

CALTON & ASSOCIATES, INC.
STATEMENT OF FINANCIAL CONDITION
SEPTEMBER 30, 2017 AND 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

| | |
|---|-----------------|
| OMB APPROVAL | |
| OMB Number: | 3235-0123 |
| Expires: | August 31, 2020 |
| Estimated average burden hours per response..... | 12.00 |

| |
|-----------------|
| SEC FILE NUMBER |
| 8-38635 |

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 10/01/2016 AND ENDING 09/30/2017
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Calton & Associates, Inc.

| |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO. |

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

2701 N Rocky Point Drive, Suite 1000

(No. and Street)

Tampa

FL

33607

(City)

(State)

(Zip Code)

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

David Cole, Chief Financial Officer

(813)264-0440

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Raulerson Castillo & Company, PA

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

1907 S Alexander St. Suite 2

Plant City

FL

33566

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒

Certified Public Accountant

☐

Public Accountant

☐

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

FOR OFFICIAL USE ONLY

*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)

OATH OR AFFIRMATION

I, David S. Cole, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Calton & Associates, Inc., a Florida Corporation, as of September 30, 20 17, 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:

Paul R. Richardson

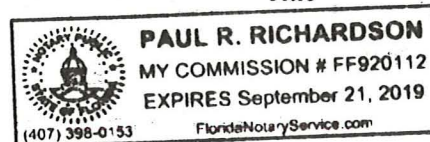
Notary Public

David S. Cole

Signature

SVP, Chief Financial Officer

Title



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

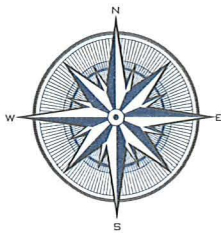
- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated 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).**

**CALTON & ASSOCIATES, INC.
STATEMENT OF FINANCIAL CONDITION
SEPTEMBER 30, 2017 AND 2016**

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RAULERSON CASTILLO & COMPANY

Certified Public Accountants and Consultants

Business Navigation

1907 S. Alexander Street, Suite 2

Plant City, Florida 33566

P: (813) 752-6604 | F: (813) 752-8725

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Calton & Associates, Inc.

We have audited the accompanying statement of financial condition of Calton & Associates, Inc. as of September 30, 2017, and the related notes to the financial statements. This financial statement is the responsibility of Calton & Associates, Inc.'s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial position presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Calton & Associates, Inc. as of September 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Raulerson Castillo & Co., P.A.

Raulerson Castillo & Company PA

Plant City, Florida

November 21, 2017

CALTON & ASSOCIATES, INC.
STATEMENTS OF FINANCIAL CONDITION
AS OF SEPTEMBER 30, 2017 AND 2016

ASSETS

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash | \$ 5,690,266 | \$ 3,500,947 |
| Investments, available-for-sale, at fair value | 83,425 | 66,414 |
| Receivables | | |
| Clearing agents | 121,043 | 202,734 |
| Commissions | 422,477 | 318,700 |
| Notes & other | 205,599 | 221,020 |
| Investments, trading, at fair value | 20,170 | 421 |
| Property & equipment, net of accumulated depreciation | 143,946 | 164,286 |
| Deferred tax asset | 66,852 | 23,400 |
| Prepaid expenses | 515,760 | 403,974 |
| Deposits | 328,445 | 346,091 |
| Total Assets | <u>\$ 7,597,983</u> | <u>\$ 5,247,987</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| LIABILITIES | | |
| Accounts payable | \$ 74,205 | \$ 27,138 |
| Notes payable | 253,102 | 284,113 |
| Accrued expenses: | | |
| Clearing agent | 23,556 | 421 |
| Commissions & wages | 2,845,164 | 1,621,660 |
| Employee benefits | 245,236 | 245,399 |
| Income taxes payable | 467,230 | 29,340 |
| Other accrued expenses | 803,440 | 605,251 |
| Total Liabilities | <u>4,711,933</u> | <u>2,813,322</u> |
| SHAREHOLDERS' EQUITY | | |
| Common stock: | | |
| Class A: Voting and participating stock, no par: authorized 37,500,000 shares, issued and outstanding 5,360,000 shares | 536 | 536 |
| Class B: Voting and participating stock, no par: authorized 37,500,000 shares, issued and outstanding 0 shares | - | - |
| Retained earnings | 2,885,514 | 2,434,129 |
| Total Shareholders' Equity | <u>2,886,050</u> | <u>2,434,665</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 7,597,983</u> | <u>\$ 5,247,987</u> |

See accompanying accountants' report and notes to financial statements.

