Do it Best Corp.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 24, 2023, JUNE 25, 2022, AND JUNE 26, 2021

Do it Best Corp.

Products
Services
Solutions

P.O. Box 868
Fort Wayne, IN
46801-0868
Ph: 260.748.5300

August, 2023

We state and attest that:

1. To the best of our knowledge, based upon a review of the following reports of Do it Best Corp.
    a. No report contained an untrue statement of material fact as of the end of the period covered by such report; and
    b. No report omitted to state a material fact necessary to make the statements in the report, in light of the circumstances under which they were made, not misleading as of the end of the period covered by such report.
2. We have reviewed the contents of this statement with the Do it Best Corp. board of directors.

Dan Starr
President and CEO

J. Douglas Roth
Vice President of Finance and CFO

Do it Best Corp.

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Do it Best Corp. and Subsidiaries (Do it Best Corp.) (an Indiana corporation), which comprise the consolidated balance sheets as of June 24, 2023 and June 25, 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 24, 2023, June 25, 2022, and June 26, 2021, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Do it Best Corp. as of June 24, 2023 and June 25, 2022, and the results of its operations and its cash flows for each of the three years in the period ended June 24, 2023, June 25, 2022, and June 26, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2023 the Company adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Do it Best Corp.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Do it Best Corp.'s ability to continue as a going concern for a reasonable period of time.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Indianapolis, Indiana
August 22, 2023

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 24, 2023 AND JUNE 25, 2022
(IN THOUSANDS)

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash	$ 54,395	$ 2,752
Accounts and Notes Receivable, Less Allowance for Doubtful Accounts of $758 in 2023 (2022; $764)	497,323	578,152
Income Tax Receivable	-	822
Merchandise Inventories	362,205	439,102
Prepaid Expenses	489	262
Total Current Assets	914,412	1,021,090
PROPERTY AND EQUIPMENT, Net	143,648	117,592
Right-of-Use Assets - Financing Leases	116,960	-
Accounts and Notes Receivable, Less Current Maturities	1,627	1,594
Deferred Income Taxes	10,527	8,830
Investment in Affiliates	41,539	41,634
Pension Asset	16,853	15,808
Other Assets	23,046	20,450
Total Assets	$ 1,268,612	$ 1,226,998
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes Payable - Line of Credit	$ 20,000	$ 118,500
Accounts Payable	633,649	637,606
Income Tax Payable	1,270	-
Short-Term Lease Liability - Financing	16,543	-
Accrued Expenses	99,285	90,014
Total Current Liabilities	770,747	846,120
LONG-TERM LIABILITIES		
Long-Term Lease Liability - Financing, Net of Current Portion	105,624	-
Long-Term Portion of Accrued Pension and Other Postretirement Liabilities	2,715	2,803
Total Long-Term Liabilities	108,339	2,803
Total Liabilities	879,086	848,923
SHAREHOLDERS' EQUITY		
Common Stock, Voting	3,207	3,141
Common Stock, Nonvoting	656	641
Preference Stock	379,178	370,217
Accumulated Other Comprehensive Loss	(9,982)	(11,574)
Retained Earnings	16,467	15,650
Total Shareholders' Equity	389,526	378,075
Total Liabilities and Shareholders' Equity	$ 1,268,612	$ 1,226,998

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 24, 2023, JUNE 25, 2022, AND JUNE 26, 2021
(IN THOUSANDS)

	2023	2022	2021
Gross Sales	$ 4,773,160	$ 5,540,343	$ 5,189,982
Returns and Allowances	134,837	125,819	116,265
Net Sales	4,638,323	5,414,524	5,073,717
Cost of Sales	4,334,378	5,171,435	4,799,164
Gross Profit	303,945	243,089	274,553
Selling, General, and Administrative Expenses	131,591	94,114	80,513
Income Before Other Income, Profit Sharing, and Pension Costs, Shareholders' Refund, and Income Taxes	172,354	148,975	194,040
Other Income, Net	3,914	5,552	3,729
Income Before Profit Sharing and Pension Costs, Shareholders' Refund, and Income Taxes	176,268	154,527	197,769
Profit Sharing and Pension Costs	21,311	16,078	22,449
Income Before Shareholders' Refund and Income Taxes	154,957	138,449	175,320
Shareholders' Refund:			
Cash	106,294	86,734	98,881
Preference Stock	45,749	42,476	71,268
Total Shareholders' Refund	152,043	129,210	170,149
Income Before Income Taxes	2,914	9,239	5,171
Federal and State Income Taxes:			
Income Tax Provision	584	2,283	1,048
Net Income	$ 2,330	$ 6,956	$ 4,123

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED JUNE 24, 2023, JUNE 25, 2022, AND JUNE 26, 2021
(IN THOUSANDS)

