# DO IT BEST CORP.

## CONSOLIDATED FINANCIAL STATEMENTS

## YEARS ENDED JUNE 29, 2019, JUNE 30, 2018, AND JUNE 24, 2017

**DO IT BEST CORP.**
**TABLE OF CONTENTS**
**YEARS ENDED JUNE 29, 2019, JUNE 30, 2018, AND JUNE 24, 2017**

## INDEPENDENT AUDITORS' REPORT

Board of Directors and Member-Shareholders
Do it Best Corp.
Fort Wayne, Indiana

We have audited the accompanying consolidated financial statements of Do it Best Corp., which comprise the consolidated balance sheets as of June 29, 2019 and June 30, 2018, and the related consolidated statements of income (loss), comprehensive income (loss), changes in shareholders' equity, and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' 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 financial statements are free from material misstatement.

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

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

Board of Directors and Member-Shareholders
Do it Best Corp.

***Opinion***

In our opinion, the 2019 and 2018 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Do it Best Corp. and its subsidiaries as of June 29, 2019 and June 30, 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Period Financial Statements**

The consolidated statements of income (loss), comprehensive income (loss), changes in shareholders' equity, and cash flows for the fiscal year ended June 24, 2017 of Do it Best Corp. were audited by other auditors whose report dated August 31, 2017, expressed an unmodified opinion on those statements.

**CliftonLarsonAllen LLP**

Indianapolis, Indiana
August 21, 2019

# DO IT BEST CORP.
# CONSOLIDATED BALANCE SHEETS
## JUNE 29, 2019 AND JUNE 30, 2018
**(IN THOUSANDS)**

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | $ 99,609 | $ 64,099 |
| Short-Term Investments, Held-to-Maturity | - | 9,940 |
| Accounts and Notes Receivable, Less Allowance for Doubtful Accounts of $500 in 2019 and 2018 | 315,390 | 344,137 |
| Income Tax Receivable | 612 | 1,057 |
| Merchandise Inventories | 282,029 | 281,124 |
| Prepaid Expenses | 203 | 622 |
| Total Current Assets | 697,843 | 700,979 |
| **PROPERTY AND EQUIPMENT, Net** | 113,283 | 113,177 |
| Accounts and Notes Receivable, Less Current Maturities | 3,031 | 5,489 |
| Deferred Income Taxes | 14,845 | 13,199 |
| Other Assets | 2,119 | 2,059 |
| Total Assets | $ 831,121 | $ 834,903 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Accounts Payable | $ 452,634 | $ 461,789 |
| Accrued Expenses | 58,004 | 54,941 |
| Total Current Liabilities | 510,638 | 516,730 |
| Long-Term Portion of Accrued Pension and Other Postretirement Liabilities | 30,693 | 25,413 |
| **SHAREHOLDERS' EQUITY** | | |
| Common Stock, Voting | 3,046 | 3,046 |
| Common Stock, Nonvoting | 663 | 650 |
| Preference Stock | 306,545 | 305,951 |
| Accumulated Other Comprehensive Loss | (23,503) | (18,408) |
| Retained Earnings | 3,039 | 1,521 |
| Total Shareholders' Equity | 289,790 | 292,760 |
| Total Liabilities and Shareholders' Equity | $ 831,121 | $ 834,903 |

*See accompanying Notes to Consolidated Financial Statements.*

# DO IT BEST CORP.
# CONSOLIDATED STATEMENTS OF INCOME (LOSS)
# YEARS ENDED JUNE 29, 2019, JUNE 30, 2018, AND JUNE 24, 2017
### (IN THOUSANDS)

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Gross Sales | $ 3,449,877 | $ 3,658,663 | $ 3,202,614 |
| Returns and Allowances | 104,772 | 105,472 | 117,379 |
| Net Sales | 3,345,105 | 3,553,191 | 3,085,235 |
| Cost of Sales | 3,139,684 | 3,362,400 | 2,902,305 |
| Gross Profit | 205,421 | 190,791 | 182,930 |
| Selling, General, and Administrative Expenses | 77,723 | 69,696 | 65,362 |
| Income before Other Income, Profit Sharing, and Pension Costs, Shareholder's Refund and Income Taxes | 127,698 | 121,095 | 117,568 |
| Other Income, Net | 2,463 | 2,348 | 1,238 |
| Income before Profit Sharing and Pension Costs, Shareholder's Refund and Income Taxes | 130,161 | 123,443 | 118,806 |
| Profit Sharing and Pension Costs | 14,097 | 13,429 | 13,119 |
| Income before Shareholder's Refund and Income Taxes | 116,064 | 110,014 | 105,687 |
| Shareholder's Refund | | | |
| Cash | 87,592 | 77,989 | 81,905 |
| Preference Stock | 26,270 | 30,513 | 23,173 |
| Total Shareholders' Refund | 113,862 | 108,502 | 105,078 |
| Income before Income Taxes | 2,202 | 1,512 | 609 |
| Federal and State Income Taxes | | | |
| Income Tax Provision | 684 | 729 | 582 |
| Change in Deferred Taxes Due to Newly Enacted Changes in Tax Law | - | 6,459 | - |
| Total Federal and State Income Taxes | 684 | 7,188 | 582 |
| Net Income (Loss) | $ 1,518 | $ (5,676) | $ 27 |

*See accompanying Notes to Consolidated Financial Statements.*

**DO IT BEST CORP.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**YEARS ENDED JUNE 29, 2019, JUNE 30, 2018, AND JUNE 24, 2017**
**(IN THOUSANDS)**

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **NET INCOME (LOSS)** | $ 1,518 | $ (5,676) | $ 27 |
| Other Comprehensive Income (Loss): | | | |
| Change in Defined Benefit Plans, Net of Tax | (5,095) | (1,508) | 2,255 |
| **COMPREHENSIVE INCOME (LOSS)** | $ (3,577) | $ (7,184) | $ 2,282 |

