS TO ENGAGE SHOPPERS
- HIGHLIGHTING CUSTOMERS' SPECIAL OCCASIONS ON FACEBOOK, CREATING INSTANT CONNECTIONS

DIVISION WINNERS

All Stores - ROUSES MARKET Thibodaux, LA

All Stores - FOOD GIANT Sikeston, MO

LOU FOX AWARD

SKYLAR & ANGIE THOMPSON

The Lou Fox Community Service Award is given in honor of Lou Fox, President of Associated Wholesale Grocers from 1955 through 1983. Throughout his life, Lou Fox was known as a philanthropist and civic supporter. This award is presented at the time of the Annual Shareholders Meeting to an AWG retailer who follows in the Lou Fox tradition of giving back to the community that helped make them successful. The spirit of Lou Fox lives in each of the recipients.

The 2019 Lou Fox Community Service Award is presented to Skylar and Angie Thompson of Market Basket supermarket stores. Today, Market Basket remains a privately held company owned by the Thompson and Franz families, serving the Southeast Texas and Louisiana region with 31 full-service locations.

Skylar began his experience in the grocery industry sacking groceries while in grade school and progressed from there. He's a graduate of Texas Christian University with a B.B.A in Finance. Since then, he's held numerous positions within Market Basket and is currently President, COO and Chairman of Market Basket Executive Committee.

Skylar and his wife Angie have assisted communities at home and abroad. In 2014, they and their two daughters embarked on a week-long mission trip to Bolivia with 12 others that helped move forward the construction project of a new community church. Their efforts added brick and mortar, fresh concrete, paint and plumbing to the new structure. During their stay, they had the privilege of being in fellowship with locals, learning their traditions, worshiping together and working hand-in-hand with the community.

Headquarted in an area of the country that is consistently devastated by natural disasters, the Thompsons and the Market Basket family have always been there to support all those in need. Just in the last few years, their local communities have been severely affected by the Sabine River flood in 2016, Hurricane Harvey in 2017, and Tropical Storm Imelda in 2019.

Every time their community has called for help, Skylar and Market Basket have been there to assist. They've provided truckloads of bottled drinking water, ice machines, forklifts and a location for a Red Cross distribution center. During Hurricane Harvey, one of their own stores was flooded and heavily damaged. With over a foot of standing water, they opened the doors for first responders to who were told to "take what they need" to help others well before aid was able to arrive.

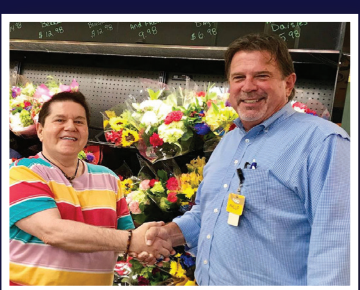
Skylar and Angie have both held positions on the board for Gift of Life, a premier cancer-fighting organization in Texas. They have also been instrumental in providing a staging ground in their store's parking lot to assist with community support for disaster relief efforts.

This last year marks the third year in which Skylar has been the Board Chair for the American Red Cross of Southeast and Deep East Texas, covering 11 counties. He has been an Honoree of the Chapter's Annual Hurricane Event, the largest fundraiser banquet the chapter holds each year. He's also been awarded the NGA Spirit of America Award for his involvement in community and government affairs.

Skylar has held or holds directorships in organizations such as The Greater Beaumont Chamber of Commerce, American Cancer Society, Muscular Dystrophy Association, United Way, Beaumont Heritage Society, Foundation Board of All Saints Episcopal School, Kelly High School, Southeast Food Bank, Young Men's Business League (YMBL) and Neches River Festival.

The word philanthropy derives from late Latin and Greek philanthropia meaning "kindliness, humanity, benevolence and love to mankind." The Lou Fox Award is symbolic of those traits and so are this year's recipients, Skylar and Angie Thompson.

STORE MANAGER OF THE YEAR



PHILLIP ELSEMAN

Phillip Elseman has been in the grocery business for 38 years, 23 of which have been devoted to Reasor's. As Store Manager, Phillip has demonstrated excellent leadership, mentoring skills, industry experience, forward thinking, and commitment to caring about people. All of his character traits cultivate an environment that sets his store apart from all others and has generated a growing customer base and increased the store's financial performance.

Phillip's passion resides in providing his customers an excellent and memorable shopping experience. He believes customer engagement from him and his staff is paramount to the store's success. His personality and customer first mentality filters down to all employees and is felt throughout the store. Customers are greeted with friendly receptions and interactions that exude a true appreciation for their business, creating a warm and inviting shopping environment.

During his career, Phillip has personally taken a lead role in his community. He was highly active in seeking donations and fund raising for the Community Playground Construction Drive, even feeding workers during the construction build. These efforts helped gain the local community massive amounts of recreational space to enjoy.

Phillip's priorities are not only community and customers, he is highly engaged with his employees and shares his excitement, energy and passion with them daily. His staff easily identifies his compassion and caring for them as a team, which invigorates the staff to do their absolute best each day as they come to work.

The motto Phillip is known for by his staff is "You Gotta Ride the Wave". Whether it's a big project, small task, busy or slow day, take what's presented to you and own it, command the outcome.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 28, 2019 and December 29, 2018
(dollars in thousands)

ASSETS	2019	2018
Current Assets:		
Cash and cash equivalents	$ 152,960	$ 154,101
Receivables, net of allowance for doubtful accounts of $5,373 in 2019 and $4,012 in 2018	307,208	313,702
Notes receivable from members, current maturities, net of allowance for doubtful accounts of $0 in 2019 and $0 in 2018	10,394	8,281
Inventories	541,174	587,504
Prepaid and other current assets	33,923	32,018
Total current assets	1,045,659	1,095,606
Notes receivable from members, maturing after one year, net of allowance for doubtful accounts of $2,774 in 2019 and $3,225 in 2018	37,290	45,284
Property and equipment, net (note 6)	449,639	436,914
Intangible assets, including goodwill, net of accumulated amortization of $23,958 in 2019 and $23,148 in 2018 (note 3)	10,460	3,375
Deferred income taxes (note 10)	38,094	31,180
Prepaid and other assets	43,485	52,299
Total assets	$ 1,624,627	$ 1,664,658
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 605,887	$ 597,688
Cash portion of current year patronage	123,355	121,348
Member deposits	30,406	38,303
Accrued expenses and other current liabilities	119,099	122,032
Total current liabilities	878,747	879,371
Long-term debt maturing after one year (notes 5 and 7)	151,959	230,223
Deferred income and other liabilities	76,095	42,560
Total liabilities	1,106,801	1,152,154
Commitments and contingent liabilities (note 12)		
Equity:		
Common stock, $100 par value:		
Class A, voting; 35,000 shares authorized; 16,470 and 17,055 shares issued in 2019 and 2018	1,647	1,706
Class B, nonvoting; 150,000 shares authorized; 10,261 and 11,199 shares issued in 2019 and 2018	1,026	1,120
Additional paid-in capital	27,434	28,075
Retained earnings	497,676	484,595
Accumulated other comprehensive loss (notes 9 and 11)	(45,531)	(35,041)
Total members' equity	482,252	480,455
Noncontrolling interest	35,574	32,049
Total equity	517,826	512,504
Total liabilities and equity	$ 1,624,627	$ 1,664,658

