# Form 5500

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

## Annual Return/Report of Employee Benefit Plan

This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6057(b) and 6058(a) of the Internal Revenue Code (the Code).

▶ **Complete all entries in accordance with the instructions to the Form 5500.**

OMB Nos. 1210-0110
1210-0089

**2016**

**This Form is Open to Public Inspection**

## Part I Annual Report Identification Information

For calendar plan year 2016 or fiscal plan year beginning 11/01/2016 and ending 10/31/2017

**A** This return/report is for:
- [ ] a multiemployer plan
- [ ] a multiple-employer plan (Filers checking this box must attach a list of participating employer information in accordance with the form instructions.)
- [X] a single-employer plan
- [ ] a DFE (specify) ____

**B** This return/report is:
- [ ] the first return/report
- [ ] the final return/report
- [ ] an amended return/report
- [ ] a short plan year return/report (less than 12 months)

**C** If the plan is a collectively-bargained plan, check here. . . . . ▶ [ ]

**D** Check box if filing under:
- [X] Form 5558
- [ ] automatic extension
- [ ] the DFVC program
- [ ] special extension (enter description)

## Part II Basic Plan Information—enter all requested information

**1a** Name of plan
DESCO INDUSTRIES, INC. PROFIT SHARING PLAN

**1b** Three-digit plan number (PN) ▶ 001

**1c** Effective date of plan 11/01/1985

**2a** Plan sponsor's name (employer, if for a single-employer plan)
Mailing address (include room, apt., suite no. and street, or P.O. Box)
City or town, state or province, country, and ZIP or foreign postal code (if foreign, see instructions)

DESCO INDUSTRIES, INC.

3651 WALNUT AVENUE
CHINO, CA 91710

**2b** Employer Identification Number (EIN) 95-3368148

**2c** Plan Sponsor's telephone number 909-627-8178

**2d** Business code (see instructions) 335900

**Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.**

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

| | | | |
|---|---|---|---|
| **SIGN HERE** | Filed with authorized/valid electronic signature. | 08/15/2018 | SANDY STAUP |
| | **Signature of plan administrator** | Date | Enter name of individual signing as plan administrator |
| **SIGN HERE** | Filed with authorized/valid electronic signature. | 08/15/2018 | SANDY STAUP |
| | **Signature of employer/plan sponsor** | Date | Enter name of individual signing as employer or plan sponsor |
| **SIGN HERE** | | | |
| | **Signature of DFE** | Date | Enter name of individual signing as DFE |

Preparer's name (including firm name, if applicable) and address (include room or suite number)

Preparer's telephone number

| | | |
|---|---|---|
| **3a** Plan administrator's name and address [X] Same as Plan Sponsor | **3b** Administrator's EIN | |
| | **3c** Administrator's telephone number | |
| **4** If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: | **4b** EIN | |
| **a** Sponsor's name | **4c** PN | |

| | | |
|---|---|---|
| **5** Total number of participants at the beginning of the plan year | **5** | 362 |
| **6** Number of participants as of the end of the plan year unless otherwise stated (welfare plans complete only lines **6a(1), 6a(2), 6b, 6c,** and **6d**). | | |
| **a(1)** Total number of active participants at the beginning of the plan year | **6a(1)** | 324 |
| **a(2)** Total number of active participants at the end of the plan year | **6a(2)** | 340 |
| **b** Retired or separated participants receiving benefits | **6b** | 0 |
| **c** Other retired or separated participants entitled to future benefits | **6c** | 56 |
| **d** Subtotal. Add lines **6a(2)**, **6b**, and **6c**. | **6d** | 396 |
| **e** Deceased participants whose beneficiaries are receiving or are entitled to receive benefits. | **6e** | 0 |
| **f** Total. Add lines **6d** and **6e**. | **6f** | 396 |
| **g** Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item) | **6g** | 335 |
| **h** Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested | **6h** | 3 |
| **7** Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item) | **7** | |

**8a** If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions:
2E 3D

**b** If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:

**9a** Plan funding arrangement (check all that apply)

- **(1)** [ ] Insurance
- **(2)** [ ] Code section 412(e)(3) insurance contracts
- **(3)** [X] Trust
- **(4)** [ ] General assets of the sponsor

**9b** Plan benefit arrangement (check all that apply)

- **(1)** [ ] Insurance
- **(2)** [ ] Code section 412(e)(3) insurance contracts
- **(3)** [X] Trust
- **(4)** [ ] General assets of the sponsor

**10** Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)

**a Pension Schedules**

- **(1)** [X] **R** (Retirement Plan Information)
- **(2)** [ ] **MB** (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary
- **(3)** [ ] **SB** (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary

**b General Schedules**

- **(1)** [X] **H** (Financial Information)
- **(2)** [ ] **I** (Financial Information – Small Plan)
- **(3)** [ ] **A** (Insurance Information)
- **(4)** [ ] **C** (Service Provider Information)
- **(5)** [ ] **D** (DFE/Participating Plan Information)
- **(6)** [ ] **G** (Financial Transaction Schedules)

## Part III Form M-1 Compliance Information (to be completed by welfare benefit plans)

**11a** If the plan provides welfare benefits, was the plan subject to the Form M-1 filing requirements during the plan year? (See instructions and 29 CFR 2520.101-2.) ..... ☐ Yes ☐ No

If "Yes" is checked, complete lines 11b and 11c.

**11b** Is the plan currently in compliance with the Form M-1 filing requirements? (See instructions and 29 CFR 2520.101-2.) ..... ☐ Yes ☐ No

**11c** Enter the Receipt Confirmation Code for the 2016 Form M-1 annual report. If the plan was not required to file the 2016 Form M-1 annual report, enter the Receipt Confirmation Code for the most recent Form M-1 that was required to be filed under the Form M-1 filing requirements. (Failure to enter a valid Receipt Confirmation Code will subject the Form 5500 filing to rejection as incomplete.)

Receipt Confirmation Code_____

# SCHEDULE H (Form 5500)

Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

## Financial Information

This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code).

▶ **File as an attachment to Form 5500.**

OMB No. 1210-0110

**2016**

**This Form is Open to Public Inspection**

For calendar plan year 2016 or fiscal plan year beginning 11/01/2016 and ending 10/31/2017

**A** Name of plan
DESCO INDUSTRIES, INC. PROFIT SHARING PLAN

**B** Three-digit plan number (PN) ▶ 001

**C** Plan sponsor's name as shown on line 2a of Form 5500
DESCO INDUSTRIES, INC.

**D** Employer Identification Number (EIN)
95-3368148

## Part I Asset and Liability Statement

**1** Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. **Round off amounts to the nearest dollar.** MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.

| Assets | | (a) Beginning of Year | (b) End of Year |
|---|---|---|---|
| **a** Total noninterest-bearing cash | 1a | 54263 | 168254 |
| **b** Receivables (less allowance for doubtful accounts): | | | |
| **(1)** Employer contributions | 1b(1) | 0 | 0 |
| **(2)** Participant contributions | 1b(2) | 0 | 0 |
| **(3)** Other | 1b(3) | 19878 | 19442 |
| **c** General investments: | | | |
| **(1)** Interest-bearing cash (include money market accounts & certificates of deposit) | 1c(1) | 0 | 0 |
| **(2)** U.S. Government securities | 1c(2) | 0 | 0 |
| **(3)** Corporate debt instruments (other than employer securities): | | | |
| **(A)** Preferred | 1c(3)(A) | 0 | 0 |
| **(B)** All other | 1c(3)(B) | 0 | |
| **(4)** Corporate stocks (other than employer securities): | | | |
| **(A)** Preferred | 1c(4)(A) | 0 | 0 |
| **(B)** Common | 1c(4)(B) | 16008909 | 17704860 |
| **(5)** Partnership/joint venture interests | 1c(5) | 0 | 0 |
| **(6)** Real estate (other than employer real property) | 1c(6) | 0 | 0 |
| **(7)** Loans (other than to participants) | 1c(7) | 0 | 0 |
| **(8)** Participant loans | 1c(8) | 543821 | 575400 |
| **(9)** Value of interest in common/collective trusts | 1c(9) | 0 | 0 |
| **(10)** Value of interest in pooled separate accounts | 1c(10) | 0 | 0 |
| **(11)** Value of interest in master trust investment accounts | 1c(11) | 0 | 0 |
| **(12)** Value of interest in 103-12 investment entities | 1c(12) | 0 | 0 |
| **(13)** Value of interest in registered investment companies (e.g., mutual funds) | 1c(13) | 0 | 0 |
| **(14)** Value of funds held in insurance company general account (unallocated contracts) | 1c(14) | 0 | 0 |
| **(15)** Other | 1c(15) | 0 | 0 |

| | | | (a) Beginning of Year | (b) End of Year |
|---|---|---|---|---|
| **1d** | Employer-related investments: | | | |
| | **(1)** Employer securities | **1d(1)** | 0 | 0 |
| | **(2)** Employer real property | **1d(2)** | 0 | 0 |
| **e** | Buildings and other property used in plan operation | **1e** | 0 | 0 |
| **f** | Total assets (add all amounts in lines 1a through 1e) | **1f** | 16626871 | 18467956 |
| | **Liabilities** | | | |
| **g** | Benefit claims payable | **1g** | 3763 | 4693 |
| **h** | Operating payables | **1h** | 0 | 0 |
| **i** | Acquisition indebtedness | **1i** | 1 | 0 |
| **j** | Other liabilities | **1j** | 0 | 0 |
| **k** | Total liabilities (add all amounts in lines 1g through1j) | **1k** | 3764 | 4693 |
| | **Net Assets** | | | |
| **l** | Net assets (subtract line 1k from line 1f) | **1l** | 16623107 | 18463263 |

