

# CARTY & COMPANY, INC.

## Notes to Financial Statement

### December 31, 2020

#### NOTE A - OPERATIONS AND ORGANIZATION

Carty & Company, Inc. is a securities broker-dealer operating under provisions of the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority (FINRA). The Company is a wholly-owned subsidiary of Carty Financial Corporation.

The Company operates primarily as a principal in transactions for the purchase and sale of various types of debt securities which include obligations of the United States Government, federal government agencies, various state and local governments, and corporate debt. The Company also acts as agent for customers in acquiring certificates of deposits, equity securities, mutual funds and private placement of mortgage loans.

The Company's securities transactions are made primarily with individuals, financial institutions, credit unions, private organizations and other broker-dealers.

The Company operates under the provisions of Paragraph (k)(2)(ii) of Rule 15c3-3 of the SEC and, accordingly, is exempt from the remaining provisions of that Rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker-dealer and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker-dealer.

The Company has contracted with Pershing, LLC to act in the capacity of its clearing broker and all customer funds and securities are safe kept with that institution in accordance with the Securities and Exchange Commission regulations. The customer's funds and securities are protected to limits provided by the Securities Investor Protection Corporation (SIPC) with additional protection provided by a third party to cover the entire account net equity up to an aggregate of \$100 million.

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Recording Security Transactions

Purchases and sales of securities and related commission revenues and expenses are recorded on a settlement date basis, generally the second business day following the trade date. If materially different, transactions are adjusted to a trade date basis.

##### Collateral

The Company continues to report assets it has pledged as collateral in secured borrowing and other arrangements when the secured party cannot sell or pledge the assets.

##### Securities Owned and Securities Sold, But Not Yet Purchased

Marketable securities, consisting of stocks, corporate bonds, state, municipal and United States and agencies obligations, and securities sold but not yet purchased, are trading securities and valued at market value. Securities not readily marketable are stated at their estimated value. Rules and regulations of the Securities and Exchange Commission require valuation of broker-dealer owned securities to be valued at market. Unrealized gains and losses have been included in income.

##### Accounting for Bad Debts

The Company uses the direct write-off method of accounting for bad debts from broker-dealers and clearing organizations and the allowance method for amounts owed by officers, directors, and employees. The balance of \$308,299 owed by officers, directors and employees is net of a reserve allowance of \$110,000.

##### Property and Equipment

Property and equipment are stated at cost. Property and equipment includes right-of-use assets leased under operating leases.

Depreciation expense is determined by the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized over the lesser of the economic useful life or the term of the lease. Right-of-use assets under operating leases are amortized using the straight-line method over the remaining lease term.

##### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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

The Company expenses all advertising costs, including direct response advertising costs, as they are incurred. Total advertising costs for the year ended December 31, 2020 were \$59,356.

##### Income Taxes

The Company is included in the consolidated federal income tax return filed by its Parent. Federal income taxes are calculated as if the Company filed a separate return; and the amount of current tax expense or benefit calculated is either refunded to or received from the Parent. The amount of current 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 years.

##### Allocated Expenses from Parent Company

The Parent incurs the costs of salaries, commissions and related expenses and allocates such costs to the operations of the Company. The Parent charges the Company a management fee to cover salary processing costs (see Note K). At December 31, 2020, the Company owed the Parent \$1,134,596.

##### Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance became effective for the Company for reporting periods beginning after December 15, 2017.

The Company's revenue is comprised primarily of principal transactions for the purchase and sale of various types of debt securities which include obligations of the United States Government, federal government agencies, various state and local governments, and corporate debt. The Company also acts as agent for customers in acquiring certificates of deposits, equity securities, mutual funds and private placements of mortgage loans.

The Company has performed an assessment of its contracts related to revenue streams that are within the scope of the standard. As such, the Company's accounting policies have not changes materially since the principles of revenue recognition from the guidance are largely consistent with prior guidance and current practices applied by the Company. Furthermore, significant revenue has not been recognized in the current reporting period that resulted from performance obligations satisfied in previous periods.

