



14041131

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response: 12.00

SEC FILE NUMBER  
8- 975

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 10/1/12 AND ENDING 9/30/13  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: City Securities Corp

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

OFFICIAL USE ONLY  
FIRM I.D. NO

(No. and Street)

(City)

(State)

(Zip Code)

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

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Deloitte & Touche LLP

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

(Address)

(City)

(State)

SECURITIES AND EXCHANGE COMMISSION

**CHECK ONE:**

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

RECEIVED

JUL - 3 2014

DIVISION OF TRADING & MARKETS

**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)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

7/18/14

20 7/17/14



Deloitte & Touche LLP  
111 Monument Circle  
Suite 2000  
Indianapolis, IN 46204-5120  
USA  
Tel: +1 317 464 8600  
Fax: +1 317 464 8500  
www.deloitte.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of  
City Securities Corporation  
Indianapolis, Indiana

We have audited the accompanying statement of financial condition of City Securities Corporation (the "Company"), as of September 30, 2013, and the related notes to the financial statement, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934.

### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the statement of financial condition in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of City Securities Corporation as of September 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

November 22, 2013

**CITY SECURITIES CORPORATION**  
**(SEC I.D. No. 8-000975)**

**STATEMENT OF FINANCIAL CONDITION**  
**AS OF SEPTEMBER 30, 2013**

---

**ASSETS**

CASH	\$ 5,631,556
SEGREGATED CASH	100,000
CASH DEPOSITS WITH CLEARING ORGANIZATIONS AND OTHERS	250,000
RECEIVABLES:	
Commissions and fees	879,703
Due from parent and affiliates	3,880,181
Other	<u>766,335</u>
Total receivables	<u>5,526,219</u>
SECURITIES OWNED — Trading inventory	3,248,940
FINANCIAL ADVISOR ADVANCES — Net	4,712,829
PROPERTY AND EQUIPMENT — Net	1,359,960
DEFERRED INCOME TAXES	305,642
OTHER ASSETS	<u>159,402</u>
TOTAL	<u>\$21,294,548</u>

**LIABILITIES AND SHAREHOLDER'S EQUITY**

LIABILITIES:	
Accrued compensation	\$ 1,360,663
Unearned revenue	1,225,000
Due to Clearing Broker-Dealer	1,604,574
Due to affiliates	57,780
Accounts payable, accrued expenses, income taxes payable, and other liabilities	<u>1,647,603</u>
Total liabilities	<u>5,895,620</u>
SHAREHOLDER'S EQUITY:	
Common stock — no par value	4,847,469
Retained earnings	<u>10,551,459</u>
Total shareholder's equity	<u>15,398,928</u>
TOTAL	<u>\$21,294,548</u>

See notes to statement of financial condition.

**CITY SECURITIES CORPORATION**  
**(SEC I.D. No. 8-000975)**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**AS OF SEPTEMBER 30, 2013**

---

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

City Securities Corporation (the “Company”) is a Broker-Dealer registered with the Securities and Exchange Commission (SEC), is a member of the Financial Industry Regulatory Authority, Inc. (FINRA), and is a Registered Investment Advisor (RIA). As a securities Broker-Dealer, the Company is engaged in various securities trading and brokerage activities serving a diverse group of domestic corporations, institutional and individual investors.

The Company clears its securities transactions on a fully-disclosed basis through First Clearing, LLC (the “Clearing Broker-Dealer”).

The Company is a wholly owned subsidiary of City Financial Corporation (the “Parent”). The Parent is a for-profit domestic corporation formed in Indiana to facilitate a holding company structure for its various subsidiaries.

Events occurring subsequent to the date of the statement of financial condition have been evaluated for potential recognition or disclosure in the financial statements.

**Use of Estimates** — Preparation of the statement of financial condition requires management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Management believes that the estimates utilized in preparing the Company’s statement of financial condition are reasonable and prudent. Actual results could differ from those estimates. The significant estimate included in the Company’s statement of financial condition consists of the valuation of securities owned and the allowance for financial advisor advances.