## Part II Income and Expense Statement

**2** Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

| | Income | | (a) Amount | (b) Total |
|---|---|---|---|---|
| **a** | **Contributions:** | | | |
| | **(1)** Received or receivable in cash from: **(A)** Employers | **2a(1)(A)** | 0 | |
| | **(B)** Participants | **2a(1)(B)** | 0 | |
| | **(C)** Others (including rollovers) | **2a(1)(C)** | 23551 | |
| | **(2)** Noncash contributions | **2a(2)** | 0 | |
| | **(3)** Total contributions. Add lines **2a(1)(A), (B), (C),** and line **2a(2)** | **2a(3)** | | 23551 |
| **b** | **Earnings on investments:** | | | |
| | **(1)** Interest: | | | |
| | **(A)** Interest-bearing cash (including money market accounts and certificates of deposit) | **2b(1)(A)** | 82 | |
| | **(B)** U.S. Government securities | **2b(1)(B)** | 0 | |
| | **(C)** Corporate debt instruments | **2b(1)(C)** | 0 | |
| | **(D)** Loans (other than to participants) | **2b(1)(D)** | 0 | |
| | **(E)** Participant loans | **2b(1)(E)** | 54456 | |
| | **(F)** Other | **2b(1)(F)** | 94 | |
| | **(G)** Total interest. Add lines **2b(1)(A)** through **(F)** | **2b(1)(G)** | | 54632 |
| | **(2)** Dividends: **(A)** Preferred stock | **2b(2)(A)** | 0 | |
| | **(B)** Common stock | **2b(2)(B)** | 0 | |
| | **(C)** Registered investment company shares (e.g. mutual funds) | **2b(2)(C)** | 0 | |
| | **(D)** Total dividends. Add lines **2b(2)(A)**, **(B)**, and **(C)** | **2b(2)(D)** | | 0 |
| | **(3)** Rents | **2b(3)** | | 0 |
| | **(4)** Net gain (loss) on sale of assets: **(A)** Aggregate proceeds | **2b(4)(A)** | 2845951 | |
| | **(B)** Aggregate carrying amount (see instructions) | **2b(4)(B)** | 0 | |
| | **(C)** Subtract line **2b(4)(B)** from line **2b(4)(A)** and enter result | **2b(4)(C)** | | 2845951 |
| | **(5)** Unrealized appreciation (depreciation) of assets: **(A)** Real estate | **2b(5)(A)** | 0 | |
| | **(B)** Other | **2b(5)(B)** | 0 | |
| | **(C)** Total unrealized appreciation of assets. Add lines **2b(5)(A)** and **(B)** | **2b(5)(C)** | | 0 |

| | | (a) Amount | (b) Total |
|---|---|---|---|
| (6) Net investment gain (loss) from common/collective trusts | 2b(6) | | 0 |
| (7) Net investment gain (loss) from pooled separate accounts | 2b(7) | | 0 |
| (8) Net investment gain (loss) from master trust investment accounts | 2b(8) | | 0 |
| (9) Net investment gain (loss) from 103-12 investment entities | 2b(9) | | 0 |
| (10) Net investment gain (loss) from registered investment companies (e.g., mutual funds) | 2b(10) | | 0 |
| c Other income | 2c | | 0 |
| d Total income. Add all **income** amounts in column (b) and enter total | 2d | | 2924134 |
| **Expenses** | | | |
| e Benefit payment and payments to provide benefits: | | | |
| (1) Directly to participants or beneficiaries, including direct rollovers | 2e(1) | 1083963 | |
| (2) To insurance carriers for the provision of benefits | 2e(2) | 0 | |
| (3) Other | 2e(3) | 0 | |
| (4) Total benefit payments. Add lines **2e(1)** through **(3)** | 2e(4) | | 1083963 |
| f Corrective distributions (see instructions) | 2f | | 0 |
| g Certain deemed distributions of participant loans (see instructions) | 2g | | 0 |
| h Interest expense | 2h | | 0 |
| i Administrative expenses: (1) Professional fees | 2i(1) | 15 | |
| (2) Contract administrator fees | 2i(2) | 0 | |
| (3) Investment advisory and management fees | 2i(3) | 0 | |
| (4) Other | 2i(4) | 0 | |
| (5) Total administrative expenses. Add lines **2i(1)** through **(4)** | 2i(5) | | 15 |
| j Total expenses. Add all **expense** amounts in column (b) and enter total | 2j | | 1083978 |
| **Net Income and Reconciliation** | | | |
| k Net income (loss). Subtract line **2j** from line **2d** | 2k | | 1840156 |
| l Transfers of assets: | | | |
| (1) To this plan | 2l(1) | | 0 |
| (2) From this plan | 2l(2) | | 0 |

## Part III Accountant's Opinion

**3** Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

**a** The attached opinion of an independent qualified public accountant for this plan is (see instructions):

**(1)** [ ] Unqualified **(2)** [ ] Qualified **(3)** [X] Disclaimer **(4)** [ ] Adverse

**b** Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)? [X] Yes [ ] No

**c** Enter the name and EIN of the accountant (or accounting firm) below:

**(1)** Name: KHO & PATEL **(2)** EIN: 33-0381007

**d** The opinion of an independent qualified public accountant is **not attached** because:

**(1)** [ ] This form is filed for a CCT, PSA, or MTIA. **(2)** [ ] It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

## Part IV Compliance Questions

**4** CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

| | | Yes | No | Amount |
|---|---|---|---|---|
| **a** Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.) | 4a | | X | |
| **b** Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.) | 4b | | X | |

| | | | Yes | No | Amount |
|---|---|---|---|---|---|
| c | Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.) | 4c | | X | |
| d | Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.) | 4d | | X | |
| e | Was this plan covered by a fidelity bond? | 4e | X | | 500000 |
| f | Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty? | 4f | | X | |
| g | Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser? | 4g | | X | |
| h | Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser? | 4h | | X | |
| i | Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.) | 4i | X | | |
| j | Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.) | 4j | | X | |
| k | Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC? | 4k | | X | |
| l | Has the plan failed to provide any benefit when due under the plan? | 4l | | X | |
| m | If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.) | 4m | | X | |
| n | If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3 | 4n | | | |
| o | Defined Benefit Plan or Money Purchase Pension Plan Only: Were any distributions made during the plan year to an employee who attained age 62 and had not separated from service? | 4o | | | |

**5a** Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?
If "Yes," enter the amount of any plan assets that reverted to the employer this year ☐ **Yes** ☒ **No** **Amount:**

**5b** If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

| **5b(1)** Name of plan(s) | **5b(2)** EIN(s) | **5b(3)** PN(s) |
|---|---|---|
| | | |
| | | |
| | | |
| | | |

**5c** If the plan is a defined benefit plan, is it covered under the PBGC insurance program (See ERISA section 4021.)? ..... ☐ Yes ☐ No ☐ Not determined
If "Yes" is checked, enter the My PAA confirmation number from the PBGC premium filing for this plan year_____. (See instructions.)

## Part V Trust Information

| **6a** Name of trust | **6b** Trust's EIN |
|---|---|
| | |

| **6c** Name of trustee or custodian | **6d** Trustee's or custodian's telephone number |
|---|---|
| | |

# SCHEDULE R (Form 5500)

Department of the Treasury
Internal Revenue Service

Department of Labor
Employee Benefits Security Administration

Pension Benefit Guaranty Corporation

## Retirement Plan Information

This schedule is required to be filed under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code).

