

CARTY & COMPANY, INC.

Notes to Financial Statement

December 31, 2023

NOTE A - OPERATIONS AND ORGANIZATION

Carty & Company, Inc. (“the Company”) 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 Securities and Exchange Commission (“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 SEC 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

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”) as determined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Adoption of New Accounting Standard

On January 1, 2023, the Company adopted Accounting Standards Update (“ASU”) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments (“ASC 326”). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of expected credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for expected credit losses.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The impact of the adoption was not considered material to the financial statements and primarily resulted in enhanced disclosures.

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. Interest income on securities owned is included within interest income in the statement of income.

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 SEC require valuation of broker-dealer owned securities to be valued at market. Unrealized gains and losses have been included in trading securities income.

Receivables from Officers, Directors and Employees

Receivables from officers, directors and employees primarily represent advances for license fees and commissions made in anticipation of continued employment with the Company. These receivables are reduced by an allowance for expected credit losses (\$110,000 as of December 31, 2023), which reflects management’s estimate of the risk of loss due to lack of repayment, primarily in cases when the employee has left the Company before the advance has been fully repaid. The Company recognizes the amount of change in current expected credit losses as an allowance gain or loss in expenses in the accompanying statement of income. For the year ended December 31, 2023, the Company recognized allowance losses of \$152,578. Accounts are written off against the allowance when the Company has no reasonable expectation of recovering the receivable, either in its entirety or a portion thereof.

Management estimates the allowance for expected credit losses by applying historical credit loss rates to receivable aging categories. Management considers historical loss information to be a reasonable base for its estimate as the composition of these receivables and the risk characteristics have not changed significantly over time. In

addition, accounts are pooled by aging category as the change in risk characteristics is similar for each receivable category. Management has determined that the current and reasonable and supportable forecasted economic conditions are consistent with the economic conditions included in the historical information.

Property and Equipment

Property and equipment are stated at cost.

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.

Use of Estimates

The preparation of financial statements in conformity with 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

The Company expenses all advertising costs, including direct response advertising costs, as they are incurred. Total advertising costs for the year ended December 31, 2023 were \$200,338.

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 remitted 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. At December 31, 2023, the Company owed the Parent \$814,536.

Revenue Recognition

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. As noted above, trading securities and related commission revenues are primarily recognized on a settlement date basis.

Leases

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.

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, 2023.

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.

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.

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, 2023.

	Fair Value Measurements on a Recurring Basis As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Securities owned:				
U.S. Government securities	\$ 1,733	\$ -	\$ 7,751,778	\$ 7,753,511
Municipal securities	18,259,359	86	-	18,259,445
Corporate bonds	330,502	-	-	330,502
Common stocks	145	-	-	145
Total Securities Owned	\$18,591,739	\$ -	\$7,751,778	\$26,343,603

Current year changes in Level 3 securities are comprised of the purchase of loans in the amount of \$7,672,653 and a prior year loss of \$1,875.

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, 2023, consist of the following:

	Receivable	Payable
Deposits	\$ 100,000	\$ -
Due to clearing organization	-	9,652,034
	\$ 100,000	\$ 9,652,034

The Company clears certain of its proprietary and customer transactions through another broker-dealer on a fully disclosed basis. As part of the Company’s clearing agreement with Pershing, LLC, a minimum deposit of \$100,000 is always to be maintained. The minimum deposit balance is subject to withdrawal restrictions such that the Company would be prohibited from doing business with Pershing, LLC if the minimum cash balance on deposit is not maintained. The Company’s deposit would be returned if it terminated its agreement with Pershing, LLC. The amount payable to the clearing broker relates to unsettled transactions and is collateralized by securities owned by the Company.

NOTE E - FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property and equipment as of December 31, 2023 consisted of the following:

Furniture and fixtures	\$ 808,455
Office equipment	452,666
Leasehold improvements	143,373
Total	1,404,494
Less: accumulated amortization and depreciation	1,147,738
Property and equipment, net	\$ 256,756

NOTE F - INCOME TAX MATTERS

Net deferred tax liabilities consist of the following components as of December 31, 2023:

Deferred tax assets (liabilities):	
Reserves and accruals	\$48,077
Fixed assets and leases	(61,752)
	\$ (13,675)

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

	Current	Deferred	Total
Federal	\$304,454	\$ (21,203)	\$283,251
State and Local	114,659	(7,019)	107,640
	\$419,113	\$ (28,222)	\$390,891

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, 2023 due to the following:

Computed “expected” tax expense (benefit)	\$429,620
Increase (decrease) in income tax expense resulting from:	
Nondeductible expenses	7,915
Nontaxable-income (tax-exempt bonds)	(57,200)
Other adjustments, net	10,556
	\$ 390,891

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 2023.

