2021

ASSOCIATED WHOLESALE GROCERS, INC. ANNUAL REPORT

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DEAR SHAREHOLDERS

March 21, 2022

Dear Shareholders,

Your Board of Directors and management are pleased to present the audited results for fiscal 2021. Consolidated company sales reached $10.8 billion, up 1.68% on a comparable basis. After retainage, total year-end patronage was $247 million, or 2.72% of qualifying sales, exceeding budget by seven basis points. Total distribution, including patronage, allowances, and interest back to members, was $572.3 million. In addition, the trading value of AWG stock increased to $1,440 per share, an increase of 20%. Net sales for the cooperative were $9.8 billion, up 1.39%. Member equity increased to $616.2 million, an all-time high, further bolstering the strength of AWG's balance sheet.

Remarkably, we achieved these results while overcoming record expense escalations, supply chain infrastructure investments, upgrades to our technology platform for the future, and funding our ambitious Convergence project to align the cooperative with our member retailers so we can perform more like a $23 billion retailer. Beyond the results, it's crucial to note that we invested heavily, exceeding our budgeted investments by $15 million in cooperative-funded national and store brand product price reductions to support aggressive promotions as vendor trade allowances declined due to product shortages. We also invested $3 million to facilitate improvements necessary for a more sustainable supply chain less vulnerable to shortages of products, employees, and future catastrophic events. While investments like these reduce the patronage pool, we continually strive to achieve the right balance of investing wisely in the long term and fulfilling your day-to-day needs for a lower cost of goods and a predictable patronage return.

While financial performance was strong, we believe 2021 was likely the most difficult year for your company and your cooperative in many decades. It was undoubtedly stressful, and all of your and our teammates paid a significant physical and emotional toll. Despite the pressure and pain, we focused on keeping teammates safe, supporting your stores with the best available product supply, and battling daily on your behalf to obtain your fair share of product and best available cost from supply partners. All of our companies faced unprecedented teammate turnover and industry-wide shortages of personnel. For all of those efforts and achievements, we could not be more proud of our member-retailers, teammates, and all those that showed us great patience and grace and helped us as we helped others.

We also made progress on executing our four core strategies: 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. We invested $5 million in building Convergence technology infrastructure and obtained over $16 million in related cost of goods reductions paid directly to member-retailers. AWG expanded into the Upper Midwest, constructing the first phase of our new Division in Minnesota, which successfully opened on January 2, 2022. We also reached substantial completion of the building phase of our incredible All-In-One Automated Distribution Hub in Hernando, MS, which should begin test shipments in 2022 and begin supplying all stores in 2023. And we assembled an industry-leading Fresh Leadership Team that will become the primary catalyst for sustainable retail growth and profitability as our members further leverage the fresh departments as their key differentiator. Lastly, you awarded us our best Net Promoter Score in the annual AWG Member Satisfaction Survey. Indeed, a good year!

We are very thankful for the extraordinary efforts of our teammates, the leadership of our board, and the support of our members and our vendor partners. You have our commitment to continuous improvements for you.

Sincerely,

Barry Queen
Chairman of the Board

David Smith
President & CEO

Associated Wholesale Grocers - Retailer Owned. Retailer Led. Retailer Focused.

MEMBER RETAILERS

CONVERGENCE

ASSOCIATED WHOLESALE GROCERS

Connecting for Success

Convergence:

the prefix con-, meaning together and the verb verge, which means to turn toward

(Vocabulary.com)

By its very nature and existence, AWG is a model of convergence. The idea of a co-op is built on the concept that "together" is much better than "apart." AWG believes that independent owners can compete more effectively with national and global competitors by leveraging their collective strength through the cooperative. Over the years, this strategy has evolved from simple collective buying, to leveraging the volume of an ever-growing membership to gain access to benefits that might not otherwise be available to independent retailers.

AWG recognizes that the competitive landscape continues to evolve in ways that require even more collaboration between members. The global pandemic has magnified the fragility of the food supply chain, forcing industry participants to manage their businesses differently. So, in cooperation with the supplier community, AWG began the process of leveraging the scale and strength of more than 3,200 retail locations while refining efforts in category management, procurement, sales and merchandising execution. The result: Convergence.

CONVERGENCE in phase one delivers over $300 MILLION in potential member benefit with optimization, private label growth, and trade fund expansion.

Convergence is not a passing fad or shallow initiative. It is an effort to develop and employ ways to leverage the $23 billion in retail selling power that AWG's members represent. The process marks a fundamental transformation of AWG's business processes at nearly all levels of the cooperative supply chain. It includes the adoption of industry-leading procurement and category management methodologies to provide data-driven, analytics-based merchandising plans to drive maximum sales and profit for every square foot of retail space. It means partnering with the supplier community on product assortment, promotional planning, forecasting, pricing and merchandising.

Convergence will require development and acquisition of new technology to allow consumer sales data to be analyzed and used for improved assortment planning and optimization, including regional and local customization. Data-driven decision making will allow the cooperative to stay ahead of consumer trends and more effectively support member sales and merchandising strategies. Structured planograms, competitive retail pricing schemes, market-based merchandising and promotional planning, along with specialized tools for monitoring and measuring consumer metrics, will replace outdated methods. Upgraded retail service offerings will continue to provide support to execute sales and merchandising plans.

Not only is the Convergence process uniquely focused on independent member-retailers, but they will also receive its benefits in reduced product costs, improved sales and retail pricing effectiveness, and category initiatives to improve shelf performance. Convergence is also focused on driving benefits with AWG private brands. With powerful member-owned brands like Best Choice®, Always Save®, Best Choice® Superior Selections® and Clearly by Best Choice™, AWG member-retailers have another advantage to utilize. Continuing to focus on cost of goods, exceptional packaging, effective brand strategies, and efficient assortment is paramount to the success of Convergence.

As AWG's competition moves toward the seamless digitalization and integration of the consumer and their purchase decision points, competitive pressure demands that AWG pursue this Convergence transformation. AWG's ongoing commitment to long-term investment in strategic initatives like Convergence and in people and technology optimization like the All-In-One Distribution Hub will give member-retailers the power to better perform and profit from $23 billion in combined annual retail sales.

Connecting for Success

At Dyer Foods, we are thrilled with the performance of AWG's private label brands. We are driven to supply our customers with the highest quality products available and AWG Brands play a crucial role in achieving this goal. While we don't specifically track private label sales versus branded product sales, customer feedback regularly points to overwhelming confidence in Best Choice® and Always Save®. Grocery retailers have faced many supply issues over the past two years as national brand manufacturers have struggled to maintain sufficient inventory levels. This has led an increasing number of customers to not only try but to become regular purchasers of private labels. Dyer Foods strongly believes that these private labels help us build customer loyalty through products that are unique to our stores and we look forward to continued growth in private label sales.

- Jerry Jones, General Manager, Dyer Foods

Member-retailers use AWG Brands to attract consumers across all income levels, generations, demographics, and geographies. The more than 4,000 items available in the four AWG Brands build consumer loyalty and help differentiate AWG member stores from the competition. They also deliver a price and value message to consumers that resonates across departments while helping member-retailers drive sales and profitability. Plus, with marketing programs like digital coupons and supplemental ads that engage consumers, Always Save®, Best Choice®, Clearly by Best Choice™, and Best Choice® Superior Selections® are brands consumers trust to deliver quality and value every day. Overall, in 2021, these brands sold more than $1.2 billion in wholesale dollars.

BRAND POSITIONING

This past year, the AWG Brands Member Council, a group of retailers formed as a component of Convergence, did significant work on brand positioning, including a survey of more than 3,000 consumers. Their responses, along with council member input, helped redefine the product assortment, pricing and strategy expectations for the four distinct brands. Always Save® emerged from this review as the price fighter, Best Choice® as the national brand equivalent, Clearly by Best Choice™ as a better-for-you option, and Best Choice® Superior Selections® as an elevated everyday value. These positions will be built into execution plans for the years ahead.

COST CONSIDERATIONS

In another dynamic year for supply chain and pricing, AWG Brands remained focused on its mission to deliver the right items at the right price. As part of the AWG Brands Convergence core initiative, the team called on internal expertise to deliver cost mitigation, savings, and efficiencies by developing sourcing guidelines to achieve the best possible cost of goods. Convergence work that was done by the integrated category management team resulted in category optimization and assortment rationalization within AWG Brands. In 2022, the AWG Brands team will continue to work with the category management and merchandising teams to optimize product assortment to drive both sales and margin for retailers.

INNOVATION

In 2021, 90 new items were introduced across all brands and multiple products were converted from Best Choice® to Best Choice® Superior Selections®. This top-tier brand continues to grow in popularity with consumers looking for an elevated everyday value. The AWG Brands Member Council will continue to provide input on the new brand positionings and how they can drive innovation across center store, fresh and VMC in the years ahead.

QUALITY

One thing that did not change in the brand repositioning process was the commitment to quality products. This past year saw 3,361 quality control audits performed producing a 95.3% pass rate. The customer service team delivered on AWG Brands' 100 percent guarantee by responding to questions from 3,955 customers via website, email and phone communication.

