

Item 1

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This Brochure provides information about the qualifications and business practices of Allegheny Investments, LTD (“Allegheny”). If you have any questions about the contents of this Brochure, please contact us at 412-367-3880 or [comments@alleghenyfinancial.com](mailto:comments@alleghenyfinancial.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Allegheny is a registered investment adviser. Registration of an Investment Adviser does not imply a certain level of skill or training.

Additional information about Allegheny also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

Allegheny has updated Form ADV Part 2 (brochure) as part of the annual amendment process. There have been no material changes since our last annual brochure update dated March 2018. Although we have previously disclosed the conflicts related to our receipt of brokerage revenues, 12b-1 fees and share class selection, in response to the Securities and Exchange Commission's emphasis on disclosure related to share class selection, we have added more disclosure information to assist clients in understanding the issues and conflicts related to share class selection.

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## Item 4 – Advisory Business

Allegheny offers asset management, portfolio management and financial planning services to clients. Allegheny is a dually registered investment adviser and broker dealer. Allegheny investment adviser representatives are also registered representatives of the broker-dealer. Allegheny is principally owned by its employee advisers.

Allegheny Financial Group (an affiliated investment adviser) was founded in 1976 by James D. Hohman and James J. Browne to provide comprehensive financial planning to clients in the Greater Pittsburgh area. Messrs. Browne and Hohman began attracting like-minded professionals intent on providing exceptional financial planning services to their clients. In 1977, Messrs. Hohman and Browne founded Allegheny to provide brokerage services for Allegheny clients. Today Allegheny is one of the oldest and largest independent broker dealers headquartered in Pittsburgh. Allegheny is a member of the Financial Industry Regulatory Authority “FINRA”, the Securities Investor Protection Corporation “SIPC”, and the Municipal Securities Rulemaking Board “MSRB”.

Allegheny provides the following investment advisory and financial planning services. Advisory services are tailored to the individual needs of the client. Clients may impose restrictions on investments in certain securities, or certain types of investments.

### **Asset Management Services**

Allegheny Advisors may utilize the Asset Management Program administered by in-house personnel. Clients selecting this service are charged an asset management fee (described below). This service provides a comprehensive investment advisory service. This advisory service will coordinate the following processes; development of the basic investment strategy, setting reasonable investment objectives, determining an appropriate balance among major asset categories within the investment portfolio and specifying benchmarks for evaluating investment performance. Allegheny will employ the following strategies to enhance performance results and control portfolio risk; allocation of investment funds among a group of carefully selected professional money managers and use of special investment situations. Allegheny will monitor the client results on a continuous basis. Clients will receive semi-annual reports showing the value and status of investment positions along with semi-annual performance reviews with comparisons to specific benchmarks. For more information on these services, please contact your Allegheny advisor.

### **Advised Accounts**

Allegheny Advisors have flexibility in their client dealings and often provide advisory services outside of Allegheny’s Asset Management Program. Generally, services include an analysis and summary of the client’s present financial assets and render investment planning recommendations and economic utilization of current income and assets both before and after taxes on a continuous basis. Advisers will periodically review the client’s finances and advise whether revisions are necessary due to changes in the client’s personal position, asset structure, tax situation or the then present investment climate. In these instances Allegheny clients have the option of working with Allegheny Advisors through one of the arrangements listed below:

- Managed Account - clients are charged an asset management fee (described below);
- Retainer - clients are billed a flat fee or on an hourly basis for planning services provided.

### **Financial Planning and Other Services**

Allegheny may develop individualized investment plans for a client based upon an analysis of client objectives, risk tolerance, time frame and other data. Allegheny clients may also contract with Allegheny Advisors for specific investment advice that is less comprehensive than a financial plan. Some Allegheny Advisors are qualified to provide advice, on a consultative basis, on various business and personal matters not involving securities.

Using a team approach and in conjunction with other professionals, Allegheny is qualified to provide assistance and advice concerning:

- Business purchase or disposition
- Business continuation planning
- Succession planning and legacy planning
- Business valuations

- Business financing
- Retirement Planning

### **IRA Rollovers**

As part of the retirement and/or financial planning process, Allegheny Advisers may recommend rollovers to an IRA. Clients, and prospective clients, considering a rollover from a qualified employer sponsored retirement plan (“Employer Retirement Plan”) to an Individual Retirement Account (“IRA”) are encouraged to consider the advantages and disadvantages of an IRA rollover from their existing Employer Retirement Plan.

A plan participant leaving an employer typically has four options (and may engage in a combination of these options): 1) Leave the money in the former Employer Retirement Plan, if permitted; 2) Transfer the assets to the new employer’s plan, if one is available and if rollovers are permitted; 3) Rollover the assets to an IRA; 4) Cash out (or distribute) the assets and pay the taxes due.

Regulatory authorities have advised investors that they may face increased fees when they transfer retirement savings from their current Employer Retirement Plan to an IRA. The regulators have advised investors that even if there are no costs associated with the IRA rollover itself, there will be costs associated to account administration, investment management or both. In addition to the fees charged by Allegheny, the underlying investments (mutual fund, ETF, annuity, or other investment) typically also charge management fees. Custodial fees may also apply. Investing in an IRA managed by Allegheny may be more expensive than the current Employer Retirement Plan.