*See accompanying Notes to Consolidated Financial Statements.*

# DO IT BEST CORP.
## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## YEARS ENDED JUNE 29, 2019, JUNE 30, 2018, AND JUNE 24, 2017
**(IN THOUSANDS)**

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **COMMON STOCK, VOTING** | | | |
| Balance, Beginning of Year | $ 3,046 | $ 3,001 | $ 3,023 |
| Shares Issued | 131 | 165 | 121 |
| Shares Repurchased | (131) | (120) | (143) |
| Balance, End of Year | 3,046 | 3,046 | 3,001 |
| **COMMON STOCK, NONVOTING** | | | |
| Balance, Beginning of Year | 650 | 590 | 482 |
| Shares Issued | 16 | 78 | 109 |
| Shares Repurchased | (3) | (18) | (1) |
| Balance, End of Year | 663 | 650 | 590 |
| **PREFERENCE STOCK** | | | |
| Balance, Beginning of Year | 305,951 | 300,650 | 301,711 |
| Shares Issued | 26,270 | 30,513 | 23,173 |
| Shares Repurchased | (25,676) | (25,212) | (24,234) |
| Balance, End of Year | 306,545 | 305,951 | 300,650 |
| **ACCUMULATED OTHER COMPREHENSIVE LOSS** | | | |
| Balance, Beginning of Year | (18,408) | (13,622) | (15,877) |
| Other Comprehensive Income (Loss) | (5,095) | (1,508) | 2,255 |
| Reclassification Adjustment - Newly Enacted Tax Rates | - | (3,278) | - |
| Balance, End of Year | (23,503) | (18,408) | (13,622) |
| **RETAINED EARNINGS** | | | |
| Balance, Beginning of Year | 1,521 | 3,919 | 3,892 |
| Net Income (Loss) | 1,518 | (5,676) | 27 |
| Reclassification Adjustment - Newly Enacted Tax Rates | - | 3,278 | - |
| Balance, End of Year | 3,039 | 1,521 | 3,919 |
| Total Shareholders' Equity | $ 289,790 | $ 292,760 | $ 294,538 |

*See accompanying Notes to Consolidated Financial Statements.*

# DO IT BEST CORP.
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# YEARS ENDED JUNE 29, 2019, JUNE 30, 2018, AND JUNE 24, 2017
**(IN THOUSANDS)**

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net Income (Loss) | $ 1,518 | $ (5,676) | $ 27 |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities: | | | |
| Depreciation and Amortization | 13,191 | 12,569 | 12,570 |
| Deferred Income Taxes | (3,531) | 6,840 | 556 |
| Loss on Sale of Assets | 13 | 15 | 13 |
| Shareholder Refunds in Preference Shares | 26,270 | 30,513 | 23,173 |
| Changes in Operating Assets and Liabilities: | | | |
| Accounts and Notes Receivable, Net | 31,205 | 1,393 | (37,322) |
| Income Tax Receivable | 445 | 379 | (765) |
| Merchandise Inventories | (905) | (18,304) | (18,106) |
| Prepaid Expenses, Deferred Charges and Other Assets | 359 | 5,761 | 1,261 |
| Accounts Payable | (9,155) | 9,412 | 83,915 |
| Accrued Expenses, Pension and Other Postretirement Liabilities | 5,133 | (2,384) | (1,737) |
| Net Cash Provided by Operating Activities | 64,543 | 40,518 | 63,585 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of Short-Term Investments | - | (9,940) | (38,929) |
| Proceeds from Redemption of Short-Term Investments | 9,940 | 29,894 | 29,000 |
| Proceeds from Sale of Property and Equipment | 19 | 58 | 54 |
| Capital Expenditures | (13,329) | (13,456) | (7,647) |
| Net Cash Provided (Used) by Investing Activities | (3,370) | 6,556 | (17,522) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Issuance of Common Shares | 131 | 165 | 121 |
| Purchase of Common Shares | (131) | (120) | (143) |
| Issuance of Nonvoting Common Shares | 16 | 78 | 109 |
| Purchase of Nonvoting Common Shares | (3) | (18) | (1) |
| Purchase of Preference Shares | (25,676) | (25,212) | (24,234) |
| Net Cash Used by Financing Activities | (25,663) | (25,107) | (24,148) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 35,510 | 21,967 | 21,915 |
| Cash and Cash Equivalents - Beginning of Year | 64,099 | 42,132 | 20,217 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 99,609 | $ 64,099 | $ 42,132 |

*See accompanying Notes to Consolidated Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

Do it Best Corp. is a member-owned wholesaler of hardware, lumber, builder supplies, and related products, operating as a wholesaler cooperative. Members are located principally in the United States, with some member locations abroad. Only dealers in hardware, lumber, builder supplies, and related products are eligible to hold shares in the Company. Nearly all of the Company's sales are to dealer-members, each of whom is required to purchase twenty voting common shares at $50 per share on becoming a member and, in some cases, shares of nonvoting common stock.

### Fiscal Year

The Company's fiscal year consists of 52 or 53 weeks ending on the last Saturday in June. A 53rd week will be added every five or six years. All references to 2019, 2018, and 2017 relate to the fiscal years ended June 29, 2019, June 30, 2018, and June 24, 2017, respectively.

### Principles of Consolidation

The consolidated financial statements include the accounts of Do it Best Corp. and its wholly owned subsidiaries (the Company or Do it Best). All significant intercompany accounts and transactions have been eliminated in consolidation.

### Capital Structure

The Company's capital is primarily derived from the issuance of voting common shares together with the preference shares issued in connection with the Company's annual shareholders' refund. The Articles of Incorporation require that each member shareholder accept preference shares in payment of refunds, under requirements of the formula set forth in the bylaws, and the payment of at least 20% in cash.