PROMOTIONAL & MARKETING SUPPORT

AWG Brands products can be aggressively priced because they do not have the same marketing and advertising costs associated with national brands. Nevertheless, the AWG Brands team offers member-retailers creative, effective ways to promote these brands. In 2021, super sale and event promotional funding drove customer engagement via ad placement and more than 1,000 digital coupons. Curated recipe videos, turnkey social media and website graphics, signage, supplemental ads, shelf tags and endcap programs were among the tools that helped consumers find AWG Brands products. AWG members have streamlined access to these tools through bi-weekly emails, StoreFront (AWG member communication portal) posts, and in the AWG Brands Retailer Playbook made available to AWG member-retailers.

COMMUNITY

The Best Choice® family of brands Save-A-Label program touched thousands of consumers in every state serviced by AWG. Donations topped $174,000 (a number equal to 9,600 cases pf products sold) supporting 1,704 organizations. Save-a-label.com and a new logo were also launched in 2021 as the Best Choice® family of brands continues to support member-retailers as they engage with their communities.

As part of the Convergence Project, AWG launched an Assortment Optimization program in 2021 with the following goals:

- **Increased Sales**
- **Better Performing Shelves**
- **Leverage with Suppliers**
- **Improved Shopper Experience**
- **Greater Product Availability**
- **Reduced Inventory & Working Capital**
- **Accelerated New-Item Introduction**

Cross-functional teams from AWG began optimizing AWG's SKU list and working with member-retailers to improve performance and sales in under-performing categories. With the goal of assessing the product mix at the AWG, regionalized, and local levels, the teams began realigning product offerings to better perform on retailer shelves. Initial assortment work focused on center store departments, including frozen and dairy, with opportunities available in other departments. Data-driven assortment decisions included a variety of inputs such as vendor information and insights, as well as syndicated data from sources like Nielsen and IRI. Background information and statistics for each category were part of the information mix along with informative updates on category trends.

To achieve best-in-class assortment recommendations, the teams created a planogram update calendar (PUC) to outline required activities and to track the responsible parties. This calendar included three main types of assortment optimization work:

- **REFRESH** - New item cut-ins, removal of discontinued items, updating conversions. No significant shelf moves.
- **REVIEW** - Utilization of optimization tool for assortment recommendations, new item cut-ins, removal of discontinued items, updating conversions, strategy adjustments that might require some shift on planogram (POG).
- **OPTIMIZATION** - Utilization of optimization tool for assortment recommendations, new item cut-ins, removal of discontinued items, updating conversions, significant category strategy changes, and reset work done by One Source.

The output of the optimization process is a Category Initiative. To help members execute at shelf, an agreement with One Source provides resources to help reset shelves according to recommendations laid out in the initiative. In 2021, the Assortment Optimization process debuted with initiatives in the cheese and cereal categories.

By focusing business analytics, category management, merchandising, and sales teams on the goals of Assortment Optimization, member-retailers have the opportunity to become more profitable and competitive. Participating stores have already begun to see sales and margin growth in the newly optimized categories. Experience gained during the roll-out in 2021 will help enhance the process going forward as AWG strives to perform, along with its member-retailers, like a $23 billion retail organization.

AWG is dedicated to investing in forward-looking technology to create a sustainable, next-generation co-op that enhances member value.

From the upcoming launch of the new All-In-One (AIO) Distribution Hub in Hernando, Mississippi, to the new Upper Midwest Division (which will eventually include a state-of-the-art, full-line distribution center with automated high-tech operations), to investments in Convergence, AWG's integration of modern technologies is aimed at improving member-retailers' ability to compete at scale.

Integrated technology platforms drive operational efficiency, provide insights for business decisions, and promote digital shopper engagement. These are the tools of market leaders. AWG recognizes the challenges facing many member-retailers in acquiring these technologies while national chains are able to develop and implement them at scale. Furthermore, a tight labor market, supply chain turbulence, and consumer demand all require innovation and automation to compete effectively. AWG's Convergence project will provide the technology framework and scale to address all of these issues for member-retailers.

Convergence will transform organizational and operational processes to allow AWG and its members to make decisions like other $23 billion retail companies do. At the core of this transformation are technologies that drive effectiveness and efficiency across the segments of AWG's end-to-end business model, including vendor and merchandising collaboration, supply chain execution and retail operations. Members, vendor partners, and AWG execution teams can look forward to solutions focused on reducing the overall cost to serve and operate together.

As AWG reevaluated the way it partners with vendors and provides technology services to member-retailers, it recognized the need for several multi-year investments outlined below.

EFFICIENT SUPPLY CHAIN PLANNING

Joint business planning with suppliers, using the AWG Partner Gateway (APG), will yield stronger and more effective supplier relationships based on supply chain and point-of-sale data. AWG is excited to support the use of "a single version of the truth" for strategy, planning, execution, and program measurement with its vendor partners.

REFINED PRODUCT ASSORTMENTS

Using data to help determine what is working and not working in stores will improve AWG members' ability to compete with other national and regional retailers. Predictive analytics in conjunction with supply chain data, retailer point-of-sale information, and customer insights will identify growth opportunities and responses to declining customer demand or category segments. Category management standardized reporting and insights are optimizing national brand and private label assortments across AWG while driving retail sales performance and profitability.

PROFITABLE & COMPETITIVE PRICING

A cornerstone of AWG member-retailers' success is retail pricing that allows them to:

- **Accurately manage all cost elements**
- **Reduce time and labor through simplified pricing capabilities**
- **Ensure item and category profitability**

To compete with national brands, market-based pricing insights will help AWG's member-retailers to not be outmatched by large-scale chains.

EFFECTIVE PROMOTIONS

AWG has developed an advertising planning and execution platform that enables the customization of advertising programs, price point and promotion analysis, and performance reporting. This platform provides an easy-to-use interface with portal and app-based access, allowing flexibility for planning and execution teams. This platform will support the most effective use of AWG member trade dollars.

OPERATIONAL EFFICIENCY

Investments in shelf and event ordering systems to streamline replenishment and promotional/event-based ordering assists AWG stores in being stocked efficiently. Integrating inventory turns, event-based volume drivers, incoming inventory pipeline and store ordering patterns will ensure store operation coincides with operational labor and inventory investments, while avoiding out-of-stock lost sales.

DIGITAL TRANSFORMATION

AWG supports its members' path to digital transformation and omnichannel integration to promote a seamless shopping experience, whether in-store, on a website or using a mobile app. To drive product recommendations based on purchase history and personalization while also leveraging integrated loyalty programs, AWG uses targeted marketing and promotions. No matter how shoppers choose to engage with a localized product or service experience, their platform of choice drives consistency, connection, and convenience via digital- and shopper-engagement programs.

FRESH

Last year was a year of unpredictability. The COVID-19 pandemic impacted labor, freight, inventory supply and cost of goods across all offerings, resulting in the highest inflation numbers seen in decades. The AWG fresh departments were not sheltered from these market conditions. However, through a renewed collaboration between buying teams, members and vendor partners, the fresh departments were able to exceed unit movement and sales compared to 2020 and position AWG and its membership for continued fresh growth in 2022.

The unpredictable challenges of the past two years have prepared the fresh team to respond to new issues that may arise in the future. Working internally as well as with external suppliers, fresh has been able to minimize the impact of market and supply volatility on member retailers. While more challenges are likely to continue in 2022, the fresh team will remain focused on growth and on making fresh perimeter departments the cornerstones of success for AWG rmember-retailers.

In 2021, AWG introduced a new leadership team to lead these efforts. The new department heads bring more than 60 years of experience, internal data and industry information in support of member retailers and Convergence initiatives at AWG. These leaders are:

DAN KOCH *Group VP of Perishables*

HEATHER DELUCA *VP of Meat & Seafood*

TONY MITCHELL *VP of Produce & Floral*

MICHAEL PURSELL *Executive Director of Bakery, Deli & Prepared Foods*

In a year that saw produce inflation hit record levels, the AWG produce team was able to achieve both growth in units and record sales.

The produce team provided members with additional selling opportunities throughout the year via Power Buys and weekly web blasts. A few categories that stood out in 2021 were organics, floral, grapes, and berries.

Pandemic-related factors and behaviors influenced several consumer trends in 2021 and these may continue in 2022 and beyond. They include:

- Families eating more meals at home together
- Consumers becoming home chefs and learning how to cook meals at home
- Demand for ready-made offerings
- Consumers buying online from home more often
- Consumer desire to build healthier bodies to fight off disease

Compared to 2020, produce saw fewer trips per buyer but increased spending per trip. As prices have risen, consumers have continued to consume a majority of their meals at home compared to pre-pandemic when approximately half of their meals were consumed away from home. There is real opportunity for retailers to build a promotional strategy incorporating cross promotion and basket building throughout the store to capitalize on food preparation and making family meals at home easier.