	2023	2022	2021
NET INCOME	$ 2,330	$ 6,956	$ 4,123
Other Comprehensive Income (Loss):			
Change in Fair Value of Interest Rate Swaps, Net of Tax	127	-	-
Change in Defined Benefit Plans, Net of Tax	1,465	(1,305)	11,991
Total Other Comprehensive Income (Loss)	1,592	(1,305)	11,991
COMPREHENSIVE INCOME	$ 3,922	$ 5,651	$ 16,114

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED JUNE 24, 2023, JUNE 25, 2022, AND JUNE 26, 2021
(IN THOUSANDS)

	2023	2022	2021
COMMON STOCK, VOTING			
Balance - Beginning of Year	$ 3,141	$ 3,049	$ 3,044
Shares Issued	196	257	156
Shares Repurchased	(130)	(165)	(151)
Balance - End of Year	3,207	3,141	3,049
COMMON STOCK, NONVOTING			
Balance - Beginning of Year	641	645	633
Shares Issued	15	-	16
Shares Repurchased	-	(4)	(4)
Balance - End of Year	656	641	645
PREFERENCE STOCK			
Balance - Beginning of Year	370,217	363,891	322,659
Shares Issued	45,749	42,476	71,268
Shares Repurchased	(36,788)	(36,150)	(30,036)
Balance - End of Year	379,178	370,217	363,891
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance - Beginning of Year	(11,574)	(10,269)	(22,260)
Other Comprehensive Income (Loss)	1,592	(1,305)	11,991
Balance - End of Year	(9,982)	(11,574)	(10,269)
RETAINED EARNINGS			
Balance - Beginning of Year	15,650	8,694	4,571
Adoption of ASC 842	(1,513)	-	-
Net Income	2,330	6,956	4,123
Balance - End of Year	16,467	15,650	8,694
Total Shareholders' Equity	$ 389,526	$ 378,075	$ 366,010

See accompanying Notes to Consolidated Financial Statements.

DO IT BEST CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 24, 2023, JUNE 25, 2022, AND JUNE 26, 2021
(IN THOUSANDS)

	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 2,330	$ 6,956	$ 4,123
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	16,479	15,418	14,808
Deferred Income Taxes	(2,286)	1,820	(447)
(Gain) Loss on Investments	(1,525)	3,047	(5,364)
Amortization of Right-of-Use Asset	17,763	-	-
Provision for Bad Debts	(6)	(164)	45
(Gain) Loss on Sale of Assets	(1,444)	(40)	651
Shareholder Refunds in Preference Shares	45,749	42,476	71,268
Equity in Earnings of Unconsolidated Affiliates, Net of Distributions	164	(6,883)	(2,754)
Changes in Operating Assets and Liabilities:			
Accounts and Notes Receivable, Net	80,802	11,590	(189,927)
Income Tax Receivable	822	(822)	479
Merchandise Inventories	76,897	(93,372)	(75,194)
Prepaid Expenses, Pension, and Other Assets	(1,322)	4,610	(20,226)
Accounts Payable	(3,957)	(17,577)	161,378
Income Tax Payable	1,270	(815)	815
Accrued Expenses, Pension, and Other Postretirement Liabilities	11,190	(18,571)	2,956
Net Cash Provided (Used) by Operating Activities	242,926	(52,327)	(37,389)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments	(6,431)	(3,496)	(4,591)
Proceeds from Redemption of Investments	5,515	4,877	4,582
Investment in Unconsolidated Affiliate	-	(11,500)	-
Proceeds from Sale of Property and Equipment	7,012	84	51
Capital Expenditures	(48,103)	(21,451)	(15,121)
Net Cash Used by Investing Activities	(42,007)	(31,486)	(15,079)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Change in Notes Payable - Line of Credit	(98,500)	118,500	-
Payments on Financing Leases	(14,069)	-	-
Issuance of Common Shares	196	257	156
Purchase of Common Shares	(130)	(165)	(151)
Issuance of Nonvoting Common Shares	15	-	16
Purchase of Nonvoting Common Shares	-	(4)	(4)
Purchase of Preference Shares	(36,788)	(36,150)	(30,036)
Net Cash Provided (Used) by Financing Activities	(149,276)	82,438	(30,019)
NET INCREASE (DECREASE) IN CASH	51,643	(1,375)	(82,487)
Cash - Beginning of Year	2,752	4,127	86,614
CASH - END OF YEAR	$ 54,395	$ 2,752	$ 4,127
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash Paid for Income Taxes	$ 778	$ 1,520	$ 200
Cash Paid for Interest	$ 3,378	$ 2,129	$ 103

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 2023, 2022, and 2021 relate to the fiscal years ended June 24, 2023, June 25, 2022, and June 26, 2021, 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). Transactions with unconsolidated affiliates that do not meet the consolidation criteria of the authoritative guidance for voting interest entities or variable interest entities are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Changes

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (ASC 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the requirements of the guidance effective June 26, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for 2022 and 2021 are made under prior lease guidance in FASB Accounting Standards Codification (ASC) 840.