Upon a member's termination of membership with the Company and demand for repurchase, the Company will repurchase the voting and/or nonvoting common shares held by such shareholder at the lesser of cost or book value. After a holder of voting or nonvoting common shares requests repurchase of those shares concurrently with termination of their relationship with the Company as a member-shareholder, the board of directors may also authorize repurchase of the preference shares held by such shareholder, subject to statutory and bylaw restrictions, in sequence of termination, at the discretion of the board of directors.

Upon request of a shareholder, the Company may redeem part of a shareholder's preference shares where such shareholder has experienced a substantial uninsured financial loss through catastrophe, or where the member presents a plan for a new retail business. Any request is subject to standards and limitations imposed by the board of directors or the Company.

Upon liquidation of the Company for any reason, the holders of the preference shares shall be entitled to receive out of the assets of the Company, the sum of $100 per share before any distribution is made to the holders of voting and nonvoting common shares.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Shareholder Refund

At the end of each fiscal year, the Company is obligated to refund to its member-shareholders the gross profit on sales of merchandise to the member-shareholders, less all operating expenses. Refunds are required to be made to each member-shareholder in the proportion of the gross profit on purchases to the total gross profit on purchases made by all member shareholders, adjusted for participation in the Enhanced Rebate program. Total cash shareholder refunds to be paid approximated $87,600, $78,000, and $81,900 in 2019, 2018, and in 2017, respectively. These amounts are currently included in accounts payable. The Company also issued preference stock shareholder refunds of approximately $26,300, $30,500, and $23,200 in 2019, 2018, and in 2017, respectively. These amounts are included in equity.

### Use of Estimates

Preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, making it reasonably possible that a change in certain of these estimates could occur in the near term. Certain significant estimates and assumptions used in the preparation of the Company's consolidated financial statements include those used for: pension and postretirement benefit plans; allowances for doubtful accounts; and inventory valuation.

### Income Taxes and Uncertain Tax Positions

The Company accounts for income taxes under the asset and liability method. The Company's taxable income is determined after deducting refunds to member-shareholders. Deferred tax assets and liabilities are recognized for operating loss and tax credit carryforwards and for the estimated future tax consequences attributable to differences between consolidated financial statement reporting basis of existing assets and liabilities and their respective income tax basis. Deferred tax assets and liabilities are measured using enacted tax rates anticipated to be in effect for the year in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax assets is adjusted by a valuation allowance, if necessary, to recognize, based on available evidence, the future tax benefits that will more likely than not be realized.

The Company accounts for uncertainty in income taxes under the provisions of Accounting Standards Codification (ASC) 740. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. Management is not aware of any uncertain tax positions. The Company is no longer subject to examination by taxing authorities for years before June 25, 2016.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income Taxes and Uncertain Tax Positions (Continued)

The Company is subject to U.S. federal income tax, as well as various state income taxes. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at June 29, 2019 or June 30, 2018.

### Inventory Valuation

Merchandise inventories are valued at the lower of cost or net realizable value, with cost determined on a first-in, first-out (FIFO) basis. Do it Best Corp. enters into various purchase rebate programs with vendors, pursuant to binding arrangements. Where the rebate or incentive is probable and estimable, it is recognized as a reduction to cost of each underlying transaction. If a rebate is not probable or reasonably estimable, such rebates are recognized on their achievement.

### Shipping and Handling Fees and Costs

The Company includes shipping and handling fees billed to members in gross sales. Shipping and handling costs associated with inbound freight are included in cost of sales.

### Comprehensive Income (Loss)

Comprehensive income (loss) is a more inclusive measurement of results, including items that are not recognized in the measurement of net income (loss). Other comprehensive income (loss) represents the change in the Company’s defined benefit pension plans.

### Accounts Receivable and Revenue Recognition

Do it Best sells to members using credit terms customary in its industry. The Company determines delinquent accounts in accordance with sales terms. When an invoice becomes delinquent, it is generally subject to interest at 1.5% per month. Management establishes a reserve for losses on its accounts based on historic loss experience and current economic conditions. Losses are charged against the reserve when management deems further collection efforts will not produce additional recoveries. Do it Best has the right to set off amounts owed by the Company to its members against indebtedness owed the Company by its members.

Revenues from the sale of warehoused merchandise to members are generally recognized when goods are shipped. Sales revenues for goods acquired and sold to members under drop-ship arrangements with vendors are generally recognized in accordance with vendor terms as to title and risk of loss passage. The Company provides cooperative advertising, among other services, to its members. Revenues for such services are recognized when the services are rendered.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair Value of Financial Instruments

The Company follows guidance in ASC 820 which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This requirement establishes a fair value hierarchy regarding the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. This fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The requirement describes three levels of inputs that may be used to measure fair value. See Notes 8 and 10 for further discussion.

The fair value of cash and cash equivalents, accounts and notes receivable and accounts payable approximates carrying value because of the short-term maturities of these financial instruments, or underlying interest rates, where applicable, approximate market for the same or similar issues.

### Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The Company places its cash with high credit quality financial institutions. Cash balances generally exceed insurance provided on such deposits. The Company maintains its cash accounts at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Periodically throughout the year, the Company's cash balances may exceed this FDIC insurance coverage limit; however, management does not anticipate nonperformance by the institutions.

### Property and Equipment

Property and equipment are stated at cost. Upon retirement or sale of assets, the cost of the disposed assets and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to income, respectively. Major additions and improvements are capitalized, while minor items, maintenance, and repairs are expensed currently. Depreciation and amortization are calculated using straight-line methods. Estimated useful lives range from 15 to 40 years for building and improvements, and from 3 to 10 years for equipment and fixtures. Depreciation expense for 2019, 2018, and 2017 was $8,499, $8,271, and $8,239, respectively.

