City of Grand Island

Tuesday, August 26, 2014
Council Session - Updated

Item E-6

Public Hearing on Amendment to Redevelopment Plan for CRA Area 6 located at 620 West State Street

Staff Contact: Chad Nabity

Council Agenda Memo

From: Chad Nabity, AICP

Meeting: August 26, 2014

Subject: Amendment to Redevelopment Plan for CRA Area 6

Item #'s: E-6 & I-5

Presenter(s): Chad Nabity, AICP CRA Director

Background

In 2007, the Grand Island City Council declared property referred to as CRA Area 6 as blighted and substandard and approved a generalized redevelopment plan for the property. The generalized redevelopment plan authorized the use of Tax Increment Financing (TIF) for the acquisition of property, redevelopment of property, site preparation including demolition, landscaping and parking. TIF can also be used for improvements to and expansion of existing infrastructure including but not limited to: streets, water, sewer, drainage.

Super Market Developers a subsidiary of Associated Wholesale Grocers (the developer) has submitted a proposed amendment to the redevelopment plan that would provide for site acquisition, demolition and construction of a new grocery store, in line retail space and restaurant pad site at the Five Points Location in Grand Island, Nebraska.

At their meeting on July 9, 2014 the CRA reviewed the proposed development plan and forwarded it to the Hall County Regional Planning Commission for recommendation. The CRA also sent notification to the City Clerk of their intent to enter into a redevelopment contract for this project pending Council approval of the plan amendment.

The Hall County Regional Planning Commission held a public hearing on the plan amendment at a meeting on August 6, 2014. The Planning Commission approved Resolution 2014-08 in support of the proposed amendment, declaring the proposed amendment to be consistent with the Comprehensive Development Plan for the City of Grand Island.

Discussion

Tonight, Council will hold a public hearing to take testimony on the proposed plan amendment (including the cost benefit analysis that was performed regarding this proposed project) and to enter into the record a copy of the plan amendment, the draft TIF contract under consideration by the CRA.

Council is being asked to approve a resolution approving the cost benefit analysis as presented in the redevelopment plan along with the amended redevelopment plan for CRA Area 6 and authorizes the CRA to execute a contract for TIF based on the plan amendment. The redevelopment plan for amendment provide for site acquisition, demolition and construction of a new grocery store, in line retail space and restaurant pad site at the Five Points Location The cost benefit analysis included in the plan finds that this project meets the statutory requirements for as eligible TIF project and that it will not negatively impact existing services within the community or shift additional costs onto the current residents of Grand Island and the impacted school districts. The total tax increment financing allowed for this project may not exceed $1,600,000 during this 15 year period.

Alternatives

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve the resolution
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

Recommendation

The CRA and Hall County Regional Planning Commission recommend that the Council approve the Resolution necessary for the adoption and implementation of this plan.

Sample Motion

Move to continue approve the resolution as submitted.

Redevelopment Plan Amendment
Grand Island CRA Area 6
June 2014

The Community Redevelopment Authority (CRA) of the City of Grand Island intends to amend the Redevelopment Plan for Area 6 within the city, pursuant to the Nebraska Community Development Law (the "Act") and provide for the financing of a specific infrastructure related project in Area 6.

Executive Summary:
Project Description

THE ACQUISITION OF PROPERTY AT FIVE POINTS EAST OF BROADWELL AVENUE AND NORTH OF STATE STREET BY THE DEVELOPER AND SUBSEQUENT SITE PREPARATION, DEMOLITION, UTILITY IMPROVEMENTS, LANDSCAPING AND PARKING IMPROVEMENTS NECESSARY FOR BUILDING A NEW GROCERY STORE, INLINE RETAIL SPACE AND RESTAURANT SPACE AT THIS LOCATION.

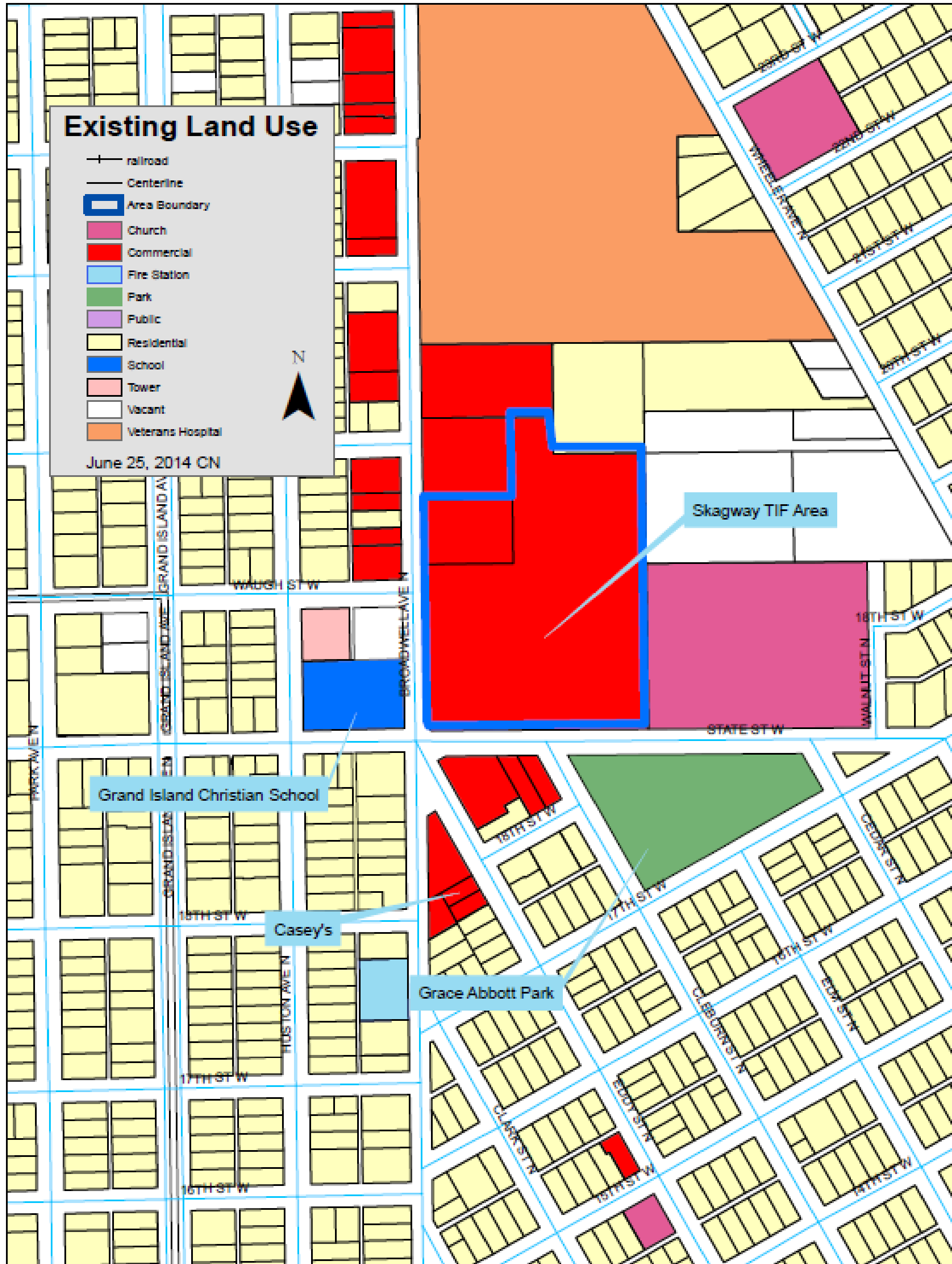
The use of Tax Increment Financing ("TIF") to aid in the acquisition of property, demolition of existing structures, necessary site work and installation of public utilities and street improvements necessary to redevelop this site. The use of TIF makes it feasible to complete all of the phases of the proposed project within the timeline presented. This project could not be completed without the use of TIF.

The acquisition, site work and construction of all improvements will be paid for by the developer. The developer is responsible for and has provided evidence that they can secure adequate debt financing to cover the costs associated with the acquisition, site work and remodeling. The Grand Island Community Redevelopment Authority (CRA) intends to pledge the ad valorem taxes generated over the 15 year period beginning January 1, 2016 towards the allowable costs and associated financing for the acquisition and site work.

TAX INCREMENT FINANCING TO PAY FOR THE ACQUISTION OF THE PROPERTY AND RELATED SITE WORK WILL COME FROM THE FOLLOWING REAL PROPERTY:
Property Description (the "Redevelopment Project Area")

This property is located at the northeast corner of Broadwell Avenue and State Street in northeast Grand Island including the attached map identifies the subject property and the surrounding land uses:

- **Legal Descriptions** Lot 3 of Skag-Way Subdivision and Lot 1 of Skag-Way Second Subdivision.



Existing Land Use
railroad
Centerline
Area Boundary
Church
Commercial
Fire Station
Park
Public
Residential
School
Tower
Vacant
Veterans Hospital
June 25, 2014 CN
N
Skagway TIF Area
Grand Island Christian School
Casey's
Grace Abbott Park

The tax increment will be captured for the tax years the payments for which become delinquent in years 2017 through 2030 inclusive.

The real property ad valorem taxes on the current valuation will continue to be paid to the normal taxing entities. The increase will come from the construction of new commercial space on this property.

Statutory Pledge of Taxes.

Pursuant to Section 18-2147 of the Act, any ad valorem tax levied upon real property in the Redevelopment Project Area shall be divided, for the period not to exceed 15 years after the effective date of the provision, which effective date shall be January 1, 2016.

a. That portion of the ad valorem tax which is produced by levy at the rate fixed each year by or for each public body upon the redevelopment project valuation shall be paid into the funds, of each such public body in the same proportion as all other taxes collected by or for the bodies; and

b. That portion of the ad valorem tax on real property in the redevelopment project in excess of such amount, if any, shall be allocated to and, when collected, paid into a special fund of the Authority to pay the principal of; the interest on, and any premiums due in connection with the bonds, loans, notes, or advances on money to, or indebtedness incurred by, whether funded, refunded, assumed, or otherwise, such Authority for financing or refinancing, in whole or in part, a redevelopment project. When such bonds, loans, notes, advances of money, or indebtedness including interest and premium due have been paid, the Authority shall so notify the County Assessor and County Treasurer and all ad valorem taxes upon real property in such redevelopment project shall be paid into the funds of the respective public bodies.

Pursuant to Section 18-2150 of the Act, the ad valorem tax so divided is hereby pledged to the repayment of loans or advances of money, or the incurring of any indebtedness, whether funded, refunded, assumed, or otherwise, by the CRA to finance or refinance, in whole or in part, the redevelopment project, including the payment of the principal of, premium, if any, and interest on such bonds, loans, notes, advances, or indebtedness.

Redevelopment Plan Amendment Complies with the Act:

The Community Development Law requires that a Redevelopment Plan and Project consider and comply with a number of requirements. This Plan Amendment meets the statutory qualifications as set forth below.

1. The Redevelopment Project Area has been declared blighted and substandard by action of the Grand Island City Council on October 9, 2007.[§18-2109] Such declaration was made after a public hearing with full compliance with the public notice requirements of §18-2115 of the Act.

2. Conformation to the General Plan for the Municipality as a whole. [§18-2103 (13) (a) and §18-2110]

Grand Island adopted a Comprehensive Plan on July 13, 2004. This redevelopment plan amendment and project are consistent with the Comprehensive Plan, in that no changes in the Comprehensive Plan elements are intended. This plan merely provides funding for the developer to acquire the necessary property and provide the necessary site work for the construction of a permitted use on this property.

3. The Redevelopment Plan must be sufficiently complete to address the following items: [§18-2103(13) (b)]

a. Land Acquisition:

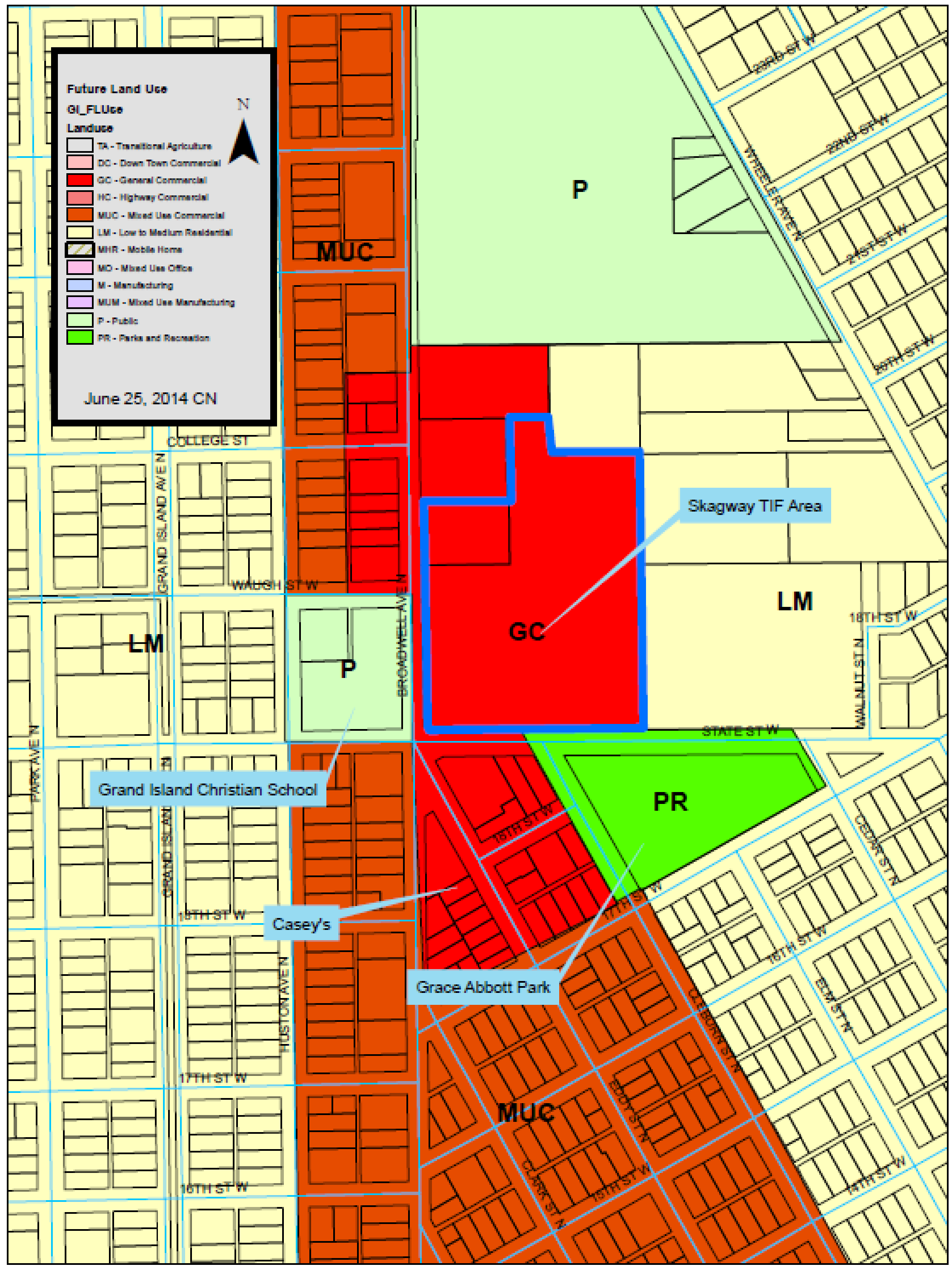
The Redevelopment Plan for Area 6 provides for real property acquisition and this plan amendment does not prohibit such acquisition. There is no proposed acquisition by the authority. The applicant will be acquiring the property from the current owner.

b. Demolition and Removal of Structures:

The project to be implemented with this plan does intend several structures along on the subject property to be removed or demolished. The structures to be demolished are all non-residential in nature and use.

c. Future Land Use Plan

See the attached map from the 2004 Grand Island Comprehensive Plan. The site is planned for commercial development. [§18-2103(b) and §18-2111] The attached map also is an accurate site plan of the area after redevelopment. [§18-2111(5)]



City of Grand Island Future Land Use Map

d. Changes to zoning, street layouts and grades or building codes or ordinances or other Planning changes.

The area is zoned B2- General Business zone. No zoning changes are anticipated with this project. No changes are anticipated in street layouts or grades. No changes are anticipated in building codes or ordinances. Nor are any other planning changes contemplated. [§18-2103(b) and §18-2111]

e. Site Coverage and Intensity of Use

The developer is proposing remove all of the structures on the subject property in two phases. The buildings on Lot 3 of Skag-Way Subdivision will be demolished and a new grocery store will be constructed at that location, fuel pumps will be added near Broadwell Avenue and after the construction of the new store the old store will be demolished and the site will be prepared for additional retail and restaurant space to be constructed at a time when the market allows for said construction. The property is zoned B2 and could accommodate a building of up to 100% of the property [§18-2103(b) and §18-2111]

f. Additional Public Facilities or Utilities

Sewer and water are available to support this development. Water mains will have to be extended throughout the site to support the configuration of the proposed development. New water and sewer services may be required for this building.

No other utilities would be impacted by the development.

The developer will be responsible for replacing any sidewalks damaged during construction of the project.

No other utilities would be impacted by the development. [§18-2103(b) and §18-2111]

4. The Act requires a Redevelopment Plan provide for relocation of individuals and families displaced as a result of plan implementation. This amendment does not provide for acquisition of any residences and therefore, no relocation is contemplated. [§18-2103.02]

5. No member of the Authority, nor any employee thereof holds any interest in any property in this Redevelopment Project Area. [§18-2106]

Barry Sandstrom, Chairman of the Grand Island Community Redevelopment Authority, is President of Home Federal Bank in Grand Island and Home Federal has a branch office and an ATM on the property. Mr. Sandstrom will recuse himself from action on this application.

6. Section 18-2114 of the Act requires that the Authority consider:

a. Method and cost of acquisition and preparation for redevelopment and estimated proceeds from disposal to redevelopers.

The developer is proposing to purchase this property for redevelopment for $2,600,000 in October of 2014 provided that TIF is available for the project as define. The cost of property acquisition is being included as a TIF eligible expense. Costs for site preparation, utility and parking improvements are estimated at $3,004,953 as related to the demolition and site preparation are included as a TIF eligible expense. It is estimated based on the proposed increased valuation of $4,416,000 will result in $1,600,000 of increment generated over a 15 year period, substantially less than the TIF allowable expenses.

No property will be transferred to redevelopers by the Authority. The developer will provide and secure all necessary financing.

b. Statement of proposed method of financing the redevelopment project.