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017
(dollars in thousands)

	2019	2018	2017
Net sales	$ 9,666,303	$ 9,614,686	$ 9,653,752
Cost of goods sold	8,914,677	8,852,674	8,903,241
Gross profit	751,626	762,012	750,511
General and administrative expenses	532,349	547,205	542,081
Operating income	219,277	214,807	208,430
Other income (expenses):			
Interest income (note 1)	3,168	3,824	3,105
Interest expense (note 7)	(5,833)	(6,769)	(5,937)
Other, net	1,635	1,744	3,891
Income before income taxes	218,247	213,606	209,489
Income taxes (note 10)	2,866	761	10,386
Net income	215,381	212,845	199,103
Other comprehensive income (loss)			
Change in funded status of pension plan, net of taxes (note 9)	(10,490)	(13,011)	(2,495)
Comprehensive income	$ 204,891	$ 199,834	$ 196,608
Amounts attributable to noncontrolling interest			
Comprehensive income	$ 204,891	$ 199,834	$ 196,608
Comprehensive (income) loss attributable to noncontrolling interest	(3,525)	(5,843)	(4,288)
Comprehensive income attributable to AWG, Inc. and subsidiaries	$ 201,366	$ 193,991	$ 192,320
Net income	$ 215,381	$ 212,845	$ 199,103
Net (income) loss attributable to noncontrolling interest	(3,525)	(5,843)	(4,288)
Net income attributable to AWG, Inc. and subsidiaries	$ 211,856	$ 207,002	$ 194,815

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
Fiscal years ended December 28, 2019 and December 29, 2018
(dollars in thousands)

	2019	2018
Allocated		
Balances at beginning of year	$ 379,066	$ 366,509
Patronage certificates (note 8):		
Issued	82,085	78,899
Redeemed	(72,789)	(68,286)
Reclassed	(178)	—
Class B certificates:		
Issued	328	2,004
Redeemed	(108)	(60)
Balances at end of year	$ 388,404	$ 379,066
Unallocated		
Balances at beginning of year	$ 105,529	$ 102,218
Net income	215,381	212,845
Net income attributable to noncontrolling interest (note 9)	(3,525)	(5,843)
Patronage certificates	(82,086)	(78,899)
Reclassed prior year patronage certificates	178	—
Class B certificates	(328)	(2,004)
Less cash portion of current year patronage	(123,355)	(121,348)
Redemption and retirement of common stock	(2,522)	(1,440)
Balances at end of year	$ 109,272	$ 105,529
Total retained earnings	$ 497,676	$ 484,595

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017

(dollars in thousands)

	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 215,381	$ 212,845	$ 199,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	50,302	48,839	49,194
Impairment of assets and liabilities	—	—	2,378
Deferred income taxes	(6,913)	(15,440)	8,226
Gain on disposition of property and equipment	(20)	(147)	(41,210)
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	6,494	(16,462)	(894)
Inventories	49,967	(69,749)	46,605
Prepaid and other assets	1,596	35,340	(33,737)
Accounts payable, accrued expenses and other liabilities	27,966	(38,949)	(78,732)
Net cash provided by operating activities	344,773	156,277	150,933
Cash flows from investing activities:			
Additions to intangibles	—	(200)	—
Loans to members	(28,688)	(31,803)	(38,252)
Repayment of loans by members	34,570	40,172	18,435
Purchase of property and equipment	(69,399)	(54,468)	(30,660)
Proceeds from sale of property and equipment	13,038	10,592	79,372
Acquisition of assets, net of cash acquired (note 4)	(12,425)	—	—
Net cash (used in) provided by investing activities	(62,904)	(35,707)	28,895
Cash flows from financing activities:			
Year-end patronage distributions	(121,348)	(117,179)	(115,262)
Redemption of prior year's patronage refund certificates	(72,800)	(68,345)	(63,429)
Issuance of common stock	2,451	2,003	5,713
Redemption and retirement of common stock	(5,866)	(4,804)	(6,552)
Net advances under credit facilities	(77,550)	58,900	200
Net (repayments) proceeds of member deposits	(7,897)	(3,173)	5,259
Net cash used in financing activities	(283,010)	(132,598)	(174,071)
Net (decrease) increase in cash and cash equivalents	(1,141)	(12,028)	5,757
Cash and cash equivalents at beginning of year	154,101	166,129	160,372
Cash and cash equivalents at end of year	$ 152,960	$ 154,101	$ 166,129
Supplemental noncash disclosures of financing activities:			
Patronage payables	$ 123,355	$ 121,348	$ 117,179
Supplemental cash flow statement information:			
Cash paid for interest, net of amount capitalized	$ 6,397	$ 6,080	$ 5,250
Cash paid for income taxes	$ 8,474	$ 1,360	$ 1,733

See accompanying notes to these consolidated financial statements.

(dollars in thousands unless otherwise indicated)

(1) Summary of Significant Accounting Policies

General

Associated Wholesale Grocers, Inc. predominately operates on a cooperative basis (see Patronage) procuring grocery merchandise for distribution to its retailer/shareholders ("Members") throughout the mid-western, southwestern, and southeastern United States. Non-Cooperative businesses include nonfood distribution centers and retail supermarkets that operate under the banners of Homeland, United Supermarkets, Cash Saver, and Price Chopper. The cooperative represents approximately 85% of total net sales. "AWG" and "Company" refer to Associated Wholesale Grocers, Inc. and its subsidiaries.

Principles of Consolidation and Use of Estimates

The consolidated financial statements include the accounts of AWG, its subsidiaries and variable interest entities where the Company is considered the primary beneficiary. Intercompany transactions have been eliminated. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the statements and affects the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Company's fiscal year ends on the last Saturday in December. Fiscal 2019, 2018, and 2017 include 52 weeks of operations.

Variable Interest Entity

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations" ("ASC 810"), the Company consolidates any variable interest entity ("VIE") in which the Company has a controlling financial interest and , therefore, is the VIE's primary beneficiary, ASC 810 states that a controlling financial interest in an entity is present when an enterprise has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company has determined that HAC, Inc. Employee Stock Ownership Plan and Trust ("ESOP") is a VIE pursuant to certain financing provided by the Company in the sales of its retail grocery operation (see note 4) and has included HAC, Inc. ("HAC") in the Company's consolidated financial statements for the fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017.