▶ **File as an attachment to Form 5500.**

OMB No. 1210-0110

**2016**

**This Form is Open to Public Inspection.**

For calendar plan year 2016 or fiscal plan year beginning 11/01/2016 and ending 10/31/2017

**A** Name of plan
DESCO INDUSTRIES, INC. PROFIT SHARING PLAN

**B** Three-digit plan number (PN) ▶ 001

**C** Plan sponsor's name as shown on line 2a of Form 5500
DESCO INDUSTRIES, INC.

**D** Employer Identification Number (EIN)
95-3368148

## Part I Distributions

**All references to distributions relate only to payments of benefits during the plan year.**

**1** Total value of distributions paid in property other than in cash or the forms of property specified in the instructions ..... **1** 0

**2** Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits):

EIN(s): 95-4482304

**Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.**

**3** Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year ..... **3**

## Part II Funding Information (If the plan is not subject to the minimum funding requirements of section of 412 of the Internal Revenue Code or ERISA section 302, skip this Part.)

**4** Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

**If the plan is a defined benefit plan, go to line 8.**

**5** If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. **Date:** Month _____ Day _____ Year _____

**If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.**

**6** **a** Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived) ..... **6a**

**b** Enter the amount contributed by the employer to the plan for this plan year ..... **6b**

**c** Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount) ..... **6c**

**If you completed line 6c, skip lines 8 and 9.**

**7** Will the minimum funding amount reported on line 6c be met by the funding deadline? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

**8** If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change? ..... ☐ **Yes** ☐ **No** ☐ **N/A**

## Part III Amendments

**9** If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box. ..... ☐ **Increase** ☐ **Decrease** ☐ **Both** ☐ **No**

## Part IV ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.

**10** Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan? ..... ☐ **Yes** ☐ **No**

**11** **a** Does the ESOP hold any preferred stock? ..... ☐ **Yes** ☐ **No**

**b** If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.) ..... ☐ **Yes** ☐ **No**

**12** Does the ESOP hold any stock that is not readily tradable on an established securities market? ..... ☐ **Yes** ☐ **No**

## Part V Additional Information for Multiemployer Defined Benefit Pension Plans

**13** Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

---

**a** Name of contributing employer

**b** EIN **c** Dollar amount contributed by employer

**d** Date collective bargaining agreement expires *(If employer contributes under more than one collective bargaining agreement, check box* ☐ *and see instructions regarding required attachment. Otherwise, enter the applicable date.)* Month _____ Day _____ Year _____

**e** Contribution rate information *(If more than one rate applies, check this box* ☐ *and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)*
(1) Contribution rate (in dollars and cents) _____
(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

**14** Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

| | | |
|---|---|---|
| **a** The current year | **14a** | |
| **b** The plan year immediately preceding the current plan year | **14b** | |
| **c** The second preceding plan year | **14c** | |

**15** Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

| | | |
|---|---|---|
| **a** The corresponding number for the plan year immediately preceding the current plan year | **15a** | |
| **b** The corresponding number for the second preceding plan year | **15b** | |

**16** Information with respect to any employers who withdrew from the plan during the preceding plan year:

| | | |
|---|---|---|
| **a** Enter the number of employers who withdrew during the preceding plan year | **16a** | |
| **b** If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers | **16b** | |

**17** If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

## Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

**18** If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐

**19** If the total number of participants is 1,000 or more, complete lines (a) through (c)

**a** Enter the percentage of plan assets held as:
Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%

**b** Provide the average duration of the combined investment-grade and high-yield debt:
☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

**c** What duration measure was used to calculate line 19(b)?
☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify):

## Part VII IRS Compliance Questions

| | |
|---|---|
| **20a** Is the plan a 401(k) plan? If "No," skip b | ☐ Yes ☐ No |
| **20b** How did the plan satisfy the nondiscrimination requirements for employee deferrals under section 401(k)(3) for the plan year? Check all that apply: | ☐ Design-based safe harbor ☐ "Prior year" ADP test ☐ "Current year" ADP test ☐ N/A |
| **21a** What testing method was used to satisfy the coverage requirements under section 410(b) for the plan year? Check all that apply: | ☐ Ratio percentage test ☐ Average benefit test ☐ N/A |
| **21b** Did the plan satisfy the coverage and nondiscrimination requirements of sections 410(b) and 401(a)(4) for the plan year by combining this plan with any other plan under the permissive aggregation rules? | ☐ Yes ☐ No |

**22a** If the plan is a master and prototype plan (M&P) or volume submitter plan that received a favorable IRS opinion letter or advisory letter, enter the date of the letter _____/_____/_____ and the serial number _____.

**22b** If the plan is an individually-designed plan that received a favorable determination letter from the IRS, enter the date of the most recent determination letter _____/_____/_____.

DESCO INDUSTRIES, INC.
PROFIT SHARING PLAN
FINANCIAL STATEMENTS
October 31, 2017 and 2016
SUPPLEMENTAL INFORMATION
October 31, 2017

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
October 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Plan Administrator of
Desco Industries, Inc. Profit Sharing Plan
3561 Walnut Avenue
Chino, California 91730-2940

## Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Desco Industries, Inc. Profit Sharing Plan, which comprise the statements of net assets available for benefits as of October 31, 2017 and 2016, and the related statement of changes in net assets available for benefits for the year ended October 31, 2017, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note E, which was certified by City National Bank, the custodian of the Plan, except for comparing the information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the custodian holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the custodian as of and for the years ended October 31, 2017 and 2016, that the information provided to the plan administrator by the custodian is complete and accurate.

## Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

## Other Matter

The supplemental Schedule of Assets (Held at End of Year), October 31, 2017, is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on the supplemental schedule referred to above.

## Report on Form and Content in Compliance With DOL Rules and Regulations

The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the custodian, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

KHO & PATEL

Kho & Patel

San Dimas, California
August 15, 2018

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
October 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Investments at fair value | $ 17,873,114 | $ 16,063,172 |
| Receivables | | |
| Notes receivable from participants | 575,400 | 543,821 |
| Participant loan payments receivable | 19,443 | 19,879 |
| Total receivables | 594,843 | 563,700 |
| Total assets | 18,467,957 | 16,626,872 |
| LIABILITIES | | |
| Distributions payable | - | - |
| Withheld state and federal taxes payable | 4,693 | 3,764 |
| Total liabilities | 4,693 | 3,764 |
| Net assets available for benefits | $ 18,463,264 | $ 16,623,108 |

See accompanying notes.

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Year Ended October 31, 2017

| | | | |
|---|---|---|---|
| ADDITIONS | | | |
| Investment income | | | |
| Net appreciation in fair value of investments | $ 2,524,378 | | |
| Interest | 97,789 | | |
| Dividends | 223,341 | | |
| Other | 619 | | |
| | 2,846,127 | | |
| Less: investment expense | - | | |
| Total investment income | | $ | 2,846,127 |
| Interest income on notes receivable from participants | | | 54,456 |
| Contributions | | | |
| Employer | - | | |
| Rollover | 23,551 | | |
| Total contributions | | | 23,551 |
| Total additions to net assets | | | 2,924,134 |
| DEDUCTIONS | | | |
| Benefits paid to participants | 1,083,963 | | |
| Bank fees | 15 | | |
| Total deductions from net assets | | | 1,083,978 |
| Net increase | | | 1,840,156 |
| NET ASSETS AVAILABLE FOR BENEFITS | | | |
| Beginning of year | | | 16,623,108 |
| End of year | | $ | 18,463,264 |

See accompanying notes.

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
Notes to Financial Statements

## Note A – Description of the Plan

The following description of the Desco Industries, Inc. (the Company) Profit Sharing Plan (the Plan) provides only general information only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

### *General*

The Company established the Plan effective November 1, 1985, and is most recently amended and restated November 1, 2015. The Plan is a defined contribution plan covering substantially all employees of the Company who have attained the age of twenty and one-half (20 ½) and have completed six months of service. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan is administered by person(s) appointed by the Company's Board of Directors. Wayne D. Hunter and John J. Brake, Jr. are the Plan's co-trustees pursuant to a trust agreement.

### *Contributions*

Each year, the Company determines the amount to be contributed to the Plan. Contributions are discretionary and can be made out of current or accumulated net income of the Company. Company contributions were $0 and $0 for the years ended October 31, 2017 and 2016, respectively. Other than rollovers, participant contributions are not permitted under the Plan. Contributions are subject to certain statutory limitations.

