



Certified Public Accountants
and Financial Advisors

**THE HERITAGE 401(K)
RETIREMENT PLAN**
Financial Statements
December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Plan Administrator of
The Heritage 401(k) Retirement Plan

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of The Heritage 401(k) Retirement Plan (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2018 and 2017, and the related statement of changes in net assets available for benefits for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan 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 4, which was certified by Prudential Bank and Trust Company, the custodian of the Plan, except for comparing the information with the related information included in the financial statements. 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 December 31, 2018 and 2017, and for the year ended December 31, 2018, 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 Matters – Supplemental Information

The supplemental Schedule H, Line 4i - Schedule of Assets (Held at End of Year) and Schedule H, Line 4a - Schedule of Delinquent Participant Contributions, for the year ended December 31, 2018, are required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are presented for the purpose of additional analysis and are not a required part of the financial statements. These supplemental schedules are the responsibility of the Plan's management. 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 schedules referred to above.

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

The form and content of the information included in these financial statements and supplemental schedules, 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.

SQUAR MILNER LLP

San Francisco, California
September 23, 2019

THE HERITAGE 401(K) RETIREMENT PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Investments at fair value:		
Mutual funds	\$ 3,497,480	\$ 4,162,334
Guaranteed income fund	<u>1,102,586</u>	<u>1,125,998</u>
	4,600,066	5,288,332
Receivables:		
Contribution receivable - employer	153,789	153,588
Contribution receivable - employee	-	<u>6,488</u>
	<u>153,789</u>	<u>160,076</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 4,753,855</u>	<u>\$ 5,448,408</u>

THE HERITAGE 401(K) RETIREMENT PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For the Year Ended December 31, 2018

ADDITIONS TO NET ASSETS ATTRIBUTED TO:

Investment income:		
Dividends	\$	54,746
Interest		<u>13,364</u>
		<u>68,110</u>
 Contributions:		
Employee contributions		183,665
Employer contributions		<u>153,789</u>
		<u>337,454</u>
 Total additions		<u>405,564</u>

DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:

Net depreciation in fair value of investments		307,029
Benefits paid to participants		791,319
Administrative expenses		<u>1,769</u>
Total deductions		<u>1,100,117</u>
 Net decrease in net assets available for benefits		 (694,553)
 Net assets available for benefits - beginning of year		 <u>5,448,408</u>
 Net assets available for benefits - end of year	\$	 <u><u>4,753,855</u></u>

THE HERITAGE 401(K) RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

1. PLAN DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following description of The Heritage 401(k) Plan (the “Plan”) is provided for general information only. Reference should be made to the Plan agreement for a more complete description of the Plan’s provisions.

General

The Plan is a defined contribution plan covering substantially all employees of the San Francisco Ladies’ Protection and Relief Society (dba The Heritage or Heritage on the Marina) (the “Society” or “Sponsor”) who have completed at least 90 days of consecutive service and have attained age of 21. A participant who has entered the 4% contribution portion on the first day of the month following the completion of at least one year (and 1,000 or more hours of service) and has attained age of 21 is entitled to receive an employer safe-harbor nonelective contribution. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and was amended to comply with subsequent legislation. The Society is the Plan’s sponsor.

Administration

The Society appointed a Pension Committee (the “Committee”) to manage the operations and oversee the administration of the Plan. The Society has contracted with Prudential Bank and Trust (“Prudential”) to act as the custodian and third-party administrator to process and maintain the records of participant data.

Contributions

Participants may elect to make tax-deferred or after-tax contributions to the Plan up to the limits imposed by federal tax law. In addition, participants may make certain tax-free transfers (rollovers) of lump sum distributions received from other tax qualified plans. The Society makes a safe-harbor nonelective contribution equal to 4% of the participant’s eligible compensation. For the year ended December 31, 2018, the Society made safe-harbor nonelective contributions of \$153,789.

Participant Accounts

A participant’s account is comprised of a salary deferral account, an employer safe-harbor nonelective account and, where applicable, a rollover account. Each participant is credited with all contributions and earnings and gains or losses thereon. The benefit to which a participant is entitled is the benefit that can be provided from the participant’s vested account.

Vesting

Participants are immediately vested in their voluntary contributions, employer safe-harbor nonelective contributions and rollover contributions plus actual earnings thereon.

Investment Options

Upon enrollment in the Plan, a participant may direct the investment of his or her account into various investments available under the Plan.

THE HERITAGE 401(K) RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

1. PLAN DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Payment of Benefits

Payments of benefits of a participant's account balance are made upon retirement, death or disability. In-service withdrawals are permitted at age 59 ½. Payments may be made in a lump-sum amount, cash installments and an annuity. The amount of the benefit is equal to the vested amount in the participant's account. Benefits are recorded when paid.

