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**ANNUAL AUDITED REPORT
FORM X-17A-5 *
PART III**

SEC FILE NUMBER
8-10646

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING November 1, 2018 AND ENDING October 31, 2019
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hefren-Tillotson, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

308 Seventh Avenue

(No. and Street)

Pittsburgh

PA

15222

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Joseph M. Niesslein

412-633-1599

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Lally & Co., LLC

(Name - if individual, state last, first, middle name)

5700 Corporate Drive, Suite 800

Pittsburgh

PA

15237

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

SEC
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Section

DEC 26 2019

Washington DC

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (11-05)

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RMS

OATH OR AFFIRMATION

I, Joseph M. Niesslein, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hefren-Tillotson, Inc. of October 31, 2019, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature
Chief Financial Officer
Title

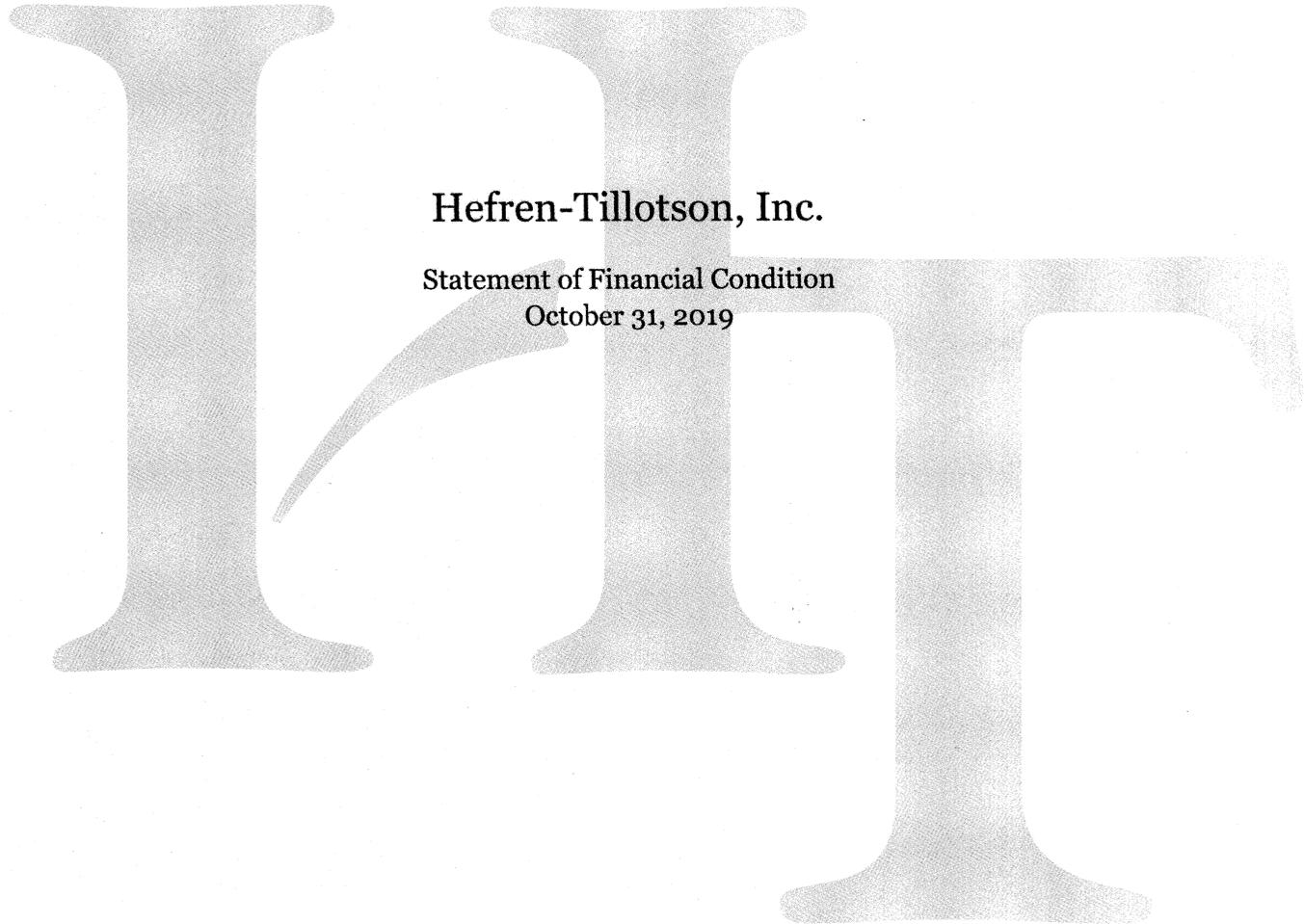

Notary Public

Commonwealth of Pennsylvania - Notary Seal
Maria A. McDonald, Notary Public
Allegheny County
My commission expires November 7, 2022
Commission number 1342097
Member, Pennsylvania Association of Notaries

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



Hefren-Tillotson, Inc.

Statement of Financial Condition
October 31, 2019



Hefren-Tillotson

METICULOUS WEALTH MANAGEMENT SINCE 1948

**HEFREN-TILLOTSON, INC.
FINANCIAL STATEMENTS
OCTOBER 31, 2019**

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Lally & Co.

CPAs and Business Advisors

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Hefren-Tillotson, Inc.
Pittsburgh, Pennsylvania

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of **Hefren-Tillotson, Inc.** (“Company”), as of October 31, 2019, and the related notes (collectively referred to as the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of October 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

This financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit includes performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Company’s auditor since 2008.

Pittsburgh, Pennsylvania
December 17, 2019

HEFREN-TILLOTSON, INC.
STATEMENT OF FINANCIAL CONDITION
OCTOBER 31, 2019

ASSETS

Cash and Cash Equivalents	\$ 1,358,259
Deposits with Clearing Organization	100,000
Receivable From Clearing Organization	624,075