Included in property and equipment is the capitalized cost of internal-use software. The Company capitalizes costs incurred during the application development stage of internal-use software and amortizes these costs over its estimated useful life. Costs incurred related to design or maintenance of internal-use software are expensed as incurred. For 2019 and 2018, the Company capitalized approximately $8,875 and $6,445, respectively, of software development costs which consisted of both internally developed and purchased software costs. Amortization expense for all capitalized software was $4,692, $4,298, and $4,331 for 2019, 2018, and 2017, respectively.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property and Equipment (Continued)

The Company evaluates long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value. The Company has not incurred any impairment of long-lived assets during 2019 or 2018.

### Advertising and Promotion Costs

Costs associated with advertising and promotions are charged to operations in the period incurred. The Company participates in cooperative advertising arrangements with its vendors. Reimbursements received under cooperative advertising arrangements with vendors are recognized as a reduction of associated advertising costs. Advertising and promotion costs, net, charged to operation in 2019, 2018, and 2017 were $14,027, $16,301, and $15,974, respectively.

### Short-Term Investments

The Company has evaluated its investment policies consistent with ASC 320, *Investments-Debt and Equity Securities*. Short-term investments consisted of fixed maturity debt securities and certificates of deposit. These securities were designated as held-to-maturity at purchase based upon Do it Best's intent relative to the eventual disposition of the securities. Held-to-maturity securities were being carried at amortized cost as management had the positive intent and ability to hold them to their October 2018 maturities. Realized gains and losses were recognized upon disposition at the maturity date of the securities. The carrying value of short-term, held-to-maturity securities was $9,940 as of June 30, 2018. The fair value was $9,936 as of June 30, 2018.

### Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure through August 21, 2019, the date the consolidated financial statements were available to be issued.

### New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and corresponding lease liability for all operating and capital leases with lease terms greater than one year. The standard is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company is evaluating the impact of the amended lease guidance on its consolidated financial statements.

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**New Accounting Standards (Continued)**

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. Additionally, the ASU requires the deferral of direct incremental selling costs to the period in which the underlying revenue is recognized. The amendments in the ASU will be applied using one of two retrospective methods. The new guidance is effective for years beginning after December 15, 2018, and management is still evaluating the impact of adoption on the consolidated financial statements but it is not expected to have a significant impact.

## NOTE 2 CASH FLOWS

Supplemental disclosures of cash flow information for the years ended 2019, 2018, and 2017 are as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Cash Paid for Income Taxes | $ - | $ - | $ 800 |
| Cash Paid for Interest | $ 90 | $ 25 | $ 2 |

## NOTE 3 CREDIT AGREEMENT

The Company has two available unsecured lines of credit with a commercial bank in the base amount of $25,000 and $20,000, respectively. For each, interest is payable monthly on outstanding balances at either prime rate minus an applicable margin or Libor plus an applicable margin. There were no borrowings against the line of credit at June 29, 2019 or June 30, 2018. The line of credit agreements expired on July 31, 2019. Outstanding letters of credit approximated $-0- and $193 at June 29, 2019 and June 30, 2018, respectively. The Company is subject to certain financial covenants. As of June 29, 2019, management believes the Company is in compliance with all required covenants.

Subsequent to year-end, the Company renewed each line of credit. The $25,000 line was renewed and increased to $40,000 due on March 31, 2020. The $20,000 line was renewed and increased to $45,000 from October 1, 2019 to March 31, 2020 at which time it reduces to $20,000 until maturity on April 30, 2020.

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment is summarized by major classification as follows at June 29, 2019 and June 30, 2018:

| | 2019 | 2018 |
|---|---|---|
| Land, Building and Site Improvements | $ 147,250 | $ 140,192 |
| Equipment and Fixtures | 75,985 | 72,204 |
| Capitalized Software | 38,689 | 39,017 |
| Construction in Progress | - | 5,423 |
| Subtotal | 261,924 | 256,836 |
| Less: Accumulated Depreciation and Amortization | 148,641 | 143,659 |
| Property and Equipment, Net | $ 113,283 | $ 113,177 |

## NOTE 5 OPERATING LEASES

The Company leases office space, data processing equipment, software, office equipment, autos and delivery equipment under operating leases expiring on various dates through 2022. Various agreements are cancelable at the option of the Company upon fulfillment of certain conditions. Future annual minimum lease payments under all noncancelable operating leases as of June 29, 2019 approximate $15,754, $13,993, $7,367, $2,459, $2,459, and $1,040 in 2020, 2021, 2022, 2023, 2024, and thereafter, respectively, for an aggregate total of $43,072. Rents charged to operations under all operating leases, including weekly and monthly rents along with fuel and associated costs of transportation rentals during 2019, 2018, and 2017 were approximately $52,300, $51,100, and $46,300, respectively.

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 6 CAPITAL SHARE DATA

Share data relevant to amounts reported in the consolidated statements of changes in shareholders' equity is as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Common Stock, Voting $50 Par Value, 990,000 Shares Authorized: | | | |
| Shares Outstanding - Beginning of Year | 60,920 | 60,020 | 60,460 |
| Shares Issued | 2,620 | 3,300 | 2,420 |
| Shares Repurchased | (2,620) | (2,400) | (2,860) |
| Shares Outstanding - End of Year | 60,920 | 60,920 | 60,020 |
| Common Stock, Nonvoting $50 Par Value, 100,000 Shares Authorized: | | | |
| Shares Outstanding - Beginning of Year | 13,000 | 11,800 | 9,630 |
| Shares Issued | 320 | 1,540 | 2,180 |
| Shares Repurchased | (50) | (340) | (10) |
| Shares Outstanding - End of Year | 13,270 | 13,000 | 11,800 |
| Preference Share, $100 Par Value, 4,000,000 Shares Authorized: | | | |
| Shares Outstanding - Beginning of Year | 3,059,506 | 3,006,500 | 3,017,105 |
| Shares Issued | 262,699 | 305,132 | 231,732 |
| Shares Repurchased | (256,760) | (252,126) | (242,337) |
| Shares Outstanding - End of Year | 3,065,445 | 3,059,506 | 3,006,500 |

## NOTE 7 TRANSACTIONS WITH UNCONSOLIDATED EQUITY AFFILIATE

Do it Best is a 50% stakeholder in Alliance International, LLC (the Alliance), a hardware and related products purchasing consortium consisting of Do it Best and an unrelated party engaged in the distribution and sale of hardware and related products. The Alliance procures vendor purchase contracts to enable vendor pricing on a larger scale than that which would be available to the individual companies. Virtually all purchases made by Do it Best are transacted through the Alliance. Assets of the Alliance are not material and therefore not consolidated into these financial statements.