##### Leases

In February 2016, the FASB issued new guidance on lease accounting which will require lessees to recognize assets and liabilities on their balance sheet for the rights and obligations created by operating leases and will also require disclosures designed to give users of financial statements information on the amount, timing, and uncertainty of cash flows arising from leases. The new guidance became effective for the Company for reporting periods beginning after December 15, 2018.

The Company is a lessee in a noncancelable operating lease for office space. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rates of our leases are not readily determinable, and accordingly, we use our incremental borrowing rate based on the information available at the commencement date for all leases. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payment is recognized on a straight-line basis over the lease term.

##### Recently Issued Standards

In August 2018, FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurements, which eliminates certain disclosure requirements for fair value measurements, requires entities to disclose new information, and modifies existing disclosure requirements. This new guidance became effective for the Company for reporting periods beginning after December 15, 2019 and resulted in no material impact to the financial statements.

##### Events Occurring After Report Date

The Company has evaluated events and transactions for possible recognition or disclosure in the financial statements. There are no subsequent events requiring disclosure.

#### NOTE C - FAIR VALUE MEASUREMENT

FASB ASC 820 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 FASB ASC 820, are used to measure fair value.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.

Following is a description of the valuation methodologies used for the assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020.

*U. S. government securities:* Valued at the closing price reported in the active market in which the individual securities are traded, except for Small Business Administration ("SBA") loans, for which amounts are determined based on the best information available in the circumstances. Accordingly, SBA loans have been classified as Level 3 in the fair value hierarchy.

*Municipal securities:* Certain municipal securities are valued at the closing price reported in the active market in which the security is traded. Other municipal securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings, maturity dates, and other factors related to the security.

*Corporate bonds:* Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

*Common stocks:* Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

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

#### NOTE C - FAIR VALUE MEASUREMENT CONTINUED

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2020

	Fair Value Measurements on a Recurring Basis As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Securities owned:				
Obligations of the U.S. Government	3,648	-	109,618	\$113,266
Obligations of states, counties and municipalities	1,137,153	2,805	-	1,139,958
Corporate obligations	95,357	-	-	95,357
Stocks and warrants	138	-	-	138
Total Securities Owned	<u>\$1,236,296</u>	<u>\$2,805</u>	<u>\$109,618</u>	<u>\$1,348,719</u>

#### NOTE D - RECEIVABLE FROM AND PAYABLE TO BROKER-DEALERS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to broker-dealers and clearing organizations at December 31, 2020, consist of the following:

	Receivable	Payable
Deposits	\$ 100,000	\$ -
Due from clearing organization	<u>11,410,419</u>	-
	<u>\$11,510,419</u>	\$ -

The Company clears certain of its proprietary and customer transactions through another broker-dealer on a fully disclosed basis. The amount payable to the clearing broker relates to the aforementioned transactions and is collateralized by securities owned by the Company.

#### NOTE E - INCOME TAX MATTERS

Net deferred tax liabilities consist of the following components as of December 31, 2020:

Deferred tax assets (liabilities):		
Net operating loss carry forward-state		\$ 7,720
Reserves and accruals		38,339
Fixed assets and leases		(84,701)
Valuation allowance		-
		<u>\$(38,642)</u>

Current and deferred tax expense (benefit) by jurisdiction are as follows:

	Current	Deferred	Total
Federal	\$(216,363)	\$34,832	\$(181,531)
State and Local	-	<u>3,810</u>	<u>3,810</u>
	<u>\$(216,363)</u>	<u>\$38,642</u>	<u>\$(177,721)</u>

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES ACT) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss (NOL) carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The CARES Act also accelerated the refund of alternative minimum tax ("AMT") credit carry-forwards. The Company recorded a tax benefit of \$321,130 relating to the carryback of NOLs arising in 2018 and 2019 and refunds of AMT credit carryforwards.