Investment Advisory Fees Receivable	171,308
Receivables - Other	1,292,193
Notes and Advances Receivable - Officers and Employees	52,655
Prepaid Expenses	2,151,323
Securities Owned - At Fair Value	36,788,375
Securities Owned - Not Readily Marketable	29,931
Property and Equipment - At Cost, Less Accumulated Depreciation and Amortization of \$4,768,194	433,141
Construction-in-Progress	202,393
Total Assets	<u><u>\$ 43,203,653</u></u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities

Commissions and Other Compensation Payable	\$ 9,094,891
Income Taxes Payable, Including Deferred	
Income Taxes Payable	172,390
Accrued Retirement Plan Liability	2,436,443
Accounts Payable, Accrued Expenses, and Other Liabilities	1,742,758
Deferred Investment Advisory Fees	9,365,640
Due to Parent	1,099,350
Total Liabilities	<u><u>23,911,472</u></u>

Stockholder's Equity

Common Stock - Par Value \$10 Per Share; 50,000 Shares Authorized; 31,287 Shares Issued and Outstanding	312,870
Additional Paid-In Capital	4,809,463
Retained Earnings	14,169,848
Total Stockholder's Equity	<u><u>19,292,181</u></u>

Total Liabilities and Stockholder's Equity	<u><u>\$ 43,203,653</u></u>
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The accompanying notes are an integral part of the financial statement.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT

1 – ORGANIZATION AND NATURE OF BUSINESS

Hefren-Tillotson, Inc. is a registered investment advisor, registered securities broker-dealer, and a member of the Financial Industry Regulatory Authority (“FINRA”) and Securities Investment Protection Corporation (“SIPC”). The Company conducts the majority of its business from its principal office in Pittsburgh, along with five additional offices throughout Western Pennsylvania. The Company is a wholly owned subsidiary of Masterplan, Inc. (“Parent”).

The Company provides professional financial counseling and planning services to individuals, businesses, foundations, and retirement plans. It offers discretionary and non-discretionary investment advisory management services, traditional security broker-dealer products, and insurance products.

2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statement has been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as promulgated by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents and Concentrations of Credit Risk

The Company places its cash with a financial institution which management considers financially secure. However, at times such deposits may be in excess of the Federal Deposit Insurance Corporation limit.