Business and Credit Concentrations

The majority of the Company's sales are to Members located in Missouri, Oklahoma, Louisiana, Arkansas, Kansas, Illinois, Tennessee, Mississippi, Nebraska, Kentucky, Indiana, and Alabama. No single customer accounted for more than 10% of sales in any year presented. Inventory and equipment financing is available to qualified retailers for acquisitions/expansion, improvements and opening inventory purchases. Loans to Members are generally collateralized by the Member's inventory, property and equipment, and the Members' AWG equity. The Company's lending rate is generally one percent over the prime rate with borrowing terms up to 7 years. For the fiscal years 2019, 2018, and 2017, the Company earned interest income on loans of $2.6 million, $3.2 million, and $2.5 million, respectively. Interest is recorded when earned.

Accounts receivable primarily consist of trade receivables from Members and are stated at the amount the Company expects to collect, net of allowance. Trade receivables are generally secured by patronage certificates (see note 5).

The Company establishes an allowance for doubtful accounts based on collectability, which reflects management's best estimate of probable losses determined principally on the basis of historical experience, financial analysis of the retail customer and loan guarantors, and evaluation of the loan collateral.

Changes in accounts receivable allowance for doubtful accounts are as follows:

	2019	2018
Beginning balance	$ 4,012	$ 4,795
Provision for doubtful accounts	1,444	617
Write-offs / Recoveries	(83)	(1,400)
Ending balance	$ 5,373	$ 4,012

Changes in notes receivable allowance for doubtful accounts are as follows:

	2019	2018
Beginning balance	$ 3,225	$ 2,770
Provision for doubtful accounts	(202)	782
Write-offs / Recoveries	(249)	(327)
Ending balance	$ 2,774	$ 3,225

(1) Summary of Significant Accounting Policies (continued)

Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Proceeds due from credit and debit card transactions with settlement terms of less than five days are also included. The Company maintains cash balances at major financial institutions. At times such cash balances may be in excess of the Federal Deposit Insurance Corporation coverage limit. Management believes the financial institutions are financially sound and risk of loss is minimal. The Company does not fund its disbursement accounts for checks it has written until the checks are presented to the bank for payment. The amount of outstanding checks is recorded in accounts payable. The change in outstanding checks is included in the change in accounts payable, accrued expenses, and other liabilities on the consolidated statements of cash flows.

Inventories

Merchandise is valued at the lower of cost or market. Cost for 74% and 77% of inventories in 2019 and 2018, respectively, is determined using the last-in, first-out (LIFO) method. Cost for perishables, general merchandise, health care and retail store inventories is determined using the first-in, first-out (FIFO) method. Had all products been valued at FIFO, inventories would have increased by $133.1 million at December 28, 2019 and $120.6 million at December 29, 2018.

Property and Equipment

Property and equipment are stated at cost. Expenditures for improvements, which significantly increase property lives, are capitalized. Interest costs incurred during the construction of facilities are included in the cost of such properties. Depreciation and amortization are calculated using the straight-line method over the assets estimated useful lives, which range from 15 to 50 years for buildings, 3 to 10 years for equipment, and 3 to 5 years for vehicles. Leasehold improvements are amortized over the shorter of the respective lease terms or life of the asset.

Patronage

Income from cooperative operations, less a nominal amount authorized by the Board of Directors to be retained, is returned to the Members in the form of year-end patronage. At each year end, a percentage of net income to be distributed is paid in cash with the remainder paid in the form of patronage certificates (see notes 5 and 8). Such amounts are apportioned to the Members based on qualifying warehouse purchases. Patronage source income derived from an extraordinary event of significant magnitude may be distributed to Members separately based on the quantity of the business done proportionately with a Member, which may span multiple years or a combination of years, as provided in the bylaws, as needed.

Sales and Cost of Goods Sold

The Company recognizes sales of merchandise when products are delivered and promotional allowances related to selling products to customers are recorded as a reduction in sales. Any volume rebates paid in advance of purchases is reported as a prepaid asset. Fees and upfront monies received from vendors are recorded as a reduction of the cost of goods sold in the period in which they are earned, based on contractual commitments to achieve certain milestones in purchases or prorated over the duration of the agreement.

Shipping and Handling Costs

Shipping and handling costs incurred to deliver products to our customers are included as a component of general and administrative expenses in the consolidated statements of operations and comprehensive income. Shipping and handling costs for the fiscal years 2019, 2018, and 2017 were $204.4 million, $206.4 million, and $202.7 million, respectively.

Advertising Expense

Advertising costs are expensed as incurred and are included as a component of general and administrative expenses in the consolidated statements of operations and comprehensive income. Advertising expenses for the fiscal years 2019, 2018, and 2017 were $4.6 million, $4.8 million, and $5.9 million, respectively.

Self-Insurance

In states which have approved the Company as a qualified self-insurer, the Company covers the worker's compensation claims utilizing a combination of self-insurance and excess worker's compensation insurance ($0.8 million retention), subject to the policy limitations, if any. The Company uses actuarial estimates to record the liability for future periods. If the number of claims or the costs associated with the claims were to increase significantly over the estimates, additional charges to earnings could be necessary to cover required payments.

(1) Summary of Significant Accounting Policies (continued)

Income Taxes

AWG files a consolidated federal income tax return. Deferred income taxes are accounted for under the asset and liability method. Patronage distributions from cooperative operations are deductible for income tax purposes. Deferred income taxes result primarily from differences in financial reporting basis for net receivables, depreciation, insurance, deferred compensation, and the deferred gain on the sale of HAC not yet recognized in the financial statements. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During 2019, 2018, and 2017, the Company did not recognize any significant interest or penalties.

Recently Adopted and Recently Issued Authoritative Accounting Standards

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), which provides new comprehensive lease accounting guidance that supersedes the existing leases requirements set forth in Topic 840. Since that time, the FASB has issued subsequent amendments to Topic 842 to provide more clarity to the guidance, as well as, extend the required adoption period for non-public companies. The objective of Topic 842, as amended, is to provide more useful information to users of the financial statements about the amount and timing of cash flows arising from a lease by now (1) requiring lessees to recognize a right-of-use asset and lease liability on the balance sheet for almost all lease contracts with terms longer than 12 months and (2) expanding the disclosure requirements of lease arrangements. The Company continues to assess the full impacts of adoption and currently believes the new standard will have a material impact on the Company's consolidated balance sheets but does not expect a material impact to the Company's statements of operations and cash flows. The Company plans to adopt Topic 842, as amended, in Fiscal 2021, as the guidance is now effective for fiscal years beginning after December 15, 2020.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the revenue recognition requirements in Revenue Recognition (Topic 605) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflect the consideration to which the entity expects to be entitled to in exchange for those goods or services. The new revenue recognition standard also requires disclosures that sufficiently describe the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The collective guidance is effective for private companies beginning after December 15, 2018. The new standard was effective for the Company for fiscal year 2019. ASU No. 2014-09 is effective retrospectively for fiscal years beginning after December 15, 2018. The new standard permits two implementation approaches, one requiring full retrospective application of the new standard with restatement of prior years, and one requiring modified retrospective application of the new standard with disclosure of results under old standards.