### *Participant Accounts*

Each participant's account is credited with an allocation of (a) the Company's contribution, (b) Plan earnings (losses), and (c) forfeitures of terminated participants' nonvested accounts. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Note A – Description of the Plan (continued)

*Vesting*

Participants are immediately vested in their rollover contributions plus actual earnings thereon. If a participant's employment with the Company ends for any reason other than retirement (age 65), permanent disability, or death, he or she will vest in the balances in his or her account based on total years of service with the Company. A participant is 100% vested in the Company's discretionary profit sharing contribution portion of their account plus earnings thereon after six years of credited service.

*Notes Receivable from Participants*

Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance. Participants may borrow from their fund accounts a maximum amount equal to the lesser of $50,000 or 50% of their vested account balance. Loan terms range from 1 to 5 years, or within a reasonable period of time that is longer than 5 years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear varying rates of interest. Principal and interest is paid ratably through payroll deductions and/or supplementary payments by participants.

*Payments of Benefits*

On termination of service due to death, disability, retirement, or any other reasons, a participant shall receive the value of the vested interest in his or her account as a single lump-sum distribution. Distribution upon the death of a participant prior to receiving any benefit shall be made pursuant to the election of the participant or beneficiary, subject to the provisions of the Plan documents.

*Forfeited Accounts*

The non-vested portion of a terminated participant's account will be forfeited and reallocated among participants eligible to share in the reallocation on the earlier of (1) the last day of the Plan year in which a participant incurs five consecutive 1-year breaks in service, or (2) the distribution of the entire vested portion of the participant's account of a participant who has severed employment with the Company.

Total forfeitures of $0 and $0 were reallocated during the years ended October 31, 2017 and 2016, respectively. Non-vested but undistributed account balances of terminated participants totaled $757 and $661 as of October 31, 2017 and 2016, respectively.

## Note B – Summary of Significant Accounting Policies

### *Date of Management's Review of Subsequent Events*

Subsequent events were evaluated through August 15, 2018, which is the date the financial statements were available to be issued.

### *Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosures of contingent assets and liabilities. Accordingly, actual results may differ from those estimates.

### *Basis of Accounting*

The financial statements of the Plan are prepared on the accrual method of accounting.

### *Notes Receivable from Participants*

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. As of October 31, 2017 and 2016, no allowance for credit losses has been recorded. If a participant does not make loan repayments and the plan administrator considers the participant loan to be in default, the loan balance is reduced, and the delinquent participant note receivable is recorded as a benefit payment based on the terms of the Plan document.

### *Investment Valuation and Income Recognition*

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Investment Committee determines the Plan's valuation policies. See Note C for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Note B – Summary of Significant Accounting Policies (concluded)

*Payment of Benefits*

Benefits are recorded when paid.

*Expenses*

Plan fees and administrative expenses are paid by the Company and are therefore excluded from these financial statements.

Note C – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

| | |
|---|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. |
| Level 2 | Inputs to the valuation methodology include<br>• quoted prices for similar assets or liabilities in active markets;<br>• quoted prices for identical or similar assets or liabilities in inactive markets;<br>• inputs other than quoted prices that are observable for the assets and liability;<br>• inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.<br>If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

Note C – Fair Value Measurements (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used for investments for which Level 1 inputs were not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available. There are no plan assets requiring the use of Level 2 or Level 3 inputs for the periods presented.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at October 31, 2017 and 2016.

*Common stocks, corporate obligations, other bonds and government and agency obligations*: These investments are public investment vehicles valued daily at the closing price reported on an active market using observable inputs. The closing price of these securities provided by the custodian is a quoted price in an active market and classified within level 1 of the valuation hierarchy.

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

The following fair value hierarchy table presents information about the Plan's investments measured at fair value on a recurring basis as of October 31, 2017 and 2016. Classification within the fair value hierarchy table is based on the lowest level of input that is significant to the fair value measurement:

Note C – Fair Value Measurements (concluded)

2017

| | | *Fair Value Measurements at the End of the Reporting Period Using:* | | |
|---|---|---|---|---|
| | *Fair Value* | *Level 1* | *Level 2* | *Level 3* |
| Cash and cash equivalents | $ 938,377 | $ 938,377 | $ - | $ - |
| U.S. government securities | 1,134,997 | 1,134,997 | - | - |
| Corporate obligations | 1,816,383 | 1,816,383 | - | - |
| Common stocks | 13,431,058 | 13,431,058 | - | - |
| Other bonds | 552,299 | 552,299 | - | - |
| Total assets in the fair value hierarchy | 17,873,114 | $ 17,873,114 | $ - | $ - |
| Investments measured at net asset value | - | | | |
| Total investments at fair value | $ 17,873,114 | | | |

2016

| | | *Fair Value Measurements at the End of the Reporting Period Using:* | | |
|---|---|---|---|---|
| | *Fair Value* | *Level 1* | *Level 2* | *Level 3* |
| Cash and cash equivalents | $ 797,266 | $ 797,266 | $ - | $ - |
| U.S. government securities | 1,370,409 | 1,370,409 | - | - |
| Corporate obligations | 2,058,509 | 2,058,509 | - | - |
| Common stocks | 11,248,524 | 11,248,524 | - | - |
| Other bonds | 588,464 | 588,464 | - | - |
| Total assets in the fair value hierarchy | 16,063,172 | $ 16,063,172 | $ - | $ - |
| Investments measured at net asset value | - | | | |
| Total investments at fair value | $ 16,063,172 | | | |

There were no transfers between levels 1, 2 and 3 during the years ended October 31, 2017 and 2016.

Note D – Non-Participant Directed Investments

Information about the net assets and the significant components of the changes in net assets relating to the non-participant direct investments are as follows:

| | *10/31/17* | *10/31/16* |
|---|---|---|
| Net assets: | | |
| Cash and cash equivalents | $ 938,377 | $ 797,266 |
| Government and agency obligations | 1,134,997 | 1,370,409 |
| Corporate obligations | 1,816,383 | 2,058,509 |
| Common stocks | 13,431,058 | 11,248,524 |
| Other bonds | 522,299 | 588,464 |
| | $17,873,114 | $16,063,172 |

| | *Year ended 10/31/17* |
|---|---|
| Changes in net assets: | |
| Contributions | $ 23,551 |
| Net appreciation | 2,524,378 |
| Interest, dividends and other income | 321,130 |
| Other investment income | 619 |
| Loan interest reinvested | 54,456 |
| Increase in participant loans and accrued interest | (31,143) |
| Increase in liabilities | 929 |
| Bank fees | (15) |
| Benefits paid to participants | (1,083,963) |
| | $ 1,809,942 |

## Note E – Information Prepared and Certified by Custodian

The following information included in the accompanying financial statements and supplemental schedule were obtained from data that has been prepared and certified to as complete and accurate by the custodian.

*Investments*

| | 10/31/17 | 10/31/16 |
|---|---|---|
| Investments, at fair value: | | |
| Cash equivalents | $ 770,123 | $ 743,003 |
| Government and agency obligations | $ 1,134,997 | $ 1,370,409 |
| Corporate obligations | $ 1,816,383 | $ 2,058,509 |
| Common stocks | $13,431,058 | $11,248,524 |
| Other bonds | $ 552,299 | $ 588,464 |
| Net appreciation (depreciation) in fair value of investments | $ 2,524,378 | $ (197,213) |
| Interest and dividends | $ 321,573 | $ 316,824 |

## Note F – Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts. Any unallocated assets of the Plan should be allocated to participant accounts and distributed in such a manner as the Company may determine.

## Note G - Tax Status

On March 31, 2014, The Internal Revenue Service (IRS) issued a favorable opinion letter with respect to the qualified status of the Plan's form under §401 of The Internal Revenue Code (IRC). Although the Plan has been amended since receiving the opinion letter, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

Accounting principles generally accepted in the United States of America require plan administrator to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or the California State Franchise Tax Board. The Plan is subject to routine audits by tax authorities; however, there are currently no audits for any tax periods in progress.

## Note H – Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

## Note I – Related Party and Party-In-Interest Transactions

The Plan has a number of service providers. Such parties are parties-in-interest under ERISA. The Plan issues loans to participants, which are secured by the balances in the participants' accounts. The Company paid certain administrative expenses of the Plan, including recordkeeping and audit fees. These are related party and parties-in-interest transactions. All of these party-in-interest transactions are exempt from the prohibited transaction rules of ERISA.