Prior to electing to rollover assets from the current Employer Retirement Plan to an IRA an investor should consider:

- The type of account investment management desired. For example, is assistance in the management of investments desired on a discretionary or non-discretionary basis; or is a self-managed account preferred.
- Available investment choices.
- The professional assistance available to participants in the current Employer Retirement Plan when compared to the advisory services offered by Allegheny in an advised IRA account.
- The cost of advisory fees.
- Management expenses associated with the underlying investments in an IRA advisory account vs. the underlying investment expenses associated with the current Employer Retirement Plan. Often, the management expenses in the current Employer Retirement Plan are less expensive than in a rollover IRA advisory account.
- Custodial charges in the advised IRA account vs. the current Employer Retirement Plan.
- Transaction charges associated with the advised IRA vs. the current Employer Retirement Plan.
- The rules pertaining to the required minimum distributions (“RMD”) in the current Employer Retirement Plan when compared to the advised IRA.
- Legal protections afforded to current Employer Retirement Plan participants and to rollover IRA account owners. Employer Retirement Plans have significant liability protection.
- The rules pertaining to beneficiaries of an IRA vs. the current Employer Retirement Plan (inherited accounts).
- The loan provision associated with the current Employer Retirement Plan, if any. IRA accounts do not have loan provisions.
- Employer Retirement Plans that may be available from a new employer.

You are encouraged to consult with a CPA, tax adviser, the plan administrator and/or legal counsel prior to rolling over assets from the current Employer Retirement Plan to an advised IRA with Allegheny.

### **Private Fund Advisor**

Supervised persons of Allegheny and affiliated persons advise private funds (“Funds”) as listed below. Private funds are generally available only to high-net worth individuals. Certain Allegheny advisors and other related entities (as disclosed in ADV Part 1) serve as General Partner and Advisors to the Funds. Offers to invest in Funds may only be made pursuant to appropriate offering documents.

As of 12/31/2018, Allegheny (including its related brokerage clients) and its related affiliate (Allegheny Financial Group, a registered investment adviser) managed \$2,536,044,318 of client regulatory asset under management. Collectively, the related entities managed \$2,278,844,341 of discretionary assets and \$257,199,977 of non-discretionary assets.

## Item 5 – Fees and Compensation

Allegheny Advisors are compensated for providing financial services in the following ways:

- Flat or Hourly Fees
- Asset Management Fees
- Private Fund Fees

### Flat or Hourly Fees

Fees for financial planning and other services described above may be negotiated on a flat, retainer, or hourly basis. Allegheny's maximum hourly fee rate is \$500.00. Fees are negotiated in advance between the Advisor and the Allegheny client. The amount of the fee charged is determined by several factors including, but not limited to, the size and complexity of the portfolio, the client's other assets and liabilities, the breadth of the issues explored and any other ancillary advice or services that the client may require. The ultimate plan created may be comprehensive in nature, or may address an individual issue. Typically, half of the fee is paid upon execution of the contract, and the remainder is due upon completion of the work. However, Allegheny clients and Advisors may make other arrangements that are mutually agreeable to all parties.

### Asset Management Fees

Asset management fees are calculated as a percentage of assets under management and generally billed at least semi-annually. Fees may be billed in advance or arrears, in accordance with the terms of the investment management agreement. Instructions may be provided to Allegheny's qualified custodian to have the advisory fees deducted from your account. The following are the maximum permissible asset management fees payable by the client to Allegheny:

- 1.00% on the first \$2,500,000 of assets under management
- 0.65% on the amount from \$2,500,000 to \$5,000,000
- 0.50% on the amount from \$5,000,000 to \$10,000,000
- 0.45% on the amount from \$10,000,000 to \$25,000,000
- 0.40% on the amount from \$25,000,000 to \$50,000,000
- 0.35% on the amount of assets over \$50,000,000

Allegheny may, in its sole discretion, deviate from this schedule. A client's total fee may exceed the schedule above when flat or hourly fees apply. Allegheny permits existing clients to continue to be billed according to previously published ADV schedules for cases where the relationship was established under the then published ADV terms. Previously established fee schedules may be calculated differently than the schedule stated above. Allegheny retains the right to negotiate fees on a client-by-client basis. Each client's facts, circumstances and needs are considered in determining the client fee. Allegheny considers the complexity of the client, amount and types of assets managed, related accounts and other factors. Clients may choose whether fees are deducted from the client's account or clients may receive a bill for services provided. Clients may terminate their advisory contract with Allegheny upon 30 (thirty) days written notice. In cases where fees are collected in advance and upon termination of a management agreement, any prepaid, unearned fees will be refunded to the client. Allegheny will prorate the refund according to the number of days remaining in the billing period.

For the purpose of asset management fee calculations Allegheny may combine the advisory accounts of immediate family members or other related accounts. Allegheny, in its sole discretion, may permit an Allegheny Advisor to include additional accounts.

**Private Fund Fees**

Private fund fees are detailed in the Fund offering documents. These fees generally include management fees and performance-based fees (described below in Item 6).

**Brokerage Commissions and Other Fees**

Fees assessed and collected by an outside manager or fund company are not included in this schedule. In addition to the fees charged by Allegheny, clients will incur brokerage, custodial or mutual fund fees and expenses on certain investments. Some investments have additional fees embedded within the product.

Once the financial or advisory plan is complete, the Allegheny client may elect to have the plan executed by their Allegheny Advisor through the affiliated broker-dealer; they may execute the plan on their own; or they may choose to have another broker dealer execute the plan.

Please discuss your individual account with your Allegheny Advisor. For additional information, please see Item 12-Brokerage Practices.