11.7%
BERRY GROWTH RATE

Berries and apples were top sellers in the fruit segment, as tomatoes continued to lead on the vegetable side. At 11.7 percent, berries recorded the highest growth rate among the top ten sellers. Salad kits and melons also experienced high year-over-year growth. Not all top ten sellers saw increased sales in 2021. Tomatoes, potatoes and peppers lost ground compared with their 2020 records.

Inflation has reached the highest rate in decades, impacting both retail and restaurant prices. Inflationary factors not only affect produce and transportation costs but have also led to labor issues, supply shortages, port delays and more, each with a substantial impact on the cost of goods. In 2021, produce price-per-pound increased by 6.5 percent – perhaps less than expected due to lower inflation early in the year. Reducing promotions has been effective in margin control but may not be sustainable. As consumers start looking to stretch their dollars, promotions will again become a topic of conversation. Frequency will likely increase but depth must be monitored with new demand curves.

Moving forward in 2022, the AWG produce team will be making improvements to its quality control teams in every division. This includes assigning a quality control supervisor in each division which will add consistency to the inspection process and offer a new level of accountability. Quality control teams will receive additional training where appropriate, including using online training modules. In 2021, 84 teammates from all areas of produce, warehouse and member services completed the USDA's fresh produce quality control online course. This adds depth to the inspector teams and provides a better understanding of the importance of managing all handling points within warehouse operations. Delivering consistency, quality and freshness remain the top priorities for AWG to its member-retailers.

Growth in organics will be an ongoing focus in 2022 as well, as the segment finished 2021 up 9 percent compared to the year prior. Eighty-five percent of consumers expect the organic equivalent of a conventional item to be at least a little more expensive with 40 percent believing the organic equivalent will be substantially more expensive.

Despite continued challenges impacting the industry, 2021 was another year of strong sales across meat and seafood. Shoppers continued to evolve, seeking time-saving solutions, meal prep planning, as well as healthier, better-for-you options. All of this continued to drive change within the industry and at AWG as the company and member-retailers developed short- and long-term strategies to adapt to consumer behavior, challenge traditional practices, and create the AWG meat case of the future.

With more than 1,500 years of experience across the division and corporate staff, AWG's meat team uses expertise in category management, merchandising, and buying to ensure the right programs, supply, assortment, and promotions are in place for member-retailers. Data guides AWG's decisions, forecasts, and vendor negotiations, creating accountability for performance, actions, and results.

Faced with a wide variety of challenges, from product and labor shortages to late deliveries to inflation, AWG meat teams worked with vendor partners and members throughout 2021 to keep stores stocked. Efforts continue into 2022 to ensure AWG receives its fair share of allocations.

Driven by inflation, meat saw tremendous dollar sales growth in 2021. Seafood experienced the largest percentage change as sales have doubled since 2019. Seafood volume has exploded across the U.S., up more than 20% over the last two years. 59% of shoppers state they are eating more seafood because they want to eat healthier. AWG will continue efforts to expand assortment across branded and private label programs to help members capitalize on this growing category.

AWG's meat department continues to focus on the topics and challenges facing the industry. These include labor-saving solutions, value added expansion, better-for-you options, and combatting leakage to other channels like club and value. By engaging with members on these topics, teams will aim to leverage knowledge gained for market share growth. Through Convergence, AWG will continue to optimize assortment and negotiate more favorable terms all while maintaining quality.

Labor is the biggest issue the industry faces at present. It is a challenge from meat processing plants all the way to the meat cutters in store. Every year, AWG supplies 1 billion pounds of protein to more than 3,200 supermarket locations, underscoring the need to recruit, train and retain meat department professionals. The industry as a whole would benefit from initiatives aimed at doing just that. New training programs, college certification courses, partnerships with local schools, and information-sharing are all ways the industry can attract workers and invest in employees.

AWG's goal continues to be providing member-retailers quality meat and seafood at the best value, which is a delicate balance. "High quality meat" now outranks "low price" in importance to shoppers as they choose their primary store, according to a recent FMI Grocery Report. "Knowledgeable employees" gained seven points of importance and "natural/organic selection" gained eight points, according to FMI. Such data helps guide decision making and strategy for the AWG meat team.

With 80 percent of meals prepared at home, shoppers are seeking solutions to help them get dinner on the table faster.

AWG is working to develop new partnerships while growing the value-added fresh meat and seafood assortment. This includes efforts in pre-packaged, bulk, and full service case solutions across marinated, grinds, and cubes/diced meats. These are all items that have at least one preparation step removed.

AWG has the opportunity to strategically identify areas to expand the case-ready meat assortment over the next several years. By moving member-retailers' meat staff into sales-driving roles focused on serving customers at the counter or on the floor instead of unavailable in the back room, retailers will see increased sales, lower shrink and reduce out-of-stocks. Sustainable packaging and merchandising label claims will continue to be a focus as consumer perception of case-ready meat hit an all-time high 81 percent favorability in 2021 (FMI).

The new leadership in AWG's meat team will continue to strive for steady, strategic and sustainable growth to help member-retailers build the meat and seafood case of the future.

2021 IS A YEAR TO CELEBRATE:
AWG Members Outpace Industry

Ongoing volatility due to the COVID-19 pandemic resulted in continued supply chain disruptions for bakery and deli products. There was significant impact on supply, labor, costs, raw ingredients and packaging. Inflation rose to 7 percent through December, the highest it has been since the 1980s. Individual vendors in the deli and bakery category increased prices on more than one occasion, a trend that is expected to continue in 2022.

Despite these challenges, the industry grossed $691 billion in food and beverage sales, up 1.8 percent over 2020 and 15.8 percent over the 2019 pre-pandemic norm. Deli made a full comeback in 2021, with sales of $40.8 billion, outpacing 2019 levels by 13.1 percent and staying well ahead of inflation. Bakery made a full recovery as well and generated $36.3 billion, overtaking the bakery aisle as the sales growth leader in 2021.

Compared to overall industry growth, AWG members achieved even greater success. AWG members saw double digit revenue growth in both bakery and deli with some members posting gains of more than 20 percent for both departments.

2021: *Focusing on Supply, Organic Growth & Preparing for a Digital Transformation*

This past year brought unanticipated challenges: shorts, allocations, SKU consolidation, price increases and the discontinuation of products. As a result, the primary focus for 2021 was ensuring product supply. As manufacturers struggled to communicate their challenges, AWG took a proactive approach to sourcing and securing core products from suppliers.

At the same time, AWG launched two new Best Choice Bakery product lines -- Best Choice Two Bite items and Frosted Sugar Cookies with quality equal to or better than their national brand counterparts.

The continued growth of e-commerce brought a shift in consumer expectations and behaviors toward restaurants and prepared meals. Consumer preference pivoted to food discovery versus brand preference, paving the way for AWG members to increase their share of the "meals away from home" business.

Grocery pickup and delivery accounted for $6.4 billion in sales for U.S. grocers in 2021 and nearly 50 percent of all U.S. households (63.8 million) shopped for groceries online. In 2021, larger retailers like Kroger, Hy-Vee and Walmart pursued online foodservice ordering. Others quickly moved into this space, thus creating a new revenue stream. With the help of a few select third-party vendors, AWG established a platform for AWG members to compete in this space.

LOOKING AHEAD TO 2022

The AWG deli and bakery team is excited about 2022 and our core strategies. Marketplace disruption is likely to continue through the first quarter of 2022, so there will be a continued focus on supply.

AWG's strategy will focus on three areas:

1. Bakery & Traditional Deli

In bakery and traditional deli, the objectives are to:

- *Improve quality and variety while keeping costs neutral*
- *Evaluate menu offerings and consolidate competing SKUs (as part of Convergence)*
- *Identify gaps and pursue opportunities*
- *Lead with managed partners and improve communication of the benefits*

In addition, the team will be focused on providing better overall communication including new strategies to improve handling and dissemination of the vast amounts of information being generated by the industry. Specific products the team plans to pursue include:

- *Grab-and-go deli meat and cheese to build on its success at the onset of the pandemic.*
- *Charcuterie: Deli entertaining made a big comeback last year with sales up 7.7 percent year-over-year. Charcuterie was one of the major trends. It will continue to be a focus in 2022. The team is working with vendor partners to bring AWG retailers more tools and resources to continue driving sales in this growth area.*

2. Prepared Foods & Foodservice

Prepared foods and foodservice generated more than half of all 2021 revenue for the category. It rose 18 percent versus the year prior and nearly 10 percent compared to pre-pandemic levels. Note the difference between the two. Prepared foods are prepared in advance and portioned for grab-and-go or for counter service, like a glass case or steam well. Foodservice is when items are prepared in front of a guest and have "eat-ertainment" value (a service component) in the guest interaction (station concepts, grills, sandwiches, sushi, salad, etc.).

There is real potential for innovation and AWG will meet it by introducing the following in 2022:

- *Expanded Prepared Foods Offering: Introduce great-tasting, chef-crafted prepared entrees and sides and everyday grab-and-go meal kits by expanding offerings with both existing and new vendors.*
- *Foodservice: Launch AWG-branded rotisserie and AWG-preferred sushi programs.*
- *These efforts will help drive sales and offer great tasting chef-crafted foods without the labor.*

3. Digital Relevance:

Now that there is a pathway for online foodservice ordering, the AWG team is eager to launch this initiative in 2022. The objective is to make AWG retailers digitally relevant and create a new revenue stream that has not yet been tapped.