The developer will provide all necessary financing for the project. The Authority will assist the project by granting the sum of $1,600,000 from the proceeds of the TIF Indebtedness issued by the Authority. This indebtedness will be repaid from the Tax Increment Revenues generated from the project. TIF revenues shall be made available to repay the original debt and associated interest after January 1, 2016 through December 2030.

c. Statement of feasible method of relocating displaced families.

No families will be displaced as a result of this plan.

7. Section 18-2113 of the Act requires:

Prior to recommending a redevelopment plan to the governing body for approval, an authority shall consider whether the proposed land uses and building requirements in the redevelopment project area are designed with the general purpose of accomplishing, in conformance with the general plan, a coordinated, adjusted, and harmonious development of the city and its environs which will, in accordance with present and future needs, promote health, safety, morals, order, convenience, prosperity, and the general welfare, as well as efficiency and economy in the process of development, including, among other things, adequate provision for traffic, vehicular parking, the promotion of safety from fire, panic, and other dangers, adequate provision for light and air, the promotion of the healthful and convenient distribution of population, the provision of adequate transportation, water, sewerage, and other public utilities, schools, parks, recreational and community facilities, and other public requirements, the promotion of sound design and arrangement, the wise and efficient expenditure of public funds, and the prevention of the recurrence of insanitary or unsafe dwelling accommodations or conditions of blight.

The Authority has considered these elements in proposing this Plan Amendment. This amendment, in and of itself will promote consistency with the Comprehensive Plan, in that it will allow for the utilization of and redevelopment of commercial lots. This will not significantly impact traffic at the Five Points intersection. New commercial development will raise property values and provide a stimulus to keep surrounding properties properly maintained. This will have the intended result of preventing recurring elements of unsafe buildings and blighting conditions.

8. Time Frame for Development

Development of phase one of this project (including construction of the new grocery store) is anticipated to be completed between October of 2014 and October of 2015. Demolition of the existing Skagway store and preparation of the eastern portion of the site for further development will occur after the opening of the new store. Excess valuation should be available for this project for 15 years beginning with the 2016 tax year.

9. Justification of Project

Skagway has been a commercial anchor for the Five Points neighborhood since the 1950's. This redevelopment and reinvestment by AWG at this location represents a great opportunity to strengthen and sustain this neighborhood commercial development. This is infill development in an area with all city services available. This project does not propose to tear down any buildings with historic value.

10. Cost Benefit Analysis Section 18-2113 of the Act, further requires the Authority conduct a cost benefit analysis of the plan amendment in the event that Tax Increment Financing will be used. This analysis must address specific statutory issues.

As authorized in the Nebraska Community Development Law, §18-2147, *Neb. Rev. Stat.* (2012), the City of Grand Island has analyzed the costs and benefits of the proposed AWG-Skagway North Redevelopment Project, including:

Project Sources and Uses. Approximately $1,600,000.00 in public funds from tax increment financing provided by the Grand Island Community Redevelopment Authority will be required to complete the project. This investment by the Authority will leverage $14,430,000.00 in private sector financing; a private investment of $9.02 for every TIF dollar investment.

Use of Funds.			
Description	**TIF Funds**	**Private Funds**	**Total**
Site Acquisition	$1,600,000	$1,000,000	$2,600,000
Site preparation		$3,004,953	
Legal and Plan			
Building Costs			
Phase 1		$4,725,000	$4,725,000
Phase 2		$3,000,000	$3,000,000
Fuel Center		$500,000	$500,000
Personal Property		$1,000,000	$1,000,000
Soft Costs		$1,200,000	$1,200,000
TOTALS	**$1,600,000**	**$14,429,953**	**$16,029,953**

Tax Revenue. The property to be redeveloped is anticipated to have a January 1, 2014, valuation of approximately $3,442,551. Based on the 2013 levy this would result in a real property tax of approximately $75,783. It is anticipated that the assessed value will increase by $4,416,000, upon full completion, as a result of the site redevelopment. This development will result in an estimated tax increase of over $97,200.00 annually adjusted with a 2% appreciation in value for 15 years resulting in $1,600,000 of increment over the 15 year period. The tax increment gained from this Redevelopment Project Area would not be available for use as city general tax revenues, for a period of 15 years, or such shorter time as may be required to amortize the TIF bond, but would be used for eligible private redevelopment costs to enable this project to be realized.

Estimated 2014 assessed value:	$ 3,442,551.00
Estimated value after completion	$ 7,858,035.00
Increment value	$ 4,415,484.00
Annual TIF generated (estimated)	$ 97,200.00
TIF bond issue	$ 1,600,000.00

(a) Tax shifts resulting from the approval of the use of Tax Increment Financing;

The redevelopment project area currently has an estimated valuation of $3,442,591. The proposed demolition, new parking lot and renovations at this location will result in an additional $4,415,444 of taxable valuation based on an analysis by the Hall County

Assessor's office. No tax shifts are anticipated from the project. The project creates additional valuation that will support taxing entities long after the project is paid off.

(b) Public infrastructure and community public service needs impacts and local tax impacts arising from the approval of the redevelopment project;

No additional public service needs have been identified. Existing water and waste water facilities will not be impacted by this development. The electric utility has sufficient capacity to support the development. It is not anticipated that this will impact schools. Fire and police protection are available and should not be impacted by this development.

(c) Impacts on employers and employees of firms locating or expanding within the boundaries of the area of the redevelopment project;

This project will protect and enhance the existing employment within the Project Area by maintaining a grocery store at this location. Additional employment is anticipated with the inline retail and restaurant also proposed at this site. At project stabilization employment is expected to increase to 28 full time equivalent employees. Temporary construction employment will increase during the construction. The construction period is expected to exceed 12 months.

(d) Impacts on other employers and employees within the city or village and the immediate area that are located outside of the boundaries of the area of the redevelopment project; and

This facility could draw employees from other similar facilities within the City. The latest available labor statistics show that the Grand Island labor pool is 27,961 with a 3.3% unemployment rate[1].

(e) Any other impacts determined by the authority to be relevant to the consideration of costs and benefits arising from the redevelopment project.

This will provide appropriate development at a key entrance into the City of Grand Island. Five Points is an iconic location in Grand Island. This redevelopment plan will result in substantial new construction in the neighborhood. Skagway has been a key business at the Five Points location for more than 60 years. This site has had a neighborhood grocery store since before the area to the north and east was developed. Redevelopment of this site will preserve this neighborhood commercial district and strengthen and preserve the surrounding residential values.

Personal property in the project is subject to current property tax rates. Personal property for the Project is estimated at $1,000,000 resulting in an estimated personal property tax for the first year of operations of $22,000. Personal property tax is not subject to TIF and

[1] https://neworks.nebraska.gov Labor Force, Employment and Unemployment for Grand Island City in May 2014

will be paid to the normal taxing entities. There will additionally be more city sales taxes paid to the city of Grand Island as a result of new taxable sales at the restaurant and inline stores.

Time Frame for Development

Development of phase 1 of this project is anticipated to be completed during between October 2014 and October of 2015. The base tax year should be calculated on the value of the property as of January 1, 2015. Excess valuation should be available for this project for 15 years beginning with the 2016 tax year. Excess valuation will be used to pay the TIF Indebtedness issued by the CRA per the contract between the CRA and the developer for a period not to exceed 15 years or an amount not to exceed $1,600,000 the projected amount of increment based upon the anticipated value of the project and current tax rate. Based on the purchase price of the property and estimates of the expenses of renovation activities and associated engineering fees, the developer will spend more than $5,000,000 on TIF eligible activities.

See Attached Site Plan and Interior Renovation Plan

TAX INCREMENT FINANCING APPLICATION

GRAND ISLAND, NEBRASKA

SUBMITTED BY:

Super Market Developers, Inc.
5000 Kansas Avenue
Kansas City, KS 66106

PREPARED BY:

Husch Blackwell LLP
4801 Main Street, Ste. 1000
Kansas City, MO 64112

SUBMITTED TO:

City of Grand Island, Nebraska
Community Redevelopment Authority

June 9, 2014

I. PROJECT REDEVELOPER INFORMATION

A. Applicant.

Super Market Developers, Inc., a Missouri corporation
5000 Kansas Avenue
Kansas City, KS 66106
913-288-1000 (phone)
913-288-1573 (fax)

B. Applicant's Attorney/Contact Person.

Charles Renner, Esq.
Husch Blackwell LLP
4801 Main Street, Suite 1000
Kansas City, Missouri, 64112
(816) 329-4702
Email: charles.renner@huschblackwell.com

C. Brief Description of Applicant's Business. Super Market Developers, Inc. (the "Developer") is a wholly-owned subsidiary of Associated Wholesale Grocers, Inc. ("AWG"), a retailer-owned cooperative serving over 2,300 retail member stores with a complete assortment of grocery, fresh meat, fresh produce, specialty foods, health care, and general merchandise items. The Developer buys, sells and develops real estate in connection with grocery and retail center uses.

II. PROJECT INFORMATION

A. Present Ownership of Proposed Project Site. Wilmar Realty, LLC, a Nebraska limited liability company ("Wilmar"), is the present owner of the project site, which is generally located at 620 W. State St., Grand Island, Nebraska (the "Property"). The Property consists of two existing tax parcels: No. 400046709 and 400046474. The Developer is under contract to purchase the Property from Wilmar.

B. Description of Proposed Project. The proposed project will include the construction of the following improvements: an approximately 63,000 square foot grocery store building, an inline retail building with approximately 16,800 square feet of retail space, a restaurant building with approximately 5,855 square feet of space, and public improvements servicing such development. An existing grocery store currently occupies the site and this store would be retained during Phase 1 of the project as the new grocery store is constructed. Once Phase 1 is complete, the old grocery store will be razed to allow for the retail building and restaurant building to be constructed in its place as part of Phase 2. Depending on market conditions, the inline retail building could be substituted for an approximately 50,000 square foot retail box building. A preliminary site plan is attached hereto as **Exhibit A**.

C. Proposed Subdivision. The Developer anticipates that the Property will be subdivided and will be provide additional subdivision information as the project moves forward.

D. Estimated Project Costs. Total project costs are estimated to be $15,029,953.00. A preliminary project budget is attached hereto as **Exhibit B**.

E. Estimated Market Value of Property at Completion. The Hall County, Nebraska Assessor's Office estimates the market value of the Property at completion will be $7,858,035.00.

F. Sources of Financing. The Developer is proposing to finance $13,429,952.00 or eighty-nine percent of the project costs through Developer equity and is requesting that the remaining $1,600,000.00 or eleven percent of project costs be financed through tax increment financing.

G. Architect, Engineer and General Contractor:

Architect:
Alan Schmidt
Hutchinson Architect's, P.C.
4535 Normal Blvd., Suite 257
Lincoln, NE 68506
Phone: (402) 421-1502 ext. 2#
Fax: (402) 421-7835
alan_hdpc@windstream.net

Engineer:
Matt Rief
Olsson Associates
201 East 2nd Street
P.O. Box 1072
Grand Island, NE 68802
mrief@olssonassociates.com
TEL 308.384.8750
FAX 308.384.8752

General Contractor
To be determined.

H. Estimated Real Estate Taxes on Project Site Upon Completion of Project: A projection of real estate taxes and TIF revenues is attached hereto as **Exhibit C**.

I. Project Construction Schedule. Construction on Phase 1 of the Project is anticipated to commence early in the fourth quarter of 2014. The Developer expects Phase 1 to be completed with the grocery store open approximately nine months after the construction commences. The schedule and development of Phase 2 will be dictated by market conditions.

III. TAX INCREMENT FINANCING REQUEST INFORMATION

A. Amount and Purpose of TIF Request. The Developer is requesting $1,600,000.00 in tax increment financing assistance in order to cover certain site development and public improvement costs. Specific costs proposed for reimbursement are shown on **Exhibit B**.

B. Statement of Financial Gap and Necessity for TIF. As indicated in the letter from the Developer attached hereto as **Exhibit D**, the project is not economically viable without assistance from tax increment financing.

IV. MISCELLANEOUS

A. Municipal References. The Developer and AWG have worked closely with many municipalities to complete development projects within the last five years, including the following:

- *Sunrise Beach, Missouri*: The Developer partnered with the Village of Sunrise Beach, Missouri to develop a project, which, upon full build-out, will include an approximately 53,540 square foot supermarket, a 3,000 square foot retail/restaurant pad-site, an approximately 13,000 square foot strip center and public improvements. The Sunrise Beach project involved the use of tax increment financing and the formation of a community improvement district.

    - Reference: Jeni Hamm
Village Clerk, Sunrise Beach
P.O. Box 348
Sunrise Beach, MO 65079
(573) 374-8782

- *Unified Government of Wyandotte County/Kansas City, Kansas:* AWG constructed a 35,000 square foot corporate office addition, which was financed, in part, through the issuance of industrial revenue bonds by the Unified Government.

    - Reference: George Brajkovic
Economic Development Director
Unified Government of WyCo/KCK
701 N 7th St, 4th Floor
Kansas City, KS 66101
(913) 573-5749
gbrajkovic@wycokck.org

- *St. Tammany Parish and the Town of Pearl River, Louisiana*: AWG constructed a 700,000 square foot grocery food distribution warehouse facility and worked closely with the St. Tammany Parish and the Town of Pearl River in financing the project through the issuance of Gulf Opportunity Zone revenue bonds.

    - Reference: St. Tammany Parish Development District
21489 Koop Drive, Suite 7
Mandeville, LA 70471
Attention: Brenda Bertus
Telephone: (985) 809-7874
Facsimile: (985) 809-7596

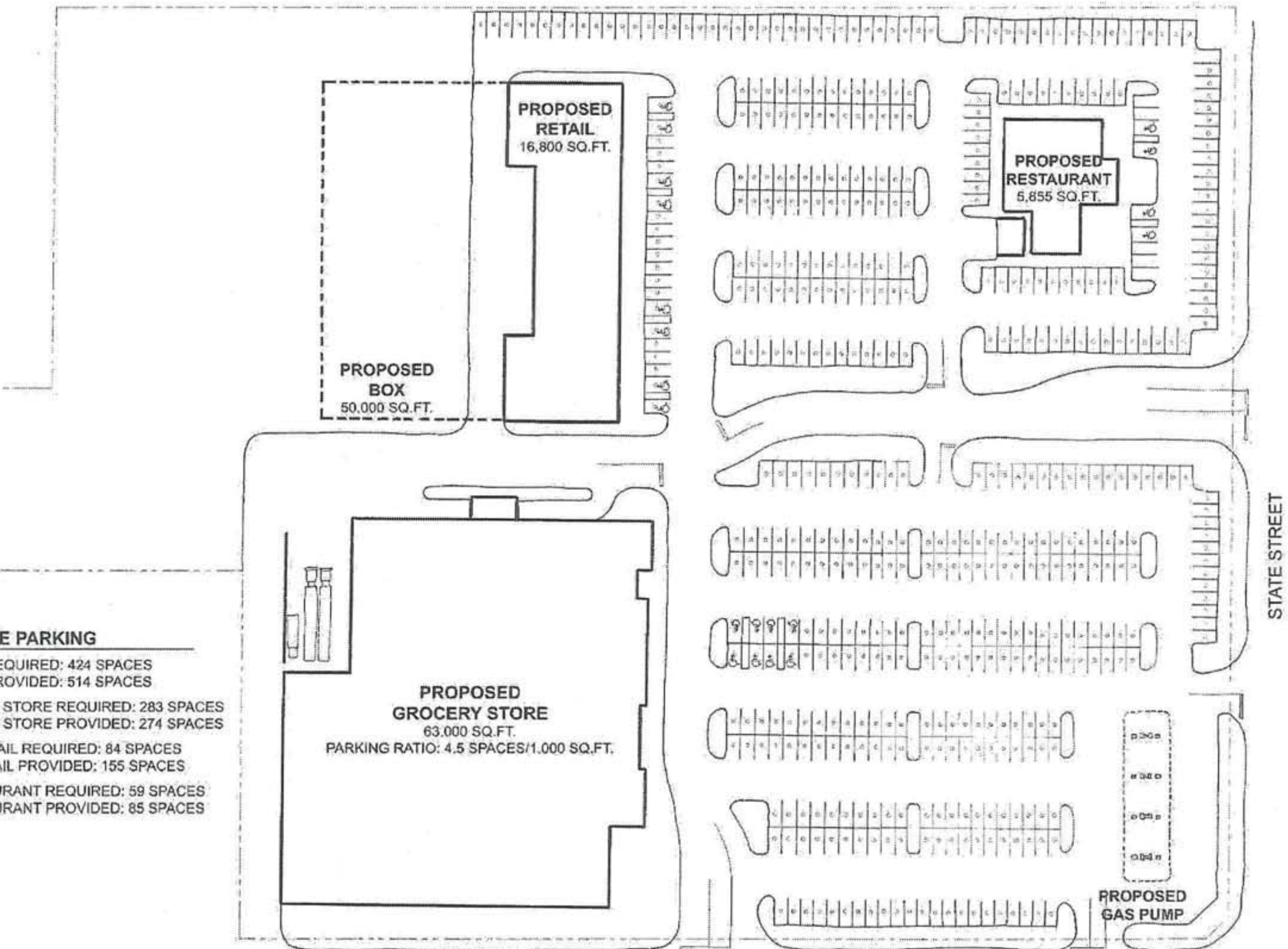
- *Platte City, Missouri*: The Developer developed the Platte City Market Center, a retail center anchored by a super market in Platte City, Missouri. The project involved the formation of a community improvement district and the issuance of community improvement district revenue bonds.

    - Reference: Dennis J. Gehrt
City Administrator
City of Platte City
400 Main Street
Platte City, MO 64079
816.858.3046 (phone)
816.858.3715 (direct)

B. Financial Statements. The Developer is a wholly-owned subsidiary of AWG. AWG's financial statements for the last three years are attached as **Exhibit E**.