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, institutional and individual investors, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument.

Property and Equipment

Property and equipment are recorded at cost and are depreciated and amortized on a straight-line basis over the estimated useful lives of the assets. Maintenance and repairs, which do not extend the lives of the applicable assets, are charged to operations as incurred. Gain or loss resulting from the retirement or other disposition of assets is included in income.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT
(CONTINUED)

2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Company is included in the consolidated federal income tax return filed by the Parent. Federal income taxes are calculated as if the Company filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from the Parent. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between the years.

GAAP prescribes rules for the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in the Company's tax return. Management has determined that the Company does not have any uncertain tax positions and associated unrecognized tax benefits that materially impact the financial statements or disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the company's tax returns will not be challenged by the taxing authorities and that the Company will not be subject to additional tax, penalties, and interest as a result of such a challenge. Generally, the Company's federal and state tax returns remain open for income tax examination for three years from the date of filing.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers.*" The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including primarily service fees, advisory fees, and commissions. Based on this assessment, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. The Company adopted ASU 2014-09 and its related amendments on its required effective date of November 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary. See Note #3 - *Revenue Recognition* for more information.

Subsequent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). The core principle of the new standard is that lessees should recognize assets and liabilities arising from all leases with a lease term of 12 months or less. Management evaluated the new standard and determined implementation to begin on November 1, 2019.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT
(CONTINUED)

3 – REVENUE RECOGNITION

Effective November 1, 2018, the company adopted ASU 2014-09 Revenue from Contracts with Customers – (Topic 606) and all subsequent ASUs that modified ASU 606. The implementation of the new standard has no material impact on the measurement or recognition of revenue for prior periods and did not require any cumulative effect adjustment for adoption.

The most significant types of revenue from customer contracts within the scope of the standard are as follows:

Investment Advisory Fees

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 and are recognized as revenue at the time they relate specifically to the services provided in that period.

Service Fees

The Company enters into arrangements with Investment Companies or Funds (Fund) to distribute or sell shares to investors / customers. The Company may receive service fees paid by the Fund up front, over time, or upon the investors exit from the Fund. The Company believes that its performance obligation is the sale of securities to investors and as such this is fulfilled on the trade date. The service fee is dependent on the value of the shares at future points in time as well as the length of time the investor remains in the fund, both of which are susceptible to factors outside the Company's influence. Since these factors are not determinable until the market value of the fund is known (usually monthly or quarterly) service fees are recognized in the period related to performance obligations that have been satisfied in prior periods.

Principal Transactions

The Company sells and sometimes buys securities from customers. Each time the Company sells a security, it recognizes a gain or loss on the transaction, which is the difference between the selling price and the Company's cost for the security. Gains, losses, and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership of the securities have been transferred to/from the customer.

Brokerage Commissions

The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership of the securities have been transferred to/from the customer.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT
(CONTINUED)

4 – RECEIVABLE FROM CLEARING ORGANIZATION

The Company clears transactions on a fully disclosed basis. The net aggregated amount receivable or payable to the clearing organization as it relates to the aforementioned transactions earn or are charged interest at variable rates. Amounts payable, if any, are collateralized by securities owned and receivables due to the Company, subject to margin requirements.

At October 31, 2019, the Company had a receivable from the clearing organization amounting to \$624,075.

5 – NOTES AND ADVANCES RECEIVABLE - OFFICERS AND EMPLOYEES

From time to time, the Company makes advances and loans to certain officers and employees. Advances are generally made under short-term, non-interest bearing arrangements. Loans are made under promissory notes that call for fixed repayment terms of principal and interest and are collateralized with the Parent company stock. At October 31, 2019, the Company had advances outstanding of \$48,095. At October 31, 2019, the Company also had notes receivable outstanding of \$4,454 with accrued interest of \$106. The notes have interest rates ranging from 1.91% to 2.0% per annum and mature in various years through April 2021.