## Note J – Change in Accounting Principles

In May 2015, the FASB issued *ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. This ASU permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value (NAV) per share (or its equivalent) of the investment. Prior to the adoption of ASU 2015-07, investments for which fair value is measured using the practical expedient were characterized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at NAV on the measurement date, never redeemable with the investee at NAV, or redeemable with the investee at NAV at a future date. ASU 2015-07 removes the requirement to categorize investments for which fair value is measured using NAV as a practical expedient in the fair value hierarchy. Although the investment is not categorized within the fair value hierarchy, entities are required to provide the amount measured using the NAV (or its equivalent) practical expedient to permit reconciliation of the fair value of investments included in the fair value hierarchy to total investments measured at fair value on the Statement of Net Assets for Benefits. The ASU is effective for non-public companies for fiscal years beginning after December 15, 2016, with early adoption permitted. Management elected to adopt ASU 2015-07 early (for Plan year ended October 31, 2016).

## Note K – Plan Amendments

On April 29, 2016, an amendment to, and restatement of, the profit sharing plan and trust was approved and adopted, with an effective date of November 1, 2015. The purpose of the amendment and restatements was to bring the Plan into compliance with the Pension Protection Act of 2006 (PPA) and other legislative and regulatory changes (the 6-year pre-approved plan restatement).

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| Cash and Cash Equivalents | | | | |
| | Union Bank | Interest Bearing Checking Account | $ 168,254 | $ 168,254 |
| | Goldman Sach Fin Sq Tr In-In | 770,123.34 shares | 770,123 | 770,123 |
| | *Total cash and cash equivalents* | | $ 938,377 | $ 938,377 |
| Government and Agency Obligations | | | | |
| | Federal Farm Credit Bank (V-M) | 90,000, 1.425%, 10/11/19 | $ 90,000 | $ 90,456 |
| | Federal Home Loan Bank | 120,000, 1.375%, 09/13/19 | 119,915 | 119,387 |
| | Federal Home Loan Mortgage Corporation (MTN) | 100,000, 1.375%, 05/01/20 | 97,013 | 99,226 |
| | Federal National Mortgage Association | 130,000, 1.875%, 12/28/20 | 132,222 | 130,320 |
| | Federal National Mortgage Association (PL #AL5866 V-M) | 90861.61, 2.790%, 08/01/22 | 93,161 | 92,444 |
| | United States Treasury Note | 120,000, 1.375%, 05/31/21 | 118,020 | 118,082 |
| | United States Treasury Note | 120,000, 1.375%, 09/30/23 | 116,067 | 114,979 |
| | United States Treasury Note | 155,000, 1.875%, 05/31/22 | 154,528 | 154,364 |
| | United States Treasury Note | 125,000, 1.875%, 05/31/22 | 126,675 | 126,319 |
| | United States Treasury Tips | 89,107.20, 0.125%, 04/15/20 | 89,718 | 89,420 |

See independent auditor's report

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| | *Total government and agency obligations* | | $ 1,137,319 | $ 1,134,997 |
| | Corporate Obligations | | | |
| | Anheuser-Busch (V-Q) | 100,000, 2.64122%, 02/01/21 | $ 100,480 | $ 103,373 |
| | Bank Of America MTN | 85,000, 4.039%, 02/18/20 | 88,410 | 86,828 |
| | Capital One ABS | 120,000, 1.450%, 08/16/21 | 119,998 | 119,720 |
| | Chase Issuance ABS | 100,000, 1.370%, 06/15/21 | 99,999 | 99,304 |
| | Ford Credit FLO ABS | 80,000, 2.070% 5/15/22 | 89,985 | 89,990 |
| | GM Financial ABS | 80,000, 2.020%, 09/21/20 | 79,997 | 80,070 |
| | Goldman Sachs Group (V-Q) | 100,000, 20586%, 11/15/21 | 100,049 | 101,465 |
| | JP Morgan Chase & Co | 105,000, 3.250%, 09/23/22 | 104,026 | 102,832 |
| | Metlife Inc | 100,000, 4.750%, 02/08/21 | 111,824 | 107,811 |
| | Morgan Stanley | 100,000, 5.750%, 01/25/21 | 116,404 | 110,353 |
| | NBC Universal Media | 100,000, 4.375%, 04/01/21 | 112,415 | 107,026 |
| | Nissan Master ABS | 85,000, 1.540%, 06/15/21 | 84,988 | 84,472 |
| | Pepsico INC | 100,000, 2.150% 10/14/20 | 100,504 | 100,609 |

See independent auditor's report

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| | Simon Property Group | 115,000, 3.750%, 02/01/24 | 120,767 | 120,755 |
| | Target CORP | 95,000, 3.875% 7/15/20 | 100,696 | 99,827 |
| | Toyota Motor MTN V-Q | 100,000, 1.500%, 02/13/20 | 99,821 | 98,966 |
| | United Health Group | 100,000, 2.875% 3/15/22 | 101,319 | 102,122 |
| | Wells Fargo & Company MTN | 100,000, 2.550%, 12/07/20 | 103,101 | 100,860 |
| | *Total corporate obligations* | | $ 1,834,783 | $ 1,816,383 |
| | Common Stocks | | | |
| | Adobe Systems Inc | 2,000 shares | $ 130,979 | $ 350,320 |
| | Alphabet Inc Class A | 349 shares | 138,408 | 360,531 |
| | Alphabet Inc Class C | 240 shares | 94,478 | 243,994 |
| | American Intl Group Inc Com | 3840 shares | 202,289 | 248,102 |
| | American Water Works Co Inc | 2,700 shares | 102,470 | 236,952 |
| | Apple Inc Com | 2,200 shares | 89,064 | 371,888 |
| | Bank Of America Corp | 5,865 shares | 131,007 | 160,642 |
| | Blackrock Inc Class A | 360 shares | 120,588 | 169,499 |
| | Cabot Oil & Gas Corp | 5,100 shares | 116,718 | 141,270 |
| | Celgene Corp Com | 2,600 shares | 96,418 | 262,522 |
| | Chevron Corp | 1,500 shares | 107,941 | 173,835 |
| | Cintas Corp | 1,945 shares | 190,713 | 289,883 |
| | CME Group Inc | 2,400 shares | 240,791 | 329,208 |
| | Colgate Palmolive Co | 3,300 shares | 227,504 | 232,485 |
| | Comcast Corp CL A | 9,400 shares | 182,003 | 338,682 |

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| | Concho Resources | 700 shares | 92,792 | 93,947 |
| | Costco Wholesale Corp | 1,300 shares | 136,195 | 209,404 |
| | Danaher Corp | 1,300 shares | 84,332 | 119,951 |
| | Disney Walt Co NEW | 2,400 shares | 199,620 | 234,744 |
| | Dowdupont INC | 2,000 shares | 122,642 | 144,620 |
| | Ecolab Inc | 1,100 shares | 121,552 | 143,726 |
| | Edwards Lifesciences Corp Com | 2,045 shares | 74,899 | 209,060 |
| | Essex Property Trust REIT | 1,100 shares | 257,421 | 288,673 |
| | Exxon Mobil Corp Com | 1,929 shares | 149,983 | 160,782 |
| | Facebook Inc-A | 2,100 shares | 60,592 | 378,126 |
| | Halliburton Co | 2,000 shares | 86,722 | 85,480 |
| | Home Depot Inc Com | 2,500 shares | 154,570 | 414,450 |
| | Honeywell International Inc | 1,320 shares | 132,390 | 190,291 |
| | IngerSoll- Rand PLC | 2,160 shares | 173,032 | 191,376 |
| | Johnson & Johnson | 1,100 shares | 106,306 | 153,351 |
| | JPMorgan Chase & Co Com | 4,200 shares | 232,428 | 422,562 |
| | Lilly Eli & Co | 2,800 shares | 199,919 | 229,432 |
| | Magna International Inc Class A | 4,300 shares | 136,014 | 234,565 |
| | Mastercard Inc CL A Com | 3,245 shares | 217,241 | 482,759 |
| | McDonalds Corp | 1,830 shares | 216,946 | 305,445 |
| | Microsoft Corp | 4,800 shares | 228,862 | 399,264 |
| | Nextera Energy Corp | 900 shares | 137,878 | 139,563 |
| | Northrop Grumman Corp | 700 shares | 154,782 | 206,871 |
| | NXP Semiconductors | 2,200 shares | 140,880 | 257,510 |
| | Pepsico Inc | 2,800 shares | 285,778 | 308,644 |
| | PNC Financial Services Group | 2,145 shares | 201,154 | 293,415 |
| | Pulte Group Inc | 8,600 shares | 149,877 | 259,978 |
| | Raytheon Company | 830 shares | 114,108 | 149,566 |
| | Starbucks Corp | 3,700 shares | 36,900 | 202,908 |