The Company has not elected to adopt the package of practical expedients available in the year of adoption. The Company has not elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Company's ROU assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Changes (Continued)

The Company elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Company recognized on June 26, 2022, a lease liability of $50,563, which represents the present value of the remaining operating lease payments of $59,721, discounted using the Company's using rates implicit in the lease, or if not readily available, the Company's incremental borrowing rate, and a right-of-use asset of $49,050, resulting in a cumulative effective of adoption of $1,513 at June 26, 2022.

In 2022, the Company adopted the FASB's ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans.* ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit plans (pension or other postretirement plans) to improve the effectiveness of the disclosures. The Company elected to utilize the retrospective approach upon adoption. There was no material impact on the Company's financial position and results of operations upon adoption of the new standard.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Structure (Continued)

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.

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 $106,300, $86,700, and $98,900 in 2023, 2022, and in 2021, respectively. These amounts are currently included in accounts payable. The Company also issued preference stock shareholder refunds of approximately $45,700, $42,500, and $71,300 in 2023, 2022, and 2021, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes and Uncertain Tax Positions (Continued)

The Company accounts for uncertainty in income taxes under the provisions of 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 30, 2020.

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 24, 2023 or June 25, 2022.

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.

Comprehensive Income

Comprehensive income is a more inclusive measurement of results, including items that are not recognized in the measurement of net income. Other comprehensive income represents the change in the Company's defined benefit pension plans and interest rate swaps.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable and Revenue Recognition (Continued)

The Company recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for the arrangements that the Company determines are within the scope of Topic 606, the Company performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company enters into contracts with members to sell merchandise, which is typically the only performance obligation. The pricing and payment terms for contracts are based on the Company's standard terms and conditions. In some instances, extended repayment terms may be offered; however, standard terms and conditions generally are due within five days of the statement date.

Revenues from the sale of warehouse 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 recognizes the revenue and cost of goods sold from these arrangements on a gross basis as the principal in the transaction. The Company is primarily responsible for fulfilling the promise to customers to provide merchandise at negotiated prices with the vendors, assumes inventory risk if the product is returned by the members, and assumes all the credit risk for the vendors with the members. Therefore, the Company concluded it is the principal for these transactions. The Company provides cooperative advertising, among other services, to its members. Revenues for such services are recognized when the services are rendered.

The transaction price includes estimates for reductions in revenue from discounts, rebates, returns, freight damage, prompt payment discounts, or co-operative advertising contributions. These amounts are estimated based upon the most likely amount of consideration to which the customer will be entitled. All estimates are based on historical experience, anticipated performance, and the Company's best judgment at the time to the extent it is probable that a significant reversal of revenue recognized will not occur. All estimates for variable consideration are reassessed periodically.

The Company has elected to account for shipping and handling costs as fulfillment costs and are included in costs of sales in the consolidated statements of income.

The Company has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the member's product needs.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Notes Receivable

Notes receivable are stated at unpaid principal balances. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

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 Company is a party to interest rate swap agreements. The Company uses the interest rate swaps for the purpose of hedging exposure to changes in interest rates. The Company has designated its interest rate swaps as cash flow hedges. The Company considers its interest rate swaps to be highly effective and accordingly, accounts for the agreements as cash flow hedges with the changes in fair value of the swap agreements recorded as a component of other comprehensive income.

Cash

The Company considers all demand deposit accounts to be cash. The Company places its cash with high credit quality financial institutions. 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 2023, 2022, and 2021 was $10,834, $10,435, and $9,889, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

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 2023 and 2022, the Company capitalized approximately $8,997 and $8,408, respectively, of software development costs which consisted of both internally developed and purchased software costs. Amortization expense for all capitalized software was $5,645, $4,983, and $4,919 for 2023, 2022, and 2021, respectively.

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 2023, 2022, or 2021.

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 2023, 2022, and 2021 were $10,956, $10,384, and $10,081, respectively.

Investments

The Company has certain long-term investments that consist primarily of mutual funds and are recorded at fair value in the accompanying consolidated balance sheets. These investments are included in Other Assets and amounted to $22,318 and $19,877 at June 24, 2023, and June 25, 2022, respectively. Changes in fair value are included in earnings. Net realized and unrealized gains and losses during 2023, 2022, and 2021 on equity and fixed income securities were $2,119, $1,303, and $5,364, respectively. Net gains and losses on equity and fixed income securities recognized during 2023, 2022, and 2021 were $(69), $622, and $752, respectively. Unrealized gains and losses recognized on equity and fixed income securities still held during 2023, 2022, and 2021 were $2,188, $681, and $4,612, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Company determines if an arrangement is a lease at inception. Finance leases are included in finance lease ROU assets, current liabilities, and long-term liabilities on the consolidated balance sheet.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the consolidated balance sheet.