The Company adopted FASB Accounting Standards Update Topic 606 using the full retrospective method, restating all prior periods. The financial statements for 2018 and 2017 have been retroactively restated for the change which resulted in a decrease in sales and costs of goods sold of $43.6 and $50.0 million in 2018 and 2017 respectively. The adoption of 606 did not have an impact on gross profit or net income for the Company in the years presented.

The Company recognizes revenues when the performance obligation is satisfied, which is the point at which control of the promised goods or services are transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods or services. Control transfers to customers at a point-in-time when goods have been delivered, as that is generally when legal title, physical possession and risks and rewards of goods/services transfers to the customer. The timing of satisfaction of the performance obligation is not subject to significant judgment. Amounts billed and due from customers are short term in nature and are classified as receivables since payments are unconditional and only the passage of time is required before payments are due. Additionally, the Company does not grant payment financing terms greater than one year. Customer credits and returns are included as a reduction of revenue traditionally within 10 days of the initial transfer of goods.

Sales tax collected from customers is not included in revenue. Shipping and handling costs include costs associated with the selection of products and delivery to customers and are included within operating expenses.

(2) Fair Value Measurements

Fair value is defined 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. Assets and liabilities recorded at fair value are categorize using defined hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair value measurements as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;
- Level 3 - Unobservable inputs in which little or no market activity exists, requiring an entity to develop its own assumptions about the assumptions that market participants would use in valuation.

(2) Fair Value Measurements (continued)

For certain of the Company's financial instruments, including cash and cash equivalents, accounts and short-term notes receivables and accounts payable, the fair values approximate book values due to their short-term maturities.

Since there is no market for long term notes receivables, it is impractical to assess whether the carrying amounts, which are reported on the consolidated balance sheets for these items, approximate fair value.

Property and equipment and intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets held and used is assessed based on the undiscounted future cash flows. Assets to be disposed of are presented at the lower of cost or fair value less costs of disposal. During the fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017, the Company recorded (in millions) $0.1, $0.0, and $2.4, respectively, for impairment charges on real property and ongoing lease liabilities, which were measured at fair value using Level 3 inputs. The impairment charges are a component of the general and administrative expenses in the consolidated statements of operations.

The carrying amounts of the Company's long-term debt reported on the consolidated balance sheets approximate fair value since their interest rates are periodically adjusted to reflect market conditions.

(3) Intangible Assets

The Company has intangible assets subject to amortization that include wholesale volume agreements and non-compete agreements of $20.7 million for both 2019 and 2018, which are being amortized over 15 years and have accumulated amortization of $20.6 million and $20.5 million for 2019 and 2018, respectively. The Company's VIE has recorded goodwill of $13.4 million and $5.6 million for 2019 and 2018, respectively, which is being amortized over a useful life of 10 years and accumulated amortization of $3.4 million and $2.6 million, respectively. Amortization expense for intangible assets was $0.8 million in 2019, $1.4 million in 2018, and $1.9 million in 2017. Amortization expense for the next five fiscal years is estimated to be as follows (in millions): 2020 - $1.5; 2021 - $1.4; 2022 - $1.3; 2023 - $1.1; 2024 - $0.9.

(4) Acquisitions, Divestitures and Certain Transactions with Members

In December 2011, the Company sold its subsidiary retail grocery operation, Associated Retail Grocers, Inc. ("ARG"), whose only asset consisted of an investment in HAC, Inc. The operation is commonly referred to as Homeland Stores, which operated grocery stores situated in Oklahoma (72), Texas (4), and Kansas (1) at the time of the transaction. The purchaser, ESOP (see Variable Interest Entity in note 1), bought 100% of the controlling stock of ARG in a transaction valued at $145 million subject to a working capital adjustment of $10.1 million. The Company provided financing in a series of loan tranches collateralized by HAC, Inc. assets, with maturity dates of 5 to 11 years. On December 31, 2016, the Company entered into a new loan agreement with HAC (Tranche A1) replacing, refinancing and restating Tranches A, B, C, E, E2, E3 and E4 Term notes in their entirety.

Tranche A1 - $117.7 million, to be reduced by future AWG patronage certificates and quarterly principal payments beginning on March 31, 2017. Weekly interest-only payments began on January 6, 2017 (subject to floating rate adjustments based on the Monthly LIBOR Rate + 3% margin). The loan balance outstanding at December 28, 2019 under the restated and consolidated Tranche A1 note was $77.6 million, with the interest rate ranging from 4.67% to 5.51%. $4.9 million of principal payments were made during the fiscal year ending December 28, 2019. The aggregate loan balance outstanding at December 31, 2016 under consolidated notes (Tranche A, B, C, E, E2, E3, and E4) was $121.1 million for Tranches A, B, and C with the interest rate ranging from 3.25% to 7.00%. Tranches E, E2, E3, and E4 were non-interest bearing and had an outstanding balance of $4.3 million as of December 31, 2016.

Beneficial terms of the transaction require HAC to maintain its purchase concentration of current and future stores for a stated period beyond the final repayment of all the outstanding obligations. On December 17, 2015, the Company provided a guaranty to Bank of America Merrill Lynch ("BAML") up to $2.5 million, for Letters of Credit issued by BAML for the benefit of HAC. The guaranty provided to BAML by the Company was $15.0 million on September 15, 2017. The amount available under the line of credit is reduced by the amount guaranteed to BAML. The guaranteed balance at December 28, 2019 and December 29, 2018 was (in millions) $0.0 and $0.0, respectively.

HAC is considered a VIE, requiring its continuing operation to be combined with the Company's consolidated financial statements. Therefore, the Company will not reflect the gain on the sale of the subsidiary until such time as the Company determines it is no longer the primary beneficiary of HAC.

(4) Acquisitions, Divestitures and Certain Transactions with Members (continued)

In October 2016, the Company purchased certain assets and liabilities of Affiliated Foods Midwest Cooperative, Inc. ("AFM") for $139.7 million to expand the distribution area into several adjoining states and add over 800 new member stores. The following table summarizes the allocation of the purchase price to the assets acquired and the liabilities assumed at the date of acquisition:

	in millions
Inventory	$ 71.4
Personal property & equipment	24.3
Real property	85.1
Notes receivable	20.3
Accrued liabilities	(27.3)
Member deposit liability	(19.2)
Equity	(14.9)
Total	$ 139.7

In connection with the acquisition of AFM, the Company agreed to pay additional consideration in future periods of up to an aggregate of $33.8 million (undiscounted). In 2019, the remaining amount owed of $8.2 million was paid to the Members based upon their annual purchases, which included a portion that was paid to AFM as breakage. There are no additional payments that the Company is required to make under the contingent consideration arrangement. At December 29, 2018 the remaining liability was estimated to be $8.8 million. 521 Members were issued 15 shares of class A stock with 336 Member Certificates issued to collateralize open accounts receivables.