See independent auditor's report

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| | Suntrust Banks INC | 4,305 shares | 229,522 | 259,204 |
| | Thermo Fisher Scientific Inc | 1,700 shares | 115,507 | 329,511 |
| | Time Warner Inc | 1,500 shares | 107,171 | 147,435 |
| | Union Pac Corp | 1,305 shares | 141,162 | 151,106 |
| | Unitedhealth Group Inc | 2000 shares | 265,693 | 420,440 |
| | US Bancorp New | 5,280 shares | 228,323 | 287,127 |
| | Visa Inc Class A | 4,900 shares | 328,936 | 538,902 |
| | Wal Mart Stores Inc | 1,300 shares | 80,412 | 113,503 |
| | WestLake Chemical Corp | 1,200 shares | 99,658 | 101,892 |
| | Zoetis Inc | 4,100 shares | 210,520 | 261,662 |
| | *Total common stocks* | | $ 8,384,090 | $ 13,431,058 |
| | Other Bonds | | | |
| | Barclays BK MTN | 135,000, 2.033% 3/29/19 | $ 135,000 | $ 135,451 |
| | BNP Paribas MTN | 100,000, 5.000%, 01/15/21 | 111,789 | 108,257 |
| | New York St Urban | 85,000, 2.790%, 03/15/21 | 88,086 | 87,076 |
| | Sumitomo Mitsui | 100,000, 2.846% 1/11/22 | 100,000 | 100,809 |
| | Westpac Banking Corp | 120,000, 2.041%, 6/28/22 | 120,554 | 120,706 |
| | *Total other bonds* | | $ 555,429 | $ 552,299 |

See independent auditor's report

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| Notes Receivable from Participants | | | | |
| * | Other | 10%; various terms | $ - | $ 575,400 |
| | *Total notes receivable from participants* | | $ - | $ 575,400 |
| | *Total assets* | | $ 12,849,998 | $ 18,448,514 |

Note: Column (a) when reflecting an asterisk (*) indicates a Party-in-Interest

DESCO INDUSTRIES, INC.
PROFIT SHARING PLAN
FINANCIAL STATEMENTS
October 31, 2017 and 2016
SUPPLEMENTAL INFORMATION
October 31, 2017

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
October 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Plan Administrator of
Desco Industries, Inc. Profit Sharing Plan
3561 Walnut Avenue
Chino, California 91730-2940

## Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Desco Industries, Inc. Profit Sharing Plan, which comprise the statements of net assets available for benefits as of October 31, 2017 and 2016, and the related statement of changes in net assets available for benefits for the year ended October 31, 2017, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note E, which was certified by City National Bank, the custodian of the Plan, except for comparing the information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the custodian holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the custodian as of and for the years ended October 31, 2017 and 2016, that the information provided to the plan administrator by the custodian is complete and accurate.

## Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

## Other Matter

The supplemental Schedule of Assets (Held at End of Year), October 31, 2017, is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on the supplemental schedule referred to above.

## Report on Form and Content in Compliance With DOL Rules and Regulations

The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the custodian, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

KHO & PATEL

Kho & Patel

San Dimas, California
August 15, 2018

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
October 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| ASSETS | | |
| Investments at fair value | $ 17,873,114 | $ 16,063,172 |
| Receivables | | |
| Notes receivable from participants | 575,400 | 543,821 |
| Participant loan payments receivable | 19,443 | 19,879 |
| Total receivables | 594,843 | 563,700 |
| Total assets | 18,467,957 | 16,626,872 |
| LIABILITIES | | |
| Distributions payable | - | - |
| Withheld state and federal taxes payable | 4,693 | 3,764 |
| Total liabilities | 4,693 | 3,764 |
| Net assets available for benefits | $ 18,463,264 | $ 16,623,108 |

See accompanying notes.

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Year Ended October 31, 2017

| | | | |
|---|---|---|---|
| ADDITIONS | | | |
| Investment income | | | |
| Net appreciation in fair value of investments | $ 2,524,378 | | |
| Interest | 97,789 | | |
| Dividends | 223,341 | | |
| Other | 619 | | |
| | 2,846,127 | | |
| Less: investment expense | - | | |
| Total investment income | | $ | 2,846,127 |
| Interest income on notes receivable from participants | | | 54,456 |
| Contributions | | | |
| Employer | - | | |
| Rollover | 23,551 | | |
| Total contributions | | | 23,551 |
| Total additions to net assets | | | 2,924,134 |
| DEDUCTIONS | | | |
| Benefits paid to participants | 1,083,963 | | |
| Bank fees | 15 | | |
| Total deductions from net assets | | | 1,083,978 |
| Net increase | | | 1,840,156 |
| NET ASSETS AVAILABLE FOR BENEFITS | | | |
| Beginning of year | | | 16,623,108 |
| End of year | | $ | 18,463,264 |

See accompanying notes.

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
Notes to Financial Statements

## Note A – Description of the Plan

The following description of the Desco Industries, Inc. (the Company) Profit Sharing Plan (the Plan) provides only general information only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

### *General*

The Company established the Plan effective November 1, 1985, and is most recently amended and restated November 1, 2015. The Plan is a defined contribution plan covering substantially all employees of the Company who have attained the age of twenty and one-half (20 ½) and have completed six months of service. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Plan is administered by person(s) appointed by the Company's Board of Directors. Wayne D. Hunter and John J. Brake, Jr. are the Plan's co-trustees pursuant to a trust agreement.

### *Contributions*

Each year, the Company determines the amount to be contributed to the Plan. Contributions are discretionary and can be made out of current or accumulated net income of the Company. Company contributions were $0 and $0 for the years ended October 31, 2017 and 2016, respectively. Other than rollovers, participant contributions are not permitted under the Plan. Contributions are subject to certain statutory limitations.

### *Participant Accounts*

Each participant's account is credited with an allocation of (a) the Company's contribution, (b) Plan earnings (losses), and (c) forfeitures of terminated participants' nonvested accounts. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Note A – Description of the Plan (continued)

*Vesting*

Participants are immediately vested in their rollover contributions plus actual earnings thereon. If a participant's employment with the Company ends for any reason other than retirement (age 65), permanent disability, or death, he or she will vest in the balances in his or her account based on total years of service with the Company. A participant is 100% vested in the Company's discretionary profit sharing contribution portion of their account plus earnings thereon after six years of credited service.

*Notes Receivable from Participants*

Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance. Participants may borrow from their fund accounts a maximum amount equal to the lesser of $50,000 or 50% of their vested account balance. Loan terms range from 1 to 5 years, or within a reasonable period of time that is longer than 5 years for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear varying rates of interest. Principal and interest is paid ratably through payroll deductions and/or supplementary payments by participants.

*Payments of Benefits*

On termination of service due to death, disability, retirement, or any other reasons, a participant shall receive the value of the vested interest in his or her account as a single lump-sum distribution. Distribution upon the death of a participant prior to receiving any benefit shall be made pursuant to the election of the participant or beneficiary, subject to the provisions of the Plan documents.

*Forfeited Accounts*

The non-vested portion of a terminated participant's account will be forfeited and reallocated among participants eligible to share in the reallocation on the earlier of (1) the last day of the Plan year in which a participant incurs five consecutive 1-year breaks in service, or (2) the distribution of the entire vested portion of the participant's account of a participant who has severed employment with the Company.

Total forfeitures of $0 and $0 were reallocated during the years ended October 31, 2017 and 2016, respectively. Non-vested but undistributed account balances of terminated participants totaled $757 and $661 as of October 31, 2017 and 2016, respectively.

## Note B – Summary of Significant Accounting Policies

### *Date of Management's Review of Subsequent Events*

Subsequent events were evaluated through August 15, 2018, which is the date the financial statements were available to be issued.

### *Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosures of contingent assets and liabilities. Accordingly, actual results may differ from those estimates.

### *Basis of Accounting*

The financial statements of the Plan are prepared on the accrual method of accounting.

### *Notes Receivable from Participants*

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. As of October 31, 2017 and 2016, no allowance for credit losses has been recorded. If a participant does not make loan repayments and the plan administrator considers the participant loan to be in default, the loan balance is reduced, and the delinquent participant note receivable is recorded as a benefit payment based on the terms of the Plan document.

### *Investment Valuation and Income Recognition*

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Investment Committee determines the Plan's valuation policies. See Note C for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Note B – Summary of Significant Accounting Policies (concluded)

*Payment of Benefits*

Benefits are recorded when paid.