In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if the Company has obtained substantially all of the rights to the underlying asset through exclusivity, if the Company can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

In allocating consideration in the contract to the separate lease components and the nonlease components, the Company uses the standalone prices of the lease and nonlease components. Observable standalone prices are used, if available. If the standalone price for a component has a high level of variability or uncertainty, this allocation may require significant judgment.

In determining the discount rate used to measure the right-of-use asset and lease liability, the Company uses rates implicit in the lease, or if not readily available, the Company's incremental borrowing rate. The incremental borrowing rate used is based on an estimated secured rate comprised of a risk-free rate plus a credit spread as secured by Company assets. Determining a credit spread as secured by Company assets may require significant judgment.

Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure through August 22, 2023, the date the consolidated financial statements were available to be issued.

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 2 CREDIT AGREEMENT

The Company had an available revolving line of credit with a commercial bank in the base amount of $250,000 from August 23, 2022, to June 13, 2023, at which time it decreased to $225,000 until maturity on August 23, 2025, secured by all personal property. For the line, interest is payable monthly on outstanding balances at either Alternate Base Rate or SOFR plus an applicable margin.

There were total borrowings of $20,000 and $118,500 against the lines of credit at June 24, 2023, and June 25, 2022, respectively. There were no outstanding letters of credit at June 24, 2023, or June 25, 2022. The Company is subject to certain financial covenants.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment is summarized by major classification as follows at June 24, 2023, and June 25, 2022:

	2023	2022
Land, Building, and Site Improvements	$ 140,339	$ 149,672
Equipment and Fixtures	96,925	94,120
Capitalized Software	58,165	42,769
Software in Progress	7,437	2,740
Construction in Progress	19,331	554
Subtotal	322,197	289,855
Less: Accumulated Depreciation and Amortization	178,549	172,263
Property and Equipment, Net	$ 143,648	$ 117,592

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 4 LEASES UNDER ASC 842

The Company leases office space, data processing equipment, office equipment, autos, and delivery equipment under finance leases expiring on various dates through 2052. Certain facility leases provide for increases in future minimum annual rental payments based on defined schedules. Various agreements are cancelable at the option of the Company upon fulfillment of certain conditions.

The following table provides quantitative information concerning the Company's leases.

	2023
Lease Cost:	
Finance Lease Costs:	
Amortization of ROU Assets	$ 17,763
Interest on Lease Liabilities	7,320
Total Lease Costs	$ 25,083
Other Information:	
Operating Cash Flows from Finance Leases	$ 7,320
Financing Cash Flows from Finance Leases	$ 14,069
Right-of-Use Assets Obtained in Exchange for New:	
Financing Lease Liabilities	$ 85,673
Weighted-Average Remaining Lease Term - Financing Leases	16.59
Weighted-Average Discounted Rate - Financing Leases	6.75%

Year Ending June 24,	Financing Leases
2023	$ 22,835
2024	21,086
2025	18,371
2026	12,896
2027	7,073
Thereafter	133,317
Total Lease Payments	215,578
Less: Imputed Interest	(93,411)
Total Present Value of Lease Liabilities	$ 122,167

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 5 LEASES UNDER ASC 840

The Company elected to apply the provisions of FASB ASC 842 to the beginning of the period of adoption, through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 25, 2022, are made under prior lease guidance in FASB ASC 840.

The Company leases office space, data processing equipment, software, office equipment, autos, and delivery equipment under operating leases expiring on various dates through 2025. 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 24, 2023, approximate $21,470, $21,384, $11,404, $2,506, $2,961, and $20,526 in 2023, 2024, 2025, 2026, 2027, and 2028 through 2032, respectively, for an aggregate total of $80,251. Rents charged to operations under all operating leases, including weekly and monthly rents along with fuel and associated costs of transportation rentals during 2023, 2022, and 2021 were approximately $72,100, $59,800, and $55,200, respectively.

NOTE 6 CAPITAL SHARE DATA

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

	2023	2022	2021
Common Stock, Voting $50 Par Value, 990,000 Shares Authorized:			
Shares Outstanding - Beginning of Year	62,820	60,980	60,880
Shares Issued	3,890	5,140	3,120
Shares Repurchased	(2,590)	(3,300)	(3,020)
Shares Outstanding - End of Year	64,120	62,820	60,980
Common Stock, Nonvoting $50 Par Value, 100,000 Shares Authorized:			
Shares Outstanding - Beginning of Year	12,810	12,890	12,650
Shares Issued	330	-	310
Shares Repurchased	-	(80)	(70)
Shares Outstanding - End of Year	13,140	12,810	12,890
Preference Share, $100 Par Value, 4,000,000 Shares Authorized:			
Shares Outstanding - Beginning of Year	3,702,174	3,638,911	3,226,590
Shares Issued	457,487	424,760	712,675
Shares Repurchased	(367,879)	(361,497)	(300,354)
Shares Outstanding - End of Year	3,791,782	3,702,174	3,638,911

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 7 TRANSACTIONS WITH UNCONSOLIDATED AFFILIATES

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.