The Company incurred expenses of approximately $4.9 million in conjunction with the acquisition. The Company has expensed all acquisition related costs which are recorded as a component of general and administrative expenses.

In August 2017, Always Fresh, Inc. a wholly owned subsidiary of the Company, sold substantially all of its assets for a total of $5.0 million. In conjunction with this transaction, the Company sold approximately $7.2 million of its military distribution channel related inventory to the same purchaser. In addition, the Company entered into a non-complete agreement with the same party, which resulted in annual installment payments over a seven-year term totaling over $2.9 million with the short-term portion recorded in receivables and the remaining recorded in non-current other assets.

In August 2017, the Company sold 100% of the stock of Retail Accounting Solutions, Inc. ("RAS") and entered into a non-compete agreement with the purchaser for five years. A purchase price of $0.3 million was received at closing. In conjunction with this transaction, real estate, which included the building that housed the RAS employees, was also sold for $0.3 million to an affiliated entity of the purchaser.

In November 2017, the Company sold a vacant warehouse and adjacent land located in Elwood, Kansas for $14.3 million, which had been obtained as part of the AFM transaction in October 2016, but never used for grocery distribution.

In October 2019, HAC, Inc., purchased equipment and inventory for 5 supermarkets located in Oklahoma from RPCS, Inc. Four stores were operating under the banner of Food Pyramid, two in Ponca City, one in Stillwater and one in Bartlesville, Oklahoma with the fifth operating as Ponca City Discount Foods. The aggregate cash purchase price for all five stores was $12.4 million.

(5) Patronage Refunds and Deposits

Patronage Refund Certificates are issued to Members as part of annual distributions of net income from cooperative operations.

Member deposits represent interest-bearing accounts that may be required to collateralize weekly purchases of products. Interest expense incurred on member deposits and member savings in 2019, 2018, and 2017 were $0.9, $1.0, and $0.9 million respectively. Since there is no market for Patronage Refund Certificates and Member Deposits, it is impractical to assess whether the carrying amounts, which are reported on the consolidated balance sheets for these items, approximate fair value.

(6) Property and Equipment

Property and equipment are summarized as follows:

	2019	2018
Land	$ 58,481	$ 55,361
Buildings and leasehold improvements	461,702	418,958
Equipment	405,144	414,590
Construction in progress and other	10,666	7,543
	$ 935,993	$ 896,452
Less accumulated depreciation	(486,354)	(459,538)
Property and equipment, net	$ 449,639	$ 436,914

Depreciation expense incurred in 2019, 2018, and 2017 was (in millions) $50.1, $47.1, and $47.3, respectively. In 2019, 2018, and 2017, the Company capitalized an aggregate total of (in millions) $0.0, $0.0, and $0.0, respectively, of capitalized construction period interest.

(7) Long-term Debt

In May 2015, the Company entered into a five-year revolving Credit Agreement with a maturity date of May 20, 2020, which provided a $302.9 million revolving credit facility and a $72.1 million tax-exempt bond facility. Total borrowings and outstanding letters of credit, including a $72.1 million tax-exempt bond loan were $249.4 million on December 29, 2018. Variable interest rates are based on the London Interbank Borrowing Rate and ranged from 1.60% to 3.14% during 2018 (which included a base rate mark-up charged by the lenders). Daily borrowings during 2018 averaged $88.3 million and overall annual borrowings and repayments were approximately $7.1 billion. The Company had an additional $125.6 million available for borrowing under this agreement.

In December 2019, the Company entered into two five-year Credit Agreements, which provided a $300 million revolving credit facility and a $72.1 million tax-exempt bond facility. At December 28, 2019, total borrowings and outstanding letters of credit were $172.9 million, which includes the $72.1 million tax-exempt bond facility. Variable interest rates are based on the London Interbank Borrowing Rate and ranged from 1.98% to 3.15% during 2019. Daily borrowings during 2019 averaged $137.1 million and overall annual borrowings and repayments were approximately $6.1 billion. At December 28, 2019, the Company had an additional $199.1 million available for borrowing under this agreement.

The Company's credit facility contains certain financial covenants related to cash flow leverage and minimum tangible net worth. The Company is in compliance with all covenants as of December 28, 2019.

(8) Allocated Earnings

At December 28, 2019 and December 29, 2018, $82.1 and $78.9 million of the current year non-maturing patronage has been allocated within retained earnings. The pertinent provision of these patronage certificates are as follows: (a) the certificates are not transferrable; (b) AWG has the right to offset, but the certificate holder does not; (c) no interest is accrued on outstanding certificates; (d) the certificates have no stated maturity date, and (e) the certificates are subordinate to the claims of all creditors of AWG.

In July 2005, the Board of Directors created another form of patronage certificate ("Class B Certificates") for Members who are delinquent with their obligations owed to the Company. The Class B Certificates are non-interest bearing and have no maturity date. These certificates are only redeemed upon the dissolution of the Company and the redemption of all other patronage certificates. The Board of Directors may in its sole and absolute discretion cause a Class B Certificate to be converted into a Patronage Refund Certificate if a member was deemed as delinquent ceases to be deemed as a delinquent Member. The Class B Certificates are included in retained earnings and amounted to $4.2 million and $4.0 million as of December 28, 2019 and December 29, 2018, respectively.

(dollars in thousands unless otherwise indicated)

(9) Equity

All Members of the cooperative are required to hold 15 shares of Class A Common Stock. The bylaws of AWG contain restrictions concerning the transfer of common stock, which serves as collateral to secure Members' indebtedness. Each Member holding Class A Common Stock is entitled to one vote in shareholder matters. All issuances and redemptions since March 27, 2019 have been made at $2,300 per share. Issuances and redemptions between March 28, 2018 and March 26, 2019 were made at $2,200 per share. Issuances redemptions between March 22, 2017 and March 27, 2018 were made at $2,000 per share.