EXHIBIT A

PRELIMINARY SITE PLAN



CONCEPT A - GRAND ISLAND, NE

MARCH 10, 2014

OLSSON ASSOCIATES

EXHIBIT B

PRELIMINARY BUDGET

KCP-4269978-1

REV6/9/2014

SUPER MARKET DEVELOPERS
TIF APPLICATION
EXHIBIT B, PAGE 1 OF 3
BUDGET

		Total Project Costs	Total Reimbursable Project Costs*
1	**Land Acquisition**	**$2,600,000**	**$0**
2	**Site Development & Public Improvements**		
1	6" Concrete Pavement w/Integral Curb	$925,000	$430,125
2	Remove and Replace Pavement (Broadwell Ave. Storm Crossings)	$28,125	$13,078
3	Traffic Control (Broadwell Ave. Storm Crossings)	$20,000	$9,300
4	4" Concrete Sidewalk	$52,500	$24,413
5	Stamped Concrete Median Surfacing	$31,250	$14,531
6	Storm Sewer Manhole	$20,000	$9,300
7	Storm Sewer Curb Inlet	$70,000	$32,550
8	Storm Sewer Area Inlet	$6,000	$2,790
9	30" R.C. Storm Sewer Pipe	$64,000	$29,760
10	24" R.C. Storm Sewer Pipe	$22,750	$10,579
11	18" R.C. Storm Sewer Pipe	$22,500	$10,463
12	15" R.C. Storm Sewer Pipe	$30,000	$13,950
13	6" Water Service	$2,000	$930
14	6" Sanitary Sewer Service	$1,200	$558
15	Site Lighting	$50,000	$23,250
16	Landscaping	$50,000	$23,250
17	Pavement Removal (Phase 1)	$212,000	$98,580
18	Pavement Removal (Phase 2)	$120,000	$55,800
19	Earthwork (Phase 1)	$75,000	$34,875
20	Earthwork (Phase 2)	$50,000	$23,250
21	Subgrade Preparation	$46,250	$21,506
22	Building Demolition	$450,000	$209,250
23	Public Road Improvements	$110,000	$110,000
24	Combination Curb & Gutter	$17,150	$17,150
25	8" D.I. Water Main	$42,000	$42,000
26	6" D.I. Water Main	$2,800	$2,800
27	6" Tapping Sleeve and Valve	$10,000	$10,000
28	8" Gate Valve w/Box	$6,000	$6,000
29	Fire Hydrant Assembly	$15,000	$15,000
30	Bell Joint Block	$1,000	$1,000
31	D.I. Fittings	$4,250	$4,250
32	Traffic Signal (State St. & Cleburn St.)	$175,000	$175,000
33	Contingency	$273,178	$124,713
		$3,004,953	**$1,600,000**
3	**Building Costs**		
1	Phase 1	$4,725,000	$0
2	Phase 2	$3,000,000	$0
		$7,725,000	**$0**
4	**Fuel Center**	**$500,000**	**$0**
5	**Soft Costs**	**$1,200,000**	**$0**
	Total**	**$15,029,953**	**$1,600,000**

* The total Reimbursable Project Costs amount shall not exceed $1,600,000, exclusive of financing costs. Developer may shift amounts among qualified line items.

** Exclusive of financing costs.

EXHIBIT C

PROJECTION OF REAL PROPERTY TAXES

KCP-4269978-1

REV5/5/2014

SUPER MARKET DEVELOPERS
TIF APPLICATION
EXHIBIT C, PAGE 1 OF 3
AVAILABLE TIF REVENUE

Year	Base Real Property Taxes	Post-Development Real Property Taxes	Incremental Real Property Taxes Available for Debt Service*
2015	$75,783	$75,783	$0
2016	$75,783	$129,737	$53,955
2017	$75,783	$175,578	$99,795
2018	$75,783	$175,578	$99,795
2019	$75,783	$179,089	$103,307
2020	$75,783	$179,089	$103,307
2021	$75,783	$182,671	$106,888
2022	$75,783	$182,671	$106,888
2023	$75,783	$186,325	$110,542
2024	$75,783	$186,325	$110,542
2025	$75,783	$190,051	$114,268
2026	$75,783	$190,051	$114,268
2027	$75,783	$193,852	$118,069
2028	$75,783	$193,852	$118,069
2029	$75,783	$197,729	$121,946
2030	$75,783	$201,684	$125,901
Total		$2,820,065	$1,607,542

* Assumes TIF activation beginning in 2016 with fifteen year repayment.

Rev5/5/2014

SUPER MARKET DEVELOPERS
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EXHIBIT C, PAGE 2 OF 3
REAL PROPERTY VALUES

	Base	Post-Development Market Value				Total
Year	Market Value	Grocery*	Retail*	Restaurant*	Total	Incremental Market Value
2015	$3,442,551		$3,442,551		$3,442,551	$0
2016	$3,442,551	$5,893,526	$0	$0	$5,893,526	$2,450,975
2017	$3,442,551	$6,011,397	$1,178,705	$785,804	$7,975,906	$4,533,355
2018	$3,442,551	$6,011,397	$1,178,705	$785,804	$7,975,906	$4,533,355
2019	$3,442,551	$6,131,625	$1,202,279	$801,520	$8,135,424	$4,692,873
2020	$3,442,551	$6,131,625	$1,202,279	$801,520	$8,135,424	$4,692,873
2021	$3,442,551	$6,254,257	$1,226,325	$817,550	$8,298,132	$4,855,581
2022	$3,442,551	$6,254,257	$1,226,325	$817,550	$8,298,132	$4,855,581
2023	$3,442,551	$6,379,342	$1,250,851	$833,901	$8,464,095	$5,021,544
2024	$3,442,551	$6,379,342	$1,250,851	$833,901	$8,464,095	$5,021,544
2025	$3,442,551	$6,506,929	$1,275,868	$850,579	$8,633,377	$5,190,826
2026	$3,442,551	$6,506,929	$1,275,868	$850,579	$8,633,377	$5,190,826
2027	$3,442,551	$6,637,068	$1,301,386	$867,591	$8,806,044	$5,363,493
2028	$3,442,551	$6,637,068	$1,301,386	$867,591	$8,806,044	$5,363,493
2029	$3,442,551	$6,769,809	$1,327,414	$884,942	$8,982,165	$5,539,614
2030	$3,442,551	$6,905,205	$1,353,962	$902,641	$9,161,808	$5,719,257

* Assumes 75% of value is attributable to grocery, 15% to retail and 10% to restaurant.

Revised 5/5/2014

SUPER MARKET DEVELOPERS
TIF APPLICATION
EXHIBIT C, PAGE 3 OF 3
ASSUMPTIONS

TAX ASSUMPTIONS

Real Property Levy Rates	
Taxing District	**Rate**
County	0.424932%
Grand Island 2	1.102000%
Grand Island 2 2nd Bond	0.057971%
Grand Island 2 4th Bond	0.061165%
Grand Island City	0.276233%
Grand Island Bond	0.047867%
ED Serv Unit 10	0.015000%
Cent Comm Coll	0.112616%
Central Platte NRD	0.042153%
Hall Co Ag Society	0.003664%
Hall Airport General	0.010395%
Hall Airport Bond	0.021357%
Comm Redvlp Auth	0.026000%
Total	**2.201353%**

DEVELOPMENT PROJECT ASSUMPTIONS

Use	Sq. Ft.	Date on Property Tax Rolls	Base Market Value*	Post-Development Market Value**
Grocery Store	63,000	1-Jan-2016	$3,442,551	$7,858,035
Retail	16,800	1-Jan-2017		
Restaurant	5,855	1-Jan-2017		
Total	85,655		$3,442,551	$7,858,035

* Combined value of existing tax parcels.
** Based on estimated value from assessor's office.

Real Property Assumptions	
Bi-annual Growth/Inflation Rate	2.00%

EXHIBIT D

STATEMENT OF NECESSITY FOR TIF

KCP-4269978-1

June 9, 2014

Chad Nabity, AICP
Director
Hall County Regional Planning Department
100 E 1st Street
P.O. Box 1968
Grand Island, NE 68802

Re: Redevelopment of 620 West State Street

Dear Chad:

As you know, Super Market Developers Inc. (the "Developer") is excited about the potential to partner with the City of Grand Island, Nebraska and its Community Redevelopment Authority in order to redevelop and greatly improve the property at 620 West State Street. In particular, the Developer is proposing to the replace the existing Skagway grocery store with (i) a new, first-class 63,000 square foot super market, (ii) a 5,855 square foot restaurant and (iii) another 16,800 to 50,000 square feet of retail space. This redevelopment stands to greatly benefit the City of Grand Island and its community as a whole.

Given the operating costs associated with this type of high-quality development, the anticipated revenue stream is insufficient alone to justify the project, and, in my experience as a real estate developer, a redevelopment of this type will necessarily require some public assistance to become feasible. As such, a public-private partnership between the Developer and the City and the use of tax increment financing are essential to bringing the proposed redevelopment to fruition.

Sincerely,

KCP-4476315-1

EXHIBIT E

FINANCIAL STATEMENTS

KCP-4269978-1

2011

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and December 25, 2010
(dollars in thousands)

ASSETS	2011	2010
Current Assets:		
Cash and cash equivalents	$ 82,186	$ 84,428
Restricted cash	62,233	—
Receivables, net of allowance for doubtful accounts of $2,698 in 2011 and $3,167 in 2010	194,020	199,384
Notes receivable from members, current maturities, net of allowance for doubtful accounts of $87 in 2011	7,378	7,318
Inventories	377,896	342,797
Deferred income taxes (note 11)	15,028	13,912
Other current assets	20,854	21,878
Total current assets	759,595	669,717
Notes receivable from members, maturing after one year, net of allowance for doubtful accounts of $2,796 in 2011 and $1,295 in 2010	37,417	38,160
Property and equipment, net (note 6)	307,421	291,299
Investments	877	1,277
Intangibles, net of accumulated amortization of $44,540 in 2011 and $43,087 in 2010 (note 3)	10,763	10,010
Other assets	15,885	13,616
Total assets	$ 1,131,958	$ 1,024,079
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 367,688	$ 357,419
Cash portion of current year patronage	93,382	86,533
Member deposits	11,738	8,211
Long-term debt maturing within one year	114	—
Accrued expenses and other current liabilities	80,559	80,759
Total current liabilities	553,481	532,922
Long-term debt maturing after one year (note 7)	201,736	157,000
Deferred income taxes (note 11)	1,346	2,649
Deferred income and other liabilities	47,297	36,457
Members' patronage refund certificates maturing after one year (notes 1 and 5)	39,478	73,713
Total liabilities	843,338	802,741
Commitments and contingent liabilities (note 13)		
Members' Equity:		
Common stock, $100 par value:		
Class A, voting; 35,000 shares authorized; 9,015 and 8,895 shares issued in 2011 and 2010	900	888
Class B, nonvoting; 150,000 shares authorized; 18,265 and 19,015 shares issued in 2011 and 2010	1,825	1,900
Additional paid-in capital	12,570	12,604
Retained earnings	293,849	222,329
Accumulated other comprehensive loss (notes 10 and 12)	(20,524)	(16,383)
Total members' equity	288,620	221,338
Total long-term members' patronage and equity	328,098	295,051
Total liabilities and members' equity	$ 1,131,958	$ 1,024,079

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Fiscal years ended December 31, 2011, December 25, 2010, and December 26, 2009
(dollars in thousands)

	2011	2010	2009
Net sales	$ 7,766,807	$ 7,251,719	$ 7,057,036
Cost of goods sold	7,142,260	6,655,074	6,456,969
Gross profit	624,547	596,645	600,067
General and administrative expenses	444,488	417,523	430,400
Operating income	180,059	179,122	169,667
Other income (expenses):			
Interest income (note 1)	2,571	2,624	2,409
Interest expense (note 5)	(7,038)	(8,272)	(11,429)
Other, net	763	1,895	746
Income before income taxes	176,355	175,369	161,393
Income taxes (note 11)	6,828	11,351	13,628
Net income	$ 169,527	$ 164,018	$ 147,765

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
Fiscal years ended December 31, 2011 and December 25, 2010
(dollars in thousands)

	2011	2010
Allocated		
Balance at beginning of period	$ 164,340	$ 106,729
Patronage certificates (note 8):		
Issued	61,937	57,497
Redeemed	(25)	(77)
Reclassed (note 4)	(3,807)	—
Class B certificates:		
Issued	264	191
Balance at end of period	$ 222,709	$ 164,340
Unallocated		
Balance at beginning of period	$ 57,989	$ 40,052
Net Income	169,527	164,018
Less allocated earnings (note 8):		
Patronage certificates	(61,937)	(57,497)
Class B certificates	(223)	(191)
Less cash portion of current year patronage	(93,382)	(86,533)
Redemption and retirement of common stock	(834)	(1,860)
Balance at end of period	$ 71,140	$ 57,989
Total retained earnings	$ 293,849	$ 222,329

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY AND COMPREHENSIVE INCOME
Fiscal years ended December 31, 2011, December 25, 2010 and December 26, 2009
(dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity	Comprehensive Income
Balances at December 27, 2008	$ 1,458	$ 12,310	$ 84,235	$ (23,799)	$ 74,204	
Net Income	—	—	147,765	—	147,765	147,765
Change in funded status of pension plan, net of $5,548 in taxes	—	—	—	8,863	8,863	8,863
Change in cash flow hedge, net of $347 in taxes	—	—	—	566	566	566
Patronage declared	—	—	(138,185)	—	(138,185)	—
Patronage in allocated earnings	—	—	55,070	—	55,070	—
Redemption of patronage in allocated earnings	—	—	(9)	—	(9)	—
Net redemption of Class B patronage certificates	—	—	(558)	—	(558)	—
Issuance of stock	179	2,663	—	—	2,842	—
2-for-1 stock dividend	1,379	(1,379)	—	—	—	—
Redemption and retirement of stock	(131)	(1,558)	(1,537)	—	(3,226)	—
Balances at December 26, 2009	$ 2,885	$ 12,036	$ 146,781	$ (14,370)	$ 147,332	$ 157,194
Net Income	—	—	164,018	—	164,018	164,018
Change in funded status of pension plan, net of ($1,527) in tax credits	—	—	—	(2,439)	(2,439)	(2,439)
Change in cash flow hedge, net of $261 in taxes	—	—	—	426	426	426
Patronage declared	—	—	(144,221)	—	(144,221)	—
Patronage in allocated earnings	—	—	57,497	—	57,497	—
Redemption of patronage in allocated earnings	—	—	(77)	—	(77)	—
Net issuance of Class B patronage certificates	—	—	191	—	191	—
Issuance of stock	53	729	—	—	782	—
Redemption, retirement and reclass of stock	(150)	(161)	(1,860)	—	(2,171)	—
Balances at December 25, 2010	$ 2,788	$ 12,604	$ 222,329	$ (16,383)	$ 221,338	$ 162,005
Net Income	—	—	169,527	—	169,527	169,527
Change in funded status of pension plan, net of ($949) in tax credits	—	—	—	(5,060)	(5,060)	(5,060)
Change in cash flow hedge, net of $546 in taxes	—	—	—	919	919	919
Patronage declared	—	—	(155,542)	—	(155,542)	—
Patronage in allocated earnings	—	—	61,937	—	61,937	—
Redemption and reclass of patronage in allocated earnings	—	—	(3,791)	—	(3,791)	—
Net issuance of Class B patronage certificates	—	—	223	—	223	—
Issuance of stock	56	803	—	—	859	—
Redemption and retirement of stock	(119)	(837)	(834)	—	(1,790)	—
Balances at December 31, 2011	$ 2,725	$ 12,570	$ 293,849	$ (20,524)	$ 288,620	$ 165,386

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal years ended December 31, 2011, December 25, 2010 and December 26, 2009
(dollars in thousands)

	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 169,527	$ 164,018	$ 147,765
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	38,746	40,560	38,080
Impairment of assets	224	2,800	1,302
Deferred income taxes	(2,419)	696	4,632
Loss (gain) on disposition of property and equipment	(1,779)	1,614	259
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	5,364	(17,194)	(14,504)
Inventories	(33,077)	(3,063)	24,170
Other assets	(1,245)	7,306	(10,548)
Accounts payable, accrued expenses and other liabilities	16,708	14,981	1,700
Net cash provided by operating activities	192,049	211,718	192,856
Cash flows from investing activities:			
Additions to restricted cash	(62,233)	—	—
Additions to intangibles	(255)	—	(529)
Proceeds from investments	400	—	—
Loans to members	(11,717)	(11,889)	(18,365)
Repayment of loans by members	12,400	8,497	8,518
Additions to property and equipment	(54,322)	(41,373)	(51,186)
Proceeds from sale of property and equipment	2,861	28,889	12,053
Acquisition of assets, net of cash acquired (note 4)	(4,312)	—	—
Net cash used in investing activities	(117,178)	(15,876)	(49,509)
Cash flows from financing activities:			
Year-end patronage distributions	(86,533)	(82,911)	(77,107)
Redemption of prior year's patronage refund certificates	(33,413)	(33,389)	(91,469)
Issuance of common stock	859	782	2,842
Redemption and retirement of common stock	(1,790)	(2,171)	(3,226)
Net borrowing (repayments) under credit facilities	44,850	(20,800)	35,000
Subsidiary acquisition of shareholder patronage	(4,613)	—	—
Net proceeds (repayments) of member deposits	3,527	(6,282)	(5,914)
Net cash used in financing activities	(77,113)	(144,771)	(139,874)
Net increase (decrease) in cash and cash equivalents	(2,242)	51,071	3,473
Cash and cash equivalents at beginning of period	84,428	33,357	29,884
Cash and cash equivalents at end of period	$ 82,186	$ 84,428	$ 33,357
Supplemental cash flow statement information:			
Cash paid for interest, net of amount capitalized	$ 8,473	$ 10,010	$ 13,215
Cash paid for income taxes	$ 7,774	$ 10,194	$ 8,142

See accompanying notes to consolidated financial statements.

(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 Midwestern, Southwestern and Southeastern United States. Non-Cooperative businesses include nonfood distribution centers and retail supermarkets that operate under the banners of Homeland and United Supermarkets. The cooperative represents approximately 80% of total net sales. "AWG" and "Company" refer to Associated Wholesale Grocers, Inc. and its subsidiaries. Certain immaterial reclassifications of prior years' amounts have been made to conform to current year presentation.

Principles of Consolidation and Use of Estimates

The consolidated financial statements include the accounts of AWG, its subsidiaries and variable interest entities where the Company is considered the primary beneficiary. All significant intercompany transactions have been eliminated. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the statements and affects the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Company's fiscal year ends on the last Saturday in December. Fiscal 2011 included 53 weeks of operations. Fiscal 2010 and 2009 both included 52 weeks of operations.

Variable Interest Entity

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations" ("ASC 810"), the Company consolidates any variable interest entity (VIE) in which the Company has a controlling financial interest and, therefore, is the VIE's primary beneficiary. ASC 810 states that a controlling financial interest in an entity is present when an enterprise has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant 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 sale of its retail grocery operation (see note 4) and has included the ESOP in the Company's consolidated financial statements for the fiscal year ended December 31, 2011. ESOP had four days of operations in 2011 and incurred a net loss, primarily related to transactional costs, that was de minimus to the consolidated financial statements.