The Parent and the Company believe they are no longer subject to federal or state tax examinations by taxing authorities for years before 2020.

NOTE G - NET CAPITAL REQUIREMENTS

The Company is subject to the SEC 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, 2023, the Company had net capital of \$12,350,986 which was \$11,536,137 in excess of its required net capital of \$814,749. The Company’s ratio of aggregate indebtedness to net capital was .99 to 1.

NOTE H - 401(K) PROFIT SHARING PLAN

The Company’s employees are included in the Carty & Company Inc. 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 \$107,357 to the profit sharing plan for the year ended December 31, 2023.

NOTE I - LEASES

The Company is obligated for monthly lease payments on its Memphis office until September 30, 2027 and its Little Rock office until April 30, 2025. The lease requires annual rental payments as follows:

Year Ending	Amount
December 31:	
2024	460,131
2025	412,692
2026	391,005
2027	295,893
Total	\$1,559,721
Less present value discount	159,231
Operating lease liability	\$1,400,490

The components of lease cost for the year ended December 31, 2023 are as follows:

Operating lease cost	\$440,099
Short term lease cost	35,602
Total lease cost	\$475,701

Amounts reported in the statement of financial condition as of December 31, 2023 were as follows:

Operating lease ROU assets	\$1,329,458
Operating lease liabilities	\$1,400,490

Weighted average remaining lease term:	
Operating leases	3.41 years

Weighted average discount rate: Carty	
Operating leases	5.93%

The Company subleases a portion of its’ office space to a third party. The lessee is obligated for monthly lease payments through November 30, 2024. The lease requires annual rental payments as follows:

Year Ending	Amount
December 31:	
2024	\$87,440
Total	\$87,440

NOTE J - COMMITMENTS AND CONTINGENCES

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, 2023, no items of material significance were outstanding as a result of such reviews.

NOTE K - 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 L - 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 M - RELATED PARTY TRANSACTIONS

Carty & Company, Inc. is a wholly-owned subsidiary of Carty Financial Corporation. During the year, Carty Financial Corporation allocated \$10,761,513 in direct wage costs and payroll taxes to the Company.

NOTE N - 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 O - COLLATERAL

Amounts that the Company has pledged as collateral for, which are not reclassified and reported separately, at December 31, 2023, consisted of the following:

Financial Statement Classification	Carrying Amount
Securities owned-at fair value	\$26,343,603

CARTY & COMPANY, INC.
Statement of Financial Condition
December 31, 2023

ASSETS

Cash	\$ 211,428
Receivables:	
Broker-dealers and clearing organizations	100,000
Officers, directors and employees, net	454,004
Securities owned, at fair value	26,343,603
Prepaid state taxes	10,618
Operating lease right-of-use assets, net	1,329,458
Property and equipment, net	256,756
Other assets.....	558,710
TOTAL ASSETS	\$29,264,577

LIABILITIES AND STOCKHOLDER'S EQUITY

Accounts payable and accrued expenses and other liabilities.....	\$ 1,680,565
Due to clearing organization	9,652,034
Payable to affiliate	814,536
Operating lease liabilities.....	1,400,490
Deferred income taxes	13,675
TOTAL LIABILITIES	\$13,561,300

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	13,575,505
	15,784,295
Less cost of 6,666 2/3 shares of treasury stock.....	81,018
	15,703,277
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 29,264,577

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 of Carty & Company, Inc.:

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Carty & Company, Inc. (the "Company") as of December 31, 2023, 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 referred to as 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, 2023, 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 these 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 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 statements are free of material misstatement, whether due to error or fraud. 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 Computation of Net Capital Pursuant to Rule 15c3-1 as of December 31, 2023 (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 is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have served as the Company's auditors since 2021.

GreerWalker
 Certified Public Accountants
 March 7, 2024
 Greenville, SC

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CARTY & COMPANY, INC.
 Member Financial Industry
 Regulatory Authority



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**STATEMENT OF
 FINANCIAL CONDITION**
December 31, 2023