The following table describes the number of authorized and outstanding shares of AWG Class A and Class B stock at December 28, 2019 and December 29, 2018:

		OUTSTANDING AT	
CLASS	AUTHORIZED	2019	2018
Class A Stock, $100 par value	35,000	16,470	17,055
Class B Stock, $100	150,000	10,261	11,199

The changes in common stock for the fiscal years ended December 28, 2019 and December 29, 2018 were as follows:

	Class A	Class B	Total Common Stock	Members
Balances at December 30, 2017				
Shares	17,910	11,744	29,654	1,196
Dollar Value	$ 1,791	$ 1,174	$ 2,965	
Issued				
Shares	960	15	975	64
Dollar Value	$ 96	$ 2	$ 98	
Redeemed				
Shares	(1,815)	(560)	(2,375)	(121)
Dollar Value	$ (181)	$ (56)	$ (237)	
Balances at December 29, 2018				
Shares	17,055	11,199	28,254	1,139
Dollar Value	$ 1,706	$ 1,120	$ 2,826	
Issued				
Shares	1,095	—	1,095	73
Dollar Value	$ 110	$ —	$ 110	
Redeemed				
Shares	(1,680)	(938)	(2,618)	(112)
Dollar Value	$ (168)	$ (94)	$ (262)	
Balances at December 28, 2019				
Shares	16,470	10,261	26,731	1,100
Dollar Value	$ 1,648	$ 1,026	$ 2,674	

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss attributable to the Company for the fiscal years ended December 28, 2019 and December 29, 2018 were as follows:

	2019	2018
Balances, beginning of year	$ (35,041)	$ (22,030)
Change in funded status of pension plan, net of $ 4,489 in tax in 2019 and $ 4,418 in tax in 2018	(10,490)	(13,011)
Balances, end of year	$ (45,531)	$ (35,041)

(dollars in thousands unless otherwise indicated)

(9) Equity (continued)

Additional Paid in Capital

Changes in additional paid in capital attributable to the Company for the fiscal years ended December 28, 2019 and December 29, 2018 were as follows:

	2019	2018
Balances, beginning of year	$ 28,075	$ 29,298
Stock purchase or redemption surplus value paid in/(out)	(642)	(1,223)
Balances, end of year	$ 27,433	$ 28,075

Noncontrolling Interest

Changes in noncontrolling interest for the years ended December 28, 2019 and December 29, 2018 were as follows:

	2019	2018
Balances, beginning of year	$ 32,049	$ 26,206
Income attributable to noncontrolling interest	3,525	5,843
Balances, end of year	$ 35,574	$ 32,049

(10) Income Taxes

The significant components of income tax expense are summarized as follows:

	2019	2018
Federal:		
Current	$ 3,862	$ 9,610
Deferred	(2,131)	(8,294)
Total Federal	$ 1,731	$ 1,316
State:		
Current	$ 1,430	$ 2,173
Deferred	(295)	(2,728)
Total State	1,135	(555)
Total income tax	$ 2,866	$ 761

The effects of temporary differences and other items that give rise to deferred income tax assets and liabilities are presented below:

Deferred income tax assets:	2019	2018
Gain on sale of subsidiary	$ 16,474	$ 16,573
Pension	10,986	5,988
Insurance	4,470	3,727
Compensation	4,316	4,348
Accounts receivable	1,935	1,694
Inventory	2,208	2,519
State credit carryover	4,505	4,845
Other	2,149	1,811
Deferred income tax assets	47,043	41,505
Valuation allowance	(3,693)	(3,806)
Total deferred income tax assets	$ 43,350	$ 37,699
Deferred income tax liabilities:		
Fixed assets	$ 4,639	$ 5,591
Prepaid expenses	617	928
Total deferred income tax liabilities	$ 5,256	$ 6,519
Net deferred income tax assets	$ 38,094	$ 31,180

(dollars in thousands unless otherwise indicated)

(10) Income Taxes (continued)

The Company or one of its subsidiaries files income tax returns in the U.S. Federal jurisdiction, and various states and municipalities. The IRS examination covering tax years 2013-2015 was completed in 2018 with no significant adverse outcome.

As of December 28, 2019 and December 29, 2018, respectively, a High Performance Incentive Program ("HPIP") valuation allowance of $3.7 million and $3.8 million was required to reduce deferred income tax assets to a level, which more likely than not, will be realized as future benefits.

On December 22, 2017, the United States enacted tax reform legislation known as the H.R.1, commonly referred to as the "Tax Cuts and Jobs Act" (the "Act"), resulting in significant modifications to existing law. The Company's financial statements for both comparative years reflect certain effects of the Act which includes a reduction in the corporate tax rate from 35% to 21%, as well as other changes. As a result of the changes to tax laws and tax rates under the Act, the Company incurred incremental income tax expense of $7.3 million during the year ended December 30, 2017, which consisted primarily of the re-measurement of deferred tax assets and liabilities from 35% to 21%.

(11) Employee Benefit Plans

Substantially all employees of the Company are covered by various contributory and non-contributory pension or profit sharing plans. Union employees participate in multi-employer retirement plans under collective bargaining agreements, unless the collective bargaining agreement provides for participation in plans sponsored by the Company. The Company sponsors a defined benefit pension plan, both qualified and non-qualified ("the DB Plan") and several defined contribution pension plans. The DB Plan covers 949 and 1,065 participants for the fiscal years ended December 28, 2019 and December 29, 2018, respectively, which is comprised mainly of non-union warehouse, clerical and managerial employees. Beginning November 1, 2012, the Company's DB Plan was closed to new employees and replaced with an enhanced contribution to the existing defined contribution plan. At present, the Company continues to accrue service costs for eligible participants of the DB Plan. The Company does not provide health care, life insurance, or disability plans to former or inactive employees after retirement under post-employment benefit plans.

The benefit obligation (which is the projected benefit obligation "PBO"), fair value of plan assets, and funded status of the Company's DB Plan is as follows:

Change in benefit obligation (PBO)	2019	2018
Benefit obligation at beginning of year	$ 161,527	$ 160,024
Service cost	10,099	10,215
Interest Cost	7,578	6,391
Benefits paid	(16,701)	(26,644)
Actuarial loss	38,210	11,541
Benefit obligation at end of year	$ 200,713	$ 161,527
Change in plan assets		
Fair value of plan assets at beginning of year	$ 137,921	$ 147,824
Actual return (loss) on plan assets	22,991	(8,269)
Employer contributions	15,894	25,010
Benefits paid	(16,701)	(26,644)
Fair value of plan assets at end of year	$ 160,105	$ 137,921
Funded status, end of year	$ (40,608)	$ (23,606)

(dollars in thousands unless otherwise indicated)

(11) Employee Benefit Plans (continued)

Benefit calculations for the Company's sponsored DB Plan for primarily non-union eligible participants are generally based on years of service and the participants' highest compensation during five consecutive years during the last ten years of employment. The Company's accumulated benefit obligation for the DB Plan was $ 173,706 and $ 134,139 at December 28, 2019 and December 29, 2018, respectively.