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 2023, 2022, and 2021, Do it Best was charged $44, $43, and $144, respectively, by the Alliance for administrative costs. Do it Best was paid $27, $27, and $47, respectively, in 2023, 2022, and 2021 for management services rendered to the Alliance.

The Company formed a wholly-owned subsidiary (DIB Enterprises, LLC) to hold an investment in a joint venture formed as a limited liability company. The Company has a 25% interest in the earnings of the joint venture with Nation's Best, LLC (Nation's Best). Nation's Best is engaged in the acquisition and operations of hardware and lumber retail stores throughout the United States. The Company has also agreed to make advances to Nation's Best and had guaranteed certain debt of Nation's Best of which approximately $8 million remained outstanding at June 26, 2021. On May 2, 2022, the Company was released of the guaranty. The difference between the company's investment and their share of the underlying net assets of the affiliate is attributable to preferred interests and other future distribution preferences.

Condensed financial information for Nation's Best at June 24, 2023, and June 25, 2022, is as follows:

	2023	2022
Balance Sheets:		
Current Assets	$ 105,380	$ 93,620
Net Property and Equipment	54,731	24,078
Other Assets	44,858	40,482
Current Liabilities	33,119	28,310
Long-Term Liabilities	111,136	77,876
Members' Equity	60,714	51,994
Company's Share of Net Equity	$ 40,320	$ 40,484
Statements of Operations:		
Net Sales	$ 384,338	$ 289,161
Operating Expenses	371,104	267,128
Operating Income	13,234	22,033
Other (Income) Expense	226	(2,018)
Net Income	13,008	24,051
Company's Share of Income	$ 3,252	$ 6,884

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 defined and discretionary contributions to the Plans. Retirement plan costs related to the pension plan approximated $1,400, $2,100, and $3,800 for 2023, 2022, and 2021, respectively. Benefits paid to employees related to this plan approximated $8,300, $15,300, and $13,500 in 2023, 2022, and 2021, respectively. Cost related to the defined contribution profit sharing plan approximated $19,900, $14,000, and $18,700 in 2023, 2022, and 2021, 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 $-0- will be contributed to the defined benefit pension plan by the Company during the fiscal year-ending June 2024.

Expected benefit payments for the ensuing five years and in the aggregate related to the defined benefit pension plan approximate $5,700, $6,500, $6,400, $6,600, and $6,200 in 2024, 2025, 2026, 2027, and 2028, respectively. Expected benefit payments from 2029 to 2033 approximate $31,800, for an aggregate total of $63,200.

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.

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 $360, $384, and $350 in 2023, 2022, and 2021, respectively. Participant contributions to the Plan aggregated $-0- in 2023, 2022, and 2021. Benefits paid to employees related to the Plan aggregated $236, $246, and $355 in 2023, 2022, and 2021, respectively.

Management estimates approximately $254 will be contributed to the Plan by the Company during the fiscal year ending June 2024.

Expected benefit payments for the ensuing five years and in the aggregated related to the Plan approximate $300, $200, $200, $200, and $200 in 2024, 2025, 2026, 2027, and 2028, respectively. Expected benefit payments from 2029 to 2033 approximate $500, for an aggregate total of $1,600.

NOTE 8 EMPLOYEE BENEFIT PLANS (CONTINUED)

Postretirement Medical Benefit Plan (Continued)

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)

