

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2023
Estimated average burden hours per response.....	12.00

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

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 10/1/2019 AND ENDING 9/30/2020
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

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

OFFICIAL USE ONLY

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

FIRM I.D. NO.

2701 N. Rocky Point Dr., Ste. 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 S. Cole

(813) 264-0440

(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Prida, Guida & Perez, P.A.

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

1106 North Franklin Street

Tampa

FL

33602

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒

Certified Public Accountant

☐

Public Accountant

☐

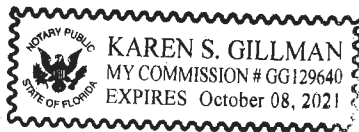
Accountant not resident in United States or any of its possessions.

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., as of September 30, 2020, 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:



David S. Cole
Signature
Senior Vice President, Chief Financial Officer
Title

Karen S. Gillman
Notary Public Hillsborough County

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).**

CALTON & ASSOCIATES, INC.

**Financial Statements
September 30, 2020**

CALTON & ASSOCIATES, INC.
Financial Statements
September 30, 2020

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PRIDA, GUIDA & PEREZ, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

1106 N. FRANKLIN STREET

TAMPA, FLORIDA 33602

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

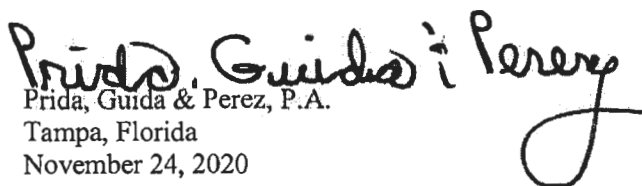
Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Calton & Associates, Inc. (the "Company") as of September 30, 2020, 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 September 30, 2020 in conformity with accounting principles generally accepted in the United States of America.

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 (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 statement is 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 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 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.


Prida, Guida & Perez, P.A.
Tampa, Florida
November 24, 2020

We have served as Calton & Associate's auditor since 2019.

CALTON & ASSOCIATES, INC.
Statement of Financial Condition
As of September 30, 2020

ASSETS

ASSETS

Cash and cash equivalents	\$ 9,320,464
Inventory, at fair value	41,151
Receivables	
Clearing agents	934,089
Commissions and fees	1,569,587
Registered representatives	105,851
Prepaid expenses	585,392
Property & equipment, net	68,323
Operating lease right-of-use assets	585,881
Intangible asset, net	318,750
Deferred tax asset, net	319,027
Deposits	330,288
Total Assets	\$ 14,178,803

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Accounts payable	\$ 27,650
Accrued expenses	
Commissions and wages	5,290,321
Employee benefits	251,955
Other accrued expenses	2,312,649
Due to clearing agent	41,201
Operating lease liabilities	681,345
Total Liabilities	8,605,120

SHAREHOLDERS' EQUITY

Common stock	
Class A: Voting and participating stock, no par value, 37,500,000 shares authorized, 5,360,000 shares issued and outstanding	-
Class B: Voting and participating stock, no par value, 37,500,000 shares authorized, 0 shares issued and outstanding	-
Retained earnings	5,573,683
Total Shareholders' Equity	5,573,683
Total Liabilities and Shareholders' Equity	\$ 14,178,803

Read the accompanying notes to the financial statements.

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.

The Company does not hold customer accounts and promptly transmits all customer funds and securities received in connection with its activities as a broker-dealer. The Company does not hold any funds or securities for or owe money or securities to customers.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – In accordance with generally accepted accounting principles (“GAAP”), the Company maintains 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.

Receivables from Clearing Agents and Commissions and Fees – Receivables from clearing agents consists of commissions due from securities and other transactions placed through the clearing firms. Commission and fee receivables include commission receivables from mutual fund, insurance and direct participation product sponsors. Management considers these receivables as fully collectible and therefore no allowance for doubtful accounts has been established.

Receivables from Registered Representatives – The Company records receivables from registered representatives for advances, commission chargebacks, fees due and other items arising in the normal course of operations. Management considers these receivables as fully collectible and therefore no allowance for doubtful accounts has been established.

Property and 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 three to seven years. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Intangible Asset – The Company’s intangible asset from the purchase of a client list is recorded at cost and amortized on a straight-line basis over five years.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes – The amount of current and deferred taxes or refundable taxes 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.

Revenue Recognition - The Company's primary customer-related revenue streams include securities commissions for trades placed at the clearing agents which are recorded on a trade-date basis and mutual fund, insurance and direct participation program commissions which are also recognized on a trade-date basis. The Company also receives fees for investment advice and records this revenue over time as the performance obligation is satisfied. Additionally, the Company receives distribution fees from fund companies that may be paid up front, over time, or when the investor exits the fund. Fixed amounts are recognized on trade-date and variable amounts are recognized at the time market values and investor activities are known, usually monthly or quarterly as performance obligations are satisfied.