The amounts recognized for the DB Plan in the Company's accumulated other comprehensive income/loss consisted of the following:

	2019	2018
Total recognized in AOCI, before tax	$ (61,876)	$ (46,896)
Total recognized in AOCI, net of tax	$ (45,531)	$ (35,041)

Fiscal Year	DB Plan Benefits
2020	$ 20,476
2021	21,489
2022	20,283
2023	23,861
2024	24,434
Years 2025-2029	92,429

Net periodic benefit expense for the DB Plan consisted of the following:

	2019	2018	2017
Service cost – benefits earned during the period	$ 10,099	$ 10,215	$ 9,723
Interest cost on projected benefit obligations	7,578	6,391	6,335
Expected return on plan assets	(8,962)	(10,138)	(9,249)
Amortization of prior service cost	—	—	129
Amortization of net actuarial loss	8,195	4,697	5,793
Settlement loss	1,006	7,822	1,228
Net periodic benefit expense	$ 17,916	$ 18,987	$ 13,959

The estimated prior service cost and net actuarial loss that will be amortized from accumulated other comprehensive income/loss into net periodic benefit cost for the DB Plan over the next fiscal year are $0 and $7,691, respectively. The majority of the unfunded non-qualified portion of the plan has been expensed.

Weighted average assumptions used for the DB Plan are as follows:

	2019	2018	2017
Weighted average assumptions used to determine benefit obligations:			
Discount rate	3.45%	4.45%	3.80%
Rate of compensation increase	2.57%	2.58%	2.56%
Weighted average assumptions used to determine net periodic benefit cost:			
Discount rate	4.45%	3.80%	4.50%
Rate of compensation increase	2.50%, 3.00%	2.56%	2.56%
Expected return on plan assets	6.75%	6.75%	7.25%

(dollars in thousands unless otherwise indicated)

(11) Employee Benefit Plans (continued)

The fair value of the Company's DB Plan assets at the end of the 2019 calendar year, by asset category, are as follows:

Asset Category	2019 Total	Level 1	Level 2	Level 3
Equity Securities	$ 118,864	118,864	—	—
Fixed Income				
U.S. Government Securities	27,988	27,988	—	—
Mutual Funds	5,127	5,127	—	—
Corporate or Agency Securities	5,053	—	5,053	—
Limited Partnerships	3,073	—	—	3,073
Totals	$ 160,105	151,979	5,053	3,073

The fair value of the Company's DB Plan assets at the end of the 2018 calendar year, by asset category, are as follows:

Asset Category	2018 Total	Level 1	Level 2	Level 3
Money Market Funds	$ 1,854	$ 1,854	$ —	$ —
Mutual Funds	131,759	131,759	—	—
Limited Partnerships	4,308	—	—	4,308
Totals	$ 137,921	$ 133,613	$ —	$ 4,308

The following is a description of the valuation methodologies used for assets measured at fair value at December 28, 2019 and December 29, 2018:

Equity Securities, Money Market Funds, and Mutual Funds are valued at the closing price reported on the active market on which the individual securities are traded.

U.S. Government Securities traded on a highly liquid secondary market are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are classified within Level 1.

Corporate or Agency Securities are determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and reference credit spreads, and estimated prepayment rates, where applicable, are used for valuation purposes provided by third-party pricing services where quoted market values are not available.

Limited Partnerships that are hedge funds are valued based on estimates for the fair value of investment funds held by the partnership that have calculated net asset value per share as a practical expedient in accordance with the specialized accounting guidance for investment companies. Another limited partnership is valued based on the contributions paid into the fund through year end, which approximates fair value. The majority of Limited Partnerships held as investments are subject to redemption restrictions of a quarterly frequency with 95 day notice periods and a minimum investment period of one year.

A reconciliation of the beginning and ending balances of financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the fiscal year ended December 28, 2019 and December 29, 2018 is as follows:

	2019	2018
Fair value, beginning balance	$ 4,308	$ 5,736
Unrealized gains/(losses)	116	(400)
Purchases	166	475
Distributions	(1,517)	(1,503)
Fair value, ending balance	$ 3,073	$ 4,308

The Company's investment policy reflects the nature of the DB Plan's funding obligations. The assets are invested to provide the opportunity for both income and growth of principal. This objective is pursued as a goal designed to provide required benefits for participants without undue risk. It is expected that this objective can be achieved through a well-diversified asset portfolio. Investment managers are directed to maintain equity portfolios at a risk level approximately equivalent to that of the specific benchmark established for the portfolio. The expected rate of return on DB Plan assets was determined based on expectations of future returns for the DB Plan's investments based on the target asset allocation of the DB Plan's investments. The Company expects to contribute approximately $10.6 million to the DB Plan during 2020.

(11) Employee Benefit Plans (continued)

The Company also makes contributions to its defined contribution plans. The total expense for these plans amounted to (in millions) $11.3, $9.6, and $9.2 in 2019, 2018, and 2017, respectively.

The 2005 Non-Qualified Deferred Compensation Plan is available for officers of the Company to elect, by the required deadlines in the preceding year, to have a designated portion of their wages set aside for their own personal tax planning purposes, in a trust held by Wells Fargo. At the time of election, the date for future distribution of wages to the participant is established, according to allowable parameters within the plan documents. The asset is reported as a noncurrent asset with the offsetting liability as a noncurrent liability on the consolidated balance sheet and were $10.3 million and $10.3 million for December 28, 2019 and December 29, 2018, respectively.

The fair value of the Company's Deferred Compensation plan assets at the end of 2019 and 2018 calendar year, by asset category are as follows:

Asset Category	2019 Total	Level 1	Level 2	Level 3
Money Market Funds	$ 4,113	$ 4,113	$ —	$ —
Corporate Bonds	382	—	382	—
Common Stocks	2,918	2,918	—	—
Mutual Funds	2,877	2,877	—	—
Totals	$ 10,290	$ 9,908	$ 382	$ —

Asset Category	2018 Total	Level 1	Level 2	Level 3
Money Market Funds	$ 4,111	$ 4,111	$ —	$ —
Corporate Bonds	363	—	363	—
Common Stocks	2,208	2,208	—	—
Mutual Funds	3,607	3,607	—	—
Totals	$ 10,289	$ 9,926	$ 363	$ —

(12) Commitments and Contingent Liabilities

The Company is obligated as lessee under various noncancelable long-term supermarket property leases with minimum annual rentals of approximately $34.9. These leases have an average remaining life of 5 years. It is expected in the ordinary course of business that these leases will be renewed or replaced. The Company has subleased the majority of its supermarket properties to Members (except for properties operated by the Company's subsidiaries) for substantially the same lease terms and rental amounts. Rental expense related to these properties were (in millions) $31.9, $32.8, and $33.4 in 2019, 2018, and 2017, respectively. Rental income received was (in millions) $33.1, $33.9, and $35.8 in 2019, 2018 and 2017, respectively. Future minimum lease payments expected to be incurred over the next five fiscal years and thereafter is estimated as follows (in millions): 2020 - $31.5; 2021 - $27.7; 2022 - $23.3; 2023 - $20.4, 2024 - $17.3; and $81.4 thereafter. Offsetting rental income expected to be received over the next five fiscal year and thereafter is estimated as follows (in millions): 2020 - $32.9; 2021 - $28.9; 2022 - $24.2; 2023 - $21.3, 2024 - $18.1; and $85.3 thereafter. Rents charged to general and administrative expenses for operating leases, other than supermarket properties, were (in millions) $2.0, $2.6, and $6.4 in 2019, 2018, and 2017, respectively. Operating lease rent expense expected to be incurred over the next five fiscal years is estimated as follows (in millions): 2020 - $1.8; 2021 - $1.9; 2022 - $1.9; 2023 - $1.9, 2024 - $2.0.