**12b-1 Fees**

12b-1 fees are known in the securities industry as trails and service fees. Some mutual funds charge investors 12b-1 fees to cover fund distribution and/or shareholder service expenses pursuant to Section 12(b) of the Investment Company Act of 1940 and Rule 12b-1 thereunder, and pass these fees on to the fund's distributor, which passes some or all of them to broker-dealers and other intermediaries whose customers hold fund shares. Allegheny receives 12b-1 fees from mutual funds and/or mutual fund distributors. Allegheny does not receive these fees for all mutual fund share classes. Fees are only received for share classes that pay such fees and when the fees are not credited back to the client account.

Mutual fund share classes represent an interest in the same portfolio of underlying securities with the same investment objective. Most mutual funds offer different share classes with varying fee structures, including Class A, Class C, Class I and various other share classes. The primary differences among the various share classes is their fee structure and availability.

For example, Class A shares are available to everyone and generally are sold with sales charges or front-end sales "loads" that are often waived when Class A shares are purchased through fee-based accounts. Class A shares also often include what are known as "12b-1" fees to cover fund distribution and shareholder services. These fees are deducted from the mutual fund assets on an ongoing basis and paid to the fund's distributor. In turn, these fees are passed on as compensation to the broker-dealers and registered representatives, whose customers own the shares. Allegheny, as a broker, is paid 12b-1 fees when the selected share class has such a fee and when the fees are not credited back to the client account. Allegheny then passes a portion of that compensation on to its IARs who are registered representatives.

Class I shares on the other hand, usually have no up-front or deferred sales charges and rarely have 12b-1 fees. As a result, an individual who invests in Class I shares of a given mutual fund will pay lower fees over time—and keep more of his or her investment returns—than an individual who holds Class A shares of the same fund. Therefore, if an investor meets a mutual fund's criteria for purchasing Class I shares, it is almost always in the investor's best interest to select that share class over the same fund's more expensive Class A shares.

Clients should review the mutual fund prospectus to learn more about the fees and expenses related to the mutual funds Allegheny selects or recommends.

The choice of share classes is a complex issue. Please discuss this with your Advisor or Allegheny's Chief Compliance Officer to ensure that you understand the choices involved. Additional information on this topic is available by reading the investment prospectus and on websites maintained by the Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)) and the Financial Industry Regulatory Association ([www.FINRA.org](http://www.FINRA.org)).

In addition to advisory fees, Allegheny Advisors who are licensed as registered representatives of a broker-dealer and/or licensed as insurance agents or brokers receive additional compensation on certain brokerage products.

These individuals can implement investment recommendations for advisory clients and receive separate yet customary compensation including, commissions, 12b-1 fees or other transaction related compensation. These additional fees and expenses will increase the overall investment cost to the client.

Receipt of these commissions presents a conflict of interest and gives Allegheny and the Advisor an incentive to recommend an investment product based on the compensation received. Allegheny addresses this conflict by disclosing to clients brokerage and other expenses. Allegheny clients will receive notification of brokerage commissions charged by the affiliated broker-dealer.

Allegheny endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Allegheny in and of itself creates a conflict of interest and can indirectly influence Allegheny's choices for investments, custody and brokerage services.

As described above, not all share classes pay 12b-1 fees. In certain instances, Allegheny recommends share classes that pay 12b-1 fees rather than a lower-cost alternative share class even when a lower-cost share class is available for the same fund. Clients are hereby made aware that many mutual funds offer lower cost share classes, including some that do not charge 12b-1s and are accordingly less expensive for the investor than those recommended by Firm. The receipt of compensation by Allegheny and/or its employees when recommending more expensive share classes creates an incentive for the firm and employees to recommend, select and hold revenue producing share classes rather than a less costly share class.

For most advisory accounts Allegheny either recommends share classes which do not have 12b-1 fees or credits the 12b-1 fees received against the negotiated advisory fee. Clients with agreements that include the crediting or rebating of 12b-1 fees either receive the 12b-1 fees directly into their accounts or have their advisory fees reduced by the amount of 12b-1 fees received by Allegheny.

Under some historical agreements Allegheny advisory clients have agreements that do NOT credit or rebate 12b-1 fees. For those historical agreements on which 12b-1s are not credited, Allegheny charges a reduced advisory fee. In these accounts Allegheny earns 12b-1 and other similar fees that are not credited or rebated to the client even when the client is eligible to invest in a share class of the same fund that does not charge such a fee and therefore is less expensive.

Additionally, Clients should consider the impact of transaction costs related to mutual fund purchases. Certain share classes have transaction related expenses and others do not. All of these additional fees and expenses will increase the overall investment cost to the Client. When recommending or selecting share classes for advisory clients, Allegheny generally avoids using share classes that incur transaction fees. However, share classes that can be traded without transaction charges ("NTF Funds") are generally more expensive than share classes that carry a transaction charge. Many mutual funds have share classes with higher internal expenses which are traded with no transaction costs charged by the broker/custodian and another share class that has a lower internal expense but carries a transaction charge for each purchase/sale. Allegheny will generally purchase NTF Funds with a higher internal expense to avoid the potential cost of incurring repeated transaction fees. In some instances, this practice will cause the client to pay higher total expense. The impact of the higher expense share class varies based on the amount of assets invested in the fund and the number of transactions.

## **Item 6 - Performance-Based Fees and Side by Side Management**

Allegheny does not use performance fee arrangements with individual clients. Some Allegheny Advisors and related entities enter into such arrangements with Private Funds. These arrangements present a conflict of interest that may create an incentive to favor accounts with a performance-based fee over other accounts. Allegheny addresses this conflict in the management process of these funds. Given the specialized nature of these arrangements any client considering such an investment will be given detailed information concerning the fee structure and risks of these investments.