Business and Credit Concentrations

The majority of the Company's sales are to Members/retailers located in Kansas, Missouri, Oklahoma, Arkansas, Texas and Tennessee. No single customer accounted for more than 10% of sales in any year presented. Lease and equipment financing through AWG is available to qualified retailers for acquisition/expansion of supermarket properties. Trade and notes receivables are generally secured (see note 5) and the Company establishes an allowance for doubtful accounts based on collectibility. The Company's lending rate is generally one percent over the prime rate with borrowing terms to 10 years. For the fiscal years 2011, 2010 and 2009, the Company earned interest income on loans of $2.0 million, $2.0 million and $1.6 million, respectively. Interest income is recorded when earned.

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.

Restricted Cash

In 2011, the Company received $75 million in proceeds from the issuance of Gulf Opportunity Zone tax-exempt bonds made available by the federal government to the regions affected by Hurricanes Katrina and Rita in 2005. These variable rate bonds mature September 1, 2041, and are secured with a designated borrowing under the five-year Revolving Credit Agreement (see note 7). The proceeds from the bond issuance will be used towards the construction of the Company's new distribution center in Louisiana. At December 31, 2011, the unused proceeds are recorded in Restricted Cash in the Consolidated Balance Sheets. The unused proceeds are expected to be used in their entirety during 2012.

Inventories

Merchandise is valued at the lower of cost or market. Cost for 68% of inventories in both 2011 and 2010 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 $105.7 million at December 31, 2011, and $86.2 million at December 25, 2010.

Sales and Cost of Goods Sold

The Company recognizes sales of merchandise when products are shipped and promotional allowances related to selling products to customers are recorded as a reduction in sales. 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.

(1) Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and include assets held for sale of $0.2 million at December 31, 2011 and December 25, 2010, respectively. 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 respective terms of leases.

Recently Issued Accounting Standards

In September 2011, the FASB amended its standards related to the disclosure requirements for employers subject to multi-employer pension plans. The amended standards require additional separate disclosures for multi-employer pension plans and multi-employer other post-retirement benefit plans. For significant multi-employer plans in which an employer participates, the additional disclosures include the plan name and identifying number, contributions to the plan and whether such contributions represent 5% or more of the total contributions made to the plan by all employers, indication of funded status, minimum contribution requirements under collective-bargaining agreements and expirations of such agreements. For plans that do not have publically available information other than employer financial statements, additional qualitative and quantitative disclosures are required including the description of the nature of the plan benefits, the extent to which the employer could be responsible for the obligations of the plan and, to the extent available, total plan assets, actuarial present value of accumulated plan benefits and total contributions received by the plan as of the most recent date available. The amended standards will become effective for private entities for annual periods ending after December 15, 2012, however, early adoption is permitted and the Company has elected to include the required disclosures in 2011 (see note 14). Because the standards only affect the disclosures required for multi-employer pension plans, the standards do not have a material effect on the Company's consolidated financial statements.

In September 2011, the FASB amended its standards related to the testing of goodwill for impairment. The objective of this amendment is to simplify the annual goodwill impairment evaluation process. The amendment provides entities the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The two-step impairment test is now only required if an entity determines through this qualitative analysis that it is more likely than not that the fair value of the reporting units is less than its carrying value. The new rules will become effective for annual periods beginning after December 15, 2011. Because the measurement of potential impairment loss has not changed, the amended standards will not have an effect on the Company's consolidated financial statements.

In June 2011, the FASB amended its rules regarding the presentation of comprehensive income. The objective of this amendment is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Specifically, this amendment requires that all non-owner shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new rules will become effective for private entities for annual periods ending after December 15, 2012. Because the standards only affect the display of comprehensive income and do not affect what is included in comprehensive income, the standards will not have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB amended its standards related to fair value measurements and disclosures. The objective of the amendment is to improve the comparability of fair value measurements presented and disclosed in the financial statements prepared in accordance with GAAP and International Financial Reporting Standards. This amendment primarily changed the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. In addition, the amendment clarified the FASB's intent about the application of existing fair value measurement requirements. The new rules will become effective for annual periods beginning after December 15, 2011. While the Company is still finalizing its evaluation of the effect of this amended standard, the Company believes the new standard will not have a material effect on its consolidated financial statements.

Investments

The Company has all investments stated at cost.

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 (60%) 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.

Income Taxes

AWG and its subsidiaries file 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 bases for net receivables, inventory, depreciation, insurance, intangibles, deferred compensation and pension liability.

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.

(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 valuing.

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

Property and equipment and intangible assets are reviewed for impairment whenever events or circumstances indicate 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 31, 2011 and December 25, 2010, the Company recorded $0.2 million and $2.8 million of property, equipment and software impairment charges, respectively, 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.

Changes in the fair value of derivatives (Level 2 inputs) should be reported in earnings or other comprehensive income depending on the use of derivatives and whether they qualify for hedge accounting. Derivatives that are not hedges must be recorded at fair value through earnings.

(3) Intangible Assets

The Company has intangible assets subject to amortization with original useful lives of 15 years relating to the acquisition of wholesale volume agreements. The Company has no recorded goodwill at December 31, 2011 and December 25, 2010. Amortization expense for intangible assets was $1.5 million in 2011, $1.8 million in 2010 and $2.9 million in 2009. Amortization expense for the next five fiscal years is estimated to be as follows (in millions): 2012 - $1.4; 2013 - $1.3; 2014 - $1.3; 2015 - $1.3; and 2016 - $1.3.

(4) Acquisitions, Divestitures and Certain Transactions with Members

In December 2011, the Company sold its subsidiary retail grocery operation, Associated Retail Grocers, Inc, ("ARG"), whose only asset consisted of an investment in HAC, Inc. The operation is commonly referred to as Homeland Stores, which operates grocery stores situated in Oklahoma (72), Texas (4) and Kansas (1). The purchaser, ESOP (see Variable Interest Entity in note 1), bought 100% of the controlling stock of ARG in a transaction valued at $145 million. The Company provided financing in a series of loan tranches, with maturity dates of 5 to 11 years, as follows:

Tranche A – $60 million, due in weekly payments (subject to floating rate adjustments based on Prime + 0% margin) representing principal and an initial 3.25% all-in interest rate. The loan amortizes based on a ten-year life and a balloon payment due December 26, 2016.

Tranche B – $50 million, due in weekly payments (subject to floating rate adjustments based on Prime + 1% margin) representing an initial 4.25% all-in interest-only payment until the earlier of: (i) December 26, 2016, or (ii) the repayment of the Tranche-A obligation. Estimated weekly payments of principal and interest will then begin, with principal amortization based on a ten-year life and a balloon payment due December 26, 2021.

Tranche C – $35 million, due in weekly payments representing a fixed rate of 11% and interest-only payments until the earlier of: (i) December 26, 2019, or (ii) the repayment of the Tranche-B obligation. Estimated weekly payments of principal and interest will then begin, with principal amortization based on a five-year life and a balloon payment due December 26, 2022. Only Tranche-C is subject to an early termination penalty from early redemption. The borrower can, under certain circumstances, lower the fixed rate if certain performance targets are achieved.

Beneficial terms of the transaction require ESOP to maintain its purchase concentration of current and future stores for a stated period beyond the final repayment of all the outstanding obligations. In addition, the Company provides ESOP access to a line of credit up to $15 million to manage its seasonal borrowing needs at a borrowing rate of Prime. Additional commitments beyond the initial transaction relate to assisting HAC, Inc. to borrow up to $10 million to meet its obligations from withdrawing from its sponsoring participation in several UFCW multi-employer pension plans.

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

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

In September 2011, AVT Grocery, Inc. (formerly Minyard Foods Stores, Inc.) assigned $4.6 million of outstanding issued and allocated patronage certificates to HAC, Inc., which at the time of the assignment was a subsidiary of AWG. At December 31, 2011, these certificates were reclassed and eliminated in the Company's consolidated financial statements.

In September 2011, Super Market Developers, Inc., a subsidiary of AWG, purchased a supermarket property in Iowa from Dahl's Holdings I, LLC (Dahl's) and assumed a fixed-term loan associated with the property. The principal amount of the loan was $5.6 million (see note 7). Concurrent with the transaction, the Company subleased the property back to Foods, Inc., an affiliate of Dahl's.

In August 2011, HAC, Inc., a subsidiary of the Company, purchased equipment and inventory for three supermarkets located in Texas from North Texas Supersave, LP and one supermarket located in Texas from Weatherford Super Save, Inc. The aggregate cash purchase price for all four stores was $4.3 million.

(5) Patronage Refund Certificates and Deposits

Patronage Refund Certificates have been issued to Members in the past as part of annual distributions of net income from cooperative operations. In 2008, new non-maturing certificates began being issued (see note 8). The pertinent provisions of Patronage Refund Certificates (issued prior to 2008) are as follows: (a) the certificates are not transferable; (b) AWG has the right to offset, but the certificate holder does not; (c) the Board of Directors of AWG has the authority to set the interest rate on these certificates, subject to the maintenance of an interest rate of at least 4%, but not in excess of 8%; and (d) the certificates are subordinate to the claims of all creditors of AWG. As of December 31, 2011, the interest rate was 4%. All outstanding Patronage Refund Certificates issued mature five years from the date of issuance. At December 31, 2011, Patronage Refund Certificates maturing over the next five years are as follows (in millions): 2013 - $39.5.

Member deposits represent interest-bearing accounts that may be required to collateralize weekly purchases of products. Interest expense incurred on patronage certificates, member deposits, and member savings in 2011, 2010 and 2009 was $2.9 million, $4.3 million and $5.9 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 (dollars in thousands):

	2011	2010
Land	$ 31,119	$ 18,233
Buildings and leasehold improvements	276,867	263,759
Equipment	257,063	254,258
Construction in progress and other	5,294	1,191
	$ 570,343	$ 537,441
Less accumulated depreciation	(262,922)	(246,142)
Property and equipment, net	$ 307,421	$ 291,299

Depreciation expense incurred in 2011, 2010, and 2009 was (in millions) $37.4, $38.8 and $35.2, respectively. In 2011, 2010 and 2009, the Company capitalized an aggregate total of (in millions) $0.1 of capitalized construction period interest.

(7) Long-term Debt

In September 2011, the Company assumed a term-loan with a principal balance of $5.6 million relating to the purchase of a supermarket property. The terms of the loan include fixed monthly payments, a fixed interest rate of 6.75% and a maturity date of January 1, 2034. At December 31, 2011, the outstanding principal amount of this loan was $5.6 million.

In July 2011, an eleven-month Revolving Credit Agreement was signed, which includes a "term-out" feature to extend the maturity to June 15, 2013, and provides an $85 million credit facility. At December 31, 2011, total borrowings and outstanding letters of credit were $51.8 million. Variable interest rates are based on the Fed Funds rate and ranged from 0.69% to 1.16% during 2011 (which included a base rate mark-up charged by the lender). Daily borrowings during 2011 averaged $24.7 million and overall annual borrowings and repayments were approximately $225 million. At December 31, 2011, the Company had an additional $33.2 million available for borrowing under this agreement.

In May 2011, the Company amended its five-year Revolving Credit Agreement, which extends the maturity to May 2016 and provides a $275 million credit facility. At December 31, 2011, total borrowings and outstanding letters of credit were $162.6 million, which includes a $75 million tax-exempt bond loan (see Restricted Cash in note 1). Variable interest rates are based on the London Interbank Borrowing Rate and ranged from 0.71% to 3.25% during 2011 (which included a base rate mark-up charged by the lenders). Daily borrowings during 2011 averaged $77.7 million and overall annual borrowings and repayments were approximately $2.3 billion. At December 31, 2011, the Company had an additional $112.4 million available for borrowing under this agreement.

The Company's credit facilities share certain financial covenants related to cash flow leverage, minimum tangible net worth and interest coverage. The Company was in compliance with all covenants at December 31, 2011.

(8) Allocated Earnings

At December 31, 2011, $62.0 million of the current year non-maturing patronage has been allocated within Retained Earnings. The pertinent provisions of these Patronage Certificates (issued in 2008 or after) are as follows: (a) the certificates are not transferable; (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 Class B Certificates are included in Retained Earnings and amounted to $0.7 million and $0.5 million as of December 31, 2011 and December 25, 2010, respectively.

(9) Equity

All members of the cooperative are required to hold 15 shares of Class A Common Stock. The by-laws 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. The Board of Directors of the Company declared a 2-for-1 stock dividend effective March 22, 2009 for shareholders of record, whereby every shareholder of A and B stock received additional shares in the form of B stock. All issuances and redemptions since March 20, 2011 have been made at $1,570 per share. Issuances and redemptions between March 21, 2010 and March 19, 2011 were made at $1,510 per share. Issuances and redemptions between March 22, 2009 and March 20, 2010 were made at $1,450 per share.

The changes in common stock for the fiscal years ended December 31, 2011 and December 25, 2010 were as follows (dollars in thousands):

	Class A	Class B	Total Common Stock	Members
Balances at December 26, 2009				589
Shares	8,835	20,042	28,877	
Dollar Value	$ 882	$ 2,003	$ 2,885	
Issued				35
Shares	525	—	525	
Dollar Value	$ 53	$ —	$ 53	
Redeemed				(31)
Shares	(465)	(1,027)	(1,492)	
Dollar Value	$ (47)	$ (103)	$ (150)	
Balances at December 25, 2010				
Shares	8,895	19,015	27,910	593
Dollar Value	$ 888	$ 1,900	$ 2,788	
Issued				
Shares	555	—	555	37
Dollar Value	$ 56	$ —	$ 56	
Redeemed				
Shares	(435)	(750)	(1,185)	(29)
Dollar Value	$ (44)	$ (75)	$ (119)	
Balances at December 31, 2011				
Shares	9,015	18,265	27,280	601
Dollar Value	$ 900	$ 1,825	$ 2,725	

(10) Derivative Financial Instruments and Hedging Activities

The Company's use of derivative financial instruments is limited to interest rate swaps entered into with financial institutions. The objective is to reduce AWG's exposure to interest rate fluctuations (rate risk) for a portion of its variable rate bank debt and to lower overall borrowing costs. Reset dates and the floating rate indices on the swaps match those of the underlying bank debt. Accordingly, any change in market value associated with the swaps is offset by the opposite market impact on the related debt.

The Company accounts for an interest rate swap as a cash flow hedge and accordingly, gains and losses on an interest rate swap (dependent upon the movement in interest rates) are deferred in a component of equity (accumulated other comprehensive income or loss - "AOCI") to the extent the hedging relationship is effective. During the year ended December 31, 2011, the Company reclassified $1.9 million from AOCI related to its interest rate swaps and recognized that amount as a loss, which is included in interest expense. At December 31, 2011, the Company had no interest rate swaps in effect.

(11) Income Taxes
(dollars in thousands)

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

	2011	2010	2009
Federal:			
Current	$ 4,348	$ 7,660	$ 8,422
Deferred	1,867	3,024	3,019
Total federal	$ 6,215	$ 10,684	$ 11,441
State:			
Current	$ 2,294	$ 1,729	$ 1,433
Deferred	(1,681)	(1,062)	754
Total state	$ 613	$ 667	$ 2,187
Total income tax	$ 6,828	$ 11,351	$ 13,628

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

	2011	2010
Deferred income tax assets:		
Pension	$ 8,076	$ 6,818
Insurance	3,477	4,435
Compensation	7,283	7,448
Accounts receivable	1,986	1,733
Inventory	815	948
Contribution carryovers	2,217	—
State credit carryover	3,174	3,510
Other	1,443	1,174
Deferred income tax assets	28,471	26,066
Valuation allowance	(3,310)	(2,535)
Total deferred income tax assets	$ 25,161	$ 23,531
Deferred income tax liabilities:		
Fixed assets	$ 8,528	$ 10,131
Prepaid expenses	2,054	2,137
Other	897	—
Total deferred income tax liabilities	$ 11,479	$ 12,268
Net deferred income tax assets	$ 13,682	$ 11,263

As of December 31, 2011, a $3,310 valuation allowance was required to reduce the deferred income tax assets to a level, which more likely than not, will be realized as future benefits. The Company is currently in various stages of audits or other methods of review with taxing authorities from various taxing jurisdictions. Based on the information available, the Company does not anticipate significant additional changes to unrecognized tax benefits. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for fiscal years ending December 29, 2007 and prior. The Company recognizes interest and penalties related to income tax deficiencies separately from the tax expense. As of December 31, 2011, the Company had a $114 liability related to accrued interest and penalties for uncertain tax positions recorded on its balance sheet.

(12) Employee Benefit Plans
(dollars in thousands)

Substantially all employees of the Company and its subsidiaries 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 1,638 and 1,609 participants for the fiscal year ended December 31, 2011, and December 25, 2010, respectively, which is comprised mainly of non-union warehouse, clerical and managerial employees. The Company provides no health care, life insurance, nor disability plans to former and inactive employees after retirement under post-employment benefit plans.

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

	2011	2010
Change in benefit obligation (PBO)		
Benefit obligation at beginning of year	$ 115,522	$ 94,383
Service cost	10,452	9,727
Interest cost	6,132	5,469
Benefits paid	(5,950)	(8,926)
Actuarial loss	11,028	14,869
Benefit obligation at end of year	$ 137,184	$ 115,522
Change in plan assets		
Fair value of plan assets at beginning of year	$ 91,156	$ 79,998
Actual return on plan assets	(563)	12,003
Employer contributions	23,374	8,081
Benefits paid	(5,950)	(8,926)
Fair value of plan assets at end of year	$ 108,017	$ 91,156
Funded status, end of year	$ (29,167)	$ (24,366)

Benefit calculations for the Company's sponsored DB Plan for primarily non-union eligible participants are generally based on years of service and the participants' highest compensation during five consecutive years during the last ten years of employment. The Company's accumulated benefit obligation for the DB Plan was $93,987 and $77,524 at December 31, 2011 and December 25, 2010, respectively. At December 31, 2011 and December 25, 2010, the fair value of the DB Plan assets exceeded the accumulated benefit obligation.