The AWG Deli and Bakery team is eager to partner with retailers in 2022 and help drive best-in-class food and guest experiences in the bakery, deli, prepared foods and foodservice areas.

UPPER MIDWEST DIVISION

St. Cloud, MN

In July 2021, AWG announced the opening of its ninth division in St. Cloud, Minnesota. The Upper Midwest Division serves AWG member-retailers in North Dakota, South Dakota, Minnesota, Iowa, and Wisconsin. This new division will supply and support nearly 100 current AWG member stores which are closer to St. Cloud than other divisions. It will also welcome new members who can now transition to AWG and take advantage of its close proximity and the related savings on freight cost.

AWG broke ground in October 2021 on an ultra-modern 330,000-square-foot fresh and frozen warehouse to be completed in fall 2022. Combined with nearby existing ambient space in St. Cloud that AWG will operate, the Upper Midwest Division will initially have more than 650,000 square feet of warehouse space to accommodate the full array of products AWG member stores will need. In January 2022, the first cases from dry grocery began shipping.

AWG anticipates strong growth in the Upper Midwest Division and is planning the future expansion of the fresh and frozen facility into a state-of-the-art, full-line distribution center with automated high-tech operations and up to one million square feet of space. This will position AWG as the best wholesale food supply chain solution for independent grocers throughout the upper Midwest.

This growth will increase the collective strength of the cooperative and allow AWG to better deliver on its mission of "providing member-retailers all of the tools, products, and services they need to compete favorably in all markets served at the lowest possible cost."

ALL-IN-ONE DISTRIBUTION HUB *Hernando, MS*

In June 2020, AWG was pleased to announce the most exciting undertaking in the history of AWG – the launch of our new All-In-One (AIO) Distribution Hub in Hernando, Mississippi. In September 2020, AWG celebrated a virtual groundbreaking, and it has been full speed ahead ever since.

This state-of-the-art distribution facility will feature automation technology to optimize productivity and accuracy while supporting long-term, sustainable growth and success for all AWG member-retailers. Automation will allow AWG to provide more products to retailers, increase efficiencies, improve accuracy and reduce damage to goods. The design of the facility will accommodate more SKUs and 30 percent more volume than a traditional facility.

Given the exciting new technology included in the AIO, it will open in phases, with the first phase scheduled to begin operations in winter 2022. This phased approach will allow development and implementation of procedures as AWG migrates product and orders to the new distribution center. AWG's existing facilities will remain online and fully functional during this process. The AIO is expected to be fully operational in late 2023.

The grocery business is changing fast and with this new All-In-One Distribution Hub, AWG and VMC will be well-positioned to meet the needs of retailers for many, many years to come.

EXCELLENCE AWARDS

LOU FOX AWARD

JIM BROWN Owner - Doc's Food Stores, Inc.

In 1946, Roy "Doc" Brown, Jim Brown's father, started the Brown family grocery legacy with a store in Bixby, Okla., that he had bought from his uncle. After working in the store since the age of 10, Jim went out and bought a store in 1980.

Jim was exceptional at catering to the rural communities, so his success opened doors for him well beyond the store. In his 40 years as owner, he has indeed been blessed in business. Today, Jim operates twelve successful stores in the greater Tulsa area of Oklahoma.

Jim also saw his more prominent role in the communities was to help families. He did this by partnering with local schools, organizations, and local agencies like the fire and police departments. He has been passionate about giving back through supporting education, community services, and general benevolence.

Jim has served in various ways, including being the founding member of the Bixby Education Endowment Foundation 50 years ago. He also served on the YMCA board and the New Facility Fund Raising committee to raise $3 million for a new family facility. He also led the Bixby Football Booster Club, serving as president and member of the Bixby Chamber of Commerce, the OFI-CRS Board, and the National Grocers Association (NGA) Board. In 2001 Jim received the NGA "Spirit of America", and again in 2018, he received NGA's highest award for government and public affairs, "The Clarence G. Adamy Great American Award." Jim joined AWG in 1992 and has continuously served on the AWG Board of Directors since 2003.

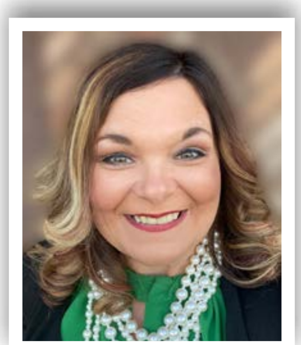
Jim's passion for education is seen through generous support to Bixby Schools' education and fine arts departments and a scholarship established through the Oklahoma Grocers Association as a founding member from 1990-2020. He is also a perennial sponsor of First Tee of Tulsa, promoting character development and life-enhancing values through youth golf. Jim is very active in the work, outreach, and fellowship of Asbury Methodist Church, where he is a member. He has two adult children and recently remarried after losing his wife of almost 49 years, which increased his share of grandchildren from four to a new total of 10.

Like his father before him, Jim is now transitioning his role as the leader of Doc's to his son, Courtney Brown. So the Brown grocery legacy continues.

STORE MANAGER OF THE YEAR

DONNA MADERE-DICKERSON

Rouse's Enterprises, L.L.C.



During the five years Donna has been with Rouses as a Store Director, she has operated 4 different high-volume locations. Currently, she manages Rouses #6815 in Baton Rouge, LA.

One of Donna's strengths is developing strong, highly effective teams. She has been very successful in staying well-staffed through the pandemic and Hurricane Ida. She lives by the belief that your associates will want to work with you if they are treated well and feel wanted.

As a Store Director, Donna knows she wears many different hats. She is a teacher, mentor, counselor, friend, and coach. Donna says, "My team members are my greatest investment and help me protect the Rouses brand."

Under her leadership, Rouses has built great relationships with the local community by partnering with LSU Athletics food drives, WBRZ news station food drives and blood drives, and partners with The Shepherd's Market Food Pantry, helping neighbors in need.

Donna operates a very fluid business. It is very important to plan the work and work the plan, with communication and teamwork being keys to success. This ideology has helped her grow weekly sales to well over $500,000.

Rouses Regional Director of Operations - Jeff Zerweck, says, "Donna is a "Can Do – Will Do" leader. She leads her team with this mentality. When talking to her team, you can see how they embrace her and her vision. Donna is all about teaching, training, supporting, and pushing her team to be the best every day. This shows in her store conditions and the leadership team she has built. She is always there for support, pushing for sales, and creating the next great leader."

AWG BRANDS

OVERALL WINNER - MEMPHIS
Hays Cash Saver #3919 Henderson, TN | Dyer Foods, Inc.

PRODUCE

WINNER (TIED) - GULF COAST
Greer's #6671 Mobile, AL | Autry Greer & Sons, Inc.
WINNER (TIED) - NASHVILLE
HG Hill #5110 Pleasant View, TN | S & C Foods, Inc.

BAKERY

WINNER (TIED) - OKLAHOMA CITY
Homeland #4182 Duncan, OK | HAC, Inc.
WINNER (TIED) - GREAT LAKES
Van Til's Supermarket #8891 Hammond, IN | Van Til's Supermarket, Inc.

FOOD SERVICE

OVERALL WINNER - GREAT LAKES
Tony's Fresh Market #8820 Berwyn, IL | Tony's Finer Foods Enterprises, Inc.

FLORAL

OVERALL WINNER - NEBRASKA
Super Saver #9658 Grand Island, NE | B & R Stores, Inc.

SEAFOOD

OVERALL WINNER - KANSAS CITY
Hen House #422 Prairie Village, KS | Four B Corp.

CENTER STORE

OVERALL WINNER - MEMPHIS
Cash Saver Hardy #3575 Hardy, AR | Bill's Super Foods, Inc.

MEAT

OVERALL WINNER - KANSAS CITY
Checkers #195 Lawrence, KS | Hillcrest Foods, Inc.

MERCHANDISING EVENT

WINNER (TIED) - OKLAHOMA CITY
Crest (All Stores) Oklahoma City, OK | Crest Discount Foods, Inc.
WINNER (TIED) - GREAT LAKES
Ptacek's #8155 Prescott, WI | Ptacek IGA, Inc.

OMNICHANNEL

OVERALL WINNER - OKLAHOMA CITY
Reasor's (All Stores) Tulsa, OK | Reasor's by Brookshire Grocery Co.

VMC

OVERALL WINNER - SPRINGFIELD
Harps #2111 Greenbrier, AR | Harp's Food Stores, Inc.