## Item 7 - Types of Clients

Allegheny provides investment advisory services to individuals, high net worth individuals, trusts, estates, charitable organizations, corporation and other business entities, pension plans, individual retirement account plans, and profit sharing plans. Allegheny sets no minimum account limit for opening or maintaining an account.

## Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss

Allegheny advisors place a strong emphasis on the financial planning process. During this process, Allegheny advisors generally:

- a. **DEFINE CLIENT OBJECTIVES** Our Allegheny Advisors ask questions and discover key client issues and concerns, based upon their extensive experience, to build a meaningful evaluation of our clients' finances. These questions include determining risk tolerance, education needs, retirement objectives, long and short-term goals and objectives.
- b. **DEVELOP A FINANCIAL PLAN** Allegheny Advisors analyze assets and liabilities and evaluate risk tolerances to develop a clear picture of our clients' financial status. This enables us to build a plan to meet each client's objectives. The financial plan may contain programs to enhance cash flow, decrease tax liabilities, enhance the funding of educational goals or a comfortable retirement, or meet a business or organization's financial goals. Our planning tools enable Allegheny Advisors to chart detailed projections to account for factors that impact our clients' finances, and anticipate changing needs. At the end of the process, Allegheny Advisors provide a very specific set of recommendations. Clients then decide whether to implement these recommendations.
- c. **IMPLEMENT THE FINANCIAL PLAN** Allegheny Advisors work with a team of specialists to select the most appropriate fund managers, insurance providers, and risk managers to ensure consistent portfolio performance.
- d. **MONITOR AND REFINE THE FINANCIAL PLAN** Allegheny Advisors support our clients' portfolio with ongoing and original research to measure performance. Allegheny Advisors report to clients through detailed reports and updates and one-on-one meetings.

Allegheny Advisors primarily use mutual funds in their investment strategy. Risks associated with this include:

*Market conditions*- The prices of, and the income generated by, the common stocks, bonds and other securities held by the fund may decline due to market conditions and other factors, including those directly involving the issuers of securities held by the fund.

*Investing in growth-oriented stocks*- Growth-oriented stocks may involve larger price swings and greater potential for loss than other types of investments.

*Investing in income-oriented stocks*- Income provided by the fund may be reduced by changes in the dividend policies of, and the capital resources available at, the companies in which the fund invests.

*Investing in bonds*- Rising interest rates will generally cause the prices of bonds and other debt securities to fall. In addition, falling interest rates may cause an issuer to redeem, call or refinance a security before its stated maturity, which may result in the fund having to reinvest the proceeds in lower yielding securities. Longer maturity debt securities may be subject to greater price fluctuations than shorter maturity debt securities.

Bonds and other debt securities are subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default. Lower quality debt securities generally have higher rates of interest and may be subject to greater price fluctuations than higher quality debt securities.

*Investing in securities backed by the U.S. government*- Securities backed by the U.S. government are guaranteed by the U.S. Treasury or the full faith and credit of the U.S. government are guaranteed only as to the timely payment of interest and principal when held to maturity. Accordingly, the current market values for these

securities will fluctuate with changes in interest rates. Securities issued by government sponsored entities and federal agencies and instrumentalities are neither issued nor guaranteed by the U.S. government.

*Investing in mortgage-backed and asset-backed securities-* Many types of bonds and other debt securities, including mortgage-back securities, are subject to prepayment risk, as well as the risks associated with investing in debt securities in general. If interest rates fall and the loans underlying these securities are prepaid principal in lower yielding securities, thus reducing the fund's income. Conversely, if interest rates increase and the loans underlying the securities are prepaid more slowly than expected, the expected duration of the securities may be extended. This reduces the potential for the fund to invest the principal in higher yielding securities.

*Thinly traded securities-* There may be little trading in the secondary market for particular bonds or other debt securities, which may make them more difficult to value or sell.

*Investing outside the United States-* Securities of issuers domiciled outside the United States, or with significant operations outside the United States, may lose value because of political, social or economic developments in the country or region in which the issuer operates. These securities may also lose value due to changes in the exchange rate of currencies which are more volatile and/or less liquid than those in the United States. Investments outside the United States may also be subject to different settlement and accounting practices and different regulatory, legal and reporting standards than those in the United States. These risks may be heightened in connection with investments in developing countries.

*Management-* The investment advisor to the fund actively manages the fund's investments. Consequently, the fund is subject to the risk that the methods and analyses employed by the investment adviser may not produce the desired results. This could cause the fund to lose value or its results to lag relevant benchmarks or other funds with similar objectives.

*Equity Market Risk-* Overall stock market risks may affect the value of the investments in equity strategies. Factors such as U.S. economic growth and market conditions, interest rates, and political events affect the equity markets.

*Investment Selection Risk-* Our judgments about the attractiveness, value and potential appreciation of a particular asset class or individual security may be incorrect and there is no guarantee that individual securities will perform as anticipated. The value of an individual security can be more volatile than the market as a whole or our intrinsic value approach may fail to produce the intended results. Our estimate of intrinsic value may be wrong or even if our estimate of intrinsic value is correct, it may take a long period of time before the price and intrinsic value converge.

Investing in securities involves the risk of loss. Your investment in a fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency, entity or person. You should consider how this fund fits into your overall investment program.