The income tax provision differs from the amount of income tax expense determined by applying the U.S. federal income tax rate to pretax income from continuing operations for the year ended December 31, 2020 due to the following:

Computed "expected" tax expense (benefit)	\$438,627
Increase (decrease) in income tax expense resulting from:	
Nondeductible expenses	1,196
Nontaxable-income (tax-exempt bonds)	(300,466)
Change in valuation allowance	(264,563)
Other adjustments, net	<u>(62,515)</u>

\$ (177,721)

The Company recognizes the accrual of any interest and penalties related to unrecognized tax benefits in income tax expense. No interest or penalties were recognized in 2020. The Parent and the Company believe they are no longer subject to federal or state tax examinations by taxing authorities for years before 2017.

#### NOTE F - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (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 under the applicable rules, shall not exceed 15 to 1. At December 31, 2020, the Company had net capital of \$10,940,324, which was \$10,690,324 in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was .1616 to 1.

#### NOTE G - 401(K) PROFIT SHARING PLAN

The Company's employees are included in Carty & Company's qualified 401(k) profit sharing plan. The Company's contribution to the plan is determined by the Board of Directors and is discretionary. The Company contributed \$25,023 to the profit sharing plan for the year ended December 31, 2020.

#### NOTE H - COMMITMENTS AND CONTINGENCIES

The company is obligated for monthly lease payments on its general office until September 30, 2027. The lease requires annual rental payments as follows:

Year Ending	Amount
December 31:	
2021	367,521
2022	372,217
2023	376,914
2024	381,611
2025	386,308
Thereafter	<u>686,899</u>
Total	<u>\$2,571,470</u>

The components of lease cost for the year ended December 31, 2020 are as follows:

Operating lease cost	\$362,428
Short term lease cost	<u>2,442</u>
<b>Total lease cost</b>	<b><u>\$364,870</u></b>

#### NOTE H - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Amounts reported in the statement of financial condition as of December 31, 2020 were as follows:

Operating lease ROU asset	\$1,998,053
Operating lease liability	\$2,104,350
Weighted average remaining lease term:	
Operating lease	6.75 years
Weighted average discount rate: Carty	
Operating lease	6%

The Company, in the normal course of its business, has matters involving regulations and procedures reviewed by FINRA, the SEC and other regulatory bodies. As of December 31, 2020, no items of material significance were outstanding as a result of such reviews.

The recent outbreak of COVID-19 is expected to cause business disruption across a range of industries. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted. The extent to which COVID-19 may impact the Company's financial condition or results of operations is unknown at this time.

#### NOTE I - GUARANTEES

FASB ASC 460, Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. FASB ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

#### Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including subcustodians and third-party brokers, improperly executed transactions. 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 financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. 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 financial statements for these indemnifications.

#### NOTE J - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS AND CONCENTRATION OF CREDIT RISK

In the normal course of business, the Company may be exposed to risks in the execution of securities transactions. These transactions involve elements of risk as to credit extended, market fluctuations, and interest rate changes.

The Company's securities transactions clear primarily on a delivery versus payment basis. In transactions with repurchase agreements, margin may be required if market conditions are such as to indicate excessive elements of risk in these transactions. The execution of substantially all purchases and sales of securities requires the performance of another party to fulfill the transactions. In the event that a counter-party to the transaction fails to satisfy its obligation, the Company may be required to purchase or sell the security at the prevailing market price, which may have an adverse effect.

The nature of the securities industry is such that large cash balances are maintained in various financial institutions. These balances may exceed the limits of coverage guaranteed by the Federal Deposit Insurance Corporation.

The Company, as a securities broker-dealer, is engaged in various securities trading activities with a variety of customers including individuals, financial institutions, credit unions, insurance companies, pension plans, and other broker-dealers. The Company's exposure to credit risk associated with the non-performance of these counter-parties could be impacted by changing market conditions which would impair the counter-parties ability to satisfy their obligations to the Company.

#### NOTE K - RELATED PARTY TRANSACTIONS

Carty & Company, Inc. is a wholly-owned subsidiary of Carty Financial Corporation. During the year, Carty Financial Corporation allocated \$5,655,879 in direct wage costs and payroll taxes to the Company.