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

	2011	2010
Prior service cost	$ (2,212)	$ (2,749)
Net actuarial loss	(31,160)	(22,394)
Total recognized in AOCI, before tax	$ (33,372)	$ (25,143)
Total recognized in AOCI, net of tax	$ (20,524)	$ (15,463)

The estimated future benefit payments to be paid from the DB Plan, which reflect expected future service, are as follows:

Fiscal year	DB Plan Benefits
2012	$ 11,421
2013	10,113
2014	10,949
2015	32,305
2016	20,543
Years 2017-2020	76,459

(12) Employee Benefit Plans (continued)

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

	2011	2010
Service cost -- benefits earned during the period	$ 10,453	$ 9,727
Interest cost on projected benefit obligations	6,132	5,469
Expected return on plan assets	(7,350)	(6,052)
Amortization of prior service cost	537	537
Amortization of net actuarial loss	10,174	4,414
Net periodic benefit expense	$ 19,946	$ 14,095

The estimated prior service cost and net actuarial loss that will be amortized from accumulated other comprehensive income/loss into net periodic benefit cost for the DB Plan over the next fiscal year are $537 and $6,130, respectively. The majority of the unfunded non-qualified portion of the plan has been expensed.

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

	2011	2010
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.75%	5.50%
Rate of compensation increase	3.50%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	5.50%	5.80%
Rate of compensation increase	4.00%	4.25%
Expected return on plan assets	8.00%	8.00%

The fair value of the Company's DB Plan assets at the end of 2011, by asset category, are as follows:

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 65,558	$ 65,558	$ —	$ —
Debt securities	30,453	30,453	—	—
Other, including cash and cash equivalents	12,006	12,006	—	—
Totals	$ 108,017	$ 108,017	$ —	$ —

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 $13.0 million to the DB Plan during 2012.

The Company also makes contributions to its defined contribution plans. The total expense for these plans amounted to (in millions) $3.8, $5.4 and $5.2 in 2011, 2010 and 2009, respectively.

(13) Commitments and Contingent Liabilities

The Company is obligated as lessee under various noncancelable long-term supermarket property leases with minimum annual rentals of approximately $44.9 million. These leases have an average remaining life of 6 years. It is expected in the ordinary course of business that these leases will be renewed or replaced. The Company has subleased the majority of its supermarket properties to Members (except for properties operated by the Company's subsidiaries) for substantially the same lease terms and rental amounts. Rental income received was $40.1 million. Rents charged to general and administrative expenses for operating leases, other than supermarket properties, were (in millions) $2.4, $1.8 and $1.6 in 2011, 2010 and 2009 respectively. Operating lease rent expense, expected to be incurred over the next five years, is approximately $2.5 million per year.

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.

(14) Multi-employer Plans

(dollars in thousands)

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 may be 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 may be borne by the remaining participating employers.

c. If the Company chooses to stop participating in its multi-employer plan, then it may be 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 annual period ended December 31, 2011, is outlined in the table below. The "EIN/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 2011 and 2010 is for the plan's year-end at December 31, 2010 and December 31, 2009, 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 less than 80 percent funded and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a 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 2011, 2010 and 2009 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
		2011	2010		2011	2010	2009		
Central States, Southeast and Southwest Areas Pension Fund	36-6044243 Plan 001	Red	Red	Yes	$11,944	$11,023	$10,473	Yes	April 4, 2015

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 2010 and 2009. 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 2011.

(15) Subsequent Events

Subsequent events have been evaluated through March 6, 2012, which is the date the financial statements were available to be issued, and there were no material events requiring recognition or disclosure.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
The Board of Directors
Associated Wholesale Grocers, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Associated Wholesale Grocers, Inc. and subsidiaries as of December 31, 2011 and December 25, 2010 and the related consolidated statements of operations, retained earnings, members' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Associated Wholesale Grocers, Inc. and subsidiaries as of December 31, 2011 and December 25, 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Kansas City, Missouri
March 6, 2012

2012

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 29, 2012 and December 31, 2011
(dollars in thousands)

ASSETS	2012	2011
Current Assets:		
Cash and cash equivalents	$ 103,391	$ 82,186
Restricted cash	18,024	62,233
Receivables, net of allowance for doubtful accounts of $2,634 in 2012 and $2,698 in 2011	199,093	194,020
Notes receivable from members, current maturities, net of allowance for doubtful accounts of $0 in 2012 and $87 in 2011	7,130	7,378
Inventories	375,891	377,896
Deferred income taxes (note 11)	15,425	15,028
Other current assets	36,832	20,854
Total current assets	755,786	759,595
Notes receivable from members, maturing after one year, net of allowance for doubtful accounts of $3,073 in 2012 and $2,796 in 2011	20,470	37,417
Property and equipment, net (note 6)	375,160	307,421
Investments	677	877
Intangibles, net of accumulated amortization of $46,439 in 2012 and $44,540 in 2011 (note 3)	11,052	10,763
Other assets	21,952	15,885
Total assets	$ 1,185,097	$ 1,131,958
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 371,076	$ 367,688
Cash portion of current year patronage	100,643	93,382
Member deposits	9,309	11,738
Long-term debt maturing within one year	125	114
Accrued expenses and other current liabilities	94,001	80,559
Total current liabilities	575,154	553,481
Long-term debt maturing after one year (note 7)	196,108	201,736
Deferred income taxes (note 11)	1,021	1,346
Deferred income and other liabilities	46,961	47,297
Members' patronage refund certificates maturing after one year (notes 1 and 5)	—	39,478
Total liabilities	819,244	843,338
Commitments and contingent liabilities (note 13)		
Members' Equity:		
Common stock, $100 par value:		
Class A, voting; 35,000 shares authorized; 8,835 and 9,015 shares issued in 2012 and 2011	882	900
Class B, nonvoting; 150,000 shares authorized; 16,945 and 18,265 shares issued in 2012 and 2011	1,693	1,825
Additional paid-in capital	12,363	12,570
Retained earnings	367,214	293,723
Accumulated other comprehensive loss (notes 9 and 12)	(14,274)	(20,524)
Total AWG members' equity	367,878	288,494
Noncontrolling interest	(2,025)	126
Total members' equity	365,853	288,620
Total liabilities and members' equity	$ 1,185,097	$ 1,131,958

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Fiscal years ended December 29, 2012, December 31, 2011, and December 25, 2010
(dollars in thousands)

	2012	2011	2010
Net sales	$ 7,852,006	$ 7,766,807	$ 7,251,719
Cost of goods sold	7,218,733	7,142,260	6,655,074
Gross profit	633,273	624,547	596,645
General and administrative expenses	456,760	444,488	417,523
Operating income	176,513	180,059	179,122
Other income (expenses):			
Interest income (note 1)	5,789	2,571	2,624
Interest expense (note 5)	(4,721)	(7,038)	(8,272)
Other, net	1,069	763	1,895
Income before income taxes	178,650	176,355	175,369
Income taxes (note 11)	2,701	6,828	11,351
Net income	175,949	169,527	164,018
Other comprehensive income (loss)			
Change in funded status of pension plan, net of taxes	6,250	(5,060)	(2,439)
Change in cash flow hedge, net of taxes	—	919	426
Comprehensive income	$ 182,199	$ 165,386	$ 162,005
Amounts attributable to noncontrolling interest			
Comprehensive income	$ 182,199	$ 165,386	$ 162,005
Comprehensive (income) loss attributable to noncontrolling interest	2,151	(126)	—
Comprehensive income attributable to AWG, Inc. and subsidiaries	$ 184,350	$ 165,260	$ 162,005
Net income	$ 175,949	$ 169,527	$ 164,018
Net (income) loss attributable to noncontrolling interest	2,151	(126)	—
Net income attributable to AWG, Inc. and subsidiaries	$ 178,100	$ 169,401	$ 164,018

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
Fiscal years ended December 29, 2012 and December 31, 2011
(dollars in thousands)

	2012	2011
Allocated		
Balances at beginning of year	$ 222,709	$ 164,340
Patronage certificates (note 8):		
Issued	63,920	61,937
Redeemed	(1,426)	(25)
Reclassed (note 4)	—	(3,807)
Class B certificates:		
Issued	110	264
Redeemed	(542)	—
Balances at end of year	$ 284,771	$ 222,709
Unallocated		
Balances at beginning of year	$ 71,014	$ 57,989
Net income	175,949	169,527
Net (income) loss attributable to noncontrolling interest	2,151	(126)
Less allocated earnings (note 8):		
Patronage certificates	(63,920)	(61,937)
Class B certificates	(110)	(223)
Less cash portion of current year patronage	(100,643)	(93,382)
Redemption and retirement of common stock	(1,998)	(834)
Balances at end of year	$ 82,443	$ 71,014
Total retained earnings	$ 367,214	$ 293,723

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal years ended December 29, 2012, December 31, 2011, and December 25, 2010
(dollars in thousands)

	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 175,949	$ 169,527	$ 164,018
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	37,946	38,746	40,560
Impairment of assets	—	224	2,800
Deferred income taxes	(72)	(2,419)	696
Loss (gain) on disposition of property and equipment	(2,333)	(1,779)	1,614
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	(5,073)	5,364	(17,194)
Inventories	2,005	(33,077)	(3,063)
Other assets	(22,045)	(1,245)	7,306
Accounts payable, accrued expenses and other liabilities	22,094	16,708	14,981
Net cash provided by operating activities	208,471	192,049	211,718
Cash flows from investing activities:			
Reductions in (additions to) restricted cash	44,209	(62,233)	—
Additions to intangibles	(2,188)	(255)	—
Proceeds from investments	200	400	—
Loans to members	(5,355)	(11,717)	(11,889)
Repayment of loans by members	22,550	12,400	8,497
Additions to property and equipment	(104,182)	(54,322)	(41,373)
Proceeds from sale of property and equipment	2,729	2,861	28,889
Acquisition of assets, net of cash acquired (note 4)	—	(4,312)	—
Net cash used in investing activities	(42,037)	(117,178)	(15,876)
Cash flows from financing activities:			
Year-end patronage distributions	(93,382)	(86,533)	(82,911)
Redemption of prior year's patronage refund certificates	(41,446)	(33,413)	(33,389)
Issuance of common stock	774	859	782
Redemption and retirement of common stock	(3,129)	(1,790)	(2,171)
Net borrowing (repayments) under credit facilities	(5,617)	44,850	(20,800)
Subsidiary acquisition of shareholder patronage	—	(4,613)	—
Net proceeds (repayments) of member deposits	(2,429)	3,527	(6,282)
Net cash used in financing activities	(145,229)	(77,113)	(144,771)
Net increase (decrease) in cash and cash equivalents	21,205	(2,242)	51,071
Cash and cash equivalents at beginning of year	82,186	84,428	33,357
Cash and cash equivalents at end of year	$ 103,391	$ 82,186	$ 84,428
Supplemental cash flow statement information:			
Cash paid for interest, net of amount capitalized	$ 6,360	$ 8,473	$ 10,010
Cash paid for income taxes	$ 5,324	$ 7,774	$ 10,194

See accompanying notes to consolidated financial statements.

(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 Midwestern, Southwestern and Southeastern United States. Non-Cooperative businesses include nonfood distribution centers, military distribution and retail supermarkets that operate under the banners of Homeland and United Supermarkets. The cooperative represents approximately 81% of total net sales. "AWG" and "Company" refer to Associated Wholesale Grocers, Inc. and its subsidiaries. Certain immaterial reclassifications of prior years' amounts have been made to conform to current year presentation.

Principles of Consolidation and Use of Estimates

The consolidated financial statements include the accounts of AWG, its subsidiaries and variable interest entities where the Company is considered the primary beneficiary. All significant intercompany transactions have been eliminated. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the statements and affects the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Company's fiscal year ends on the last Saturday in December. Fiscal 2011 included 53 weeks of operations. Fiscal 2012 and 2010 both included 52 weeks of operations.

Variable Interest Entity

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations" ("ASC 810"), the Company consolidates any variable interest entity ("VIE") in which the Company has a controlling financial interest and, therefore, is the VIE's primary beneficiary. ASC 810 states that a controlling financial interest in an entity is present when an enterprise has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant 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 sale of its retail grocery operation (see note 4) and has included the ESOP in the Company's consolidated financial statements for the fiscal years ended December 29, 2012 and December 31, 2011.

Business and Credit Concentrations

The majority of the Company's sales are to Members/retailers located in Kansas, Missouri, Oklahoma, Arkansas, Texas and Tennessee. No single customer accounted for more than 10% of sales in any year presented. Lease and equipment financing through AWG is available to qualified retailers for acquisition/expansion of supermarket properties. Trade and notes receivables are generally secured (see note 5) and the Company establishes an allowance for doubtful accounts based on collectibility. The Company's lending rate is generally one percent over the prime rate with borrowing terms to 10 years. For the fiscal years 2012, 2011 and 2010, the Company earned interest income on loans of $1.5 million, $2.0 million and $2.0 million, respectively. Interest income is recorded when earned.

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.

Restricted Cash

In 2011, the Company received $75 million in proceeds from the issuance of Gulf Opportunity Zone tax-exempt bonds made available by the federal government to the regions affected by Hurricanes Katrina and Rita in 2005. These variable rate bonds mature September 1, 2041, and are secured with a designated borrowing under the five-year Revolving Credit Agreement (see note 7). The proceeds from the bond issuance have been used towards the construction of the Company's new distribution center in Louisiana. At December 29, 2012 and December 31, 2011, the unused proceeds are recorded in Restricted Cash in the Consolidated Balance Sheets. The unused proceeds are expected to be used in their entirety during 2013.

Inventories

Merchandise is valued at the lower of cost or market. Cost for 69% and 68% of inventories in 2012 and 2011, 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 $107.4 million at December 29, 2012, and $105.7 million at December 31, 2011.

Sales and Cost of Goods Sold

The Company recognizes sales of merchandise when products are shipped and promotional allowances related to selling products to customers are recorded as a reduction in sales. 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.

(1) Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and include assets held for sale of $0.2 million at December 29, 2012 and December 31, 2011, respectively. 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 respective lease terms.

Recently Adopted and Recently Issued Authoritative Accounting Standards

In June 2011, the FASB and the International Accounting Standards Board ("IASB") issued ASU No. 2011-05, *"Comprehensive Income (Topic 220): Presentation of Comprehensive Income"* ("ASU No. 2011-05"). ASU International Financial Reporting Standards ("IFRS") increase the prominence of other comprehensive income in the financial statements. ASU No. 2011-05 allows for the option of presenting either one continuous statement of net income and other comprehensive income or two consecutive statements. Further, an entity will be required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. ASU No. 2011-05 is effective for fiscal years, beginning after December 15, 2011. Early adoption is permitted. In December 2011, the FASB issued ASU No. 2011-12. *"Deferral of the Effective Date for Amendments to the Presentation of Reclassifications Out of Accumulated Other Comprehensive Income in ASU No. 2011-05"* ("ASU No. 2011-12"). ASU No. 2011-12 indefinitely defers only the specific provision requiring companies to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented. The Company formally adopted ASU No. 2011-05 commencing in 2012.

In May 2011, the FASB and the IASB issued ASU No. 2011-04. *"Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS"* ("ASU No. 2011-04"). ASU No. 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or IFRS. The amendments in ASU No. 2011-04 change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Amendments in ASU No. 2011-04 include those that (1) clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements; and (2) change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in ASU No. 2011-04 to result in a change in the application of the requirements in Topic 820. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Accordingly, the Company adopted ASU No. 2011-04 commencing in 2012. Adoption of ASU No. 2011-04 did not have an impact on the Company's consolidated financial statements.

Investments

The Company has all investments stated at cost.

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. In 2012, an additional $8.1 million was authorized to be retained of interest income generated from financing the sale of the retail subsidiary (see note 4). At each year-end, a percentage of net income to be distributed is paid in cash (60%) 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.

Income Taxes

AWG and its subsidiaries file 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 bases for net receivables, inventory, depreciation, insurance, intangibles, deferred compensation and pension liability.

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.

(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 notes receivables and accounts payable; the fair values approximate book values due to their short term maturities.

Property and equipment and intangible assets are reviewed for impairment whenever events or circumstances indicate 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 29, 2012, December 31, 2011, and December 25, 2010, the Company recorded (in millions) $0, $0.2, and $2.8 respectively, property, equipment and software impairment charges, 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.

Changes in the fair value of derivatives (Level 2 inputs) should be reported in earnings or other comprehensive income depending on the use of derivatives and whether they qualify for hedge accounting. Derivatives that are not hedges must be recorded at fair value through earnings. There were no derivatives at December 29, 2012 and December 31, 2011.

(3) Intangible Assets

The Company has intangible assets subject to amortization with original useful lives of 15 years relating to the acquisition of wholesale volume agreements. The Company has $1.9 million of recorded goodwill at December 29, 2012 and December 31, 2011. Amortization expense for intangible assets was $1.9 million in 2012, $1.5 million in 2011 and $1.8 million in 2010. Amortization expense for the next five fiscal years is estimated to be as follows (in millions): 2013 - $1.8; 2014 - $1.8; 2015 - $1.7; 2016 - $1.7; and 2017 - $1.3.

(4) Acquisitions, Divestitures and Certain Transactions with Members

In December 2011, the Company sold its subsidiary retail grocery operation, Associated Retail Grocers, Inc, ("ARG"), whose only asset consisted of an investment in HAC, Inc. The operation is commonly referred to as Homeland Stores, which operated grocery stores situated in Oklahoma (72), Texas (4) and Kansas (1) at the time of the transaction. The purchaser, ESOP (see Variable Interest Entity in note 1), bought 100% of the controlling stock of ARG in a transaction valued at $145 million. The Company provided financing in a series of loan tranches, with maturity dates of 5 to 11 years, as follows:

Tranche A – $60 million, due in weekly payments (subject to floating rate adjustments based on Prime + 0% margin) representing principal and an initial 3.25% all-in interest rate. The loan amortizes based on a ten-year life and a balloon payment due December 26, 2016. The loan balance outstanding at December 29, 2012 is $54.7 million.

Tranche B – $50 million, due in weekly payments (subject to floating rate adjustments based on Prime + 1% margin) representing an initial 4.25% all-in interest-only payment until the earlier of: (i) December 26, 2016, or (ii) the repayment of the Tranche-A obligation. Estimated weekly payments of principal and interest will then begin, with principal amortization based on a ten-year life and a balloon payment due December 26, 2021.

Tranche C – $35 million, due in weekly payments representing a fixed rate of 11% and interest-only payments until the earlier of: (i) December 26, 2019, or (ii) the repayment of the Tranche-B obligation. Estimated weekly payments of principal and interest will then begin, with principal amortization based on a five-year life and a balloon payment due December 26, 2022. Only Tranche-C is subject to an early termination penalty from early redemption. The borrower can, under certain circumstances, lower the fixed rate if certain performance targets are achieved.