**Segregated Cash** — Cash segregated represents cash segregated for the benefit of customers.

**Securities Owned** — Securities owned are stated at fair value. Fair value is based on recent trade data, if available. If no recent trade data exists, fair value is based on other relevant factors including dealer price quotations and computerized pricing services. Securities owned are recorded on a trade date basis.

**Financial Instruments with Off-Balance-Sheet Risk** — The Company enters into various transactions involving off-balance sheet financial instruments. These financial instruments represent securities purchased and sold on a when-issued basis (“when-issued securities”). When-issued securities provide for the delayed delivery of the underlying instrument. The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. These financial instrument transactions are entered into for trading purposes.

Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

At September 30, 2013, the Company’s contractual commitments related to these financial instruments totaled \$0.

**Property and Equipment — Net** — Property and equipment are recorded at cost, less accumulated depreciation.

The Company identifies and records impairment losses on long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows attributable to such assets to their carrying value. If the carrying value of the assets exceeds the forecasted undiscounted cash flows, then the assets are written down to their fair value. Fair value is determined based on discounted cash flows or appraised values depending upon the nature of the assets.

**Due to Clearing Broker-Dealer** — Due to Clearing Broker-Dealer represents the amount due to the Company from the Clearing Broker-Dealer for unsettled securities transactions as of year-end.

**Financial Advisor Advances — Net** — Financial Advisor Advances represent advances made to employees, typically in connection with their recruitment. These amounts are considered earned by the employee based on continued employment and meeting certain other requirements, which are measured annually. The advances are amortized to compensation expense as earned over the terms of the agreements, which range from three to eight years. The collectability of any unearned portion of the advances is subject to a level of uncertainty; however, the Company would use all available means as provided by the employment contracts under which these advances are made to remedy any such situations. The Company has recorded a reserve against the advances for instances in which the measurement criteria are not met. At September 30, 2013, the total amount of the recorded reserve is \$215,500.

**Income Taxes** — The Parent files a consolidated income tax return. The Company's provision for income taxes is calculated as if the Company filed a separate income tax return. The Company accounts for deferred income taxes in accordance with the Accounting Standards Codification (ASC) No. 740, *Income Taxes*. Income taxes currently payable or receivable are paid to or received from the Parent. The Company determines deferred tax liabilities and assets and any provision for deferred income taxes based on the differences between the statement of financial condition and tax bases of assets and liabilities at year-end, using the tax rate expected to exist when the temporary difference reverses. A valuation allowance is recorded against deferred tax assets when it is more likely than not the deferred tax asset will not be fully realized.

**Unearned Revenue** — The Company entered into a new contract with the Clearing Broker-Dealer during 2013. As a result of the new contract, a signing bonus was received by the Company, which is to be earned over the contract period of five years. The unearned portion of the signing bonus is included in the statement of financial condition. Should the Company terminate the contract with the Clearing Broker-Dealer before the end of the contract period, the Company would be required to refund the unearned portion of the signing bonus at the time of termination.

**Risks and Uncertainties** — Securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain securities and the level of uncertainty related to changes in the value, it is possible that changes in risk in the near term could materially affect the amounts reported in the statement of financial condition.

**New Federal Income Tax Regulation** — On September 13, 2013, the Internal Revenue Service enacted new tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code of 1986, regarding the deduction and capitalization of expenditures related to tangible property. These regulations were effective upon enactment. The impact of the regulation on the deferred tax balances was not significant as of September 30, 2013.