FOLLOW THIS LINK TO VIEW ALL 2021 AWARD WINNERS

2021 FINANCIAL PERFORMANCE

PATRONAGE DOLLARS

$247.0 MILLION 2021

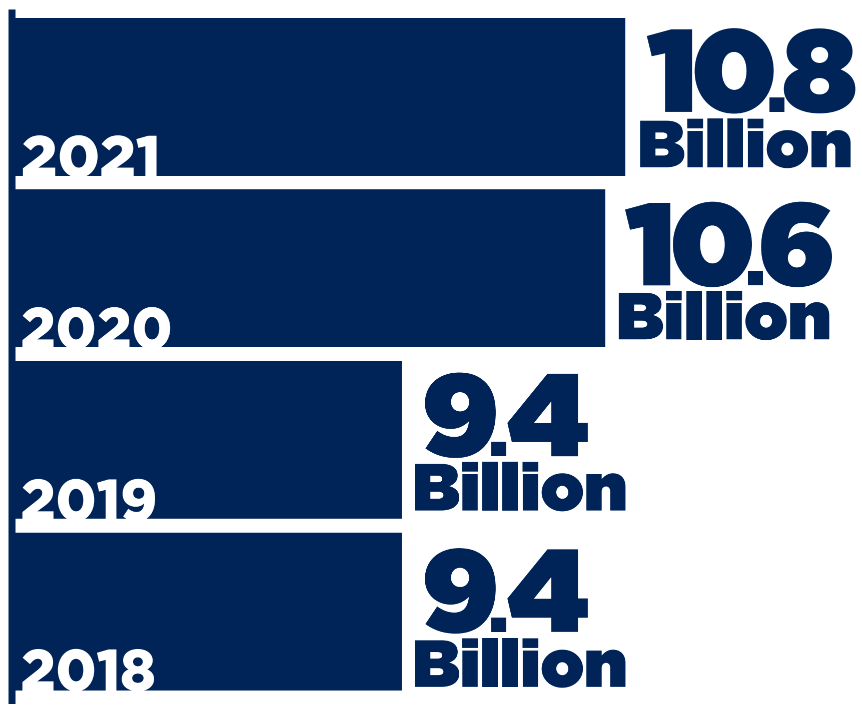
$248.7 MILLION 2020

$213.8 MILLION 2019

$210.5 MILLION 2018

NET SALES

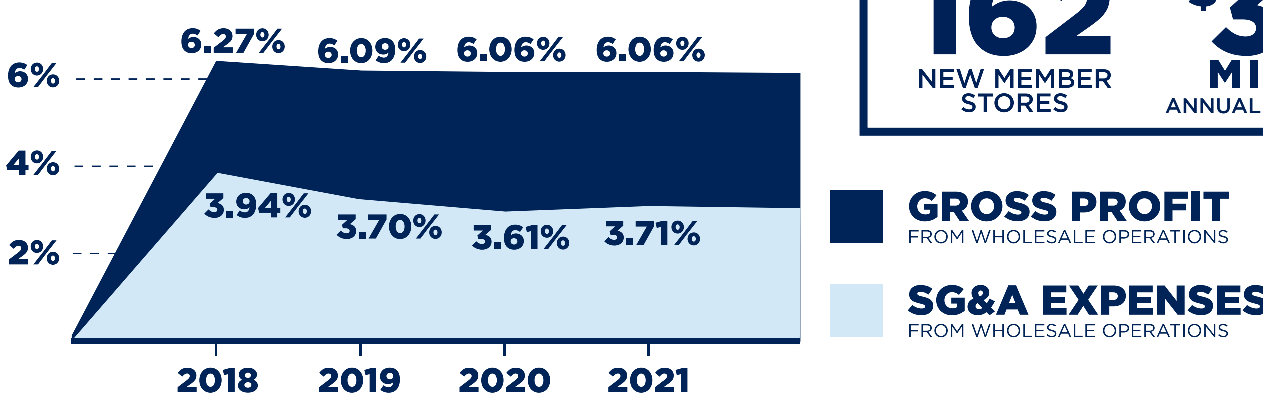
CONSOLIDATED NET SALES



2021 NEW BUSINESS

162 NEW MEMBER STORES

$365 MILLION ANNUALIZED PURCHASES



ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 25, 2021 and December 26, 2020
(dollars in thousands)

ASSETS	2021	2020
Current Assets:		
Cash and cash equivalents	$ 185,797	$ 173,867
Receivables, net of allowance for doubtful accounts of $5,280 in 2021 and $5,343 in 2020	361,746	345,914
Notes receivable from members, current maturities, net of allowance for doubtful accounts of $0 in 2021 and $0 in 2020	15,948	25,174
Inventories	541,756	580,956
Prepaid and other current assets	55,811	46,509
Total current assets	1,161,058	1,172,420
Notes receivable from members, maturing after one year, net of allowance for doubtful accounts of $3,051 in 2021 and $2,716 in 2020	81,622	94,389
Property and equipment, net (note 6)	627,981	507,898
Intangible assets, including goodwill, net of accumulated amortization of $0 in 2021 and $0 in 2020 (note 3)	200	200
Deferred income taxes (note 10)	13,306	21,021
Prepaid and other assets	59,719	40,648
Total assets	$ 1,943,886	$ 1,836,576

LIABILITIES AND EQUITY	2021	2020
Current Liabilities:		
Long-term debt maturing within one year (note 7)	$ 6,667	$ —
Accounts payable	762,419	742,979
Cash portion of current year patronage	147,899	157,580
Member deposits	38,192	42,057
Accrued expenses and other current liabilities	125,764	108,390
Total current liabilities	1,080,941	1,051,006
Long-term debt maturing after one year (note 7)	231,603	178,341
Deferred income and other liabilities	59,469	76,821
Total liabilities	1,372,013	1,306,168
Commitments and contingent liabilities (note 12)		
Equity:		
Common stock, $100 par value:		
Class A, voting; 35,000 shares authorized; 16,965 and 16,710 shares issued at 2021 and 2020	1,697	1,671
Class B, nonvoting; 150,000 shares authorized; 59,141 and 9,654 shares issued at 2021 and 2020	5,914	965
Additional paid-in capital (note 9)	23,445	28,645
Retained earnings	585,126	555,396
Accumulated other comprehensive loss (notes 9 and 11)	(44,309)	(56,269)
Total equity	571,873	530,408
Total liabilities and equity	$ 1,943,886	$ 1,836,576

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 25, 2021, December 26, 2020, and December 28, 2019
(dollars in thousands)

	2021	2020	2019
Net sales	$ 10,812,782	$ 10,634,379	$ 9,666,303
Cost of goods sold	10,153,252	9,976,626	8,914,677
Gross profit	659,530	657,753	751,626
General and administrative expenses	413,099	358,735	532,349
Operating income	246,431	299,018	219,277
Other income (expenses):			
Interest income (note 1)	4,686	6,083	3,168
Interest expense (note 7)	(234)	(3,187)	(5,833)
Other, net	14,048	1,275	1,635
Income before income taxes	264,931	303,189	218,247
Income taxes (note 10)	5,189	18,795	2,866
Net income	259,742	284,394	215,381
Other comprehensive income/(loss)			
Change in funded status of pension plan, net of taxes (note 9)	12,084	(10,738)	(10,490)
Change in fair value of interest swap, net of taxes (note 9)	(124)	—	—
Comprehensive income	$ 271,702	$ 273,656	$ 204,891

Amounts attributable to noncontrolling interest

	2021	2020	2019
Comprehensive income	$ 271,702	$ 273,656	$ 204,891
Comprehensive income attributable to noncontrolling interest	—	—	(3,525)
Comprehensive income attributable to AWG, Inc. and subsidiaries	$ 271,702	$ 273,656	$ 201,366
Net income	$ 259,742	$ 284,394	$ 215,381
Net income attributable to noncontrolling interest	—	—	(3,525)
Net income attributable to AWG, Inc. and subsidiaries	$ 259,742	$ 284,394	$ 211,856

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
Fiscal years ended December 25, 2021 and December 26, 2020
(dollars in thousands)

	2021	2020
Allocated		
Balances at beginning of year	$ 409,401	$ 388,404
Patronage certificates (note 8):		
Issued	98,795	95,907
Redeemed	(79,808)	(74,910)
Class B certificates:		
Issued	—	—
Redeemed	(328)	—
Balances at end of year	$ 428,060	$ 409,401
Unallocated		
Balances at beginning of year	$ 145,995	$ 109,272
Net income	259,742	284,394
Net income attributable to noncontrolling interest (note 9)	—	—
Patronage certificates	(98,795)	(95,907)
Deconsolidation of VIE	—	7,789
Less cash portion of current year patronage	(147,899)	(157,580)
Redemption and retirement of common stock	(1,977)	(1,973)
Balances at end of year	$ 157,066	$ 145,995
Total retained earnings	$ 585,126	$ 555,396

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019

(dollars in thousands)