Beneficial terms of the transaction require ESOP to maintain its purchase concentration of current and future stores for a stated period beyond the final repayment of all the outstanding obligations. In addition, the Company provides ESOP access to a line of credit up to $15 million to manage its seasonal borrowing needs at a borrowing rate of Prime, which is currently drawn at $4.5 million at December 29, 2012. Additional commitments beyond the initial transaction relate to assisting HAC, Inc. to borrow up to $10 million to meet its obligations from withdrawing from its sponsoring participation in several UFCW multi-employer pension plans. The Company had loaned HAC an additional $2.8 million, of which $2.7 million is outstanding at December 29, 2012.

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

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

In September 2011, AVT Grocery, Inc. (formerly Minyard Foods Stores, Inc.) assigned $4.6 million of outstanding issued and allocated patronage certificates to HAC, Inc., which at the time of the assignment was a subsidiary of AWG. At December 31, 2011, these certificates were reclassed and eliminated in the Company's consolidated financial statements.

In September 2011, Super Market Developers, Inc., a subsidiary of AWG, purchased a supermarket property in Iowa from Dahl's Holdings I, LLC ("Dahl's") and assumed a fixed-term loan associated with the property. The principal amount of the loan was $5.6 million (see note 7). Concurrent with the transaction, the Company subleased the property back to Foods, Inc., an affiliate of Dahl's.

In August 2011, HAC, Inc., a subsidiary of the Company, purchased equipment and inventory for three supermarkets located in Texas from North Texas Supersave, LP and one supermarket located in Texas from Weatherford Super Save, Inc. The aggregate cash purchase price for all four stores was $4.3 million.

(5) Patronage Refund Certificates and Deposits

Patronage Refund Certificates have been issued to Members in the past as part of annual distributions of net income from cooperative operations. In 2008, new non-maturing certificates began being issued (see note 8). The pertinent provisions of Patronage Refund Certificates (issued prior to 2008) are as follows: (a) the certificates are not transferable; (b) AWG has the right to offset, but the certificate holder does not; (c) the Board of Directors of AWG has the authority to set the interest rate on these certificates, subject to the maintenance of an interest rate of at least 4%, but not in excess of 8%; and (d) the certificates are subordinate to the claims of all creditors of AWG. During 2012, interest accrued at 4%, however, all Patronage Refund Certificates had matured as of December 29, 2012.

Member deposits represent interest-bearing accounts that may be required to collateralize weekly purchases of products. Interest expense incurred on patronage certificates, member deposits, and member savings in 2012, 2011 and 2010 was $1.5 million, $2.9 million and $4.3 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 (dollars in thousands):

	2012	2011
Land	$ 36,569	$ 31,119
Buildings and leasehold improvements	298,302	276,867
Equipment	276,142	257,063
Construction in progress and other	55,111	5,294
	$ 666,124	$ 570,343
Less accumulated depreciation	(290,964)	(262,922)
Property and equipment, net	$ 375,160	$ 307,421

Depreciation expense incurred in 2012, 2011, and 2010 was (in millions) $36.0, $37.4 and $38.8, respectively. In 2012, 2011 and 2010, the Company capitalized an aggregate total of (in millions) $0.2, $0.1 and $0.1, respectively, of capitalized construction period interest.

(7) Long-term Debt

In September 2011, the Company assumed a term-loan with a principal balance of $5.6 million relating to the purchase of a supermarket property. The terms of the loan include fixed monthly payments, a fixed interest rate of 6.75%, and a maturity date of January 1, 2034. At December 29, 2012 and December 31, 2011, the outstanding principal amount of this loan was $5.6 and $5.7 million, respectively.

In May 2012, a 365-day Revolving Credit Agreement was amended, which includes a "term-out" feature to extend the maturity to June 15, 2014, and provides an $85 million credit facility. At December 29, 2012, total borrowings and outstanding letters of credit were $42.8 million. Variable interest rates are based on the Fed Funds rate and ranged from 1.07% to 1.17% during 2012 (which included a base rate mark-up charged by the lender). Daily borrowings during 2012 averaged $30.3 million and overall annual borrowings and repayments were approximately $2.75 billion. At December 29, 2012, the Company had an additional $42.2 million available for borrowing under this agreement.

In May 2011, the Company amended its five-year Revolving Credit Agreement, which extends the maturity to May 2016 and provides a $275 million credit facility. At December 29, 2012, total borrowings and outstanding letters of credit were $161.9 million, which includes a $75 million tax-exempt bond loan (see Restricted Cash in note 1). Variable interest rates are based on the London Interbank Borrowing Rate and ranged from 0.84% to 1.30% during 2012 (which included a base rate mark-up charged by the lenders). Daily borrowings during 2012 averaged $126.3 million and overall annual borrowings and repayments were approximately $153 million. At December 29, 2012, the Company had an additional $113.1 million available for borrowing under this agreement.

The Company's credit facilities share certain financial covenants related to cash flow leverage, minimum tangible net worth and interest coverage. The Company was in compliance with all covenants at December 29, 2012.

In December 2012, the Company negotiated a $6.5 million taxable industrial revenue bond with the Unified Government of Wyandotte County/Kansas City, KS ("Unified Government") with a term of 10 years. The bonds have a stipulated interest rate of 5% per annum. AWG purchased all the bonds and collects all interest. The bonds allowed the Company to receive PILOT payments (payments in lieu of taxes) on the new addition, which freezes the cost of improvements the Unified Government assesses on the property for the duration of the bonds. The balance outstanding as of December 29, 2012, was $5.7 million.

(8) Allocated Earnings

At December 29, 2012, $63.9 million of the current year non-maturing patronage has been allocated within Retained Earnings. The pertinent provisions of these Patronage Certificates (issued in 2008 or after) are as follows: (a) the certificates are not transferable; (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 Class B Certificates are included in Retained Earnings and amounted to $0.3 million and $0.7 million as of December 29, 2012 and December 31, 2011, respectively.

(9) Equity

All members of the cooperative are required to hold 15 shares of Class A Common Stock. The by-laws 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. The Board of Directors of the Company declared a 2-for-1 stock dividend effective March 22, 2009 for shareholders of record, whereby every shareholder of A and B stock received additional shares in the form of B stock. All issuances and redemptions since March 18, 2012 have been made at $1,635 per share. Issuances and redemptions between March 20, 2011 and March 17, 2012 were made at $1,570 per share. Issuances and redemptions between March 24, 2010 and March 19, 2011 were made at $1,510 per share.

The changes in common stock for the fiscal years ended December 29, 2012 and December 31, 2011 were as follows (dollars in thousands):

	Class A	Class B	Total Common Stock	Members
Balances at December 25, 2010				
Shares	8,895	19,015	27,910	593
Dollar Value	$ 888	$ 1,900	$ 2,788	
Issued				
Shares	555	—	555	37
Dollar Value	$ 56	$ —	$ 56	
Redeemed				
Shares	(435)	(750)	(1,185)	(29)
Dollar Value	$ (44)	$ (75)	$ (119)	
Balances at December 31, 2011				
Shares	9,015	18,265	27,280	601
Dollar Value	$ 900	$ 1,825	$ 2,725	
Issued				
Shares	480	—	480	32
Dollar Value	$ 48	$ —	$ 48	
Redeemed				
Shares	(660)	(1,320)	(1,980)	(44)
Dollar Value	$ (66)	$ (132)	$ (198)	
Balances at December 29, 2012				
Shares	8,835	16,945	25,780	589
Dollar Value	$ 882	$ 1,693	$ 2,575	

Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income (loss) attributable to the Company for the fiscal years ended December 29, 2012 and December 31, 2011 were as follows:

	2012	2011
Balances, beginning of year	$ (20,524)	$ (16,383)
Change in funded states of pension plan, net of $3,913 in taxes and $(949) in tax credits	6,250	(5,060)
Change in cash flow hedge, net of $546 in taxes	—	919
Balances, end of year	$ (14,274)	$ (20,524)

During the fiscal years ending in December 29, 2012 and December 31, 2011, there were adjustments to accumulated other comprehensive (loss) due to noncontrolling interests.

(9) Equity (continued)

Noncontrolling Interest

Changes in noncontrolling interest for the years ended December 29, 2012 and December 31, 2011, were as follows:

	2012	2011
Balances, beginning of year	$ 126	$ —
Income (loss) attributable to noncontrolling interest	(2,151)	126
Balances, end of year	$ (2,025)	$ 126

(10) Derivative Financial Instruments and Hedging Activities

The Company's use of derivative financial instruments is limited to interest rate swaps entered into with financial institutions. The objective is to reduce AWG's exposure to interest rate fluctuations (rate risk) for a portion of its variable rate bank debt and to lower overall borrowing costs. Reset dates and the floating rate indices on the swaps match those of the underlying bank debt. Accordingly, any change in market value associated with the swaps is offset by the opposite market impact on the related debt.

The Company accounts for an interest rate swap as a cash flow hedge and accordingly, gains and losses on an interest rate swap (dependent upon the movement in interest rates) are deferred in a component of equity (accumulated other comprehensive income or loss - "AOCI") to the extent the hedging relationship is effective. During the year ended December 31, 2011, the Company reclassified $1.9 million from AOCI related to its interest rate swaps and recognized that amount as a loss, which is included in interest expense. At December 29, 2012 and December 31, 2011, the Company had no interest rate swaps in effect.

(11) Income Taxes

(dollars in thousands)

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

	2012	2011	2010
Federal:			
Current	$ 6,863	$ 4,348	$ 7,660
Deferred	(3,085)	1,867	3,024
Total federal	$ 3,778	$ 6,215	$ 10,684
State:			
Current	$ 963	$ 2,294	$ 1,729
Deferred	(2,040)	(1,681)	(1,062)
Total state	$ (1,077)	$ 613	$ 667
Total income tax	$ 2,701	$ 6,828	$ 11,351

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

	2012	2011
Deferred income tax assets:		
Pension	$ 7,419	$ 8,076
Insurance	2,845	3,477
Compensation	7,752	7,283
Accounts receivable	2,062	1,986
Inventory	733	815
Contribution carryovers	2,406	2,217
State credit carryover	3,079	3,174
Other	1,977	1,443
Deferred income tax assets	28,273	28,471
Valuation allowance	(2,744)	(3,310)
Total deferred income tax assets	$ 25,529	$ 25,161
Deferred income tax liabilities:		
Fixed assets	$ 10,519	$ 8,528
Prepaid expenses	1,934	2,054
Other	924	897
Total deferred income tax liabilities	$ 13,377	$ 11,479
Net deferred income tax assets	$ 12,152	$ 13,682

(11) Income Taxes (continued)

As of December 29, 2012, a $2,744 valuation allowance was required to reduce the deferred income tax assets to a level, which more likely than not, will be realized as future benefits. Based on the information available, the Company does not anticipate significant additional changes to unrecognized tax benefits. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for fiscal years ending December 27, 2008 and prior. The Company recognizes interest and penalties related to income tax deficiencies separately from the tax expense. As of December 29, 2012, the Company had an $81 liability related to accrued interest and penalties for uncertain tax positions recorded on its balance sheet.

(12) Employee Benefit Plans

(dollars in thousands)

Substantially all employees of the Company and its subsidiaries 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 1,659 and 1,638 participants for the fiscal years ended December 29, 2012, and December 31, 2011, 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 provides no health care, life insurance, nor disability plans to former and inactive employees after retirement under post-employment benefit plans.

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

	2012	2011
Change in benefit obligation (PBO)		
Benefit obligation at beginning of year	$ 137,184	$ 115,522
Service cost	11,946	10,452
Interest cost	6,426	6,132
Benefits paid	(10,202)	(5,950)
Actuarial loss	6,134	11,028
Benefit obligation at end of year	$ 151,488	$ 137,184
Change in plan assets		
Fair value of plan assets at beginning of year	$ 108,017	$ 91,156
Actual return on plan assets	11,865	(563)
Employer contributions	22,513	23,374
Benefits paid	(10,202)	(5,950)
Fair value of plan assets at end of year	$ 132,193	$ 108,017
Funded status, end of year	$ (19,295)	$ (29,167)

Benefit calculations for the Company's sponsored DB Plan for primarily non-union eligible participants are generally based on years of service and the participants' highest compensation during five consecutive years during the last ten years of employment. The Company's accumulated benefit obligation for the DB Plan was $105,650 and $93,987 at December 29, 2012 and December 31, 2011, respectively. At December 29, 2012 and December 31, 2011, the fair value of the DB Plan assets exceeded the accumulated benefit obligation.

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

	2012	2011
Prior service cost	$ (1,676)	$ (2,212)
Net actuarial loss	(21,534)	(31,160)
Total recognized in AOCI, before tax	$ (23,210)	$ (33,372)
Total recognized in AOCI, net of tax	$ (14,274)	$ (20,524)

(12) Employee Benefit Plans (continued)

The estimated future benefit payments to be paid from the DB Plan, which reflect expected future service, are as follows:

Fiscal year	DB Plan Benefits
2013	$ 18,965
2014	26,596
2015	19,005
2016	17,528
2017	16,271
Years 2018-2022	76,419

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

	2012	2011
Service cost – benefits earned during the period	$ 11,946	$ 10,453
Interest cost on projected benefit obligations	6,426	6,132
Expected return on plan assets	(7,991)	(7,350)
Amortization of prior service cost	537	537
Amortization of net actuarial loss	11,886	10,174
Net periodic benefit expense	$ 22,804	$ 19,946

The estimated prior service cost and net actuarial loss that will be amortized from accumulated other comprehensive income/loss into net periodic benefit cost for the DB Plan over the next fiscal year are $537 and $3,043, respectively. The majority of the unfunded non-qualified portion of the plan has been expensed.

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

	2012	2011
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.25%	4.75%
Rate of compensation increase	3.00%	3.50%
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.75%	5.50%
Rate of compensation increase	3.50%	4.00%
Expected return on plan assets	7.50%	8.00%

The fair value of the Company's DB Plan assets at the end of the 2012 calendar year, by asset category, are as follows:

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 78,792	$ 78,792	$ —	$ —
Debt securities	33,196	33,196	—	—
Other, including cash and cash equivalents	13,680	13,680	—	—
Totals	$ 125,668	$ 125,668	$ —	$ —

Subsequent to the Company's fiscal year end, certain benefit payments were made, which lower the fair value of assets from the amount disclosed in Employee Benefit Plans (note 12).

The fair value of the DB Plan assets at the end of the 2011 calendar year, which coincided with the fiscal year end, by asset category, are as follows:

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 65,558	$ 65,558	$ —	$ —
Debt securities	30,453	30,453	—	—
Other, including cash and cash equivalents	12,006	12,006	—	—
Totals	$ 108,017	$ 108,017	$ —	$ —

(12) Employee Benefit Plans (continued)

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 $15.0 million to the DB Plan during 2013.

The Company also makes contributions to its defined contribution plans. The total expense for these plans amounted to (in millions) $3.7, $3.8 and $5.4 in 2012, 2011 and 2010, respectively.

(13) Commitments and Contingent Liabilities

The Company is obligated as lessee under various noncancelable long-term supermarket property leases with minimum annual rentals of approximately $39.7 million. These leases have an average remaining life of 7 years. It is expected in the ordinary course of business that these leases will be renewed or replaced. The Company has subleased the majority of its supermarket properties to Members (except for properties operated by the Company's subsidiaries) for substantially the same lease terms and rental amounts. Rental income received was $41.2 million. Rents charged to general and administrative expenses for operating leases, other than supermarket properties, were (in millions) $3.0, $2.4 and $1.8 in 2012, 2011 and 2010 respectively. Operating lease rent expense, expected to be incurred over the next five years, is approximately $2.2 million per year.

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.

(14) Multi-employer Plans

(dollars in thousands)

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 may be 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 may be borne by the remaining participating employers.

c. If the Company chooses to stop participating in its multi-employer plan, then it may be 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 annual period ended December 31, 2012, is outlined in the table below. The "EIN/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 2012 and 2011 is for the plan's year-end at December 31, 2011 and December 31, 2010, 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 less than 80 percent funded and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a 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 2012, 2011 and 2010 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
		2012	2011		2012	2011	2010		
Central States, Southeast and Southwest Areas Pension Fund	36-6044243 Plan 001	Red	Red	Yes	$12,104	$11,944	$11,023	No	April 4, 2020

The Company was not listed in the plan's Form 5500 as providing more than 5% of the total contributions for the plan years ending in 2011 and 2010. 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 2012.