## 2. PROPERTY AND EQUIPMENT — NET

At September 30, 2013, property and equipment consists of the following:

Furniture and fixtures	\$ 1,808,864
Computer equipment and software	1,631,147
Leasehold improvements	<u>446,561</u>
Gross property and equipment	3,886,572
Less accumulated depreciation and amortization	<u>(2,526,612)</u>
Total	<u>\$ 1,359,960</u>

## 3. LEASES

The Company leases its office space under several noncancelable operating leases. The primary lease on the corporate office expires in 2025. Leases on the various branches have expiration dates ranging from 2014 to 2025. At September 30, 2013, future required minimum lease payments consisted of the following:

Year Ending September 30	Minimum Lease Payments
2014	\$ 921,147
2015	857,550
2016	808,700
2017	765,599
2018	767,058
Thereafter	<u>5,455,581</u>
Total	<u>\$9,575,635</u>

The Company moved its main office during 2002. The lessor of the new facility agreed to assume responsibility for the remaining balance of the old leased facilities. In exchange for the lessor assuming the old lease obligation, payments on the new lease were increased by \$2.19 per square foot (included in future lease payments noted above). At September 30, 2013, the liability for the abandonment loss of \$77,813 is included in other liabilities in the accompanying statement of financial condition.

The Company signed an amendment for the corporate office downtown during 2013. The lessor agreed to an escalation for the square footage charged to the Company. In accordance with ASC 840-20, *Leases – Operating*, the Company is recognizing rent expense (including scheduled rent increases) for this lease on a straight-line basis. At September 30, 2013, a liability of \$33,468 resulting from this treatment is included in other liabilities in the accompanying statement of financial condition.

The Company moved its northside office during 2009. The lessor agreed to a lease holiday for an eight month period. In accordance with ASC 840-20, *Leases — Operating*, the Company is recognizing rent expense (including scheduled rent increases) on this lease on a straight-line basis. At September 30, 2013, a liability of \$141,308 resulting from this treatment is included in other liabilities in the

accompanying statement of financial condition. During 2013, an amendment was signed by the Company to extend the lease for all space in this building that expires in 2025.

#### **4. INCOME TAXES**

The net deferred tax asset at September 30, 2013, includes gross deferred assets of \$612,607 and gross deferred liabilities of \$306,965. The significant component of the gross deferred tax asset are the unearned revenue and the lease abandonment liabilities. The most significant component of the gross deferred tax liability is the difference between book and tax depreciation expense.

A valuation allowance against deferred tax assets as of September 30, 2013 is not considered necessary because, in the opinion of management, it is more likely than not the deferred tax assets will be fully realized. In assessing the reliability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

The Company has reviewed open tax years and has concluded that there is no significant tax liability resulting from uncertain tax positions. Fiscal years ending September 30, 2010 through 2013 remain open to examination.

#### **5. FAIR VALUE MEASUREMENTS**

ASC 820, *Fair Value Measurements*, provides a framework for measuring fair value under accounting principles generally accepted in the United States of America. The guidance defines fair value as 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. The guidance also establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the instrument's fair value measurement. The three levels within the fair value hierarchy are described as follows:

*Level 1* — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to 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 2 inputs include: quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* — Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect the Company's own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include the Company's own financial data such as internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The following outlines the valuation methodologies for the Company's material categories of assets:

*U.S. Government and Agency Securities* — U.S. treasury securities are valued using quoted market prices and are generally classified as Level 1 in the fair value hierarchy. The fair value of agency issued debt securities is derived using market prices and recent trade activity gathered from independent dealer pricing services or brokers. Agency issued debt securities are generally classified as Level 2 in the fair value hierarchy.

*Municipal Bonds* — The fair value of municipal bonds is derived using recent trade activity, market price quotations and new issuance levels. In the absence of this information, fair value is calculated using comparable bond credit spreads. Current interest rates, credit events, and individual bond characteristics such as coupon, call features, maturity, and revenue purpose are considered in the valuation process. These bonds are generally classified as Level 2 in the fair value hierarchy.

*Corporate Bonds* — Corporate bonds are valued based on either the most recent observable trade and/or external quotes, depending on availability. Corporate bonds are generally classified as Level 2 or Level 3 in the fair value hierarchy.

The following table summarizes assets measured at fair value on a recurring basis.