Leases – In February 2016, the FASB issued ASU 2016-02, *Leases*, which amended the guidance on accounting for leases. ASU 2016-02 requires lessees to recognize assets and liabilities on the statement of financial condition for the rights and obligations created by all qualifying leases with terms of more than twelve months. 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. The company used its incremental borrowing rate based on the information available at the commencement date for all leases. The Company's incremental borrowing rate 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 recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee remains substantially unchanged and depends on classification as a finance or operating lease. ASU 2016-02 also requires quantitative and qualitative disclosures that provide information about the amounts related to leasing arrangements recorded in the financial statements. The Company adopted ASU 2016-02 effective October 1, 2019. See Note 8 - Leases for additional disclosures required by this ASU.

Note 3 – Restricted Cash

At September 30, 2020, there is restricted cash of \$1,226,263 held in an account with a clearing agent to collateralize securities trading and inventory accounts.

Note 4 – Property & Equipment

At September 30, 2020, property and equipment consists of the following:

	2020
Equipment	\$ 78,166
Furniture	118,504
Total	196,670
Less: Accumulated Depreciation	(128,347)
	<u>\$ 68,323</u>

Depreciation expense was \$24,340 for the year ended September 30, 2020.

Note 5 – Intangible Asset

At September 30, 2020, the intangible asset consists of the following:

	2020
Customer list	\$ 425,000
Less: Accumulated Amortization	(106,250)
	<u>\$ 318,750</u>

Amortization expense totaled \$85,000 for the year ended September 30, 2020. The weighted average amortization period remaining is 3.75 years. Amortization expense is expected to be \$85,000 for 2021 through 2023 and \$63,750 for 2024.

Note 6 – 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 \$154,632 represent the lesser of the maximum contribution allowed or up to 7% of participant compensation for 2020. 401(k) Safe Harbor contributions totaled \$97,203 in 2020.

Note 7 – Income Taxes

The deferred tax asset consists of the following as of September 30, 2020:

Deferred tax assets	
Accrued liabilities	\$ 290,082
Operating leases	25,732
Intangible asset	<u>19,713</u>
	335,527
Deferred tax liability	
Property and equipment	<u>(16,500)</u>
	(16,500)
Deferred tax asset, net	<u><u>\$ 319,027</u></u>

The components of income tax expense (benefit) for the year ended September 30, 2020 are as follows:

Current	
Federal	\$ 658,846
State	<u>340,410</u>
	999,255
Deferred	<u>(161,343)</u>
	<u><u>\$ 837,912</u></u>

Deferred tax assets and liabilities are recognized for the estimated future tax consequences or benefits attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

Note 8 – Leases

The Company is obligated under two non-cancellable operating leases for the rental of office space. Rent expense under the leases totaled \$284,475 for 2020. At September 30, 2020, future minimum lease payments are as follows:

Year ended September 30:	
2021	274,723
2022	271,255
2023	<u>181,939</u>
	<u><u>\$ 727,917</u></u>

Note 8 – Leases (continued)

As a result of the adoption of ASU 2016-02, the Company recognized right-of-use assets of \$786,619 and related lease liabilities of \$905,537, incorporating an existing deferred rent liability of \$116,785 on its statement of financial condition.

The weighted average remaining lease term for the Company's operating leases is 2.4 years and the weighted average discount rate is 5%. The company applied its incremental borrowing rate based on the information available at the commencement of the related leases in determining the present value of future lease payments.

The Company's office space leases require it to make variable payments for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

The components of lease cost for the year ended September 30, 2020 as as follows:

Operating lease cost	\$ 260,786
Variable lease cost	23,689
Total lease cost	<u>\$ 284,475</u>

Note 9 - Contingent Liabilities

Loss contingencies – In the ordinary course of its business, the Company becomes involved in various legal proceedings including civil and class action lawsuits, regulatory examinations and investigations and other disputes. Significant damages or penalties may be sought from the Company in some matters, and some matters may require years for the Company to resolve. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. The Company maintains errors and omissions insurance coverage for securities-related claims.

At September 30, 2020, The Company is party to five securities-related claims and eight non-securities related legal proceedings. Management has estimated that future legal costs associated with these matters to be \$1,042,351. Management cannot reasonably determine settlement costs of these matters. Accordingly, the accompanying statement of financial condition reflects accrued legal costs in the amount of \$1,042,351 included in other accrued expenses.

Note 10 – Off-Balance Sheet Risk and Concentrations 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.

Note 10 – Off-Balance Sheet Risk and Concentrations of Credit Risk (continued)

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, 2020, the Company had net capital of \$3,669,776, representing an excess over required net capital of \$3,138,132. The ratio of aggregate indebtedness to net capital was 217% at September 30, 2020.

Note 12 – Subsequent Events

The Company has evaluated events through November 24, 2020, the date which the financial statements were available to be issued and has determined that there were no events or transactions during such period which would require recognition or disclosure in the financial statements.