(15) Subsequent Events

Subsequent events have been evaluated through March 7, 2013, which is the date the financial statements were available to be issued, and there were no material events requiring recognition or disclosure.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Associated Wholesale Grocers, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Associated Wholesale Grocers, Inc. (a Kansas corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 29, 2012 and December 31, 2011, and the related consolidated statements of operations and comprehensive income, retained earnings, and cash flows for each of the years in the three-year period ended December 29, 2012, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Associated Wholesale Grocers, Inc. and subsidiaries as of December 29, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 29, 2012 in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Kansas City, Missouri
March 7, 2013

2013

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 28, 2013 and December 29, 2012
(dollars in thousands)

ASSETS	2013	2012
Current Assets:		
Cash and cash equivalents	$ 59,386	$ 81,294
Restricted cash	—	18,024
Receivables, net of allowance for doubtful accounts of $2,647 in 2013 and $2,634 in 2012	225,631	199,093
Notes receivable from members, current maturities, net of allowance for doubtful accounts of $0 in 2013 and $0 in 2012	6,961	7,130
Inventories	457,110	375,891
Deferred income taxes (note 11)	17,713	15,425
Other current assets	18,631	15,886
Total current assets	785,432	712,743
Notes receivable from members, maturing after one year, net of allowance for doubtful accounts of $4,487 in 2013 and $3,073 in 2012	22,627	20,470
Property and equipment, net (note 6)	379,758	375,160
Investments	677	677
Intangibles, net of accumulated amortization of $15,029 in 2013 and $12,966 in 2012 (note 3)	9,815	11,052
Other assets	51,588	30,272
Total assets	$ 1,249,897	$ 1,150,374
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	$ 426,268	$ 348,979
Cash portion of current year patronage	104,534	100,643
Member deposits	10,846	9,309
Long-term debt maturing within one year	134	125
Accrued expenses and other current liabilities	93,114	81,375
Total current liabilities	634,896	540,431
Long-term debt maturing after one year (note 7)	148,913	196,108
Deferred income taxes (note 11)	5,247	1,021
Deferred income and other liabilities	47,728	46,961
Total liabilities	836,784	784,521
Commitments and contingent liabilities (note 13)		
Equity:		
Common stock, $100 par value:		
Class A, voting; 35,000 shares authorized; 9,045 and 8,835 shares issued in 2013 and 2012	903	882
Class B, nonvoting; 150,000 shares authorized; 16,359 and 16,945 shares issued in 2013 and 2012	1,634	1,693
Additional paid-in capital	12,579	12,363
Retained earnings	395,424	367,214
Accumulated other comprehensive loss (notes 9 and 12)	(4,956)	(14,274)
Total members' equity	405,584	367,878
Noncontrolling interest	7,529	(2,025)
Total equity	413,113	365,853
Total liabilities and equity	$ 1,249,897	$ 1,150,374

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Fiscal years ended December 28, 2013, December 29, 2012, and December 31, 2011
(dollars in thousands)

	2013	2012	2011
Net sales	$ 8,380,214	$ 7,852,006	$ 7,766,807
Cost of goods sold	7,715,466	7,218,733	7,142,260
Gross profit	664,748	633,273	624,547
General and administrative expenses	463,342	456,760	444,488
Operating income	201,406	176,513	180,059
Other income (expenses):			
Interest income (note 1)	1,360	5,789	2,571
Interest expense (note 7)	(3,255)	(4,721)	(7,038)
Other, net	(769)	1,069	763
Income before income taxes	198,742	178,650	176,355
Income taxes (note 11)	6,252	2,701	6,828
Net income	192,490	175,949	169,527
Other comprehensive income (loss)			
Change in funded status of pension plan, net of taxes	9,318	6,250	(5,060)
Change in cash flow hedge, net of taxes	—	—	919
Comprehensive income	$ 201,808	$ 182,199	$ 165,386
Amounts attributable to noncontrolling interest			
Comprehensive income	$ 201,808	$ 182,199	$ 165,386
Comprehensive (income) loss attributable to noncontrolling interest	(9,554)	2,151	(126)
Comprehensive income attributable to AWG, Inc. and subsidiaries	$ 192,254	$ 184,350	$ 165,260
Net income	$ 192,490	$ 175,949	$ 169,527
Net (income) loss attributable to noncontrolling interest	(9,554)	2,151	(126)
Net income attributable to AWG, Inc. and subsidiaries	$ 182,936	$ 178,100	$ 169,401

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
Fiscal years ended December 28, 2013 and December 29, 2012
(dollars in thousands)

	2013	2012
Allocated		
Balances at beginning of year	$ 284,771	$ 222,709
Patronage certificates (note 8):		
Issued	69,690	63,920
Redeemed	(49,223)	(1,426)
Class B certificates:		
Issued	—	110
Redeemed	(204)	(542)
Balances at end of year	$ 305,034	$ 284,771
Unallocated		
Balances at beginning of year	$ 82,443	$ 71,014
Net income	192,490	175,949
Net (income) loss attributable to noncontrolling interest	(9,554)	2,151
Less allocated earnings (note 8):		
Patronage certificates	(69,690)	(63,920)
Class B certificates	—	(110)
Less cash portion of current year patronage	(104,534)	(100,643)
Redemption and retirement of common stock	(765)	(1,998)
Balances at end of year	$ 90,390	$ 82,443
Total retained earnings	$ 395,424	$ 367,214

See accompanying notes to consolidated financial statements.

ASSOCIATED WHOLESALE GROCERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal years ended December 28, 2013, December 29, 2012 and December 31, 2011
(dollars in thousands)

	2013	2012	2011
Cash flows from operating activities:			
Net income	$ 192,490	$ 175,949	$ 169,527
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42,275	37,946	38,746
Impairment of assets	2,000	—	224
Deferred income taxes	1,938	(72)	(2,419)
Gain on disposition of property and equipment	(2,076)	(2,333)	(1,779)
Changes in assets and liabilities, net of effects of acquisitions:			
Receivables	(26,538)	(5,074)	5,364
Inventories	(78,372)	2,007	(33,077)
Other assets	(23,965)	(22,045)	(1,245)
Accounts payable, accrued expenses and other liabilities	98,880	(4)	16,708
Net cash provided by operating activities	206,632	186,374	192,049
Cash flows from investing activities:			
Reductions in (additions to) restricted cash	18,024	44,209	(62,233)
Additions to intangibles	(593)	(2,188)	(255)
Proceeds from investments	—	200	400
Loans to members	(17,884)	(5,355)	(11,717)
Repayment of loans by members	15,896	22,550	12,400
Additions to property and equipment	(69,891)	(104,182)	(54,322)
Proceeds from sale of property and equipment	28,782	2,729	2,861
Acquisition of assets, net of cash acquired (note 4)	(6,568)	—	(4,312)
Net cash used in investing activities	(32,234)	(42,037)	(117,178)
Cash flows from financing activities:			
Year-end patronage distributions	(100,643)	(93,382)	(86,533)
Redemption of prior year's patronage refund certificates	(49,427)	(41,446)	(33,413)
Issuance of common stock	1,461	774	859
Redemption and retirement of common stock	(2,048)	(3,129)	(1,790)
Net borrowing (repayments) under credit facilities	(47,186)	(5,617)	44,850
Subsidiary acquisition of shareholder patronage	—	—	(4,613)
Net proceeds (repayments) of member deposits	1,537	(2,429)	3,527
Net cash used in financing activities	(196,306)	(145,229)	(77,113)
Net decrease in cash and cash equivalents	(21,908)	(892)	(2,242)
Cash and cash equivalents at beginning of year	81,294	82,186	84,428
Cash and cash equivalents at end of year	$ 59,386	$ 81,294	$ 82,186
Supplemental cash flow statement information:			
Cash paid for interest, net of amount capitalized	$ 3,263	$ 6,360	$ 8,473
Cash paid for income taxes	$ 5,178	$ 5,324	$ 7,774

See accompanying notes to consolidated financial statements.

(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 Midwestern, Southwestern and Southeastern United States. Non-Cooperative businesses include nonfood distribution centers, military distribution and retail supermarkets that operate under the banners of Homeland and United Supermarkets. The cooperative represents approximately 81% of total net sales. "AWG" and "Company" refer to Associated Wholesale Grocers, Inc. and its subsidiaries. Certain immaterial reclassifications of prior years' amounts have been made to conform to current year presentation.

Principles of Consolidation and Use of Estimates

The consolidated financial statements include the accounts of AWG, its subsidiaries and variable interest entities where the Company is considered the primary beneficiary. All significant intercompany transactions have been eliminated. The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the statements and affects the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The Company's fiscal year ends on the last Saturday in December. Fiscal 2011 included 53 weeks of operations. Fiscal 2012 and 2013 both included 52 weeks of operations.

Variable Interest Entity

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 810, "Consolidations" ("ASC 810"), the Company consolidates any variable interest entity ("VIE") in which the Company has a controlling financial interest and, therefore, is the VIE's primary beneficiary. ASC 810 states that a controlling financial interest in an entity is present when an enterprise has the power to direct the activities of a VIE that most significantly affect the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant 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 sale of its retail grocery operation (see note 4) and has included the ESOP in the Company's consolidated financial statements for the fiscal years ended December 28, 2013 and December 29, 2012.

Business and Credit Concentrations

The majority of the Company's sales are to Members/retailers located in Kansas, Missouri, Oklahoma, Arkansas, Texas, Louisiana, Mississippi, Kentucky, Alabama and Tennessee. No single customer accounted for more than 10% of sales in any year presented. Lease and equipment financing through AWG is available to qualified retailers for acquisition/expansion of supermarket properties. Trade and notes receivables are generally secured (see note 5) and the Company establishes an allowance for doubtful accounts based on collectibility. The Company's lending rate is generally one percent over the prime rate with borrowing terms to 10 years. For the fiscal years 2013, 2012 and 2011, the Company earned interest income on loans of $1.3 million, $1.5 million and $2.0 million, respectively. Interest income is recorded when earned.

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.

Restricted Cash

In 2011, the Company received $75 million in proceeds from the issuance of Gulf Opportunity Zone tax-exempt bonds made available by the federal government to the regions affected by Hurricanes Katrina and Rita in 2005. These variable rate bonds mature September 1, 2041, and are secured with a designated borrowing under the five-year Revolving Credit Agreement (see note 7). The proceeds from the bond issuance have been used towards the construction of the Company's new distribution center in Louisiana. At December 29, 2012, the unused proceeds were recorded in Restricted Cash in the Consolidated Balance Sheets. After returning $2.9 million to the bondholders, the remaining proceeds were used in their entirety during 2013.

Inventories

Merchandise is valued at the lower of cost or market. Cost for 71% and 69% of inventories in 2013 and 2012, 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 $107.9 million at December 28, 2013, and $107.4 million at December 29, 2012.

Sales and Cost of Goods Sold

The Company recognizes sales of merchandise when products are shipped and promotional allowances related to selling products to customers are recorded as a reduction in sales. 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.

(1) Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost and include assets held for sale of $0.2 million at December 28, 2013 and December 29, 2012, respectively. 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 respective lease terms.

Recently Adopted and Recently Issued Authoritative Accounting Standards

On January 16, 2014, the FASB issued Accounting Standard Update (ASU) No. 2014-02, *Intangibles - Goodwill and Other (Topic 350): Accounting for Goodwill.* This ASU permits a private company to subsequently amortize goodwill on a straight-line basis over a period of ten years, or less if the company demonstrates that another useful life is more appropriate. It also permits a private company to apply a simplified impairment model to goodwill. This ASU is a consensus of the Private Company Council (PCC) that was endorsed by the FASB. Under the goodwill accounting alternative, goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of a company (or a reporting unit) may be below its carrying amount. A private company that elects the accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the company level or the reporting unit level.

The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and to new goodwill recognized in annual periods beginning after December 15, 2014, and in interim periods within annual periods beginning after December 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not been made available for issuance. ESOP has formally adopted ASU No. 2014-2 commencing in 2013.

Investments

The Company has all investments stated at cost, fair value is not estimable or practical to estimate.

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. In 2013 and 2012, an additional $7.8 million and $8.1 million, respectively, was authorized to be retained of interest income generated from financing the sale of the Company's retail subsidiary (see note 4). At each year-end, a percentage of net income to be distributed is paid in cash (60%) 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.

Income Taxes

AWG and its subsidiaries file 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 bases for net receivables, depreciation, insurance, deferred compensation, and the deferred gain on the sale of HAC not yet recognized in the financial statements.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

(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 notes receivables and accounts payable; the fair values approximate book values due to their short term maturities.

(2) Fair Value Measurements (continued)

Property and equipment and intangible assets are reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable. Recoverability of assets held and used is assessed based on the undiscounted future cash flows. Assets to be disposed of are presented at the lower of cost or fair value less costs of disposal. During the fiscal years ended December 28, 2013, December 29, 2012, and December 31, 2011, the Company recorded (in millions) $2.0, $0, and $0.2 respectively, property, equipment and software impairment charges, 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.

Changes in the fair value of derivatives (Level 2 inputs) should be reported in earnings or other comprehensive income depending on the use of derivatives and whether they qualify for hedge accounting. Derivatives that are not hedges must be recorded at fair value through earnings. There were no derivatives at December 28, 2013 and December 29, 2012.

(3) Intangible Assets

The Company has intangible assets subject to amortization with original useful lives of 15 years relating to the acquisition of wholesale volume agreements. The Company has $1.9 million of recorded goodwill at December 28, 2013 and December 29, 2012. Amortization expense for intangible assets was $2.1 million in 2013, $1.9 million in 2012 and $1.5 million in 2011. Amortization expense for the next five fiscal years is estimated to be as follows (in millions): 2014 - $2.1; 2015 - $2.0; 2016 - $2.0; 2017 - $1.6; and 2018 - $1.1.

(4) Acquisitions, Divestitures and Certain Transactions with Members

In December 2011, the Company sold its subsidiary retail grocery operation, Associated Retail Grocers, Inc, ("ARG"), whose only asset consisted of an investment in HAC, Inc. The operation is commonly referred to as Homeland Stores, which operated grocery stores situated in Oklahoma (72), Texas (4) and Kansas (1) at the time of the transaction. The purchaser, ESOP (see Variable Interest Entity in note 1), bought 100% of the controlling stock of ARG in a transaction valued at $145 million subject to a working capital adjustment of $10.1 million. The Company provided financing in a series of loan tranches, with maturity dates of 5 to 11 years, as follows:

Tranche A – $60 million, due in weekly payments (subject to floating rate adjustments based on Prime + 0% margin) representing principal and an initial 3.25% all-in interest rate. The loan amortizes based on a ten-year life and a balloon payment due December 26, 2016. The loan balance outstanding at December 28, 2013 and December 29, 2012 was (in millions) $49.4 and $54.7 respectively.

Tranche B – $50 million, due in weekly payments (subject to floating rate adjustments based on Prime + 1% margin) representing an initial 4.25% all-in interest-only payment until the earlier of: (i) December 26, 2016, or (ii) the repayment of the Tranche-A obligation. Estimated weekly payments of principal and interest will then begin, with principal amortization based on a ten-year life and a balloon payment due December 26, 2021. The loan balance outstanding at December 28, 2013 and December 29, 2012 was (in millions) $49.2 and $50.0 respectively.

Tranche C – $35 million, due in weekly payments representing a fixed rate of 11% and interest-only payments until the earlier of: (i) December 26, 2019, or (ii) the repayment of the Tranche-B obligation. Estimated weekly payments of principal and interest will then begin, with principal amortization based on a five-year life and a balloon payment due December 26, 2022. Only Tranche-C is subject to an early termination penalty from early redemption. The borrower can, under certain circumstances, lower the fixed rate if certain performance targets are achieved.

Beneficial terms of the transaction require ESOP to maintain its purchase concentration of current and future stores for a stated period beyond the final repayment of all the outstanding obligations. In addition, the Company provides ESOP access to a line of credit up to $15 million to manage its seasonal borrowing needs at a borrowing rate of Prime, which was drawn at $4.5 million at December 29, 2012 and is currently drawn at $2.5 million at December 28, 2013. Additional commitments beyond the initial transaction relate to assisting HAC, Inc. to borrow up to $10 million to meet its obligations from withdrawing from its sponsoring participation in several UFCW multi-employer pension plans. The Company had loaned HAC an additional $2.8 million in both 2013 and 2012, of which $4.9 million is outstanding at December 28, 2013 and $2.7 million was outstanding at December 29, 2012.

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

In September 2013, the U.S. Bankruptcy Court for the Northern District of Alabama approved the Company's stalking horse bid for the purchase of certain assets of the estate of Belle Foods, Inc. The closing transactions for all store locations with the new owners occurred prior to the end of October 2013. The aggregate purchase price paid of $24.5 million included $16.1 million of fixtures and equipment, $8.2 million of inventory and a nominal amount for lease designation rights. The purchase represented 43 stores located in Alabama, Georgia and Mississippi, 7 of which were immediately liquidated and the underlying leases rejected. In addition, the consideration included the ability for the new owners to reject any of the stores prior to the end of January 2014, 2 of which were subsequently rejected. Of the 34 remaining stores to be operated, the Company acted as both outright buyer and aggregator of 27 stores for 8 members and 7 stores for third parties not currently purchasing goods from the Company. Purchase price loan financing was provided by the Company to some of the members for a total of $14.2 million, while the Company, some members and the 2 third parties provided their own cash and financing for the balance of $10.3 million.

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

In September 2011, Super Market Developers, Inc., a subsidiary of AWG, purchased a supermarket property in Iowa from Dahl's Holdings I, LLC ("Dahl's") and assumed a fixed-term loan associated with the property. The principal amount of the loan was $5.6 million (see note 7). Concurrent with the transaction, the Company subleased the property back to Foods, Inc., an affiliate of Dahl's.

In August 2011, HAC, Inc., a subsidiary of the Company, purchased equipment and inventory for three supermarkets located in Texas from North Texas Supersave, LP and one supermarket located in Texas from Weatherford Super Save, Inc. The aggregate cash purchase price for all four stores was $4.3 million.

(5) Patronage Refund Certificates and Deposits

Patronage Refund Certificates have been issued to Members in the past as part of annual distributions of net income from cooperative operations. In 2008, new non-maturing certificates began being issued (see note 8). The pertinent provisions of Patronage Refund Certificates (issued prior to 2008) are as follows: (a) the certificates are not transferable; (b) AWG has the right to offset, but the certificate holder does not; (c) the Board of Directors of AWG has the authority to set the interest rate on these certificates, subject to the maintenance of an interest rate of at least 4%, but not in excess of 8%; and (d) the certificates are subordinate to the claims of all creditors of AWG. During 2012, interest accrued at 4%, however, all Patronage Refund Certificates had matured and been paid as of December 29, 2012.

Member deposits represent interest-bearing accounts that may be required to collateralize weekly purchases of products. Interest expense incurred on patronage certificates, member deposits, and member savings in 2013, 2012 and 2011 was $0.2 million, $1.5 million and $2.9 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:

	2013	2012
Land	$ 45,438	$ 36,569
Buildings and leasehold improvements	344,363	298,302
Equipment	307,400	276,142
Construction in progress and other	6,038	55,111
	$ 703,239	$ 666,124
Less accumulated depreciation	(323,481)	(290,964)
Property and equipment, net	$ 379,758	$ 375,160

Depreciation expense incurred in 2013, 2012, and 2011 was (in millions) $40.0, $36.0 and $37.4, respectively. In 2013, 2012 and 2011, the Company capitalized an aggregate total of (in millions) $0.1, $0.2 and $0.1, respectively, of capitalized construction period interest.

(7) Long-term Debt

In September 2011, the Company assumed a term-loan with a principal balance of $5.6 million relating to the purchase of a supermarket property. The terms of the loan include fixed monthly payments, a fixed interest rate of 6.75%, and a maturity date of January 1, 2034. At December 28, 2013 and December 29, 2012, the outstanding principal amount of this loan was (in millions) $5.5 and $5.6, respectively.

In May 2013, a 365-day Revolving Credit Agreement was amended, which includes a "term-out" feature to extend the maturity to June 15, 2014. In December 2013, another amendment increased the credit facility to $100 million. Total borrowings and outstanding letters of credit were $39.6 million at December 28, 2013 and $42.8 million at December 29, 2012. Variable interest rates are based on the Fed Funds rate and ranged from 1.07% to 1.17% during 2013 (which included a base rate mark-up charged by the lender). Daily borrowings during 2013 averaged $31.5 million and overall annual borrowings and repayments were approximately $2.76 billion. At December 28, 2013 and December 29, 2012, the Company had an additional $60.4 million and $42.2 million, respectively, available for borrowing under this agreement.