*Expenses*

Plan fees and administrative expenses are paid by the Company and are therefore excluded from these financial statements.

Note C – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

| | |
|---|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. |
| Level 2 | Inputs to the valuation methodology include<br>• quoted prices for similar assets or liabilities in active markets;<br>• quoted prices for identical or similar assets or liabilities in inactive markets;<br>• inputs other than quoted prices that are observable for the assets and liability;<br>• inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.<br>If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

Note C – Fair Value Measurements (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used for investments for which Level 1 inputs were not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available. There are no plan assets requiring the use of Level 2 or Level 3 inputs for the periods presented.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at October 31, 2017 and 2016.

*Common stocks, corporate obligations, other bonds and government and agency obligations*: These investments are public investment vehicles valued daily at the closing price reported on an active market using observable inputs. The closing price of these securities provided by the custodian is a quoted price in an active market and classified within level 1 of the valuation hierarchy.

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

The following fair value hierarchy table presents information about the Plan's investments measured at fair value on a recurring basis as of October 31, 2017 and 2016. Classification within the fair value hierarchy table is based on the lowest level of input that is significant to the fair value measurement:

Note C – Fair Value Measurements (concluded)

2017

| | | *Fair Value Measurements at the End of the Reporting Period Using:* | | |
|---|---|---|---|---|
| | *Fair Value* | *Level 1* | *Level 2* | *Level 3* |
| Cash and cash equivalents | $ 938,377 | $ 938,377 | $ - | $ - |
| U.S. government securities | 1,134,997 | 1,134,997 | - | - |
| Corporate obligations | 1,816,383 | 1,816,383 | - | - |
| Common stocks | 13,431,058 | 13,431,058 | - | - |
| Other bonds | 552,299 | 552,299 | - | - |
| Total assets in the fair value hierarchy | 17,873,114 | $ 17,873,114 | $ - | $ - |
| Investments measured at net asset value | - | | | |
| Total investments at fair value | $ 17,873,114 | | | |

2016

| | | *Fair Value Measurements at the End of the Reporting Period Using:* | | |
|---|---|---|---|---|
| | *Fair Value* | *Level 1* | *Level 2* | *Level 3* |
| Cash and cash equivalents | $ 797,266 | $ 797,266 | $ - | $ - |
| U.S. government securities | 1,370,409 | 1,370,409 | - | - |
| Corporate obligations | 2,058,509 | 2,058,509 | - | - |
| Common stocks | 11,248,524 | 11,248,524 | - | - |
| Other bonds | 588,464 | 588,464 | - | - |
| Total assets in the fair value hierarchy | 16,063,172 | $ 16,063,172 | $ - | $ - |
| Investments measured at net asset value | - | | | |
| Total investments at fair value | $ 16,063,172 | | | |

There were no transfers between levels 1, 2 and 3 during the years ended October 31, 2017 and 2016.

Note D – Non-Participant Directed Investments

Information about the net assets and the significant components of the changes in net assets relating to the non-participant direct investments are as follows:

| | *10/31/17* | *10/31/16* |
|---|---|---|
| Net assets: | | |
| Cash and cash equivalents | $ 938,377 | $ 797,266 |
| Government and agency obligations | 1,134,997 | 1,370,409 |
| Corporate obligations | 1,816,383 | 2,058,509 |
| Common stocks | 13,431,058 | 11,248,524 |
| Other bonds | 522,299 | 588,464 |
| | $17,873,114 | $16,063,172 |

| | *Year ended 10/31/17* |
|---|---|
| Changes in net assets: | |
| Contributions | $ 23,551 |
| Net appreciation | 2,524,378 |
| Interest, dividends and other income | 321,130 |
| Other investment income | 619 |
| Loan interest reinvested | 54,456 |
| Increase in participant loans and accrued interest | (31,143) |
| Increase in liabilities | 929 |
| Bank fees | (15) |
| Benefits paid to participants | (1,083,963) |
| | $ 1,809,942 |

## Note E – Information Prepared and Certified by Custodian

The following information included in the accompanying financial statements and supplemental schedule were obtained from data that has been prepared and certified to as complete and accurate by the custodian.

*Investments*

| | 10/31/17 | 10/31/16 |
|---|---|---|
| Investments, at fair value: | | |
| Cash equivalents | $ 770,123 | $ 743,003 |
| Government and agency obligations | $ 1,134,997 | $ 1,370,409 |
| Corporate obligations | $ 1,816,383 | $ 2,058,509 |
| Common stocks | $13,431,058 | $11,248,524 |
| Other bonds | $ 552,299 | $ 588,464 |
| Net appreciation (depreciation) in fair value of investments | $ 2,524,378 | $ (197,213) |
| Interest and dividends | $ 321,573 | $ 316,824 |

## Note F – Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts. Any unallocated assets of the Plan should be allocated to participant accounts and distributed in such a manner as the Company may determine.

## Note G - Tax Status

On March 31, 2014, The Internal Revenue Service (IRS) issued a favorable opinion letter with respect to the qualified status of the Plan's form under §401 of The Internal Revenue Code (IRC). Although the Plan has been amended since receiving the opinion letter, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

Accounting principles generally accepted in the United States of America require plan administrator to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or the California State Franchise Tax Board. The Plan is subject to routine audits by tax authorities; however, there are currently no audits for any tax periods in progress.

## Note H – Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

## Note I – Related Party and Party-In-Interest Transactions

The Plan has a number of service providers. Such parties are parties-in-interest under ERISA. The Plan issues loans to participants, which are secured by the balances in the participants' accounts. The Company paid certain administrative expenses of the Plan, including recordkeeping and audit fees. These are related party and parties-in-interest transactions. All of these party-in-interest transactions are exempt from the prohibited transaction rules of ERISA.

## Note J – Change in Accounting Principles

In May 2015, the FASB issued *ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. This ASU permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value (NAV) per share (or its equivalent) of the investment. Prior to the adoption of ASU 2015-07, investments for which fair value is measured using the practical expedient were characterized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at NAV on the measurement date, never redeemable with the investee at NAV, or redeemable with the investee at NAV at a future date. ASU 2015-07 removes the requirement to categorize investments for which fair value is measured using NAV as a practical expedient in the fair value hierarchy. Although the investment is not categorized within the fair value hierarchy, entities are required to provide the amount measured using the NAV (or its equivalent) practical expedient to permit reconciliation of the fair value of investments included in the fair value hierarchy to total investments measured at fair value on the Statement of Net Assets for Benefits. The ASU is effective for non-public companies for fiscal years beginning after December 15, 2016, with early adoption permitted. Management elected to adopt ASU 2015-07 early (for Plan year ended October 31, 2016).

## Note K – Plan Amendments

On April 29, 2016, an amendment to, and restatement of, the profit sharing plan and trust was approved and adopted, with an effective date of November 1, 2015. The purpose of the amendment and restatements was to bring the Plan into compliance with the Pension Protection Act of 2006 (PPA) and other legislative and regulatory changes (the 6-year pre-approved plan restatement).

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| Cash and Cash Equivalents | | | | |
| | Union Bank | Interest Bearing Checking Account | $ 168,254 | $ 168,254 |
| | Goldman Sach Fin Sq Tr In-In | 770,123.34 shares | 770,123 | 770,123 |
| | *Total cash and cash equivalents* | | $ 938,377 | $ 938,377 |
| Government and Agency Obligations | | | | |
| | Federal Farm Credit Bank (V-M) | 90,000, 1.425%, 10/11/19 | $ 90,000 | $ 90,456 |
| | Federal Home Loan Bank | 120,000, 1.375%, 09/13/19 | 119,915 | 119,387 |
| | Federal Home Loan Mortgage Corporation (MTN) | 100,000, 1.375%, 05/01/20 | 97,013 | 99,226 |
| | Federal National Mortgage Association | 130,000, 1.875%, 12/28/20 | 132,222 | 130,320 |
| | Federal National Mortgage Association (PL #AL5866 V-M) | 90861.61, 2.790%, 08/01/22 | 93,161 | 92,444 |
| | United States Treasury Note | 120,000, 1.375%, 05/31/21 | 118,020 | 118,082 |
| | United States Treasury Note | 120,000, 1.375%, 09/30/23 | 116,067 | 114,979 |
| | United States Treasury Note | 155,000, 1.875%, 05/31/22 | 154,528 | 154,364 |
| | United States Treasury Note | 125,000, 1.875%, 05/31/22 | 126,675 | 126,319 |
| | United States Treasury Tips | 89,107.20, 0.125%, 04/15/20 | 89,718 | 89,420 |