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

	Retirement and Pension Plan			Postretirement Medical Plan		
	2023	2022	2021	2023	2022	2021
Change in Benefit Obligation:						
Beginning Balance	$ 74,196	$ 99,223	$ 102,255	$ 1,511	$ 1,923	$ 2,459
Service Cost	2,869	4,027	4,293	-	-	-
Interest Cost	3,491	3,336	3,500	71	60	76
Actuarial Gain (Loss)	(2,092)	(17,120)	2,686	88	(226)	(257)
Benefit Paid	(1,736)	(1,533)	(2,011)	(236)	(246)	(355)
Settlements	(6,604)	(13,737)	(11,500)	-	-	-
Ending Balance	$ 70,124	$ 74,196	$ 99,223	$ 1,434	$ 1,511	$ 1,923
Change in Plan Assets:						
Beginning Balance at Fair Value	$ 88,370	$ 116,629	$ 88,920	$ -	$ -	$ -
Actual Return on Plan Assets	3,578	(15,805)	20,691	-	-	-
Company Contributions	1,810	2,816	20,529	236	246	355
Benefits paid	(1,736)	(1,533)	(2,011)	(236)	(246)	(355)
Settlements	(6,604)	(13,737)	(11,500)	-	-	-
Ending Balance at Fair Value	$ 85,418	$ 88,370	$ 116,629	$ -	$ -	$ -
Over (Under) Funded Status	$ 15,294	$ 14,174	$ 17,406	$ (1,434)	$ (1,511)	$ (1,923)
Amounts Recognized in Statement of Financial Position Consist of:						
Noncurrent Assets	$ 16,853	$ 15,808	$ 19,338	$ -	$ -	$ -
Current Liabilities	(32)	(49)	(112)	(246)	(293)	(357)
Noncurrent Liabilities	(1,527)	(1,585)	(1,820)	(1,188)	(1,218)	(1,566)
Net Assets (Liabilities) Recognized in Balance Sheet	$ 15,294	$ 14,174	$ 17,406	$ (1,434)	$ (1,511)	$ (1,923)
Reconciliation of Amounts Recognized in Accumulated Other Comprehensive Income (Loss):						
Prior Service Cost	$ 5,718	$ 7,210	$ 8,703	$ 19	$ 415	$ 812
Net Actuarial Loss	(19,717)	(23,733)	(23,654)	132	253	74
Accumulated Other Comprehensive Income (Loss)	(13,999)	(16,523)	(14,951)	151	668	886
Accrued Benefits Cost	29,293	30,697	32,357	(1,585)	(2,179)	(2,809)
Net Asset (Liability) Recognized in Balance Sheet	$ 15,294	$ 14,174	$ 17,406	$ (1,434)	$ (1,511)	$ (1,923)
Change in Accumulated Other Comprehensive Income (Loss):						
Beginning of Year (No Tax Effect)	$ (16,523)	$ (14,952)	$ (31,547)	$ 668	$ 885	$ 1,054
Less Amounts Amortized During the Year:						
Prior Service Credit Arising During the Year	(1,493)	(1,493)	(1,493)	(396)	(396)	(396)
Net (Income) Loss Arising During the Year	1,881	1,413	3,148	(33)	(48)	(30)
Occurring During the Year:						
Plan Change	-	-	-	-	-	-
Amortization of Net Gain (Loss)	322	(5,766)	12,349	(88)	227	257
Settlement	1,814	4,275	2,591	-	-	-
End of Year	$ (13,999)	$ (16,523)	$ (14,952)	$ 151	$ 668	$ 885

(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		
	2023	2022	2021	2023	2022	2021
Prior Service Credit Before Tax	$ (1,493)	$ (1,493)	$ (1,493)	$ (396)	$ (396)	$ (396)
Tax Benefit	(403)	(403)	(403)	(107)	(107)	(107)
Prior Service Credit Net of Tax	(1,090)	(1,090)	(1,090)	(289)	(289)	(289)
Net Loss Before Tax	1,881	1,413	3,148	(33)	(48)	(30)
Tax Expense	508	382	850	(9)	(13)	(8)
Net Loss Net of Tax	1,373	1,031	2,298	(24)	(35)	(22)
Amortization of Net Gain (Loss) Before Tax	322	(5,766)	12,349	(88)	227	257
Tax Expense (Benefit)	87	(1,557)	3,334	(24)	61	69
Amortization of Net Gain (Loss) Net of Tax	235	(4,209)	9,015	(64)	166	188
Settlement	1,814	4,275	2,591	-	-	-
Tax Expense	490	1,154	700	-	-	-
Settlement Net of Tax	1,324	3,121	1,891	-	-	-
Total	$ 1,842	$ (1,147)	$ 12,114	$ (377)	$ (158)	$ (123)

As of June 24, 2023, the defined benefit pension plans and the postretirement medical plan had accumulated benefit obligations of approximately $70,000 and $1,400, respectively. At June 25, 2022, the defined benefit pension plans and the postretirement medical plan experienced accumulated benefit obligations of approximately $74,000 and $1,500, respectively. At June 26, 2021, the defined benefit pension plans and the postretirement medical plan experienced accumulated benefit obligations of approximately $99,000 and $1,900, respectively.

The change in deferred taxes recognized in other comprehensive income (loss) approximated $(500), $600, and ($4,300) during 2023, 2022, and 2021, respectively.

	Retirement and Pension Plan			Postretirement Medical Plan		
	2023	2022	2021	2023	2022	2021
Components of Net Periodic Benefit (Costs) Income:						
Service Cost	$ (2,869)	$ (4,027)	$ (4,293)	$ -	$ -	$ -
Interest Cost	(3,491)	(3,336)	(3,500)	(71)	(60)	(76)
Expected Return on Plan Assets	5,345	7,080	5,657	-	-	-
Amortization	(388)	80	(1,655)	431	444	426
Net Periodic Benefit (Costs) Income	$ (1,403)	$ (203)	$ (3,791)	$ 360	$ 384	$ 350

(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:

	2023 Retirement and Pension Plan	2023 Postretirement Medical	2022 Retirement and Pension Plan	2022 Postretirement Medical	2021 Retirement and Pension Plan	2021 Postretirement Medical
Discount Rate	5.25%	5.25%	4.75%	4.75%	3.50%	3.50%
Salary Increase	4.00%	N/A	4.00%	N/A	4.00%	N/A
Current Year Trend	N/A	7.00%	N/A	6.25%	N/A	6.50%
Ultimate Year Trend	N/A	5.00%	N/A	4.50%	N/A	4.50%
Year of Ultimate Trend Date	N/A	2032	N/A	2029	N/A	2029

Weighted average assumptions used to determine net periodic pension cost:

	Retirement and Pension Plan	Postretirement Medical	Retirement and Pension Plan	Postretirement Medical	Retirement and Pension Plan	Postretirement Medical
Discount Rate	4.75%	4.75%	4.75%	4.75%	3.50%	3.50%
Salary Increase	N/A	N/A	N/A	N/A	N/A	N/A
Long-Term Rate of Return on Assets	6.25%	N/A	6.25%	N/A	6.25%	N/A
Current Year Trend	N/A	6.00%	N/A	6.25%	N/A	6.50%
Ultimate Year Trend	N/A	4.50%	N/A	4.50%	N/A	4.50%
Year of Ultimate Trend Date	N/A	2029	N/A	2029	N/A	2029

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)

Defined Benefit Plan Assets (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 24, 2023, and June 25, 2022:

	2023		2022	
	Target Allocation	Retirement and Pension Plan	Target Allocation	Retirement and Pension Plan
Equity Securities	25 %	24 %	52 %	50 %
Debt Securities	70	65	33	36
Other	5	11	15	14
Total	100 %	100 %	100 %	100 %

No assets were held by the postretirement medical benefit plan at June 24, 2023 or June 25, 2022.

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 24, 2023:

Defined Benefit Pension Plan	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Mutual Funds:				
Money Market	$ 2,515	$ 2,515	$ -	$ -
Domestic Equity	12,372	12,372	-	-
International Equity	7,709	7,709	-	-
Domestic Fixed	55,204	55,204	-	-
Alternative	7,618	-	7,618	-
Total	$ 85,418	$ 77,800	$ 7,618	$ -

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 25, 2022:

Defined Benefit Pension Plan	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Mutual Funds:				
Money Market	$ 1,661	$ 1,661	$ -	$ -
Domestic Equity	26,071	26,071	-	-
International Equity	18,115	18,115	-	-
Domestic Fixed	31,399	31,399	-	-
Alternative	11,124	-	11,124	-
Total	$ 88,370	$ 77,246	$ 11,124	$ -

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 9 INCOME TAXES

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law in March 2020. The enactment of the CARES Act did not result in any material adjustments to our income tax provision for the fiscal year ended June 27, 2020.

On December 28, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA included the COVID-related Tax Relief Act of 2020 (COVID TRA), which expanded, extended, and clarified selected CARES Act provisions, specifically on the Paycheck Protection Program (PPP) Loan and Employee Retention Tax Credit, 100% deductibility of business meals purchased from restaurants as well as other tax extenders. The CAA did not have a material impact on the Company's income tax provision.

On March 11, 2021, the American Rescue Plan (ARP) was signed into law. The ARP extended the Employee Retention Credit through December 31, 2021 with certain changes, extended certain paid sick and family leave credits, among other changes to existing tax law. The ARP did not have a material impact on the Company's income tax provision.

The provision for income taxes at June 24, 2023, June 25, 2022, and June 26, 2021, consisted of the following:

	2023	2022	2021
Federal Income Tax:			
Current	$ 2,327	$ 308	$ 1,097
Deferred	(1,778)	1,416	(348)
State Income Tax:			
Current	543	155	398
Deferred	(508)	404	(99)
Total	$ 584	$ 2,283	$ 1,048

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.

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 9 INCOME TAXES (CONTINUED)

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

	2023	2022
Assets:		
Accrued Assets	$ 2,194	$ 1,833
Deferred Compensation	4,436	4,353
Allowance for Doubtful Accounts	205	206
Inventory Obsolescence	799	961
Postretirement Health Care Expense	427	588
Right-of-Use Lease Liability	32,985	-
Retirement and Pension Plan	3,779	4,461
Total Assets	44,825	12,402
Liabilities:		
Retirement Plan Expense	(1,825)	(2,174)
Fixed Assets	(182)	-
Prepaids and Other	(129)	(68)
Investment in Nation's Best	(496)	(1,150)
Right-of-Use Lease Asset	(31,579)	-
Interest Rate Swaps	(47)	-
Postretirement Medical Plan	(40)	(180)
Total Liabilities	(34,298)	(3,572)
Net Deferred Tax Asset	$ 10,527	$ 8,830

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

	2023	2022	2021
Income Tax Expense at Statutory Rates	$ 612	$ 1,940	$ 1,086
State Taxes, Net of Federal Benefit	138	437	245
Nondeductible Expenses	147	23	(49)
Other	(313)	(117)	(234)
Total	$ 584	$ 2,283	$ 1,048

NOTE 10 FAIR VALUE

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 Company to estimate the fair values of investments apply to investments held directly by the Company.