	2021	2020	2019
Cash flows from operating activities:			
Net income	$ 259,742	$ 284,394	$ 215,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42,257	43,270	50,302
Impairment of assets and liabilities	4,938	4,312	—
Gain on deconsolidation of VIE	—	(35,575)	—
Deferred income taxes	7,715	17,073	(6,913)
Gain on disposition of property and equipment	(12,467)	(328)	(20)
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	(15,832)	(43,927)	6,494
Inventories	39,200	(93,053)	49,967
Prepaid and other assets	(31,142)	(11,016)	1,596
Accounts payable, accrued expenses and other liabilities	31,421	153,295	27,966
Net cash provided by operating activities	325,832	318,445	344,773
Cash flows from investing activities:			
Loans to members	(12,761)	(21,205)	(28,688)
Repayment of loans by members	34,754	37,350	34,570
Purchase of property and equipment	(198,154)	(166,244)	(69,399)
Proceeds from sale of property and equipment	46,241	24,352	13,038
Acquisition of assets, net of cash acquired (note 4)	—	(3,357)	(12,425)
Net cash used in investing activities	(129,920)	(129,104)	(62,904)
Cash flows from financing activities:			
Year-end patronage distributions	(157,580)	(127,760)	(121,348)
Redemption of prior year's patronage refund certificates	(80,136)	(74,910)	(72,800)
Issuance of common stock	6,839	3,387	2,451
Redemption and retirement of common stock	(9,040)	(4,206)	(5,866)
Cash adjustment for deconsolidation of VIE	—	(2,746)	—
Borrowings under term loan	100,000	—	—
Net (repayments) under credit facilities	(40,200)	26,150	(77,550)
Net (repayments) proceeds of member deposits	(3,865)	11,651	(7,897)
Net cash used in financing activities	(183,982)	(168,434)	(283,010)
Net (decrease) increase in cash and cash equivalents	11,930	20,907	(1,141)
Cash and cash equivalents at beginning of year	173,867	152,960	154,101
Cash and cash equivalents at end of year	$ 185,797	$ 173,867	$ 152,960
Supplemental noncash disclosures of financing activities:			
Patronage payables	$ 147,899	$ 157,580	$ 123,355
Supplemental cash flow statement information:			
Cash paid for interest, net of amount capitalized	$ 134	$ 3,928	$ 6,397
Cash paid for income taxes	$ 10,522	$ 5,637	$ 8,474

See accompanying notes to these consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES

Notes to 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 Cash Saver and Price Chopper. The cooperative represents approximately 91% 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 had been, prior to 2020, 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 consists of 52 or 53 weeks, ending on the last Saturday in December. Fiscal 2021, 2020 and 2019 were each 52 week fiscal years. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted.

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 to 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. For the fiscal year ended December 28, 2019, the Company concluded it was the primary beneficiary of HAC, Inc. ("HAC") and has included HAC, Inc. ("HAC") in the Company's consolidated financial statements for the fiscal year ended December 28, 2019. Effective December 29, 2019, the Company concluded it was no longer deemed to be the primary beneficiary of HAC as it no longer met the power criterion. Prior to December 29, 2019, the Company determined that it met the power criteria with regard to HAC by virtue of the financing relationship between AWG and HAC, which HAC did not have the practical ability to refinance the financing provided by the Company with a third party on commercially viable terms. However, as a result of HAC's improved financial condition during 2020, HAC was able to demonstrate the capacity to obtain third party financing at market terms, demonstrating that HAC was no longer reliant on the Company for future financing. Therefore, the Company deconsolidated HAC as of December 29, 2019, and the consolidated financial statements for the fiscal years ended December 25, 2021 and December 26, 2020 no longer reflect the consolidation of HAC. The Company recorded a gain on deconsolidation of $35.6 million which is recorded in general and administrative expenses for the fiscal year ended December 26, 2020. In addition, the Company recorded a deferred tax expense related to the deconsolidation of $16.5 million which is recorded in income taxes for the fiscal year ended December 26, 2020.

Business and Credit Concentrations

The vast majority of the Company's sales are to Members located in Missouri, Oklahoma, Louisiana, Arkansas, Illinois, Kansas, Mississippi, Tennessee, Nebraska, Indiana, Kentucky, 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 Member's 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 2021, 2020, and 2019, the Company earned interest income on loans of $3.8 million, $5.2 million, and $2.6 million, respectively. Interest is recorded when earned.

(1) Summary of Significant Accounting Policies (continued)

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:

	2021	2020
Beginning balance	$ 5,343	$ 5,373
Provision for doubtful accounts	(23)	1,445
Deconsolidation of VIE	—	(271)
Write-offs / Recoveries	(40)	(1,204)
Ending balance	$ 5,280	$ 5,343

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

	2021	2020
Beginning balance	$ 2,716	$ 2,774
Provision for doubtful accounts	335	(58)
Write-offs / Recoveries	—	—
Ending balance	$ 3,051	$ 2,716

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 80% and 82% of inventories in 2021 and 2020, 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 $175.6 million at December 25, 2021 and $137.4 million at December 26, 2020.

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.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(dollars in thousands unless otherwise indicated)

(1) Summary of Significant Accounting Policies (continued)

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 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. 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. Sales tax collected from customers is not included in revenue.

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 2021, 2020, and 2019 were $236.7 million, $217.0 million, and $204.4 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 2021, 2020, and 2019 were $0.5 million, $0.8 million, and $4.6 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.

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, pension and employee benefits. 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 2021, 2020, and 2019, the Company did not recognize any significant interest or penalties.

(1) Summary of Significant Accounting Policies (continued)

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 is adopting Topic 842, as amended, December 26, 2021, as the guidance is now effective for fiscal years beginning after December 15, 2021.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (Topic 715)*. The ASU removed disclosures that no longer are considered cost beneficial, clarified the specific requirements of disclosures, and added disclosure requirements identified as relevant. This ASU became effective for the Company's fiscal year ended December 25, 2021. The Company adopted this ASU for the annual disclosures and applied the ASU amendments on a retrospective basis to all periods presented as required.

(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 categorized 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.

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 25, 2021, December 26, 2020, and December 28, 2019, the Company recorded (in millions) $4.9, $4.3, and $0.1, respectively, for impairment charges on real/personal 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

In 2019, the Company had intangible assets subject to amortization that included wholesale volume agreements and non-compete agreements of $20.7 million, which were being amortized over 15 years and had accumulated amortization of $20.6 million. The Company's VIE recorded goodwill of $13.4 million for 2019 which was being amortized over a useful life of 10 years and accumulated amortization of $3.4 million. Amortization expense for intangible assets was $0.8 million in 2019. With the deconsolidation of the VIE, the Company no longer has amortizable intangible assets.

(4) Acquisitions, Divestitures and Certain Transactions with Members

In May 2020, Midwest Real Estate Holdings, LLC, a wholly owned subsidiary of the Company, purchased real estate located in Missouri, Arkansas and Tennessee from Town & Country Grocers of Fredericktown, Missouri, Inc. The aggregate cash purchase price for the real estate was $3.4 million. Simultaneously, $2.5 million of that real estate was sold to another AWG member.

In July 2021, the Company announced an expansion into Minnesota. A 320,000 square foot ambient warehouse was leased in St. Cloud, Minnesota to service retailers in North Dakota, South Dakota, Minnesota, Iowa, and Wisconsin beginning in January 2022. In September 2021, Midwest Real Estate Holdings, LLC, a wholly owned subsidiary of the Company purchased land located in St. Cloud, Minnesota near the site of the ambient warehouse, for the purpose of constructing a 330,000 square foot fresh and frozen warehouse. The aggregate cash purchase price for the land was $4.2 million. Construction is in process with the completion targeted for September 2022.

In November 2021, AWG Acquisition, LLC, a wholly owned subsidiary of the Company, sold the real estate housing the Valu Merchandisers Company's general merchandise operations to an unrelated buyer. The aggregate cash sales price for the real estate was $19.8 million. AWG Acquisition, LLC subsequently leased the property from the buyer under a short term lease pending completion of the Hernando facility.

(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 2021, 2020, and 2019 were $0.2, $0.5, 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:

	2021	2020
Land	$ 64,978	$ 64,954
Buildings and leasehold improvements	431,305	434,384
Equipment	363,534	342,116
Construction in progress and other	226,096	95,226
	$ 1,085,913	$ 936,680
Less accumulated depreciation	(457,932)	(428,782)
Property and equipment, net	$ 627,981	$ 507,898

Depreciation expense incurred in 2021, 2020, and 2019 was (in millions) $42.1, $43.1, and $50.1, respectively. In 2021, 2020, and 2019, the Company capitalized an aggregate total of (in millions) $3.9, $0.7, and $0.0, respectively, of capitalized construction period interest.

(7) Long-term Debt

In December 2019, the Company entered into two five-year credit agreements with a maturity date of December 20, 2024 with two one year optional renewal periods, which provided a $300 million revolving credit facility with an incremental increase to $350 million on October 15, 2020 and subsequently to $425 million on April 1, 2021. The credit agreements also include a $72.1 million tax-exempt bond facility. Total borrowings and outstanding letters of credit, including the $72.1 million tax-exempt bond loan, were $154.3 million and $198.5 million at December 25, 2021 and December 26, 2020, respectively. Variable interest rates are based on the London Interbank Borrowing Rate (LIBOR) and ranged from 0.67% to 0.90% during 2021 and 0.72% to 2.56% during 2020. Daily borrowings averaged $139.2 million and $106.5 million in 2021 and 2020, respectively, and overall annual borrowings and repayments were approximately $7.2 billion and $2.4 billion in 2021 and 2020, respectively. The Company had an additional $342.8 million and $223.5 million available for borrowing under the revolving credit facility agreements at December 25, 2021, and December 26, 2020, respectively.