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DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| | *Total government and agency obligations* | | $ 1,137,319 | $ 1,134,997 |
| | Corporate Obligations | | | |
| | Anheuser-Busch (V-Q) | 100,000, 2.64122%, 02/01/21 | $ 100,480 | $ 103,373 |
| | Bank Of America MTN | 85,000, 4.039%, 02/18/20 | 88,410 | 86,828 |
| | Capital One ABS | 120,000, 1.450%, 08/16/21 | 119,998 | 119,720 |
| | Chase Issuance ABS | 100,000, 1.370%, 06/15/21 | 99,999 | 99,304 |
| | Ford Credit FLO ABS | 80,000, 2.070% 5/15/22 | 89,985 | 89,990 |
| | GM Financial ABS | 80,000, 2.020%, 09/21/20 | 79,997 | 80,070 |
| | Goldman Sachs Group (V-Q) | 100,000, 20586%, 11/15/21 | 100,049 | 101,465 |
| | JP Morgan Chase & Co | 105,000, 3.250%, 09/23/22 | 104,026 | 102,832 |
| | Metlife Inc | 100,000, 4.750%, 02/08/21 | 111,824 | 107,811 |
| | Morgan Stanley | 100,000, 5.750%, 01/25/21 | 116,404 | 110,353 |
| | NBC Universal Media | 100,000, 4.375%, 04/01/21 | 112,415 | 107,026 |
| | Nissan Master ABS | 85,000, 1.540%, 06/15/21 | 84,988 | 84,472 |
| | Pepsico INC | 100,000, 2.150% 10/14/20 | 100,504 | 100,609 |

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DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
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(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| | Simon Property Group | 115,000, 3.750%, 02/01/24 | 120,767 | 120,755 |
| | Target CORP | 95,000, 3.875% 7/15/20 | 100,696 | 99,827 |
| | Toyota Motor MTN V-Q | 100,000, 1.500%, 02/13/20 | 99,821 | 98,966 |
| | United Health Group | 100,000, 2.875% 3/15/22 | 101,319 | 102,122 |
| | Wells Fargo & Company MTN | 100,000, 2.550%, 12/07/20 | 103,101 | 100,860 |
| | *Total corporate obligations* | | $ 1,834,783 | $ 1,816,383 |
| | Common Stocks | | | |
| | Adobe Systems Inc | 2,000 shares | $ 130,979 | $ 350,320 |
| | Alphabet Inc Class A | 349 shares | 138,408 | 360,531 |
| | Alphabet Inc Class C | 240 shares | 94,478 | 243,994 |
| | American Intl Group Inc Com | 3840 shares | 202,289 | 248,102 |
| | American Water Works Co Inc | 2,700 shares | 102,470 | 236,952 |
| | Apple Inc Com | 2,200 shares | 89,064 | 371,888 |
| | Bank Of America Corp | 5,865 shares | 131,007 | 160,642 |
| | Blackrock Inc Class A | 360 shares | 120,588 | 169,499 |
| | Cabot Oil & Gas Corp | 5,100 shares | 116,718 | 141,270 |
| | Celgene Corp Com | 2,600 shares | 96,418 | 262,522 |
| | Chevron Corp | 1,500 shares | 107,941 | 173,835 |
| | Cintas Corp | 1,945 shares | 190,713 | 289,883 |
| | CME Group Inc | 2,400 shares | 240,791 | 329,208 |
| | Colgate Palmolive Co | 3,300 shares | 227,504 | 232,485 |
| | Comcast Corp CL A | 9,400 shares | 182,003 | 338,682 |

DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
(Form 5500, Schedule H, Line 4i)
October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| | Concho Resources | 700 shares | 92,792 | 93,947 |
| | Costco Wholesale Corp | 1,300 shares | 136,195 | 209,404 |
| | Danaher Corp | 1,300 shares | 84,332 | 119,951 |
| | Disney Walt Co NEW | 2,400 shares | 199,620 | 234,744 |
| | Dowdupont INC | 2,000 shares | 122,642 | 144,620 |
| | Ecolab Inc | 1,100 shares | 121,552 | 143,726 |
| | Edwards Lifesciences Corp Com | 2,045 shares | 74,899 | 209,060 |
| | Essex Property Trust REIT | 1,100 shares | 257,421 | 288,673 |
| | Exxon Mobil Corp Com | 1,929 shares | 149,983 | 160,782 |
| | Facebook Inc-A | 2,100 shares | 60,592 | 378,126 |
| | Halliburton Co | 2,000 shares | 86,722 | 85,480 |
| | Home Depot Inc Com | 2,500 shares | 154,570 | 414,450 |
| | Honeywell International Inc | 1,320 shares | 132,390 | 190,291 |
| | IngerSoll- Rand PLC | 2,160 shares | 173,032 | 191,376 |
| | Johnson & Johnson | 1,100 shares | 106,306 | 153,351 |
| | JPMorgan Chase & Co Com | 4,200 shares | 232,428 | 422,562 |
| | Lilly Eli & Co | 2,800 shares | 199,919 | 229,432 |
| | Magna International Inc Class A | 4,300 shares | 136,014 | 234,565 |
| | Mastercard Inc CL A Com | 3,245 shares | 217,241 | 482,759 |
| | McDonalds Corp | 1,830 shares | 216,946 | 305,445 |
| | Microsoft Corp | 4,800 shares | 228,862 | 399,264 |
| | Nextera Energy Corp | 900 shares | 137,878 | 139,563 |
| | Northrop Grumman Corp | 700 shares | 154,782 | 206,871 |
| | NXP Semiconductors | 2,200 shares | 140,880 | 257,510 |
| | Pepsico Inc | 2,800 shares | 285,778 | 308,644 |
| | PNC Financial Services Group | 2,145 shares | 201,154 | 293,415 |
| | Pulte Group Inc | 8,600 shares | 149,877 | 259,978 |
| | Raytheon Company | 830 shares | 114,108 | 149,566 |
| | Starbucks Corp | 3,700 shares | 36,900 | 202,908 |

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DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
SCHEDULE 1 - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
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October 31, 2017
EIN # 95-3368148 IRS Plan # 001

| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| | Suntrust Banks INC | 4,305 shares | 229,522 | 259,204 |
| | Thermo Fisher Scientific Inc | 1,700 shares | 115,507 | 329,511 |
| | Time Warner Inc | 1,500 shares | 107,171 | 147,435 |
| | Union Pac Corp | 1,305 shares | 141,162 | 151,106 |
| | Unitedhealth Group Inc | 2000 shares | 265,693 | 420,440 |
| | US Bancorp New | 5,280 shares | 228,323 | 287,127 |
| | Visa Inc Class A | 4,900 shares | 328,936 | 538,902 |
| | Wal Mart Stores Inc | 1,300 shares | 80,412 | 113,503 |
| | WestLake Chemical Corp | 1,200 shares | 99,658 | 101,892 |
| | Zoetis Inc | 4,100 shares | 210,520 | 261,662 |
| | *Total common stocks* | | $ 8,384,090 | $ 13,431,058 |
| | Other Bonds | | | |
| | Barclays BK MTN | 135,000, 2.033% 3/29/19 | $ 135,000 | $ 135,451 |
| | BNP Paribas MTN | 100,000, 5.000%, 01/15/21 | 111,789 | 108,257 |
| | New York St Urban | 85,000, 2.790%, 03/15/21 | 88,086 | 87,076 |
| | Sumitomo Mitsui | 100,000, 2.846% 1/11/22 | 100,000 | 100,809 |
| | Westpac Banking Corp | 120,000, 2.041%, 6/28/22 | 120,554 | 120,706 |
| | *Total other bonds* | | $ 555,429 | $ 552,299 |

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DESCO INDUSTRIES, INC. PROFIT SHARING PLAN
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(Form 5500, Schedule H, Line 4i)
October 31, 2017
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| (a) | (b) | (c) | (d) | (e) |
|---|---|---|---|---|
| | Identity of issue, borrower, lessor, or similar party | Description of investment including maturity date, rate of interest, collateral, par or maturity value | Cost | Current Value |
| Notes Receivable from Participants | | | | |
| * | Other | 10%; various terms | $ - | $ 575,400 |
| | *Total notes receivable from participants* | | $ - | $ 575,400 |
| | *Total assets* | | $ 12,849,998 | $ 18,448,514 |

Note: Column (a) when reflecting an asterisk (*) indicates a Party-in-Interest