#### NOTE L - ANNUAL REPORT OF FORM X-17A-5

The annual report to the Securities and Exchange Commission on Form X-17A-5 is available for examination and copying at the Company's office and at the regional office of the Securities and Exchange Commission.

#### NOTE M - COLLATERAL

Amounts that the Company has pledged as collateral, which are not reclassified and reported separately, at December 31, 2020, consisted of the following:

Financial Statement Classification	Carrying Amount
Securities owned- at fair value	\$1,348,719

#### NOTE N - PAYCHECK PROTECTION PROGRAM

On April 7, 2020, the Company entered into a loan agreement with Trustmark National Bank ("the Lender") under the Paycheck Protection Program of the CARES Act administered by U.S. Small Business Administration (the "SBA"). Subsequently, on April 13, 2020, (the "Disbursement Date"), the Company received a loan in the amount of \$762,022 (the "PPP Loan") to help sustain its employee payroll costs, rent, and utilities due to the impact of the COVID-19 pandemic. Under the Paycheck Protection Program, the Company's PPP Loan was fully forgivable if the Company met certain requirements and received formal approval, as defined by the CARES Act, subject to an audit by the SBA. On November 2, 2020, the Company received full forgiveness of the PPP Loan. The amount of the loan forgiveness is included in "Other income" in the Company's 2020 Statement of Income.

**CARTY & COMPANY, INC.**  
**Statement of Financial Condition**  
**December 31, 2020**

**ASSETS**

Cash .....	\$ 47,293
Receivables:	
Broker-dealers and clearing organizations .....	11,510,419
Officers, directors and employees .....	308,299
Securities owned, at fair value.....	1,348,719
Furniture, equipment and leasehold improvements, and rights under lease agreements, net of accumulated depreciation of \$811,736.....	2,387,187
Other assets.....	235,843
	<u>\$ 15,837,760</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Accounts payable, accrued expenses and other liabilities .....	\$ 2,592,471
Payable to affiliate .....	1,134,596
	3,727,067
COMMITMENTS AND CONTINGENT LIABILITIES (NOTES H AND J)	-
DEFERRED INCOME TAXES	38,642
STOCKHOLDER'S EQUITY	
Common stock, no par value; authorized 25,000 shares; issued 10,500 shares; outstanding 3,833 1/3 shares.....	2,208,790
Retained earnings .....	9,944,279
	12,153,069
Less cost of 6,666 2/3 shares of treasury stock.....	81,018
	12,072,251
	<u>\$ 15,837,760</u>

The accompanying notes are an integral part of this financial statement.

**CARTY & COMPANY, INC.**  
**Independent Auditor's Report**



**Report of Independent Registered Public Accounting Firm**

To the Stockholder  
Carty & Company, Inc.  
Memphis, Tennessee

**Opinion on the Financial Statements**

We have audited the accompanying statement of financial condition of Carty & Company, Inc. (the Company) as of December 31, 2020, the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with 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 statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, 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 statements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.

**Supplemental Information**

The supplemental information contained in Schedule I - Computation of Net Capital Under Rule 15c3-1 (the Supplemental Information) has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The Supplemental Information is the responsibility of the Company's management. Our audit procedures included determining whether the Supplemental Information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the Supplemental Information. In forming our opinion on the Supplemental Information, we evaluated whether the Supplemental Information, including its form and content, is presented in conformity with 17 C.F.R. § 240.17a-5. In our opinion, the supplemental information contained in the Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Elliott Davis, LLC*

We have served as the Company's auditor since 2016.

Franklin, Tennessee  
February 26, 2021



**CARTY & COMPANY, INC.**  
*Member Financial Industry  
Regulatory Authority*

**STATEMENT OF  
FINANCIAL CONDITION**  
**December 31, 2020**



**Carty & Company, Inc.**

*Member Financial Industry  
Regulatory Authority*

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