Basis of Accounting

The Plan prepares its financial statements on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets available for benefits and changes therein. Actual results could differ from those estimates.

Investments

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.

Investment transactions are recorded on a trade-date basis. Unrealized gain or loss is determined based on the fair value of assets at the end of the Plan year. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net depreciation in fair value of investments includes the Plan's gains and losses on investments purchased and sold as well as held during the year.

Risks and Uncertainties

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

There is significant evaluation by Congress and other agencies of regulatory and accounting issues surrounding employee benefit plans. It is possible future changes in regulations may have a significant effect on the Plan operations and/or investments.

Expenses

Certain expenses of maintaining the Plan are paid by the Plan, unless otherwise paid by the Society. Expenses that are paid by the Society are excluded from these financial statements.

**THE HERITAGE 401(K) RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

1. PLAN DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses (continued)

Fees related to the administration of notes receivable from participants and benefit payments are charged directly to the participant's account and are included in administrative expenses. Investment related expenses are included in net depreciation of fair value of investments.

Plan Termination

Although it has not expressed any intent to do so, the Society has the right under the Plan to terminate the Plan subject to the provisions of ERISA. In the event of plan termination participants would become fully vested in their account balances, with rights to benefits accrued to the date of termination.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through September 23, 2019, which represents the date the financial statements were available to be issued.

2. FAIR VALUE MEASUREMENTS

The Plan considers the use of market-based information over entity-specific information in valuing its financial assets measured at fair value, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability of measurement date.

The three-level hierarchy for fair value measurement is defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices in active markets for identical assets that the Plan has the ability to access at the measurement date.

Level 2 – Inputs to the valuation methodology are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. Fair value can be determined through the use of models or other valuation methodologies.

Level 3 – Inputs to the valuation methodology are unobservable inputs for the asset. Unobservable inputs are those that reflect the Plan's own assumptions about the assumptions that market participants would use in pricing the asset developed, based on the best information available.

The following table presents the Plan's investments at fair value as of December 31, 2018 and 2017:

	2018		2017	
	Level 1	Total	2017	Total
Mutual funds	<u>\$3,497,480</u>	\$ 3,497,480	<u>\$4,162,334</u>	\$ 4,162,334
Investments measured at net asset value (1)				
Guaranteed income fund		<u>1,102,586</u>		<u>1,125,998</u>
Investments at fair value		<u>\$ 4,600,066</u>		<u>\$ 5,288,332</u>

THE HERITAGE 401(K) RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

2. FAIR VALUE MEASUREMENTS (continued)

(1) In accordance with Accounting Standards Codification Topic 820, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of assets available for benefits.

The following is a description of the valuation methodologies used by the Plan for assets measured at fair value. There have been no changes in methodologies used at December 31, 2018 and 2017.

Mutual Funds

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Guaranteed Income Fund

The guaranteed income fund is valued at the NAV of the underlying investments of the fund. The NAV is used as a practical expedient of the fair value of the units held in the Plan at the end of the year.

Participant transactions (purchases and sales) may occur daily and there are no restrictions. Were the Plan to initiate full redemption of the fund, the trustee reserves the right to temporarily delay withdrawal from the fund in order to ensure that securities liquidations will be carried out in an orderly business manner. There were no unfunded commitments as of December 31, 2018 and 2017. Redemptions can occur daily and there is no redemption notice period.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

3. INCOME TAX STATUS

The Plan obtained an volume submitter advisory letter on March 31, 2014, in which the Internal Revenue Service stated that the Plan, as then designed, qualifies under Internal Revenue Code (IRC) Section 401(a). The Plan has not received a determination letter specific to the Plan itself; however, the Plan Administrator and the Plan's tax counsel believe that the Plan was designated and was being operated in compliance with applicable requirements under the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

THE HERITAGE 401(K) RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

3. INCOME TAX STATUS (continued)

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan Administrator has analyzed the tax positions taken by the Plan, and has concluded that at December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

4. INFORMATION PREPARED AND CERTIFIED BY THE PLAN'S CUSTODIAN AND AFFILIATE

The following is a summary of the unaudited information regarding the Plan, included in the Plan's financial statements and supplemental schedule that was prepared by or derived from information prepared by the Prudential Bank and Trust, custodian. The Plan Administrator has obtained a certification from the custodian that the following information is complete and accurate at December 31, 2018 and 2017, and for the years then ended:

1. Statement of Net Assets Available for Benefits – Total Investments
2. Statement of Changes in Net Assets Available for Benefits – Investment Income
3. Net depreciation in fair value of investments
4. Investment-related information in Supplemental Schedule H, Line 4i-Schedule of Assets (Held at End of Year)

5. LATE CONTRIBUTION REMITTANCES

During the year ended December 31, 2018, total participant contributions in the amount of \$14,474 were deposited later than reasonably possible. Non-timely remittance of participant contributions are considered to be prohibited transactions. The Society corrected the delinquent contribution issue outside the Voluntary Fiduciary Correction Program ("VFCP"). Lost earnings on delinquent contributions amounted to \$33, and the Plan Administrator remitted the lost earnings to the Plan in July 2019. Delinquent participant contributions are reported on the Form 5500, Schedule H, Line 4a (refer to Supplemental Schedule of Delinquent Participant Contributions).