In May 2011, the Company amended its five-year Revolving Credit Agreement, which extends the maturity to May 2016 and provides a $275 million credit facility. At December 28, 2013, total borrowings and outstanding letters of credit were $119.0 million, which includes a $72.1 million tax-exempt bond loan (see Restricted Cash in note 1). At December 29, 2012, total borrowings and outstanding letters of credit were $161.9 million, which included $75 million of the aforementioned bond loan. Variable interest rates are based on the London Interbank Borrowing Rate and ranged from 0.80% to 1.21% during 2013 (which included a base rate mark-up charged by the lenders). Daily borrowings during 2013 averaged $123.3 million and overall annual borrowings and repayments were approximately $350 million. At December 28, 2013 and December 29, 2012, the Company had an additional $156 million and $113.1 million, respectively, available for borrowing under this agreement.

The Company's credit facilities share certain financial covenants related to cash flow leverage, minimum tangible net worth and interest coverage. The Company was in compliance with all covenants at December 28, 2013.

(8) Allocated Earnings

At December 28, 2013, $69.7 million of the current year non-maturing patronage has been allocated within Retained Earnings. The pertinent provisions of these Patronage Certificates (issued in 2008 or after) are as follows: (a) the certificates are not transferable; (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 Class B Certificates are included in Retained Earnings and amounted to $0.1 million and $0.3 million as of December 28, 2013 and December 29, 2012, respectively.

(9) Equity

All members of the cooperative are required to hold 15 shares of Class A Common Stock. The by-laws 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. The Board of Directors of the Company declared a 2-for-1 stock dividend effective March 22, 2009 for shareholders of record, whereby every shareholder of A and B stock received additional shares in the form of B stock. All issuances and redemptions since March 24, 2013 have been made at $1,700 per share. Issuances and redemptions between March 18, 2012 and March 23, 2013 were made at $1,635 per share. Issuances and redemptions between March 20, 2011 and March 17, 2012 were made at $1,570 per share.

The changes in common stock for the fiscal years ended December 28, 2013 and December 29, 2012 were as follows:

	Class A	Class B	Total Common Stock	Members
Balances at December 31, 2011				
Shares	9,015	18,265	27,280	601
Dollar Value	$ 900	$ 1,825	$ 2,725	
Issued				
Shares	480	—	480	32
Dollar Value	$ 48	$ —	$ 48	
Redeemed				
Shares	(660)	(1,320)	(1,980)	(44)
Dollar Value	$ (66)	$ (132)	$ (198)	
Balances at December 29, 2012				
Shares	8,835	16,945	25,780	589
Dollar Value	$ 882	$ 1,693	$ 2,575	
Issued				
Shares	825	44	869	55
Dollar Value	$ 83	$ 4	$ 87	
Redeemed				
Shares	(615)	(630)	(1,245)	(41)
Dollar Value	$ (62)	$ (63)	$ (125)	
Balances at December 28, 2013				
Shares	9,045	16,359	25,404	603
Dollar Value	$ 903	$ 1,634	$ 2,537	

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss attributable to the Company for the fiscal years ended December 28, 2013 and December 29, 2012 were as follows:

	2013	2012
Balances, beginning of year	$ (14,274)	$ (20,524)
Change in funded status of pension plan, net of $5,833 in taxes and $3,913 in taxes	9,318	6,250
Balances, end of year	$ (4,956)	$ (14,274)

(9) Equity (continued)

Noncontrolling Interest

Changes in noncontrolling interest for the years ended December 28, 2013 and December 29, 2012, were as follows:

	2013	2012
Balances, beginning of year	$ (2,025)	$ 126
Income (loss) attributable to noncontrolling interest	9,554	(2,151)
Balances, end of year	$ 7,529	$ (2,025)

(10) Derivative Financial Instruments and Hedging Activities

The Company's use of derivative financial instruments is limited to interest rate swaps entered into with financial institutions. The objective is to reduce AWG's exposure to interest rate fluctuations (rate risk) for a portion of its variable rate bank debt and to lower overall borrowing costs. Reset dates and the floating rate indices on the swaps match those of the underlying bank debt. Accordingly, any change in market value associated with the swaps is offset by the opposite market impact on the related debt.

The Company accounts for an interest rate swap as a cash flow hedge and accordingly, gains and losses on an interest rate swap (dependent upon the movement in interest rates) are deferred in a component of equity (accumulated other comprehensive income or loss - "AOCI") to the extent the hedging relationship is effective. During the year ended December 31, 2011, the Company reclassified $1.9 million from AOCI related to its interest rate swaps and recognized that amount as a loss, which is included in interest expense. At December 28, 2013 and December 29, 2012, the Company had no interest rate swaps in effect.

(11) Income Taxes

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

	2013	2012	2011
Federal:			
Current	$ 7,651	$ 6,863	$ 4,348
Deferred	(4,254)	(3,085)	1,867
Total federal	$ 3,397	$ 3,778	$ 6,215
State:			
Current	$ 2,004	$ 963	$ 2,294
Deferred	851	(2,040)	(1,681)
Total state	$ 2,855	$ (1,077)	$ 613
Total income tax	$ 6,252	$ 2,701	$ 6,828

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

	2013	2012
Deferred income tax assets:		
Gain on sale of subsidiary	$ 4,476	$ 2,661
Pension	1,502	7,419
Insurance	3,392	2,845
Compensation	8,679	7,752
Accounts receivable	2,629	2,062
Inventory	496	733
Contribution carryovers	2,792	2,406
State credit carryover	3,016	3,079
Other	1,842	2,060
Deferred income tax assets	28,824	31,017
Valuation allowance	(3,700)	(2,744)
Total deferred income tax assets	$ 25,124	$ 28,273
Deferred income tax liabilities:		
Fixed assets	$ 10,004	$ 10,519
Prepaid expenses	1,958	1,934
Other	696	924
Total deferred income tax liabilities	$ 12,658	$ 13,377
Net deferred income tax assets	$ 12,466	$ 14,896

(11) Income Taxes (continued)

As of December 28, 2013 and December 29, 2012, valuation allowances of $3,700 and $2,744, respectively, were required to reduce the deferred income tax assets to a level, which more likely than not, will be realized as future benefits. Based on the information available, the Company does not anticipate significant additional changes to unrecognized tax benefits. In general, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for fiscal years ending December 26, 2009 and prior. The Company recognizes interest and penalties related to income tax deficiencies separately from the tax expense. As of December 28, 2013 and December 29, 2012, the Company had liabilities of $0 and $81, respectively, related to accrued interest and penalties for uncertain tax positions recorded on its balance sheet.

(12) Employee Benefit Plans

Substantially all employees of the Company and its subsidiaries 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 1,654 and 1,659 participants for the fiscal years ended December 28, 2013, and December 29, 2012, 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 provides no health care, life insurance, nor disability plans to former and inactive employees after retirement under post-employment benefit plans.

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

	2013	2012
Change in benefit obligation (PBO)		
Benefit obligation at beginning of year	$ 151,488	$ 137,184
Service cost	11,983	11,946
Interest cost	6,159	6,426
Benefits paid	(16,121)	(10,202)
Actuarial (gain)/loss	(1,867)	6,134
Benefit obligation at end of year	$ 151,642	$ 151,488
Change in plan assets		
Fair value of plan assets at beginning of year	$ 132,193	$ 108,017
Actual return on plan assets	19,890	11,865
Employer contributions	16,731	22,513
Benefits paid	(21,123)	(10,202)
Fair value of plan assets at end of year	$ 147,691	$ 132,193
Funded status, end of year	$ (3,951)	$ (19,295)

Benefit calculations for the Company's sponsored DB Plan for primarily non-union eligible participants are generally based on years of service and the participants' highest compensation during five consecutive years during the last ten years of employment. The Company's accumulated benefit obligation for the DB Plan was $130,634 and $126,854 at December 28, 2013 and December 29, 2012, respectively. At December 28, 2013 and December 29, 2012, the fair value of the DB Plan assets exceeded the accumulated benefit obligation.

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

	2013	2012
Prior service cost	$ (1,139)	$ (1,676)
Net actuarial loss	(6,920)	(21,534)
Total recognized in AOCI, before tax	$ (8,059)	$ (23,210)
Total recognized in AOCI, net of tax	$ (4,956)	$ (14,274)

The estimated future benefit payments to be paid from the DB Plan, which reflect expected future service, are as follows:

Fiscal year	DB Plan Benefits
2014	$ 21,639
2015	28,013
2016	21,691
2017	14,107
2018	17,462
Years 2019-2023	75,953

(12) Employee Benefit Plans (continued)

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

	2013	2012
Service cost – benefits earned during the period	$ 11,983	$ 11,946
Interest cost on projected benefit obligations	6,159	6,426
Expected return on plan assets	(9,417)	(7,991)
Amortization of prior service cost	537	537
Amortization of net actuarial loss	6,520	11,886
Settlement loss	756	—
Net periodic benefit expense	$ 16,538	$ 22,804

The estimated prior service cost and net actuarial loss that will be amortized from accumulated other comprehensive income/loss into net periodic benefit cost for the DB Plan over the next fiscal year are $500 and $3,000, respectively. The majority of the unfunded non-qualified portion of the plan has been expensed.

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

	2013	2012
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	5.10%	4.25%
Rate of compensation increase	3.00%	3.00%
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.25%	4.75%
Rate of compensation increase	3.00%	3.50%
Expected return on plan assets	7.50%	7.50%

The fair value of the Company's DB Plan assets at the end of the 2013 calendar year, by asset category, are as follows:

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 87,270	$ 87,270	$ —	$ —
Debt securities	40,617	29,039	11,578	—
Other, including cash and cash equivalents	13,781	1,462	—	12,319
Totals	$ 141,668	$ 117,771	$ 11,578	$ 12,319

Subsequent to the Company's fiscal year end, certain benefit payments were made, which lower the fair value of assets from the amount disclosed in Employee Benefit Plans.

The fair value of the DB Plan assets at the end of the 2012 calendar year, by asset category, are as follows:

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 78,792	$ 78,792	$ —	$ —
Debt securities	33,196	15,837	17,359	—
Other, including cash and cash equivalents	13,680	7,940	—	5,740
Totals	$ 125,668	$ 102,569	$ 17,359	$ 5,740

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 $17.0 million to the DB Plan during 2014.

(12) Employee Benefit Plans (continued)

The Company also makes contributions to its defined contribution plans. The total expense for these plans amounted to (in millions) $4.0, $3.7 and $3.8 in 2013, 2012 and 2011, 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 JP Morgan. 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.

(13) Commitments and Contingent Liabilities

The Company is obligated as lessee under various noncancelable long-term supermarket property leases with minimum annual rentals of approximately $41.8 million. These leases have an average remaining life of 7 years. It is expected in the ordinary course of business that these leases will be renewed or replaced. The Company has subleased the majority of its supermarket properties to Members (except for properties operated by the Company's subsidiaries) for substantially the same lease terms and rental amounts. Rental income received was (in millions) $42.9, $41.2 and $40.1 in 2013, 2012 and 2011, respectively. Rents charged to general and administrative expenses for operating leases, other than supermarket properties, were (in millions) $3.8, $3.0 and $2.4 in 2013, 2012 and 2011 respectively. Operating lease rent expense, expected to be incurred over the next five years, is approximately $2.5 million per year.

The Company is a guarantor of a line of credit issued to a member in the amount of $6.0 million.

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.

(14) 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 annual period ended December 31, 2013, is outlined in the table below. The "EIN/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 2013 and 2012 is for the plan's year-end at December 31, 2012 and December 31, 2011, 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 less than 80 percent funded and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a 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 2013, 2012 and 2011 contributions.

Pension Fund	EIN and Pension Plan Number	Pension Protection Act Zone Status 2013	2012	FIP/RP Status Implemented	Company Contributions 2013	2012	2011	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreements
Central States, Southeast and Southwest Areas Pension Fund	36-6044243 Plan 001	Red	Red	Yes	$12,762	$12,104	$11,944	No	April 4, 2020

The Company was not listed in the plan's Form 5500 as providing more than 5% of the total contributions for the plan years ending in 2012 and 2011. 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 2013.

(15) Subsequent Events

Subsequent events have been evaluated through March 7, 2014, which is the date the financial statements were available to be issued, and there were no material events requiring recognition or disclosure.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Associated Wholesale Grocers, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Associated Wholesale Grocers, Inc. (a Kansas Corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 28, 2013 and December 29, 2012, and the related consolidated statements of operations and comprehensive income, retained earnings, and cash flows for each of the three years in the period ended December 28, 2013, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Associated Wholesale Grocers, Inc. and subsidiaries as of December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for each of the three years in the period ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Kansas City, Missouri
March 7, 2014

COMMUNITY REDEVELOPMENT AUTHORITY
OF THE CITY OF GRAND ISLAND, NEBRASKA

RESOLUTION NO. 178

RESOLUTION OF THE COMMUNITY REDEVELOPMENT AUTHORITY OF THE CITY OF GRAND ISLAND, NEBRASKA, SUBMITTING A PROPOSED REDEVELOPMENT PLAN TO THE HALL COUNTY REGIONAL PLANNING COMMISSION FOR ITS RECOMMENDATION

WHEREAS, this Community Redevelopment Authority of the City of Grand Island, Nebraska ("Authority"), pursuant to the Nebraska Community Development Law (the "Act"), prepared a proposed redevelopment plan (the "Plan") a copy of which is attached hereto as Exhibit 1, for redevelopment of an area within the city limits of the City of Grand Island, Hall County, Nebraska; and

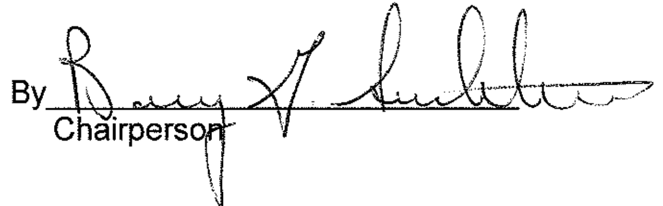
WHEREAS, the Authority is required by Section 18-2112 of the Act to submit said to the planning board having jurisdiction of the area proposed for redevelopment for review and recommendation as to its conformity with the general plan for the development of the City of Grand Island, Hall County, Nebraska;

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

The Authority submits to the Hall County Regional Planning Commission the proposed Plan attached to this Resolution, for review and recommendation as to its conformity with the general plan for the development of the City of Grand Island, Hall County, Nebraska.

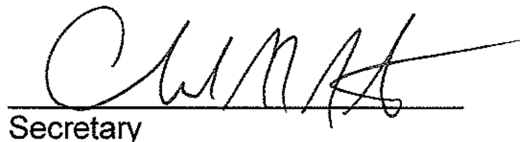
Passed and approved this 9th day of July, 2014.

COMMUNITY REDEVELOPMENT
AUTHORITY OF THE CITY OF
GRAND ISLAND, NEBRASKA.



By ______________________
Chairperson

ATTEST:



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Secretary

620 W State Street

COMMUNITY REDEVELOPMENT AUTHORITY OF THE CITY OF GRAND ISLAND, NEBRASKA

RESOLUTION NO. 179

RESOLUTION OF THE COMMUNITY REDEVELOPMENT AUTHORITY OF THE CITY OF GRAND ISLAND, NEBRASKA, PROVIDING NOTICE OF INTENT TO ENTER INTO A REDEVELOPMENT AFTER THE PASSAGE OF 30 DAYS AND OTHER MATTERS

WHEREAS, this Community Redevelopment Authority of the City of Grand Island, Nebraska ("Authority"), has received an Application for Tax Increment Financing under the Nebraska Community Development Law (the "Act") on a project within redevelopment area 6, from Super Market Developers, Inc., (The "Developer") for redevelopment of an area within the city limits of the City of Grand Island as set forth in Exhibit 1 attached hereto area; and

WHEREAS, this Community Redevelopment Authority of the City of Grand Island, Nebraska ("Authority"), is proposing to use Tax Increment Financing on a project within redevelopment area 6;

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

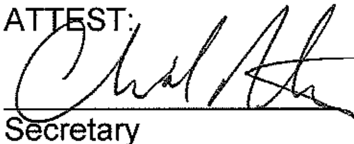
Section 1. In compliance with section 18-2114 of the Act, the Authority hereby gives the governing body of the City notice that it intends to enter into the Redevelopment Contract, attached as Exhibit 1, with such changes as are deemed appropriate by the Authority, after approval of the redevelopment plan amendment related to the redevelopment project described in the Redevelopment Contract, and after the passage of 30 days from the date hereof.

Section 2. The Secretary of the Authority is directed to file a copy of this resolution with the City Clerk of the City of Grand Island, forthwith.

Passed and approved this 9th day of July, 2014.

COMMUNITY REDEVELOPMENT AUTHORITY OF THE CITY OF GRAND ISLAND, NEBRASKA

By
Chairperson

ATTEST:

Secretary

620 W State Street

Resolution Number 2014-08

HALL COUNTY REGIONAL PLANNING COMMISSION

A RESOLUTION RECOMMENDING APPROVAL OF A SITE SPECIFIC REDEVELOPMENT PLAN OF THE CITY OF GRAND ISLAND, NEBRASKA; AND APPROVAL OF RELATED ACTIONS

WHEREAS, the Chairman and Board of the Community Redevelopment Authority of the City of Grand Island, Nebraska (the **"Authority"**), referred that certain Redevelopment Plan to the Hall County Regional Planning Commission, (the "**Commission"**) a copy of which is attached hereto as Exhibit "A" for review and recommendation as to its conformity with the general plan for the development of the City of Grand Island, Hall County, Nebraska, pursuant to Section 18-2112 of the Community Development Law, Chapter 18, Article 21, Reissue Revised Statutes of Nebraska, as amended (the **"Act"**); and

WHEREAS, the Commission has reviewed said Redevelopment Plan as to its conformity with the general plan for the development of the City of Grand Island, Hall County;

NOW, THEREFORE, BE IT RESOLVED BY THE HALL COUNTY REGIONAL PLANNING COMMISSION AS FOLLOWS:

Section 1. The Commission hereby recommends approval of the Redevelopment Plan.

Section 2. All prior resolutions of the Commission in conflict with the terms and provisions of this resolution are hereby expressly repealed to the extent of such conflicts.

Section 3. This resolution shall be in full force and effect from and after its passage as provided by law.

DATED: August 6, 2014.

HALL COUNTY REGIONAL PLANNING COMMISSION

By: [signature]
Chair

ATTEST:

By: Leslie E Ruge
Secretary

Super Saver at 5 Points