## **Item 9 - Disciplinary Information**

Allegheny is a dually registered investment adviser and licensed broker-dealer. As a broker-dealer, Allegheny has been involved in some regulatory and civil settlements. However, none of these matters involved advisory clients, or Allegheny's activities as an investment adviser. For more information on these brokerage issues you may contact Compliance at Allegheny by email or telephone. Information is also available on the FINRA website at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

## **Item 10 - Other Financial Industry Activities and Affiliations**

As noted previously, Allegheny is a dually registered investment adviser and licensed broker-dealer. Allegheny is under common control with Allegheny Financial Group and the directors of Allegheny are also the directors of Allegheny Financial Group. Allegheny Financial Group is an affiliated entity registered with the SEC as an Investment Advisor under the Investment Advisors Act of 1940 as amended.

### **Registered Representatives and Affiliated Broker-Dealer**

Some members of management and other personnel are registered representatives of the affiliated broker-dealer. In this capacity they may implement investment recommendations for advisory clients and receive separate yet customary compensation including, commissions, 12b-1 fees or other transaction related compensation.

Receipt of commissions can present a conflict of interest and it can give Allegheny and the Advisor an incentive to recommend an investment product based on the compensation received. Allegheny addresses this conflict by disclosing to clients brokerage and other expenses. Allegheny clients will receive notification of brokerage commissions charged by the affiliated broker-dealer.

Allegheny endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Allegheny in and of itself creates a conflict of interest and may indirectly influence Allegheny's choices for investments, custody and brokerage services.

### **Insurance Agents**

Some members of management and other personnel are licensed insurance agents and receive additional compensation for the implementation or purchase of insurance products for advisory clients. Allegheny is a licensed insurance broker.

### **Other Professional Services**

Some Allegheny Advisors are involved in other business activities including accounting services and other professional services. Please see the supplement for information concerning your advisor.

### **Private Funds**

Some members of management are shareholders and/or general partners or managing members of limited partnerships of limited liability corporations formed for investment purposes. Advisory clients may be solicited to invest in these Funds. Funds are generally available only available to accredited investors and involve certain additional risks. General Partners and other related entities are compensated in accordance with the partnership offering documents. A list of these related entities is disclosed on Schedule D of Form ADV Part 1. Form ADV Part 1 can be accessed by following the directions on the Cover Page of this Brochure. Clients interested in investing in the Funds should refer to Fund offering documents.

## **Item 11 - Code of Ethics**

Allegheny has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Allegheny must acknowledge the terms of the Code of Ethics annually, or as amended. Allegheny's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Allegheny Compliance.

Allegheny anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Allegheny has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Allegheny, its affiliates and/or clients, directly or indirectly, have a position of interest. Allegheny's employees and persons associated with Allegheny are required to follow Allegheny's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Allegheny and its affiliates may trade for their own accounts in securities and investments which are recommended to and/or purchased for Allegheny's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Allegheny will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. The Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest

between Allegheny and its clients.

It is Allegheny's policy that the firm will not affect any principal or agency cross securities transactions for client accounts, with the exception of a very limited number of bond transactions with pre-notification to the clients. Allegheny will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client.

A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise since Allegheny is dually registered as a broker-dealer and investment adviser.

## **Item 12 – Brokerage Practices**

Generally, clients select the broker-dealer and custodian for their accounts. Allegheny may recommend and clients may select our affiliated broker-dealer, clearing through National Financial Services ("NFS"), a FINRA registered broker-dealer, member SIPC. Broker-dealers and custodians are generally compensated by account holders through commissions and other transaction related fees.

Brokers and custodians are generally compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through a Custodian or settle into Custodian accounts.

Custodians also make available to our firm other products and services that benefit Allegheny but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at the Custodian providing the service.

Custodian products and services that assist us in managing and administering our clients' accounts include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements);
- facilitate trade execution and trade orders for multiple client accounts;
- provide research, and other market data;
- assist with back-office functions, recordkeeping and client reporting.

Custodians may make available, arrange and/or pay third-party vendors for the types of services rendered to Allegheny. Custodians may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Custodians may also provide other benefits such as educational events or occasional business entertainment of our personnel. In evaluating whether to recommend that clients custody their assets at a particular Custodian, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by a Custodian, which may create a potential conflict of interest.

### **Affiliated Broker-Dealer**

As described in Item 5 and Item 10 of this brochure, Management and other personnel are registered representatives of an affiliated broker-dealer. In this capacity they can implement investment recommendations for advisory clients and receive separate yet customary compensation including, commissions, 12b-1 fees or other transaction related compensation. This presents a conflict of interest to the extent that recommendations are made to Clients that result in additional compensation for Allegheny or its employees. Clients have the option to purchase investments and insurance products through other advisers. When the Client has provided written authorization that gives Allegheny trading discretion, Allegheny will not contact the Client prior to implementation

of transactions. When the Client has selected a financial planning or non-discretionary management service the Client is not obligated to engage Allegheny when implementing advisory recommendations. In cases where the Client has selected non-discretionary management, the implementation of any or all recommendations is solely at the discretion of the Client.

Allegheny endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Allegheny in and of itself creates a conflict of interest and may influence Allegheny's choices for investments, custody and brokerage services.