In November 2021, the Company entered into an agreement for a $100 million term loan with a maturity date of November 18, 2028 with the option to request one five year extension. The loan is amortized over 15 years with principal repayment installments paid quarterly through September 30, 2028. A balloon payment totaling $53.3 million is due at the end of 7 years. Variable rate interest payments are made monthly based on the 1-month Bloomberg Short Term Bank Yield Index (BSBY), which was 0.91% for the 2021 interest period.

The Company's revolving credit facility and term loan agreements contain certain financial covenants related to cash flow leverage and minimum tangible net worth. The Company is in compliance with all covenants as of December 25, 2021 and December 26, 2020.

The annual maturities of long term debt for the next five fiscal years and thereafter is as follows (in millions): 2022 - $6.7, 2023 - $6.7, 2024 - $145.0, 2025 - $6.7, 2026 - $6.7, and $66.5 thereafter.

(8) Allocated Earnings

At December 25, 2021 and December 26, 2020, $98.8 and $95.9 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 $3.8 million and $4.2 million as of December 25, 2021 and December 26, 2020, respectively.

(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. On February 9, 2021, the Board of Directors of the Company declared a 3-for-1 stock dividend effective March 23, 2021 for shareholders of record. Every shareholder of A and B stock received additional shares in the form of B stock. All issuances and redemptions since March 23, 2021 have been made at $1,200 per share. Issuances and redemptions between March 26, 2020 and March 22, 2021 were made at $2,400 per share. Issuances and redemptions between March 27, 2019 and March 25, 2020 were made at $2,300 per share.

(9) Equity (continued)

The following table describes the number of authorized and outstanding shares of AWG Class A and Class B stock at December 25, 2021 and December 26, 2020:

		OUTSTANDING AT	
CLASS	AUTHORIZED	2021	2020
Class A Stock, $100 par value	35,000	16,965	16,710
Class B Stock, $100 par value	150,000	59,141	9,654

The changes in common stock for the fiscal years ended December 25, 2021 and December 26, 2020 were as follows:

	Class A	Class B	Total Common Stock	Members
Balances at December 28, 2019				
Shares	16,470	10,261	26,731	1,100
Dollar Value	$ 1,647	$ 1,026	$ 2,673	
Issued				
Shares	1,350	25	1,375	95
Dollar Value	$ 135	$ 2	$ 137	
Redeemed				
Shares	(1,110)	(632)	(1,742)	(80)
Dollar Value	$ (111)	$ (63)	$ (174)	
Balances at December 26, 2020				
Shares	16,710	9,654	26,364	1,115
Dollar Value	$ 1,671	$ 965	$ 2,636	
Issued				
Shares	1,275	50,374	51,649	85
Dollar Value	$ 128	$ 5,037	$ 5,165	
Redeemed				
Shares	(1,020)	(887)	(1,907)	(68)
Dollar Value	$ (102)	$ (88)	$ (190)	
Balances at December 25, 2021				
Shares	16,965	59,141	76,106	1,132
Dollar Value	$ 1,697	$ 5,914	7,611	

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss attributable to the Company for the fiscal years ended December 25, 2021 and December 26, 2020 were as follows:

	2021	2020
Balances, beginning of year	$ (56,269)	$ (45,531)
Change in funded status of pension plan, net of $4,311 in tax in 2021 and $3,728 in tax in 2020	12,084	(10,738)
Change in fair value of interest swap, net of $0 in tax in 2021 and $0 in tax in 2020	(124)	—
Balances, end of year	$ (44,309)	$ (56,269)

(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 25, 2021 and December 26, 2020 were as follows:

	2021	2020
Balances, beginning of year	$ 28,645	$ 27,434
Stock purchase or redemption surplus value paid in/(out)	(5,200)	1,211
Balances, end of year	$ 23,445	$ 28,645

Noncontrolling Interest

Changes in noncontrolling interest for the years ended December 25, 2021 and December 26, 2020 were as follows:

	2021	2020
Balances, beginning of year	$ —	$ 35,574
Income attributable to noncontrolling interest	—	—
Deconsolidation of VIE	—	(35,574)
Balances, end of year	$ —	$ —

(10) Income Taxes

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

	2021	2020	2019
Federal:			
Current	$ 1,436	$ (2,383)	$ 3,862
Deferred	2,360	16,657	(2,131)
Total Federal	$ 3,796	$ 14,274	$ 1,731
State:			
Current	$ 349	$ 377	$ 1,430
Deferred	1,044	4,144	(295)
Total State	1,393	4,521	1,135
Total income tax	$ 5,189	$ 18,795	$ 2,866

(10) Income Taxes (continued)

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:	2021	2020
Pension	$ 3,873	$ 14,149
Insurance	5,220	4,838
Compensation	5,468	4,554
Accounts receivable	2,053	1,983
Inventory	2,292	2,579
State credit carryover	4,621	4,680
Other	2,010	2,152
Deferred income tax assets	25,537	34,935
Valuation allowance	(3,835)	(3,596)
Total deferred income tax assets	$ 21,702	$ 31,339
Deferred income tax liabilities:		
Fixed assets	$ 6,353	$ 8,206
Prepaid expenses	2,043	2,112
Total deferred income tax liabilities	$ 8,396	$ 10,318
Net deferred income tax assets	$ 13,306	$ 21,021

As of December 25, 2021 and December 26, 2020, respectively, a High Performance Incentive Program ("HPIP") valuation allowance of $3.8 million and $3.6 million was required to reduce deferred income tax assets to a level, which more likely than not, will be realized as future benefits.

(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 821 and 906 participants for the fiscal years ended December 25, 2021 and December 26, 2020, 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.

(dollars in thousands unless otherwise indicated)

(11) Employee Benefit Plans (continued)

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:

	2021	2020
Change in benefit obligation (PBO)		
Benefit obligation at beginning of year	$ 227,686	$ 200,713
Service cost	10,916	10,561
Interest cost	5,508	6,712
Benefits paid	(56,370)	(23,993)
Actuarial loss	20,341	33,693
Benefit obligation at end of year	$ 208,081	$ 227,686
Change in plan assets		
Fair value of plan assets at beginning of year	$ 174,856	$ 160,105
Actual return on plan assets	20,421	13,733
Employer contributions	56,413	25,011
Benefits paid	(56,370)	(23,993)
Fair value of plan assets at end of year	$ 195,320	$ 174,856
Funded status, end of year	$ (12,761)	$ (52,830)

The actuarial losses included in the pension benefit obligation for 2021 and 2020 are primarily due to lower interest rates and changes in mortality assumptions utilized in measuring plan obligations.

Benefit calculations for the Company's sponsored DB Plan for primarily non-union eligible participants are generally based on years of service and the participant's highest compensation during five consecutive years during the last ten years of employment. The Company's accumulated benefit obligation for the DB Plan was $180,449 and $198,448 at December 25, 2021 and December 26, 2020, respectively.

Accumulated benefit obligations in excess of plan assets:

	Restated Retirement Plan		Supplemental Executive Retirement Plan	
	2021	2020	2021	2020
Accumulated benefit obligation	$ —	$ —	$ 30,455	$ 26,415
Fair value of plan assets	$ —	$ —	$ —	$ —

Projected benefit obligations in excess of plan assets:

	Restated Retirement Plan		Supplemental Executive Retirement Plan	
	2021	2020	2021	2020
Projected benefit obligation	$ 170,391	$ 194,090	$ 37,690	$ 33,596
Fair value of plan assets	$ 195,320	$ 174,856	$ —	$ —

(11) Employee Benefit Plans (continued)

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

	2021	2020
Total recognized in AOCL, before tax	$ (59,946)	$ (76,341)
Total recognized in AOCL, net of tax	$ (44,185)	$ (56,269)

Fiscal Year	DB Plan Benefits
2022	$ 26,113
2023	29,730
2024	31,736
2025	26,715
2026	24,205
Years 2027-2031	95,831

Net periodic benefit expense for the DB Plan is reflected in the SG&A expense section of the Consolidated Statements of Operations and Comprehensive Income and consisted of the following:

	2021	2020	2019
Service cost – benefits earned during the period	$ 10,916	$ 10,561	$ 10,099
Interest cost on projected benefit obligations	5,508	6,712	7,578
Expected return on plan assets	(11,130)	(10,871)	(8,962)
Amortization of net actuarial loss	11,493	9,122	8,195
Settlement loss	15,952	7,244	1,006
Net periodic benefit expense	$ 32,739	$ 22,768	$ 17,916

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

	2021	2020	2019
Weighted average assumptions used to determine benefit obligations:			
Discount rate	2.85%	2.55%	3.45%
Rate of compensation increase	2.59%	2.57%	2.57%
Weighted average assumptions used to determine net periodic benefit cost:			
Discount rate	2.55%	3.45%	4.45%
Rate of compensation increase	2.50%, 3.00%	2.50%, 3.00%	2.50%, 3.00%
Expected return on plan assets	6.00%	6.75%	6.75%