6. PARTY-IN-INTEREST TRANSACTIONS

Plan's investment in shares of mutual funds are managed by the Prudential Bank and Trust, custodian of the Plan, and investment in guaranteed income account is managed by a company related to the custodian; therefore, these transactions qualify as party-in-interest transactions. Fees paid by the Plan for investment management services were included as a reduction of the return earned on each fund. All administrative fees related to the administration of the Plan were paid by the Society. These transactions qualify as party-in-interest transactions.

THE HERITAGE 401(K) RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

7. RECONCILIATION OF FINANCIAL STATEMENTS TO SCHEDULE H OF FORM 5500

On the Form 5500, the Plan Administrator reports the Plan's activity on cash basis of accounting. The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Net assets available for benefits per financial statements	\$ 4,753,855	\$ 5,448,408
Employer contributions receivable	(153,789)	(153,588)
Employee contribution receivable	-	<u>(6,488)</u>
Net assets available for benefits per Schedule H to the Form 5500	<u>\$ 4,600,066</u>	<u>\$ 5,288,332</u>

The following is a reconciliation of employer contributions per the financial statements for the year ended December 31, 2018, to Schedule H of Form 5500:

Contributions - employer per financial statements	\$ 153,789
Change in employer contributions receivable	<u>(201)</u>
Contributions - employer per Schedule H to the Form 5500	<u>\$ 153,588</u>

The following is a reconciliation of employee contributions per the financial statements for the year ended December 31, 2018, to Schedule H of Form 5500:

Contributions - employee per financial statements	\$ 183,665
Change in employee contributions receivable	<u>6,488</u>
Contributions - employee per Schedule H to the Form 5500	<u>\$ 190,153</u>

SUPPLEMENTAL SCHEDULES

THE HERITAGE 401(K) RETIREMENT PLAN
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
SCHEDULE H, LINE 4i
EIN #94-1156611
PLAN #009
December 31, 2018

Identity of Issuer, Borrower, (a) (b) Lessor or Similar Party	Description of Investment Including Maturity Date, Rate of Interest, Collateral, (c) Par or Maturity Value	(e) Current Value
Prudential Retirement Insurance and Annuity Company:		
* Guaranteed Income Fund	38,966 Shares	\$ 1,102,586
Mutual funds:		
Growth Fund of America R4	11,626 Shares	492,224
PIMCO Total Return Fund Institutional Class	45,439 Shares	451,207
American Funds Europacific Growth R3	9,017 Shares	397,735
Vanguard Index Trust 500	1,621 Shares	375,056
BlackRock LifePath Dynamic 2020 Fund	22,263 Shares	284,968
Oakmark Fund II	3,825 Shares	260,588
BlackRock Equity Dividend Fund R	11,403 Shares	214,485
BlackRock LifePath Dynamic 2030 Fund	18,194 Shares	207,228
BlackRock LifePath Dynamic Retirement Fund	22,341 Shares	188,783
AB Discovery Value Fund	9,242 Shares	159,896
Dodge & Cox Balanced Fund	1,621 Shares	151,179
American Century Heritage Fund R	7,350 Shares	113,342
BlackRock LifePath Dynamic 2040 Fund	7,410 Shares	97,954
Vanguard Total Stock Market Index	695 Shares	43,145
Oakmark Equity & Income Fund	1,163 Shares	31,132
Fidelity Advisor Dividend Growth T	933 Shares	12,656
American Century Inflation Adjusted Bond	1,103 Shares	12,139
Fidelity Advisor Stock Select Mid Cap T	99 Shares	2,850
Blackrock LP DYN 2050 INV A	54 Shares	913
		<u>3,497,480</u>
		<u>\$ 4,600,066</u>

* Party-in-interest

THE HERITAGE 401(K) RETIREMENT PLAN
SCHEDULE H, LINE 4a
SCHEDULE OF DELINQUENT PARTICIPANT CONTRIBUTIONS
EIN #94-1156611
PLAN #009
December 31, 2018

Participant Contributions Transferred Late to Plan	Contributions Not Corrected	Contributions Corrected Outside VFCP	Contributions Pending Correction in VFCP	Total Fully Corrected under VFCP and Prohibited Transaction Exemption 2002-51
\$ 14,474	\$ -	\$ 14,474	\$ -	\$ -