CALTON & ASSOCIATES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1: ORGANIZATION AND NATURE OF BUSINESS

Calton & Associates, Inc. (the "Company") is a fully disclosed registered securities broker-dealer, a member of the Financial Industry Regulatory Authority (FINRA) and a Registered Investment Advisory firm with the Securities Exchange Commission. The company is incorporated in the State of Florida as a "C" Corporation and is primarily engaged in the marketing of general securities, mutual funds, insurance products and investment advisory services through a national network of independent financial advisors.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In accordance with generally accepted accounting principles, the Company maintain its books on the accrual basis of accounting.

Cash and Cash Equivalents

The Company defines cash and cash equivalents as highly liquid investments, including checking and money market accounts, with original maturities of less than ninety days. This definition does not include investments held for sale in the ordinary course of business.

Securities Commissions and Investment Advisory Fees

Securities transactions and the related revenue and expense are generally recorded on a trade date basis, with the exception of securities commissions received from National Financial Services LLC which are recorded on a settlement date basis unless the difference between trade date basis and settlement date basis is deemed material. Investment advisory fees are earned on a pro rata basis over the term of the contract with the customer.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Income Taxes

The amount of current and deferred taxes 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 the deferred tax liabilities or assets between years. Management assesses the likelihood that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

See accompanying accountants' report.

CALTON & ASSOCIATES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 3: RESTRICTED CASH AND INVESTMENTS

At September 30, 2017, there was restricted cash of \$1,210,841 held in an account at Hilltop Securities, Inc., a clearing agent. The account collateralizes securities trading and inventory accounts.

NOTE 4: FAIR VALUE MEASUREMENTS

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy of fair value inputs. 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 the fair value.

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability.

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 September 30, 2017:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------------|------------------|------------------|----------------|-------------------|
| Assets | | | | |
| Investments, available for sale | | | | |
| Equities | \$ 83,425 | \$ - | \$ - | \$ 83,425 |
| Total Investments, available for sale | 83,425 | - | - | 83,425 |
| Investments, trading | | | | |
| Corporate bonds | - | 14,325 | - | 14,325 |
| Municipal bonds | - | 5,845 | - | 5,845 |
| Total Investments, trading | - | 20,170 | - | 20,170 |
| Totals | <u>\$ 83,425</u> | <u>\$ 20,170</u> | <u>\$ -</u> | <u>\$ 103,595</u> |

See accompanying accountants' report.

CALTON & ASSOCIATES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

The Company's carrying amounts of cash and cash equivalents, commissions receivable, receivables from clearing organizations, accounts payable and other liabilities, prepaid expenses and other assets approximate their fair values due to their short-term nature and/or as they are receivable or payable upon demand.

NOTE 5: PROPERTY & EQUIPMENT

Fixed assets are recorded at cost, net of accumulated depreciation and amortization. Depreciation for financial reporting purposes is computed on the straight-line basis using the estimated life of the asset, generally five to seven years. The modified acceleration costs recovery system (MACRS) and asset-expensing provisions of code section 179 are utilized for income tax reporting purposes.

| | <u>2017</u> | <u>2016</u> |
|--------------------------|-------------------|-------------------|
| Equipment | \$ 101,785 | \$ 97,109 |
| Furniture | 118,504 | 118,504 |
| Software | 8,371 | 8,370 |
| Accumulated depreciation | <u>(84,714)</u> | <u>(59,697)</u> |
| | <u>\$ 143,946</u> | <u>\$ 164,286</u> |

NOTE 6: DEPOSITS

At September 30, 2017, deposits consist of the following:

| | <u>2017</u> | <u>2016</u> |
|-------------------------|-------------------|-------------------|
| Clearing agent deposits | \$ 305,003 | \$ 316,003 |
| Regulatory deposit | 5,102 | 11,748 |
| Rent | 18,340 | 18,340 |
| Other | <u> </u> | <u> </u> |
| Total | <u>\$ 328,445</u> | <u>\$ 346,091</u> |

See accompanying accountants' report.