6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at October 31, 2019:

Leasehold Improvements	\$ 204,067
Furniture, Fixtures, and Equipment	4,997,268
	<hr/>
	5,201,335
Accumulated Depreciation	(4,768,194)
	<hr/>
	\$ 433,141
	<hr/>
Construction-in-Progress of Leasehold Improvements	\$ 202,093
	<hr/>

7 – FAIR VALUE

Fair Value Hierarchy

FASB ASC topic on Fair Value Measurements and Disclosures defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach, as specified by the FASB ASC topic, are used to measure fair value.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT
(CONTINUED)

7 – FAIR VALUE (CONTINUED)

Fair Value Hierarchy(Continued)

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1: Valuations based on unadjusted quoted prices available in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
- Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Processes and Structure

Management is responsible for the Company's fair value valuation policies, processes, and procedures. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

Fair Value Measurements

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT
(CONTINUED)

7 – FAIR VALUE (CONTINUED)

Fair Value Measurements (Continued)

A description of the valuation techniques applied to the company's major categories of assets and liabilities measured at fair value on a recurring basis follows. There have been no changes in the methodologies used at October 31, 2019.

Money Market Funds and Mutual Funds: Valued at closing price reported on the active market on which the individual securities are traded.

Equities and Exchange Traded Funds: Valued at quoted market prices.

Municipal, Corporate, and Treasury Bonds: Valued per an independent third party valuator.

The following table summarizes the valuation of the assets by the fair value hierarchy as described above as of October 31, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 160,084	\$ -	\$ -	\$ 160,084
Treasury Bonds	1,956,607	-	-	1,956,607
Mutual Funds				
Short Term Fixed Income	27,193,514	-	-	27,193,514
Fixed Income	2,894,678	-	-	2,894,678
Equity and Other	3,280,033	-	-	3,280,033
Municipal Bonds	-	1,303,459	-	1,303,459
Equity Securities	-	29,931	-	29,931
	<u>\$ 35,484,916</u>	<u>\$1,333,390</u>	<u>\$ -</u>	<u>\$ 36,818,306</u>

There were no transfers between Level 1 and Level 2 during the year.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT
(CONTINUED)

8 – LEASE OBLIGATIONS

The Company leases several office facilities, automobiles, and office equipment from third parties under non-cancellable operating leases expiring at various dates through August 2036.

The Company is leasing an office facility from its Parent along with a second office facility from a related party, a majority owned limited partnership of a wholly owned subsidiary of the Parent company. During 2019, rent paid to the limited partnership and Parent company was \$916,827 and \$84,000 respectively. As of October 31, 2019, future minimum lease payments under these lease agreements are as follows:

Year Ending <u>October 31</u>	Related <u>Party</u>	Other	Total
2020	\$ 1,060,827	\$ 796,479	\$ 1,857,306
2021	1,060,827	808,723	1,869,550
2022	976,827	812,211	1,789,038
2023	916,827	763,719	1,680,546
2024	916,827	719,268	1,636,095
Thereafter	<u>12,287,280</u>	<u>3,455,885</u>	<u>15,743,165</u>
	<u>\$ 17,219,415</u>	<u>\$ 7,356,285</u>	<u>\$ 24,575,700</u>

9 – NET CAPITAL REQUIREMENTS

The Company is subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At October 31, 2019, The Company had net capital of \$12,758,045 which was \$11,175,419 in excess of its required net capital of \$1,582,626. The Company's net capital ratio was 1.86 to 1.

10 – INCOME TAXES

Federal income taxes are calculated as if the Company filed a separate federal income tax return. The Company files its own state tax return.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, which primarily consists of depreciation and compensation recognized for stock awards. Permanent differences include non-deductible entertainment expenses, dues, and tax-free municipal bond interest. In addition, state tax differences include the gains on sales of municipal securities issued before February 1, 1994. The Company has a deferred tax liability of \$172,390 (\$116,515 federal and \$55,875 Pennsylvania) at October 31, 2019.

11 – RETIREMENT PLAN

The Company has a defined contribution plan ("Plan") with both profit sharing and 401(k) features. Contributions under the Plan are limited and made in accordance with the Internal Revenue Code. All employer profit sharing contributions are at the discretion of management.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT
(CONTINUED)

12 – RELATED PARTY TRANSACTIONS

During the year, the Parent advanced \$1,666,623 (including intercompany interest of \$149,238) and received repayments of \$1,911,741 from the Company. During the year, the Company's balance decreased by \$245,118 to \$1,099,350 which is the balance outstanding as of October 31, 2019.

