



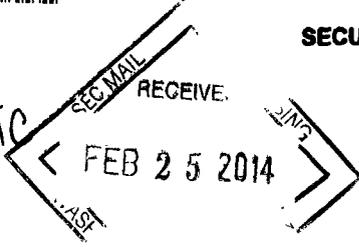
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

ANNUAL AUDITED REPORT FORM X-17A-6 PART III

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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 01/01/13 AND ENDING 12/31/13 MM/DD/YYYY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CAPITOL SECURITIES MANAGEMENT, INC.

OFFICIAL USE ONLY FIRM I.D. NO.

ADDRESS OF PRINCIPLE PLACE OF BUSINESS: (Do not use P.O. Box No.) 100 CONCOURSE BOULEVARD, SUITE 101

(No. and Street)

GLEN ALLEN VA 23059 (City) (State) (Zip Code)

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

LIA GOFF 804-612-9712 (Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

LARRY D. LIBERFARB, P.C.

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

11 VANDERBILT AVENUE SUITE 220 NORWOOD MA 02062 (Address) (City) (State) (Zip Code)

CHECK ONE:

- [X] Certified Public Accountant [ ] Public Accountant [ ] Accountant not resident in United States or any of its properties

FOR OFFICAL USE ONLY

\*Claims for exemption from the requirements 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 240.17-a-8(e)(2)

SEC 1410 (05-01) Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

NA 3/12\*

DD 3/18/14

OATH OR AFFIRMATION

I, LIA B. GOFF, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITOL SECURITIES MANAGEMENT, INC., as of DECEMBER 31, 20 13, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principle officer or director has any proprietary interest in any account classified solely as that of A customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_



Kate Hallberg 2/20/14  
Notary Public

Lia B. Goff  
Signature

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 Proprietor's 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 15c2-3.
- (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).

**CAPITOL SECURITIES MANAGEMENT, INC.**

**STATEMENT OF FINANCIAL CONDITION**

**As of and for the Year Ended December 31, 2013**

**And**

**Independent Auditor's Report**

**CAPITOL SECURITIES MANAGEMENT, INC.**

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# LARRY D. LIBERFARB, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND FINANCIAL ADVISORS

11 Vanderbilt Avenue, Suite 220, Norwood, Massachusetts 02062  
Tel. (781) 255-8800 Fax (781) 255-9217  
E-Mail: Info@Liberfarb.com

## Independent Auditor's Report

Board of Directors  
Capitol Securities Management, Inc.

We have audited the accompanying statement of financial condition of Capitol Securities Management, Inc. (the Company), as of December 31, 2013, and the related notes to the financial statement.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of this financial statement 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.

### **Auditor's 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 financial statement referred to above present fairly, in all material respects, the financial position of Capitol Securities Management, Inc. as of December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

  
Norwood, Massachusetts  
January 30, 2014

**CAPITOL SECURITIES MANAGEMENT, INC.**

**STATEMENT OF FINANCIAL CONDITION**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**ASSETS**

**Current Assets:**

Cash and cash equivalents	\$ 1,624,900
Receivable from broker dealers and clearing organization	953,673
Notes receivable	99,400
<b>Total current assets</b>	<b><u>2,677,973</u></b>

**Non-Current Assets:**

Property and equipment, net	110,964
Other assets	311,444
Deposits with clearing organization	100,500
<b>Total non-current assets</b>	<b><u>522,908</u></b>
<b>Total assets</b>	<b><u>\$ 3,200,881</u></b>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Current Liabilities:**

Accounts payable	\$ 62,378
Accrued expenses	936,946
Income taxes payable	264,058
Rent abatement payable	46,098
<b>Total current liabilities</b>	<b><u>1,309,480</u></b>

**Non-Current Liabilities:**

Deferred income taxes payable	6,592
<b>Total liabilities</b>	<b><u>1,316,072</u></b>

**Stockholder's Equity**

Common stock, \$1 par value; 5,000 shares authorized; 100 shares issued and outstanding	100
Additional paid-in capital	120,900
Retained earnings	1,763,809
<b>Total stockholder's equity</b>	<b><u>1,884,809</u></b>
<b>Total liabilities and stockholder's equity</b>	<b><u>\$ 3,200,881</u></b>

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2013

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**Note 1—Organization and nature of business**

*Organization* - Capitol Securities Management, Inc. (the "Company") is a broker dealer registered with the Securities and Exchange Commission (SEC), and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA). The Company is a wholly owned subsidiary of CS Financial Group, Inc. (the "Parent"). The Parent's liability, as the sole member of the Company, is limited in that in any proceeding brought by or in the name of the Company, the Parent shall not have liability for damages other than for willful misconduct or a knowing violation of the criminal law.