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).

Interest Rate Swaps: The fair value of the interest rate swap is estimated by a third-party using a model that builds a yield curve from market date for actively traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties (Level 2 inputs).

Commodity Derivatives: The commodity derivatives consist of lumber contracts on the Chicago Mercantile Exchange (CME) held in a brokerage account and are included in other current assets. The fair values are obtained from quoted market prices from the CME for identical contracts (Level 1 inputs).

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.

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 10 FAIR VALUE (CONTINUED)

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 24, 2023			
	Total	Level 1	Level 2	Level 3
Assets:				
Other Assets:				
Interest Rate Swaps	$ 174	$ -	$ 174	$ -
Commodity Derivatives	340	340	-	-
Mutual Funds	22,318	22,318	-	-
Total	$ 22,832	$ 22,658	$ 174	$ -

	June 25, 2022			
	Total	Level 1	Level 2	Level 3
Assets:				
Other Assets:				
Commodity Derivatives	$ 370	$ 370	$ -	$ -
Mutual Funds	19,877	19,877	-	-
Total	$ 20,247	$ 20,247	$ -	$ -

The Companies' mutual fund investments consist of money market funds, fixed income funds, and equity funds, and fair value was determined using quoted market prices based on the closing price (Level 1 inputs) as of the consolidated balance sheet date.

NOTE 11 DERIVATIVE INSTRUMENTS AND HEDGING

The Company recognizes all of its derivative instruments as either assets or liabilities in its consolidated balance sheet at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a reporting entity must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in foreign operations. The Company's interest rate swap has been designated as a hedging instrument, while the commodity derivatives have not been designated as a hedging instrument.

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 11 DERIVATIVE INSTRUMENTS AND HEDGING (CONTINUED)

The following table sets forth the fair value of derivatives instruments as of:

	Asset Derivatives			
	June 24, 2023		June 25, 2022	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Instruments Not Designated as Hedges:				
Commodity Contracts:				
Exchange Traded Futures Unrealized Gain	Other Assets	$ 340	Other Assets	$ 370
Instruments Designated as Hedges:				
Interest Rate Swaps	Other Assets	$ 174	Other Assets	$ -

The following table summarizes the gains and losses on derivative instruments recognized in the consolidated statements of income for the years ended:

	Derivative Gain (Loss)			
	June 24, 2023		June 25, 2022	
	Statement of Operations Location	Gain	Statement of Operations Location	Loss
Commodity Contracts:				
Exchange Traded Futures	Cost of Sales	$ 3,122	Cost of Sales	$ (2,304)

(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 12 ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income show as a component of shareholders' equity is comprised of the following:

	Defined Benefit Pension	Postretirement Medical Plan	Cash Flow Hedges	Tax (Expense) Benefit	Total	Affected Line Item in Statement of Income
Balance - June 26, 2021	$ (14,596)	$ 529	$ -	$ 3,798	$ (10,269)	
Other Comprehensive Income (Loss) Before Reclassifications	(1,491)	227	-	341	(923)	
Reclassification Adjustment for (Gains) Losses Included in Net Income (Loss):						
Amortization of Postretirement Medical Plan Items	-	(444)	-	120	(324)	Pension Costs
Amortization of Defined Benefit Pension Items	(80)	-	-	22	(58)	Pension Costs
Net Other Comprehensive Income (Loss) for Year	(1,571)	(217)	-	483	(1,305)	
Balance - June 25, 2022	(16,167)	312	-	4,281	(11,574)	
Other Comprehensive Income (Loss) Before Reclassifications	2,136	(88)	-	(553)	1,495	
Interest Rate Swap Agreements, Unrealized Gains	-	-	174	(47)	127	
Reclassification Adjustment for (Gains) Losses Included in Net Income (Loss):						
Amortization of Postretirement Medical Plan Items	-	(429)	-	116	(313)	Pension Costs
Amortization of Defined Benefit Pension Items	388	-	-	(105)	283	Pension Costs
Net Other Comprehensive Income (Loss) for Year	2,524	(517)	174	(589)	1,592	
Balance - June 24, 2023	$ (13,643)	$ (205)	$ 174	$ 3,692	$ (9,982)	

NOTE 13 COMMITMENTS AND CONTINGENCIES

The Company was contingently liable at June 24, 2023, and June 25, 2022, under a loan guarantee program, which has a maximum borrowing capacity of $20,000 at both June 24, 2023, and June 25, 2022, 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 members can elect to amortize over a period of 12 to 120 months in equal 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.

Interest on the loans will be payable at a fixed rate to be determined by the banks at the time of funding. At June 24, 2023, and June 25, 2022, interest rates on the loans ranged from 2.50% to 8.00%.

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The risk of loss under these agreements is spread over many members and is the estimated fair value of the loans 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 24, 2023, and June 25, 2022, 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.