13 – STOCK-BASED COMPENSATION

From time-to-time, the Parent company grants nonqualified stock options and enters into other share-based compensation arrangements in which restricted and non-restricted stock is offered and issued to certain employees for the purchase or grant of its common stock. The stock options exercise and stock award prices, number of shares, vesting, and grant date are determined at the discretion of the Company's Board of Directors. Stock awards and options typically vest in five years or less from the issue date.

The Company has adopted the provisions of SFAS No. 123(R), "*Share-Based Payment.*" As permitted by SFAS No. 123(R), the Company accounts for these types of arrangements using the fair value method. The fair value of options and restricted stock awards was estimated on the date of grant.

Participants also had been granted restricted stock awards in various years with an exercise price ranging from \$3.78 to \$4.21 per share, which was equal to the estimated fair value of stock on the grant date based on an independent valuation. Total compensation cost associated with the stock awards is being recognized over a series of five-year service periods that begin on the grant date.

For awards still being amortized, the total and the unrecognized compensation cost on the stock awards as of October 31, 2019 was \$4,210 and \$912. Compensation cost, included under the caption "employee compensation and benefits" in the accompanying statement of income, recognized on stock awards granted in was \$48,250 generating a related tax benefit of approximately \$14,475.

In December 2019, the Parent Company granted nonqualified stock options and grants and entered into other stockholder arrangements. The stockholders exercised the stock at \$6.16 per share, which was equal to the estimated fair value of the stock on the grant date based on an independent valuation. The estimated compensation cost will be approximately \$660,000.

14 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company's customer securities transactions are introduced on a fully disclosed basis with Pershing. Pershing carries the accounts of the customers of the company and is responsible for execution, collection of and payment of funds, and receipt and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to possibility that customers may be unable to fulfill their contractual commitments wherein Pershing may charge any losses it incurs to the company. The Company seeks to minimize the risk through procedures designed to monitor the credit worthiness of its customers and insure that customer transactions are executed properly by Pershing.

HEFREN-TILLOTSON, INC.
NOTES TO FINANCIAL STATEMENT
(CONTINUED)

15 – CONTINGENCIES

In the normal course of business, the Company is subject to proceedings, lawsuits, and other claims. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, management is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to some of these matters as of October 31, 2019. Management believes that after final disposition, any resulting financial impact would not be material to the annual financial statements for some of these matters.

The Company carries a broad range of insurance coverage, including business auto liability, general liability, workers' compensation, and an umbrella policy. The Company has not incurred significant uninsured losses on any of these items.

In February 2018, the U.S. Securities and Exchange Commission (“SEC”) announced its Share Class Selection Disclosure Initiative (“Initiative”). The SEC Initiative has encouraged self-reporting by registered investment advisers on certain industry practices as they relate to the receipt and disclosure of 12b-1 fees. After conferring with outside legal counsel, the Company elected to participate in the industry wide Initiative. The liability related to this matter was approximately \$371,697. In addition, the Company has resolved another matter with the SEC. The liability related to this matter was approximately \$379,965. Both of these have been accrued and expensed in the previous year and paid in 2019.

In July 2019, the Company began maintaining a self-insured medical health plan whereby the Company covers the cost of medical claims to its employees. The Company has a stop loss insurance contract for this plan to cover claims in excess of \$125,000 per participant and in the aggregate of approximately \$2.2 million. The Company records the expense of healthcare costs as they are submitted to the Company. In addition, the Company maintains a reserve for incurred but not reported medical claims contained within account “Accounts Payable, Accrued Expenses, and Other Liabilities” on the Statement of Financial Condition in the approximate amount of \$130,000 as of October 31, 2019.

16 – INDEMNIFICATIONS

In the normal course of business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents against specified potential losses in connection with their acting as agent of, providing services to, the Company or its affiliates. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.