The majority of our clients select our affiliated broker-dealer. Allegheny and NFS have entered into a revenue participation program, wherein Allegheny receives reduced fees or enhanced compensation based on a certain volume of transactions or assets. NFS offers a "No Transaction Fee" program with more than 3,000 funds. Funds participating in the NTF program pay Fidelity Brokerage Services LLC (FBS) and National Financial Services (NFS) certain fees in connection with offering their products in the NTF program. NFS pays a portion of these fees to Allegheny. Fidelity Brokerage Services LLC, or its affiliates, receives compensation in connection with (i) access to, purchase or redemption of, and/or maintenance of positions in mutual funds and other investment products ("funds"), (ii) infrastructure needed to support such funds as well as additional compensation for shareholder services, start-up fees, infrastructure support and maintenance, and other programs and/or (iii) a fund's attendance at events for FBS's clients and/or representatives, and opportunities for the fund to promote its products and services. This compensation may take the form of sales loads and 12b-1 fees described in the prospectus and/or additional compensation paid by the fund, its investment adviser or an affiliate. This presents a conflict of interest to the extent that recommendations are made to Clients that result in additional compensation for Allegheny or its employees. NFS provides Allegheny with access to their institutional trading and custody services. NFS services include the execution of securities transactions, custody, operations and technology services. You may discuss this arrangement with your Allegheny Advisor, or contact Allegheny Compliance.

#### **Soft Dollar Arrangements**

Allegheny does not have any traditional soft-dollar arrangements.

However, Allegheny may also receive other economic benefits in the form of monetary support for client appreciation dinners, client seminars, educational conferences and meetings and related materials sponsored by various financial institutions, including but not limited to custodians, broker-dealers, mutual funds, TAMP providers, insurance and annuity companies and other vendors. Allegheny may also receive monetary support and business development allowances for technology, investment research, marketing and advertising from these entities, as well as monetary support and/or guest speakers for client events. Clients are advised that a potential conflict of interest exists to the extent that Allegheny recommends products from these financial institutions or other vendors. However, the client is under no obligation to purchase these products.

#### **Brokerage for Client Referrals**

Allegheny does not recommend broker-dealers to clients in exchange for client referrals.

#### **Directed Brokerage**

Allegheny does not permit, require, request or recommend clients to direct brokerage.

#### **Trade Aggregation**

Allegheny does not aggregate client trades.

#### **Best Execution**

Clients select a broker dealer to execute the advisory plan. AI may or may not provide the lowest execution cost. The brokerage commissions for sale of securities charged by AI may be higher or lower than those charged by other broker dealers. AI may not be able to negotiate volume discounts or to obtain best execution in some transactions. Since AI is under common control with Allegheny, this may encourage the investment advisor representatives to recommend transactions to be placed with AI as opposed to a different broker dealer. Allegheny does not receive compensation for directing orders to particular broker dealers or market centers for execution.

### **Item 13 – Review of Accounts**

Allegheny Advisors typically contact their clients at least semi-annually, as well as offer to schedule meetings with them at least annually to review the performance of Allegheny clients' advisory accounts, and discuss any changes in the clients' finances, financial goals, or profile. An Allegheny supervising principal reviews client transactions. Each financial plan or report is reviewed by at least one Allegheny Advisor in addition to the Advisor preparing the plan. Allegheny advisors may provide reports to clients on a periodic basis as determined by the relationship and indicated in the client/advisor agreement.

Allegheny Advisors monitor client portfolios continuously. Allegheny supervising principals, in conjunction with Compliance, review client information on an ongoing basis. Allegheny relies in part on technology but also reviews and audits other information.

Allegheny Advisors and Allegheny home office personnel are available during normal business hours to answer questions or other inquiries from Allegheny clients.

### **Item 14 – Client Referrals and Other Compensation**

Allegheny does not accept or allow our supervised persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

Allegheny compensates others for client referrals. When compensating others Allegheny will follow the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940 and any corresponding securities law requirements. At the time of the referral Allegheny will disclose the nature of the relationship and provide a written disclosure statement. Referral arrangements will not result in any additional fees to clients.

### **Item 15 – Custody**

Allegheny does not maintain physical custody of client funds or securities. However, Allegheny is deemed to have custody of client assets in certain situations where we (or a related person) have the authority to obtain possession of client funds or securities. In the instances where Allegheny is deemed to have custody, we will follow the requirements of rule 206(4)-2 including obtaining all required audits.

Clients receive statements at least quarterly from the qualified custodian that holds and maintains the client's investment assets. Allegheny urges you to carefully review such statements and compare such official custodial records to the reports that we may provide to you. Our reports may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16 – Discretion**

Allegheny may receive limited discretionary authority from a client to select the identity and amount of securities to be bought or sold. Clients must provide written authorization to allow Allegheny discretionary authority. In all cases, this discretion is exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Allegheny observes the investment policies, limitations and restrictions as provided by the client. Investment guidelines and restrictions must be provided to Allegheny in writing.

### **Item 17 – Voting Client Securities**

As a matter of firm policy and practice, Allegheny does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios.

Clients will receive proxies or other solicitations directly from their custodian or transfer agent. We may provide clients with assistance regarding proxy issues if they contact us with questions.

### **Item 18 – Financial Information**

Registered investment advisers are required to provide you with certain financial information or disclosures about Allegheny's financial condition. Allegheny has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding. Allegheny may require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we have included financial statements from an independent auditor.



## INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders  
Allegheny Financial Group, Ltd.

### **Report on the Financial Statements**

We have audited the accompanying balance sheet of Allegheny Financial Group, Ltd. as of December 31, 2018.

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

Management is responsible for the preparation and fair presentation of this financial statement 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 the balance sheet that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

In accordance with the terms of our engagement, we did not audit the statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2018, or the related notes to these statements, and, accordingly, we express no opinion on them.