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
Municipal bonds	\$	\$ 3,245,789	\$	\$ 3,245,789
Corporate bonds	<u>                    </u>	<u>          3,151</u>	<u>                    </u>	<u>          3,151</u>
Assets — securities owned — trading inventory	<u>\$</u>	<u>\$ 3,248,940</u>	<u>\$</u>	<u>\$ 3,248,940</u>

During the year ended September 30, 2013, there were no significant transfers between the three levels in the fair value hierarchy.

## 6. BENEFIT PLANS

Substantially all employees are eligible to participate in the Parent's 401(k) plan. Matching contributions to the 401(k) plan are subject to a maximum of \$1,000 for each employee.

## 7. CONCENTRATIONS OF CREDIT RISK

The Company underwrites, purchases, sells, and makes markets in municipal bonds and certain other securities. The majority of municipal bonds underwritten and owned are from issuers located in Indiana. At September 30, 2013, the Company's exposure to credit risk associated with the ownership of municipal bonds amounted to \$3,245,789, which is included in securities owned-trading inventory.

## **8. BORROWINGS**

As of September 30, 2013, the Company did not maintain lines of credit with banking institutions and has no uncommitted credit agreements with banks.

## **9. COMMITMENTS AND CONTINGENCIES**

The Company applies the provisions of ASC No. 460-10, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which provides accounting and disclosure requirements for certain guarantees. The Company has agreed to indemnify the Clearing Broker Dealer for losses that it may sustain from the customer accounts introduced by the Company that result from errors or omissions caused by the Company. The Company's liability under these arrangements is not quantifiable. However, the potential for the Company to be required to make payments under this agreement is remote. Accordingly, no contingent liability is carried on the statement of financial condition for these transactions.

The Company is involved in pending and threatened litigation in the normal course of business transacted. Management, based on the opinion of counsel, believes the conclusion of such litigation will not have a material adverse effect on the Company's financial position or results of operations.

## **10. RELATED PARTIES**

The Company has receivables from the Parent and other affiliates of \$3,880,181 and payables to affiliates of \$57,780 at September 30, 2013.

The Company also has \$4,712,829 of Financial Advisor Advances at September 30, 2013. See Note 1.

## **11. NET CAPITAL REQUIREMENTS AND OTHER REGULATORY MATTERS**

As a registered Clearing Broker-Dealer with the SEC, the Company is subject to the net capital rules of SEC Rule 15c3-1. The Company computes its net capital requirement under the basic method, which provides that its minimum net capital must be equal to the greater of \$250,000 or 6 2/3% of the aggregate indebtedness of the Company, as defined. Rule 15c3-1 also requires that the ratio of aggregate indebtedness to net capital, as defined under the provisions, shall not exceed 15 to 1. At September 30, 2013, the Company had net capital of \$4,052,512, which was \$3,659,471 in excess of its required net capital. The ratio of aggregate indebtedness to net capital was 1.45 to 1 at September 30, 2013.

Under the Company's agreement with its clearing broker, the Company is required to maintain certain minimum levels of net capital and comply with other financial ratio requirements. At September 30, 2013, the Company was in compliance with all such requirements.

\* \* \* \* \*



**Deloitte & Touche LLP**  
111 Monument Circle  
Suite 2000  
Indianapolis, IN 46204-5120  
USA  
Tel: +1 317 464 8600  
Fax: +1 317 464 8500  
[www.deloitte.com](http://www.deloitte.com)

November 22, 2013

City Securities Corporation  
30 South Meridian Street  
Indianapolis, Indiana

In planning and performing our audit of the statement of financial condition of City Securities Corporation (the "Company") as of and for the year ended September 30, 2013 (on which we issued our report dated November 22, 2013, and such report expressed an unqualified opinion on the financial statement), in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statement in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934, and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at September 30, 2013, to meet the SEC's objectives.

This report is intended solely for the information and use of the Audit Committee, management, the SEC, Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered Clearing Broker-Dealers and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

Handwritten signature of Deloitte & Touche LLP in cursive script.