Do it Best provides certain management services, including accounting assistance to the Alliance, for which the Alliance reimburses Do it Best in accordance with the management services arrangement. The parties share equally in the expenses of the Alliance. During 2019, 2018, and 2017, Do it Best was charged $165, $164, and $160, respectively, by the Alliance for administrative costs. Do it Best was paid $51, $49, and $46, respectively, in 2019, 2018, and 2017 for management services rendered to the Alliance.

## NOTE 7 TRANSACTIONS WITH UNCONSOLIDATED EQUITY AFFILIATE (CONTINUED)

In 2018, Do it Best formed a wholly owned subsidiary to hold an investment in a limited liability company (LLC). Do it Best will have a 25% interest in the earnings of the LLC and the amounts invested at June 29, 2019 were not material. The investment is being accounted for on the equity method and additional capital contributions are expected.

## NOTE 8 EMPLOYEE BENEFIT PLANS

### Retirement Plans

The Company has a defined benefit pension plan and a defined contribution profit sharing plan (the Plans), both covering substantially all employees. Benefits are based on years of service and the employee's compensation during the last five years of employment.

The Company makes various discretionary contributions to the Plans. Retirement plan costs related to the pension plan approximated $4,000, $4,000, and $4,700 for 2019, 2018, and 2017, respectively. Benefits paid to employees related to this plan approximated $9,000, $9,600, and $10,700 in 2019, 2018, and 2017, respectively. Cost related to the defined contribution profit sharing plan approximated $10,100, $9,400, and $8,400 in 2019, 2018, and 2017, respectively.

The Company has a defined benefit supplemental retirement plan (defined benefit pension plan) with its executives, designed to provide benefits that would have been received under the retirement plan were it not for maximum limitations imposed by ERISA and the Internal Revenue Code. Expense is incorporated into retirement plan cost noted above. Management estimates approximately $4,200 will be contributed to the defined benefit pension plan by the Company during the fiscal year-end June 27, 2020.

Expected benefit payments for the ensuing five years and in the aggregate related to the defined benefit pension plan approximate $8,500, $10,000, $8,500, $8,000, and $8,500 in 2020, 2021, 2022, 2023, and 2024, respectively. Expected benefit payments from 2025 to 2029 approximate $40,000, for an aggregate total of $83,500.

Effective January 1, 2016, the defined benefit pension plan was closed such that no participants hired subsequent to December 31, 2015 are allowed in the plan. Further, participants' monthly and average monthly earnings as defined by the plan and used in the determination of benefits under the plan were frozen effective June 30, 2016.

## NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

**Postretirement Medical Benefit Plan**

The Company has a postretirement medical benefit plan (the Plan). The Plan covers retired employees who are less than 65 years of age and have greater than 10 years of service with the Company. Employees over 65 years of age are not covered beyond benefits provided by Medicare. Income related to the Plan approximated $206, $153, and $72 in 2019, 2018, and 2017, respectively. Participant contributions to the Plan aggregated $-0- in 2019, 2018, and 2017. Benefits paid to employees related to the Plan aggregated $477, $505, and $475 in 2019, 2018, and 2017, respectively.

Management estimates approximately $549 will be contributed to the Plan by the Company during the fiscal year ending June 2020.

Expected benefit payments for the ensuing five years and in the aggregated related to the Plan approximate $550, $500, $450, $350, and $300 in 2020, 2021, 2022, 2023, and 2024, respectively. Expected benefit payments from 2025 to 2029 approximate $1,000, for an aggregate total of $3,150.

Effective April 1, 2011, the Plan was frozen such that any participants who were not retired as of that date, ceased participation in the Plan. As a result of this change, the Plan was re-measured as of March 31, 2011, a negative prior service cost base was established equal to the reduction in Accumulated Postretirement Benefit Obligation for those individuals who ceased participation, and a curtailment charge was recognized equal to the change in the Plan's funded status due to the accelerated retirement.

The Plan contains an assumption about the annual rates of change in the cost of health care benefits currently provided by the Plan, due to factors other than changes in the composition of the Plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. The health care cost trend rate implicitly considers estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the Plan participants. Differing types of services, such as hospital care and dental care, may have different trend rates.

The following schedule shows changes in the benefit obligation, Plan assets, and funded status of the Plans. Benefit obligation balances presented below reflect the projected benefit obligation for the Company's retirement and pension plans, and accumulated postretirement benefit obligations for the postretirement medical plan.