The Company is a guarantor of loans issued to members in the amount of $22.9 and $20.0 million for December 28, 2019 and December 29, 2018, respectively.

In December 2015, the Company entered into a limited guaranty with BAML on behalf of HAC, Inc. Amended in 2017, this limited guaranty allows HAC, Inc. to issue standby letters of credit in amounts up to $15.0 million without requiring HAC to maintain a cash collateral account with BAML. The Company is able to revoke the limited guaranty at any time in respect to future transactions. The Company will, however, be at risk for existing indebtedness at the time of revocation.

In September 2016, the Company entered into a limited guaranty with Bank of Oklahoma on behalf of one of its Members. This guaranty of payment is limited to $25.0 million of outstanding debt of the Member with Bank of Oklahoma. This guaranty ended in October 2018.

In April 2018, the Company entered into a limited guaranty with Great Southern Bank on behalf of one of its Members. This guaranty of payment is limited to $5.0 million of outstanding debt of the Member with Great Southern Bank.

In March 2019, the Company entered into a limited guaranty with Great Southern Bank on behalf of one of its Members. This guaranty of payment is limited to $0.9 million of outstanding debt of the Member with Great Southern Bank.

(dollars in thousands unless otherwise indicated)

(12) Commitments and Contingent Liabilities (continued)

In October 2019, the Company entered into a limited guaranty with UMB Bank, N.A. on behalf of one of its Members. This guaranty of payment is limited to $1.9 million of outstanding debt of the Member with UMB Bank, N.A.

The Company has entered into surety bond agreements with government entities which bind the Company to repay the government entity if the Company is unable to successfully perform on its contractual obligations to the government entity. As of December 28, 2019 and December 29, 2018, the Company had $6.5 million and $6.6 million, respectively, of outstanding surety bonds.

The Company is involved in various claims and litigation arising in the normal course of business. In the opinion of management, the ultimate resolution of these actions will not have a material adverse effect on the Company's consolidated financial statements.

(13) Multi-employer Plans

The Company contributes to a single multi-employer defined benefit pension plan under the terms of the collective-bargaining agreements that cover its union-represented employees. The risks of participating in a multi-employer plan are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer are used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers.

c. If the Company chooses to stop participating in its multi-employer plan, then it is required to pay that plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company's participation in this plan for the fiscal year ended December 28, 2019 is outlined in the table below. The "EIN and Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan number. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2019 and 2018 is for the plan's fiscal year end at December 29, 2018 and December 30, 2017, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are more than 65, but less than 80 percent funded and plans in the green zone are at least 80 percent funded. Based on its projection insolvency, the plan has been deemed to be in "critical and declining" status for 2018 and 2017. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreements to which the plan is subject. Finally, there have been no significant changes that affect the comparability of 2019, 2018 and 2017 contributions.

Pension Fund	EIN and Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Implemented	Company Contributions			Surcharge Imposed	Expiration Date Of Collective-Bargaining Agreements
		2018	2017		2019	2018	2017		
Central States, Southeast and Southwest Areas Pension Fund	36-6044243 Plan 001	Red	Red	Yes	$14,537	$14,563	$14,193	No	April 4, 2020

The Company was not listed in the plan's Form 5500 as providing more than 5% of the total contributions for the plan years ending in 2018 and 2017. At the date the Company's consolidated financial statements were issued, the plan's Form 5500 was not available for the plan year ending in 2019.

(14) Subsequent Events

Subsequent events have been evaluated through March 3, 2020, which is the date the financial statements were available to be issued. Other than events noted below, there were no other material events requiring recognition or disclosure.

The Company previously filed a lawsuit against a group of suppliers of commodity goods and related affiliates for antitrust and unlawful price fixing activities. The Company, subsequent to the Company's fiscal year end, received a confidential arbitration award with regard to one of the suppliers.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Associated Wholesale Grocers, Inc.

We have audited the accompanying consolidated financial statements of Associated Wholesale Grocers, Inc. (a Kansas Corporation) and subsidiaries, which comprise the consolidated balance sheets and statements of retained earnings as of December 28, 2019 and December 29, 2018, and the related consolidated statements of operations and comprehensive income and cash flows for the three years in the period ended December 28, 2019, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Associated Wholesale Grocers, Inc. and subsidiaries as of December 28, 2019 and December 29, 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2019, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter
As discussed in Note 1 to the consolidated financial statements, Associated Wholesale Grocers, Inc. has changed its method of accounting for revenue from contracts with customers in 2019 due to the adoption of the new revenue standard. Associated Wholesale Grocers, Inc. adopted the new revenue standard using the full retrospective approach. Our opinion is not modified with respect to this matter.

Grant Thornton LLP

Kansas City, Missouri
March 3, 2020

2020 **AWG OFFICERS**

Tye Anthony
Sr. Vice President,
Merchandising

Stephanie Becker
Sr. Vice President,
General Counsel & Chief
Legal Officer

Randy Berry
Sr. Vice President,
Chief Information Officer

Stacy Bowen
Vice President,
Sales & Solutions

Emile Breaux
Sr. Vice President,
Operations & Real Estate

David Carl
Sr. Vice President,
Finance & Treasurer

Jim DeStefano
Vice President,
Corporate Distribution

Bob Durand
Vice President,
Division Manager
Nebraska

Dan Funk
Chief Operating Officer

David Gates
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Bo Hawkins
Vice President,
Meat

Robert Henry
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Richard Kearns
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Dan Koch
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Bakery & Deli

Gary Koch
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Linda Lawson
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Sonny Leon
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John Likens
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Mike Schumacher
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Reade Sievert
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David Smith
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Louis Stinebaugh
Vice President,
Sales & Support

Dave Sutton
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James Vaughan
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Kansas City

Jack Wall
Vice President,
Division Manager
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Scott Welman
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Mark Wilson
Vice President,
Corporate Distribution

ASSOCIATED WHOLESALE GROCERS
RETAILER FOCUSED
RETAILER OWNED

ASSOCIATED WHOLESALE GROCERS, INC.
2019 ANNUAL REPORT

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