(11) Employee Benefit Plans (continued)

The fair value of the Company's DB Plan assets at the end of the 2021 calendar year, by asset category, are as follows:

Asset Category	2021 Total	Level 1	Level 2	Level 3
Equity Securities	$ 126,176	$ 126,176	$ —	$ —
Fixed Income				
U.S. Government Securities	15,397	9,373	6,024	—
Mutual Funds	—	—	—	—
Corporate or Agency Securities	51,336	—	51,336	—
Limited Partnerships	2,411	—	—	2,411
Totals	$ 195,320	$ 135,549	$ 57,360	$ 2,411

The fair value of the Company's DB Plan assets at the end of the 2020 calendar year, by asset category, are as follows:

Asset Category	2020 Total	Level 1	Level 2	Level 3
Equity Securities	$ 117,600	$ 117,600	$ —	$ —
Fixed Income				
U.S. Government Securities	14,702	8,684	6,018	—
Mutual Funds	—	—	—	—
Corporate or Agency Securities	40,100	—	40,100	—
Limited Partnerships	2,454	—	—	2,454
Totals	$ 174,856	$ 126,284	$ 46,118	$ 2,454

The following is a description of the valuation methodologies used for assets measured at fair value at December 25, 2021 and December 26, 2020:

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.

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(11) Employee Benefit Plans (continued)

The following table presents purchases and other adjustments of financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the fiscal year ended December 25, 2021 and December 26, 2020 is as follows:

	2021	2020
Transfers	$ —	$ —
Purchases & Issues	$ 4,988	$ 1,579

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 $26.1 million to the DB Plan during 2022. The Company also makes contributions to its defined contribution plans. The total expense for these plans amounted to (in millions) $15.5, $14.8, and $11.3 in 2021, 2020, and 2019, 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 Bank of America. 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 sheets and were $14.5 million and $10.9 million for December 25, 2021 and December 26, 2020, respectively.

The fair value of the Company's Deferred Compensation plan assets at the end of 2021 and 2020 calendar year, by asset category are as follows:

Asset Category	2021 Total	Level 1	Level 2	Level 3
Money Market Funds	$ 2,069	$ 2,069	$ —	$ —
Corporate Bonds	—	—	—	—
Common Stocks	3,841	3,841	—	—
Mutual Funds	8,566	8,566	—	—
Totals	$ 14,476	$ 14,476	$ —	$ —

Asset Category	2020 Total	Level 1	Level 2	Level 3
Money Market Funds	$ 2,902	$ 2,902	$ —	$ —
Corporate Bonds	538	—	538	—
Common Stocks	3,709	3,709	—	—
Mutual Funds	3,755	3,755	—	—
Totals	$ 10,904	$ 10,366	$ 538	$ —

(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 $36.0. These leases have an average remaining life of 6 years. 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) $30.7, $31.9, and $31.9 in 2021, 2020, and 2019, respectively. Rental income received was (in millions) $32.1, $32.2, and $33.1 in 2021, 2020 and 2019, respectively. Future minimum lease payments expected to be incurred over the next five fiscal years and thereafter is estimated as follows (in millions): 2022 - $30.1; 2023 - $28.6; 2024 - $25.9; 2025 - $22.0, 2026 - $20.2; and $77.5 thereafter. Offsetting rental income expected to be received over the next five fiscal year and thereafter is estimated as follows (in millions): 2022 - $31.3; 2023 - $29.7; 2024 - $27.1; 2025 - $23.1, 2026 - $21.2; and $81.3 thereafter. Rents charged to general and administrative expenses for operating leases, other than supermarket properties, were (in millions) $3.3, $3.2, and $2.0 in 2021, 2020, and 2019, respectively. Operating lease rent expense expected to be incurred over the next five fiscal years is estimated as follows (in millions): 2022 - $8.8; 2023 - $8.9; 2024 - $9.1; 2025 - $9.3, 2026 - $9.5.

The Company is a guarantor of loans issued to members in the amount of $15.0 and $17.5 million for December 25, 2021 and December 26, 2020, respectively.

In December 2015, the Company entered into a limited guaranty with Bank of America 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 Bank of America. 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 April 2018 and March 2019 the Company entered into limited guaranties with Great Southern Bank on behalf of one of its Members. These guaranties of payment were limited to $5 million and $0.9 million, respectively, of outstanding debt of the Member with Great Southern Bank. Amended in June 2020, these guaranties were combined into one guaranty limited to $1.25 million of outstanding debt of the Member with Great Southern Bank. This guaranty ended in August 2021.

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 was limited to $1.9 million of outstanding debt of the Member with UMB Bank, N.A. This guarantee ended in September 2020.

In September 2020, the Company entered into a limited guaranty with Central Bank of the Ozarks on behalf of one of its Members. This guaranty of payment was limited to $1.22 million of outstanding debt of the Member with Central Bank of the Ozarks. This guaranty ended in October 2021.

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 25, 2021 and December 26, 2020, the Company had $9.7 million and $8.9 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.

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(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 25, 2021 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 2021 and 2020 is for the plan's fiscal year end at December 25, 2021 and December 26, 2020, 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 2020 and 2019. 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 2021, 2020 and 2019 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
		2020	2019		2021	2020	2019		
Central States, Southeast and Southwest Areas Pension Fund	36-6044243 Plan 001	Red	Red	Yes	$14,845	$15,135	$14,537	No	April 1, 2028

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 2020 and 2019. 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 2021.

(14) Derivative Contracts

With the commencement of automated warehouse project, aptly named The All-In-One Project, the Company has become exposed to certain financial and market risks. The Company has currency exchange rate risk exposure associated with transactions related to purchases of services and equipment denominated in the foreign currency, Euro. The Company's financial risk management activities may at times involve the use of derivative financial instruments to hedge the impact of market price risk exposures.

The Company has entered into, and may in the future enter into, short term foreign currency forward derivative contracts with JP Morgan as part of a program designed to mitigate the currency exchange rate risk exposure on transactions with a foreign vendor. Although contracts pursuant to this program will serve as an economic hedge of the cash flow of our currency exchange risk exposure, they are not formally designated as hedge contracts or qualify for hedge accounting treatment. Accordingly, any change in the fair value of these derivative instruments during a period will be included in the determination of earnings for that period. The fair values of foreign currency derivative instruments are based on quoted market values (a Level 2 fair value measurement). The foreign currency derivative outstanding at year end was immaterial to the consolidated financial statements. During the year ended December 25, 2021, the Company recognized immaterial net gains associated with the Company's foreign currency derivative program. These were reflected in other income.

The Company also entered into an interest rate swap effective November 2021 to coincide with the entrance into a $100 million term borrowing related to the construction of the automated warehouse. This cash flow hedge has a $75 million notional amount with fixed and variable rate components and a term of twelve years. The cash flow hedge met the requirements of ASC 815-20-25-131D therefore the effectiveness was assessed by applying the simplified hedge accounting approach. Accordingly, any change in the fair value of this derivative instrument during a period will be included in the determination of AOCI for that period. The fair value of the cash flow derivative instrument is based on quoted market values (a Level 2 fair value measurement). During the year ended December 25, 2021, the Company recorded an immaterial payor position in the consolidated financial statements. Ongoing assessment of hedge effectiveness will be performed by evaluating the hedge against the stated guidance.

(15) Antitrust Settlement

In 2018, the Company filed a lawsuit against a group of suppliers of commodity goods and related affiliates for antitrust and unlawful price fixing activities. The Company entered into a confidential settlement agreement with several defendants pursuant to which the Company received proceeds in 2020. The Company then distributed these proceeds as a special cash patronage dividend, separate from the 2020 distribution that was allocated among the impacted members.

(16) Subsequent Events

Subsequent events have been evaluated through March 3, 2022, which is the date the consolidated financial statements were available to be issued. Other than events noted below, there were no other material events requiring recognition or disclosure.

On December 28, 2021, New Age Logistics, Inc., a wholly owned subsidiary of the Company, sold the real estate comprising the Southaven warehouse to an unrelated buyer. The aggregate sales price was $61.5 million. New Age Logistics subsequently leased the real estate from the buyers under a short term lease to be utilized until such time that the Hernando facility is operational.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Associated Wholesale Grocers, Inc.

Opinion

We have audited the consolidated financial statements of Associated Wholesale Grocers, Inc. (a Kansas corporation) and subsidiaries (the "Company"), which comprise the consolidated balance sheets and consolidated statements of retained earnings as of December 25, 2021 and December 26, 2020, and the related consolidated statements of operations and comprehensive income and cash flows for each of the three years in the period ended December 25, 2021, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 25, 2021 and December 26, 2020 and the results of its operations and its cash flows for each of the three years in the period ended December 25, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Grant Thornton LLP

Kansas City, Missouri
March 3, 2022

ASSOCIATED WHOLESALE GROCERS, INC.
2021 ANNUAL REPORT

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