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

### Postretirement Medical Benefit Plan (Continued)

The measurement date used to determine the benefit obligations were as follows:

| | Retirement and Pension Plan | | | Postretirement Medical Plan | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Change in Benefit Obligation: | | | | | | |
| Beginning Balance | $ 98,117 | $ 97,561 | $ 100,724 | $ 3,765 | $ 4,293 | $ 5,275 |
| Service Cost | 4,306 | 4,442 | 4,798 | - | - | - |
| Interest Cost | 4,059 | 4,051 | 4,070 | 141 | 165 | 192 |
| Plan Participants' Contributions | - | - | - | - | - | - |
| Actuarial Gain (Loss) | 6,102 | 1,638 | (1,361) | (272) | (188) | (699) |
| Plan Change | - | - | - | - | - | - |
| Benefit Paid | (9,048) | (9,575) | (10,670) | (477) | (505) | (475) |
| Ending Balance | $ 103,536 | $ 98,117 | $ 97,561 | $ 3,157 | $ 3,765 | $ 4,293 |
| Change in Plan Assets: | | | | | | |
| Beginning Balance at Fair Value | $ 74,997 | $ 75,159 | $ 73,862 | $ - | $ - | $ - |
| Actual Return on Plan Assets | 3,536 | 3,703 | 5,482 | - | - | - |
| Company Contributions | 5,324 | 5,710 | 6,485 | 477 | 505 | 475 |
| Plan Participants' Contributions | - | - | - | - | - | - |
| Benefits paid | (9,048) | (9,575) | (10,670) | (477) | (505) | (475) |
| Ending Balance at Fair Value | $ 74,809 | $ 74,997 | $ 75,159 | $ - | $ - | $ - |
| Under Funded Status | $ (28,727) | $ (23,120) | $ (22,402) | $ (3,157) | $ (3,765) | $ (4,293) |
| Amounts Recognized in Statement of Financial Position Consist of: | | | | | | |
| Current Liabilities | $ (652) | $ (867) | $ (819) | $ (539) | $ (605) | $ (650) |
| Noncurrent Liabilities | (28,075) | (22,253) | (21,583) | (2,618) | (3,160) | (3,643) |
| Net Liabilities Recognized in Balance Sheet | $ (28,727) | $ (23,120) | $ (22,402) | $ (3,157) | $ (3,765) | $ (4,293) |
| Reconciliation of Amounts Recognized in Accumulated Other Comprehensive Income (Loss) | | | | | | |
| Prior Service Cost | $ 11,688 | $ 13,181 | $ 14,674 | $ 1,604 | $ 2,001 | $ 2,397 |
| Net Actuarial Loss | (45,035) | (39,623) | (38,733) | (453) | (775) | (1,041) |
| Accumulated Other Comprehensive Income (Loss) | (33,347) | (26,442) | (24,059) | 1,151 | 1,226 | 1,356 |
| Accrued Benefits Cost | 4,620 | 3,322 | 1,657 | (4,308) | (4,991) | (5,649) |
| Net Liability Recognized in Balance Sheet | $ (28,727) | $ (23,120) | $ (22,402) | $ (3,157) | $ (3,765) | $ (4,293) |
| Change in Accumulated Other Comprehensive Income (Loss) Beginning of Year (No Tax Effect) | $ (26,442) | $ (24,059) | $ (26,765) | $ 1,226 | $ 1,356 | $ 304 |
| Less Amounts Amortized During the Year: | | | | | | |
| Prior Service Credit Arising During the Year | (1,493) | (1,493) | (1,493) | (396) | (396) | (396) |
| Net Loss Arising During the Year | 2,689 | 2,592 | 2,817 | 49 | 78 | 132 |
| Occurring During the Year: | | | | | | |
| Plan Change | - | - | - | - | - | 618 |
| Amortization of Net Gain (Loss) | (8,101) | (3,482) | 1,382 | 272 | 188 | 698 |
| End of Year | (33,347) | (26,442) | (24,059) | 1,151 | 1,226 | 1,356 |
| Deferred Income Taxes | 9,004 | 7,139 | 9,624 | (311) | (331) | (543) |
| Accumulated Other Comprehensive Income (Loss), Net of Tax | $ (24,343) | $ (19,303) | $ (14,435) | $ 840 | $ 895 | $ 813 |
| Estimated Amounts to be Amortized from Accumulated Other Comprehensive Income Over the Next Fiscal Year: | | | | | | |
| Prior Service Credit (Cost) | $ 1,493 | $ 1,493 | $ 1,493 | $ 396 | $ 396 | $ 396 |
| Net Actuarial Loss | (3,377) | (2,688) | (2,557) | (134) | (69) | (102) |
| Total | $ (1,884) | $ (1,195) | $ (1,064) | $ 262 | $ 327 | $ 294 |

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

The allocation of income tax benefit (expense) for each component of other comprehensive income (loss) were as follows:

| | Retirement and Pension Plan | | | Postretirement Medical Plan | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Prior Service Credit Before Tax | $ (1,493) | $ (1,493) | $ (1,493) | $ (396) | $ (396) | $ (396) |
| Tax Benefit | (403) | (597) | (597) | (107) | (158) | (158) |
| Prior Service Credit Net of Tax | (1,090) | (896) | (896) | (289) | (238) | (238) |
| Net Loss Before Tax | 2,689 | 2,592 | 2,817 | 49 | 78 | 132 |
| Tax Expense | 726 | 1,037 | 1,127 | 13 | 31 | 53 |
| Net Loss Net of Tax | 1,963 | 1,555 | 1,690 | 36 | 47 | 79 |
| Amortization of Net Gain (Loss) Before Tax | (8,101) | (3,482) | 1,382 | 272 | 188 | 698 |
| Tax Expense (Benefit) | (2,187) | (1,393) | 553 | 73 | 75 | 279 |
| Amortization of Net Gain (Loss) Net of Tax | (5,914) | (2,089) | 829 | 199 | 113 | 419 |
| Plan Change Before Tax | - | - | - | - | - | 618 |
| Tax Expense | - | - | - | - | - | 246 |
| Plan Change After Tax | - | - | - | - | - | 372 |
| Total | $ (5,041) | $ (1,430) | $ 1,623 | $ (54) | $ (78) | $ 632 |

As of June 29, 2019, the defined benefit pension plans and the postretirement medical plan had accumulated benefit obligations of approximately $104,000 and $3,200, respectively. At June 30, 2018, the defined benefit pension plans and the postretirement medical plan experienced accumulated benefit obligations of approximately $98,000 and $3,800, respectively. At June 24, 2017, the defined benefit pension plans and the postretirement medical plan experienced accumulated benefit obligations of approximately $97,600 and $4,300, respectively.