### **Opinion**

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Allegheny Financial Group, Ltd. as of December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Cranberry Township, Pennsylvania  
March 18, 2019

ALLEGHENY FINANCIAL GROUP, LTD.  
BALANCE SHEET  
DECEMBER 31, 2018

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 1,345,786
Trading securities	360,917
Accounts receivable, net	88,887
Accounts receivable - related party	2,561,166
Prepaid expenses	370,543
Total current assets	<u>4,727,299</u>
PROPERTY, PLANT, AND EQUIPMENT	
Office furniture and equipment	538,244
Leasehold improvements	114,345
	<u>652,589</u>
Less accumulated depreciation	(534,660)
Net property, plant, and equipment	<u>117,929</u>
 TOTAL ASSETS	 \$ <u><u>4,845,228</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	\$ 142,547
Accrued expenses	1,434,840
Fees billed in advance	2,918,768
Total current liabilities	<u>4,496,155</u>
Total liabilities	<u>4,496,155</u>
STOCKHOLDERS' EQUITY	
Capital stock, common, no par value; authorized 12,000 shares of which 6,600 shares are issued and 6,270 shares outstanding	89,382
Retained earnings	301,073
Treasury stock - at cost, 330 shares	(41,382)
Total stockholders' equity	<u>349,073</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ <u><u>4,845,228</u></u>

The accompanying notes are an integral part of the financial statements.

ALLEGHENY FINANCIAL GROUP, LTD.  
STATEMENT OF INCOME (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

INVESTMENT ADVISORY FEES EARNED	\$	13,190,481
OPERATING EXPENSES		
Salaries	\$	9,290,782
Employee benefits		961,328
Taxes - payroll		449,740
Technology		398,102
Rent		397,940
Travel and entertainment		291,494
Professional fees		215,396
Advertising and promotions		185,802
Office expense		173,803
Depreciation		76,078
Licenses and registration		74,056
Insurance		64,053
Outside services		40,304
Telephone		34,517
Postage		30,016
Education and seminars		21,024
Cleaning services		20,298
ERISA bond		13,419
Taxes - other		9,666
		12,747,818
TOTAL OPERATING EXPENSES		
INCOME FROM OPERATIONS		442,663
OTHER INCOME (EXPENSE)		
Loss on trading securities		(53,025)
Dividend income		6,952
Interest income		1,519
TOTAL OTHER EXPENSE		(44,554)
NET INCOME	\$	398,109

The accompanying notes are an integral part of the financial statements.

ALLEGHENY FINANCIAL GROUP, LTD.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
Balance, December 31, 2017	\$ 89,382	\$ 725,932	\$ (41,382)	\$ 773,932
Net income	-	398,109	-	398,109
Distributions	-	(822,968)	-	(822,968)
Balance, December 31, 2018	<u>\$ 89,382</u>	<u>\$ 301,073</u>	<u>\$ (41,382)</u>	<u>\$ 349,073</u>

The accompanying notes are an integral part of the financial statements.

ALLEGHENY FINANCIAL GROUP, LTD.  
STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2018

OPERATING ACTIVITIES	
Net Income	\$ 398,109
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Depreciation	76,078
Loss on trading securities	53,025
(INCREASE) DECREASE IN OPERATING ASSETS	
Purchases and proceeds from the sale of trading securities, net	(113,422)
Accounts receivable, net	472,087
Accounts receivable - related party	(549,962)
Prepaid expenses	(26,483)
INCREASE (DECREASE) IN OPERATING LIABILITIES	
Accounts payable	(64,577)
Accrued expenses	250,508
Fees billed in advance	<u>1,276,700</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,772,063
INVESTING ACTIVITIES	
Purchase of furniture and fixtures	<u>(61,616)</u>
NET CASH USED FOR INVESTING ACTIVITIES	(61,616)
FINANCING ACTIVITIES	
Cash distributions	<u>(822,968)</u>
NET CASH USED FOR FINANCING ACTIVITIES	(822,968)
INCREASE IN CASH AND CASH EQUIVALENTS	<u>887,479</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>458,307</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,345,786</u>

The accompanying notes are an integral part of the financial statements.

**ALLEGHENY FINANCIAL GROUP, LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations – Allegheny Financial Group, Ltd. (the “Company”) is a financial planning firm, offering access to a wide range of financial products and services and specializing in consumer-oriented financial planning.

Basis of Accounting – The Company maintains its records and prepares financial statements using the accrual basis of accounting.

Investment Advisory Fees – Investment advisory fees are received quarterly but are recognized as earned on a pro rata basis over the term of the contract.

Accounts Receivable – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable efforts are written off through a charge in the valuation allowance and a credit to accounts receivable. The Company determines when receivables are past due upon contract terms and does not charge finance costs on past-due trade receivables. An allowance for doubtful accounts of \$20,000 has been included in the accompanying financial statements and is netted against the balance of accounts receivable on the Balance Sheet.

Investments – Investments in equity securities that have readily determinable fair values are classified and accounted for as trading securities. Realized and unrealized gains and losses on trading securities are included in other income.

Property, Plant, and Equipment – Property, plant, and equipment are carried at cost. Maintenance and repairs are charged to expense as incurred. Upon sale or retirement, the related cost and accumulated depreciation are removed from the accounts and only the resultant gain or loss is recognized.

Depreciation – Depreciation is calculated using the straight-line and various accelerated methods over the useful lives of the assets.