CALTON & ASSOCIATES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 7: PROFIT SHARING AND 401(K) PLAN

The Company sponsors a qualified profit-sharing and 401(k) retirement plan that covers substantially all full-time employees. Profit sharing contributions totaling \$156,297 and \$165,730 for 2017 and 2016, respectively, represent the lesser of the maximum contribution allowed or 7% of participant compensation. 401(k) Safe Harbor contributions totaled \$76,813 and \$79,668 in 2017 and 2016, respectively.

NOTE 8: INCOME TAXES

At September 30, 2017, the financial statement reflected income taxes currently payable of \$467,230 and a deferred tax asset of \$66,852. At September 30, 2016, the financial statements reflected income taxes currently payable of \$29,340 and a deferred tax asset of \$23,400. The deferred tax asset represents the estimated future tax consequences resulting from difference in book and tax depreciation methods, and limitation on the deductibility of estimated legal & settlement costs accrued for financial reporting purposes.

See Note 9 regarding accrued legal and settlement costs.

The components of income tax expenses are as follows:

| | <u>2017</u> | |
|------------------------------|--------------------|------------------|
| | Federal | State |
| Current expense (benefit) | \$ 419,527 | \$ 31,334 |
| Deferred expense (benefit) | (43,452) | |
| Income tax expense (benefit) | <u>\$ 376,075</u> | <u>\$ 31,334</u> |

| | <u>2016</u> | |
|------------------------------|--------------------|------------------|
| | Federal | State |
| Current expense (benefit) | \$ 4,500 | \$ 28,815 |
| Deferred expense (benefit) | 10,685 | - |
| Income tax expense (benefit) | <u>\$ 15,365</u> | <u>\$ 28,815</u> |

See accompanying accountants' report.

CALTON & ASSOCIATES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

Leases

The Company is obligated under non-cancellable operating leases for the rental of office space. Rent expense under the leases totaled \$278,374 and \$225,632 for 2017 and 2016, respectively. At September 30, 2017, future minimum lease payments are as follows:

| | |
|------|--------------|
| 2018 | \$ 245,640 |
| 2019 | 252,432 |
| 2020 | 259,382 |
| 2021 | 266,487 |
| 2022 | 136,913 |
| | <hr/> |
| | \$ 1,160,854 |

Legal Proceedings

At September 30, 2017, management estimated that future costs and possible legal settlements associated with new and continuing matters to be \$265,000. Accordingly, the accompanying statement of financial condition reflects accrued legal and settlement costs in the amount of \$265,000 under the caption "Other Accrued Expenses".

NOTE 10: OFF-BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

The Company is in business as an introducing broker-dealer. The Company's activities through the clearing broker-dealer may expose the Company to off-balance sheet risk in the event that customers or other third parties fail to satisfy their obligations. In the event a customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations.

The Company maintains cash and cash equivalents in bank and securities accounts which, at times, may exceed federally insured limits. Management believes that the risk of loss associated with the uninsured portion of funds on deposit is remote.

NOTE 11: NET CAPITAL REQUIREMENTS

The Company is subject to the uniform net capital rule (rule 15c3-1) under the Securities and Exchange Act of 1934, which requires that the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 15 to 1. At September 30, 2017, the Company had net capital of \$1,699,641, representing an excess over required net capital of \$1,386,857. The ratio of aggregate indebtedness to net capital was 276% and 192% at September 30, 2017 and 2016, respectively.

See accompanying accountants' report.

CALTON & ASSOCIATES, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 12: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of filing. The evaluation did not result in any subsequent events that required disclosures and/or adjustments.

See accompanying accountants' report.