The change in deferred taxes recognized in other comprehensive income (loss) approximated $1,900, ($2,300), and ($1,500) during 2019, 2018, and 2017, respectively.

| | Retirement and Pension Plan | | | Postretirement Medical Plan | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| Components of Net Periodic Benefit (Costs) Income: | | | | | | |
| Service Cost | $ (4,306) | $ (4,442) | $ (4,798) | $ - | $ - | $ - |
| Interest Cost | (4,059) | (4,051) | (4,070) | (141) | (165) | (192) |
| Expected Return on Plan Assets | 5,535 | 5,546 | 5,463 | - | - | - |
| Amortization | (1,196) | (1,099) | (1,325) | 347 | 318 | 264 |
| Net Periodic Benefit (Costs) Income | $ (4,026) | $ (4,046) | $ (4,730) | $ 206 | $ 153 | $ 72 |

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

### Assumptions

Weighted average actuarial assumptions used to determine pension and other postretirement obligations as of year-end are as follows:

| | 2019 Retirement and Pension Plan | 2019 Post-retirement Medical | 2018 Retirement and Pension Plan | 2018 Post-retirement Medical | 2017 Retirement and Pension Plan | 2017 Post-retirement Medical |
|---|---|---|---|---|---|---|
| Discount Rate | 3.95% | 3.95% | 4.35% | 4.35% | 4.35% | 4.35% |
| Salary Increase | 4.00% | N/A | 4.00% | N/A | 4.00% | N/A |
| Current Year Trend | N/A | 6.75% | N/A | 7.00% | N/A | 7.00% |
| Ultimate Year Trend | N/A | 5.00% | N/A | 5.00% | N/A | 5.00% |
| Year of Ultimate Trend Date | N/A | 2026 | N/A | 2026 | N/A | 2021 |

Weighted average assumptions used to determine net periodic pension cost:

| | Retirement and Pension Plan | Post-retirement Medical | Retirement and Pension Plan | Post-retirement Medical | Retirement and Pension Plan | Post-retirement Medical |
|---|---|---|---|---|---|---|
| Discount Rate | 4.35% | 4.35% | 4.35% | 4.35% | 4.25% | 4.25% |
| Salary Increase | N/A | N/A | N/A | N/A | 4.00% | N/A |
| Long-Term Rate of Return on Assets | 7.50% | N/A | 7.50% | N/A | 7.50% | N/A |
| Current Year Trend | N/A | 6.75% | N/A | 6.50% | N/A | 7.00% |
| Ultimate Year Trend | N/A | 5.00% | N/A | 5.00% | N/A | 5.00% |
| Year of Ultimate Trend Date | N/A | 2026 | N/A | 2021 | N/A | 2021 |

### Defined Benefit Plan Assets

The investment policy and strategy is to invest plan assets in order to provide income and capital growth consistent with reasonable risk tolerance. In determining pension expense, the Company, as fiduciary of the plan, utilizes an expected long-term rate of return that, over time, should approximate the actual long-term rate of return earned on plan assets, based upon historical returns of plan assets and similar asset classes. The assumed rate for the long-term rates of return on plan assets was determined based upon target asset allocations and expected long-term rates of return by asset class. Plan fiduciaries set investment policies and strategies for the trust.

Long-term strategic investment objectives include preserving the funded status of the plan and balancing risk and return. The plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets, and monitoring asset allocations. Target allocation ranges are guidelines, not limitations, and occasionally plan fiduciaries will approve allocations above or below a target range.

**(IN THOUSANDS, EXCEPT SHARE DATA)**

## NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

The defined benefit plan's assets are composed primarily of corporate equity and debt securities and U.S. government securities and are directed by the employer. The defined benefit pension plan assets held consisted of the following at June 29, 2019 and June 30, 2018:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Target Allocation: | Retirement and Pension Plan | Target Allocation: | Retirement and Pension Plan |
| Equity Securities | 52% | 54% | 52% | 57% |
| Debt Securities | 33% | 36% | 33% | 36% |
| Other | 15% | 10% | 15% | 7% |
| Total | 100% | 100% | 100% | 100% |

No assets were held by the postretirement medical benefit plan at June 29, 2019 or June 30, 2018.

Financial Accounting Standards Board (FASB) ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a framework and provides guidance on measuring the fair value of assets in a pension plan and how an employer should disclose the same. The framework establishes a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value.

The three levels of fair value hierarchy are described as follows:

*Level 1* - Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2* - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3* - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In some cases, a valuation technique used to measure fair value may include inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following descriptions of the valuation methods and assumptions used by the Plan to estimate the fair values of investments apply to investments held directly by the Plan.

*Equity, Debt, and Inflation-Indexed Securities*: Fair values reflect the closing price reported in the active market in which the security is traded (Level 1 inputs).

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis in accordance with ASC 820-10 as of June 29, 2019:

| Defined Benefit Pension Plan | Quoted Prices in Active Markets for Identical Assets Level 1 |
|---|---|
| Mutual Funds: | |
| Money Market | $ 776 |
| Domestic Equity | 21,865 |
| International Equity | 17,635 |
| Domestic Fixed | 26,870 |
| Alternative | 7,663 |
| Total | $ 74,809 |

The following table summarized the Company's financial assets measured at fair value on a recurring basis in accordance with ASC 820-10 as of June 30, 2018:

| Defined Benefit Pension Plan | Quoted Prices in Active Markets for Identical Assets Level 1 |
|---|---|
| Mutual Funds: | |
| Money Market | $ 1,363 |
| Domestic Equity | 22,358 |
| International Equity | 17,967 |
| Domestic Fixed | 27,143 |
| Alternative | 5,011 |
| Domestic Equity Exchange Traded | 1,155 |
| Total | $ 74,997 |

## NOTE 9 INCOME TAXES

On December 22, 2017, the Tax Cuts and Job Act (the Tax Act) was signed into United States tax law. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reduction of the U.S. federal corporate tax rate from 35% to 21%; (2) elimination of the corporate alternative minimum tax (AMT); (3) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (4) current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) a new limitation on deductible interest expense; (6) limitations on the deductibility of certain executive compensation; (7) limitations on the use of FTCs to reduce the U.S. income tax liability; and (8) limitations on net operating losses (NOLs) generated after December 31, 2017, to 80% of taxable income.