<u>Assets</u>	<u>Economic Lives/ Recovery Period</u>
Office furniture and equipment	5 - 10 years
Leasehold improvements	7 years

Depreciation expense for the year ended December 31, 2018, amounted to \$76,078 (unaudited).

Revenue Recognition – The Company provides investment advisory services on a daily basis. The Company believes the performance obligation for providing investment advisory services is satisfied over time because the customer is receiving the benefits as they are provided by the Company. Advisory fee arrangements are based on a percentage applied to the customer’s assets under advisement. Advisory fees are received quarterly, semi-annually and (in a few instances) annually and are recognized as revenue at the time they relate specifically to the services provided in that period.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash Flows – For purposes of the Statement of Cash Flows, the Company considers highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk – The Company’s principal activities include financial planning, financial and business consulting, and money management with most of their clients located in the western Pennsylvania area. The Company maintains cash accounts which, at times, may exceed insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Use of Estimates – The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs – Advertising costs are expensed as incurred.

**2. INVESTMENTS**

Investment securities have been classified according to management’s intent. A summary of investments classified as trading at December 31, 2018, is as follows:

		2018
Mutual funds - equities		\$ <u>360,917</u>
	Total	\$ <u><u>360,917</u></u>

Trading securities gains included in earnings as of December 31, 2018, include \$6,952 (unaudited) of dividends, \$28,579 (unaudited) of realized capital gains and \$81,604 (unaudited) related to unrealized losses for assets held at December 31, 2018.

**3. FEES BILLED IN ADVANCE**

At December 31, 2018, the unearned portion of client billings, representing deferred revenue, is \$2,918,768.

**4. CORPORATE INCOME TAXES**

The Company, with the consent of its stockholders, has elected to have its income taxed as an S Corporation under Section 1372 of the Internal Revenue Code, which provides that in lieu of corporate income taxes, the stockholders are taxed on their proportionate share of the Company’s taxable income. No provision or liability for federal or state income taxes is included in these financial statements. However, the Company is subject to state corporate income taxes in any state that does not automatically recognize its federal S status, and in which it does not specifically elect to be taxed as an S Corporation. Currently, the Company is subject to state income taxes in the state of New York, and its policy is to expense these amounts as they are incurred.

The Company recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Under that guidance the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in other expenses on the Statement of Income. The Company’s federal and state income

**4. CORPORATE INCOME TAXES (continued)**

tax returns for taxable years ending prior to 2015 are closed for purposes of examination by the Internal Revenue Service and state taxing authorities.

**5. PROFIT SHARING PLAN**

The Company has adopted a profit sharing plan under Section 401(k) of the Internal Revenue Code. All full-time employees are eligible for the plan, regardless of age or years of service. The Company contribution to the plan during the year ended December 31, 2018, was \$579,771 (unaudited).

**6. OPERATING LEASES**

The Company and an affiliated company have entered in to a nine-year lease for the facilities they currently occupy. The first payment on this lease agreement commenced in March of 2013. The total monthly rental is \$43,796 for the first three years; \$45,881 for the next three years; and \$47,967 for the remaining three years. The Company's portion of these rental payments is \$15,732 for the first three years; \$29,891 for the next three years; and \$31,250 for the remaining three years.

The Company has entered in to a five-year lease for copy machines. The total monthly rental is \$3,611 for the term of the agreement ending in June of 2019.

The Company has entered in to a three-year lease for copy machines. The total monthly rental is \$2,550 for the term of the agreement ending in October of 2021.

The Company has entered in to a three-year lease for a postage scale in June 2018. The total quarterly rental is \$1,578 for the term of the agreement ending in June of 2021.

The following is a schedule of future minimum rental payments required under the above leases as of December 31, 2018:

<u>Year Ended</u>	<u>Amount</u>
2019	430,863
2020	411,915
2021	401,108
thereafter	62,500

Rental expense amounted to \$397,940 (unaudited) for the year ended December 31, 2018.

**7. RELATED-PARTY TRANSACTIONS**

At December 31, 2018, the Company has a receivable of \$2,561,166 from an affiliated company for various expenses that have been allocated between the two companies.

**8. STOCKHOLDERS' AGREEMENT**

The stockholders of the Company entered into an agreement stipulating, among other things, the terms under which the Company's stock can be sold or transferred. The agreement provides that ownership of the Company will be determined by the cumulative gross revenues produced for the Company by each revenue producer at a price determined in accordance with the agreement. The agreement also requires that the Company redeem the shares owned by a stockholder upon death, disability, or retirement if those shares are not purchased by any of the other stockholders.

## 9. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels defined by U.S. generally accepted accounting principles are as follows:

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data when available.

The following table presents the assets reported on the Balance Sheet at their fair value as of December 31, 2018, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2018			
Assets:	Level I	Level II	Level III	Total
Trading securities:				
Mutual Funds- equities	\$ 360,917	-	-	\$ 360,917
	<u>360,917</u>	<u>-</u>	<u>-</u>	<u>360,917</u>

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument. Investment securities trading are valued based upon quoted market prices.

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract that creates an obligation or right to receive or deliver cash or another financial instrument from or to a second entity on potentially favorable or unfavorable terms. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation or sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

As certain assets such as furniture and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company. Additionally, certain financial instruments that are not carried at fair value on the Balance Sheet and are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, trading securities, accounts receivable, prepaid expenses, accounts payable, accrued expenses, and fees billed in advance.

**10. SUBSEQUENT EVENTS**

Management has reviewed events occurring through March 18, 2019, the date the financial statements were issued, and no subsequent events have occurred requiring accrual or disclosure.