The Securities and Exchange Commission staff issued Staff Accounting Bulletin (SAB) 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the laws that were in effect immediately before the enactment of the Tax Act.

The changes included in the Tax Act are broad and complex. The final transition impacts of the Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates. FASB has issued guidance that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. The Company currently anticipates finalizing and recording any resulting adjustments by the end of the current fiscal year ended June 29, 2019.

The Tax Act reduces the U.S. federal corporate tax rate from a graduated rate up to 35% to a flat rate of 21%, effective January 1, 2018. The Company has adjusted its deferred tax assets and liabilities at December 31, 2017, to reflect the Tax Act's reduction of corporate income tax rates which are expected to be in effect in future years as the deferred tax assets and liabilities are realized.

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 9 INCOME TAXES (CONTINUED)

The provision for income taxes at June 29, 2019, June 30, 2018, and June 24, 2017, consisted of the following:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Federal Income Tax: | | | |
| Current | $ 331 | $ 286 | $ 189 |
| Deferred | 186 | 313 | 276 |
| State Income Tax: | | | |
| Current | 114 | 62 | 33 |
| Deferred | 53 | 68 | 84 |
| Change in Deferred Taxes Due to Newly Enacted Changes in Tax Law | - | 6,459 | - |
| Total | $ 684 | $ 7,188 | $ 582 |

Deferred income taxes are provided to recognize the effects of temporary differences between financial reporting and income tax reporting. The more significant temporary differences arise from various accrued liabilities, which exceed currently deductible amounts. Management believes it is more likely than not that deferred income tax assets will be realized in full. Accordingly, no valuation allowance has been provided.

The Company's deferred tax assets and deferred tax liabilities are as follows:

| | 2019 | 2018 |
|---|---|---|
| Assets: | | |
| Accrued Expenses | $ 2,880 | $ 2,801 |
| Deferred Compensation | 3,778 | 3,715 |
| Allowance for Doubtful Accounts | 135 | 135 |
| Inventory Obsolescence | 636 | 624 |
| Post Retirement Health Care Expense | 1,163 | 1,348 |
| Retirement and Pension Plan | 9,004 | 7,139 |
| Total Assets | 17,596 | 15,762 |
| Liabilities: | | |
| Retirement Plan Expense | (2,386) | (2,066) |
| Prepaids and Other | (54) | (166) |
| Postretirement Medical Plan | (311) | (331) |
| Total Liabilities | (2,751) | (2,563) |
| Net Deferred Tax Asset | $ 14,845 | $ 13,199 |

(IN THOUSANDS, EXCEPT SHARE DATA)

## NOTE 9 INCOME TAXES (CONTINUED)

The income tax provision differs from that calculated at the statutory rates for the following reasons:

| | 2019 | 2018 |
|---|---|---|
| Income Tax Expense at Statutory Rates | $ 462 | $ 416 |
| Effect of Newly Enacted Tax Rates | - | 6,459 |
| State Taxes, Net of Federal Benefit | 104 | 130 |
| Nondeductible Expenses | 123 | 170 |
| Other | (5) | 13 |
| Total | $ 684 | $ 7,188 |

## NOTE 10 FAIR VALUE

The following table summarizes the Company's financial assets measured at fair value on a recurring basis in accordance with the ASC 820-10 as of:

| | June 29, 2019 | | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| Cash Equivalents | $ 19,703 | $ 19,703 | $ - | $ - |
| Total | $ 19,703 | $ 19,703 | $ - | $ - |

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| Cash Equivalents | $ 20,454 | $ 20,454 | $ - | $ - |
| Total | $ 20,454 | $ 20,454 | $ - | $ - |

For the Company's cash equivalents (money market accounts), fair value was determined using quoted market prices based on the closing price (Level 1 inputs) as of the balance sheet date.

## NOTE 11 COMMITMENTS AND CONTINGENCIES

The Company was contingently liable at June 29, 2019 and June 30, 2018, under a loan guarantee program, which has a maximum borrowing capacity of $12,000 at June 29, 2019 and June 30, 2018, with two commercial banks. Under the terms of the loan agreement in order to participate the borrowers must be both, members of and approved by, the Company in order to participate in the program.

Under the terms of the program the bank will provide a member loan in the form of a term loan to be paid and amortized either over 84 equal monthly installments with any unpaid balance due at maturity or paid in seven equal annual principal installments on a straight-line basis plus interest due monthly.

## NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Interest on the loans will be payable at a fixed or variable rate to be determined by the banks at the time of funding. At June 29, 2019, interest rates on the loans ranged from 2.25% to 7.00%. At June 30, 2018, interest rates on the loans ranged from 2.25% to 5.86%.

The risk of loss under these agreements is spread over many members and is the estimated fair value considering both the contingent loss due to default and the value of the Company's guarantee. The Company believes that any potential loss under the agreements in effect at June 29, 2019, and June 30, 2018, will not be material to its financial position or results of operations.

The Company, in the ordinary course of business, is the subject of or party to various pending or threatened litigation. While it is not possible to predict with certainty the outcome of these matters, management of the Company does not believe that they will materially affect the financial position, or operating results or cash flows of the Company.