The Company is a registered broker-dealer under the Securities Exchange Act of 1934. The Company is also an investment advisor registered under the Investment Advisors Act of 1940.

**Note 2—Summary of significant accounting policies**

*Basis of presentation* - The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions as to reported amounts and disclosures in the financial statements. Management believes that the estimates used in preparing the financial statements are reasonable and prudent. Actual results could differ from the estimates included in the financial statements.

*Cash and cash equivalents* - The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

*Accounts receivable* - Accounts receivable is comprised of receivables from broker dealers. These are collected in a short period of time and based on past experience management has determined that an allowance for doubtful accounts is not necessary.

*Notes receivable* - Notes receivable consists of arrangements with certain employees. Each note has specific terms that are based on the nature of the respective employee agreement.

*Property and equipment* - Property and equipment is stated at cost. Depreciation is computed on the straight line basis over their estimated useful lives, which range from five to seven years. Purchases under \$1,000 are charged to expense as incurred; major renewals and betterments, which extend the useful life of the asset is capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

*Income taxes* - The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered in income. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. Management has evaluated tax positions that could have a significant effect on the financial statements and determined that the Company had no uncertain tax positions at December 31, 2013.

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2013

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**Note 2—Summary of significant accounting policies (continued)**

*Fair Value Measurements* – The carrying amounts of total current assets and total liabilities approximates fair value because of short term nature of these instruments or that the contractual interest rates associated with these assets or liabilities are considered to be at market rates.

*Deposits with Clearing Organizations* – Deposits with clearing organizations consist of cash which has been placed with the Company's clearing organizations in the normal course of business. These transactions are recorded on a trade date basis. At December 31, 2013, the Company had \$100,500 in cash on deposit with the Company's clearing organizations.

**Note 3—Off balance sheet risk and concentration of credit risk**

*Off balance sheet risk* - The Company's customers' securities transactions are introduced on a fully disclosed basis with a clearing broker/dealer.

The Company currently has clearing agreements with Pershing, LLC ("Pershing"), and Clearview Correspondent Services ("Clearview") to clear all trade transactions. The Company is required to maintain a cash deposit of \$100,000 with Pershing, and \$500 with Clearview in accordance with the terms of the clearing agreements.

The clearing broker/dealer carries all of the accounts of the customers of the Company and is responsible for execution, collection of and payment of funds, and receipts and delivery of securities relative to customer transactions. Off balance sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments, wherein the clearing broker/dealer may charge any losses it incurs to the Company. The Company seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers, and that customer transactions are executed properly by the clearing/broker dealer.

The Company is engaged in various trading and brokerage activities whose counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

*Concentration of credit risk* - The Company places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage, through December 31, 2013, for certain qualifying and participating non-interest bearing transaction accounts. The Company, from time to time, may have amounts on deposit in excess of the insured limits. As of December 31, 2013, the Company had \$1,354,279, which exceeded these insured amounts.

The Company maintains cash and securities in excess of the established limit insured by the Securities Investors Protection Corp (SIPC).

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2013

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**Note 4—Net capital requirements**

As a registered broker-dealer, the Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule ("Rule 15c3-1"). Rule 15c3-1 requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

Rule 15c3-1 further requires that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. In addition, certain advances, payment of dividends, and other equity withdrawals are subject to certain notification provisions of Rule 15c3-1. At December 31, 2013, the Company had net capital of \$1,376,527, as defined under Rule 15c3-1, which respectively exceeded the requirements by \$1,276,527. The Company's ratio of aggregate indebtedness to net capital at December 31, 2013 was .95 to 1.

**Note 5—Retirement plan**

The Company provides a 401(k) savings plan, which covers substantially all employees meeting minimum age and service requirements. The Company at its discretion may match employee contributions to the plan.

**Note 6—Property and equipment**

Property and equipment at December 31, 2013 consists of the following:

Computer equipment	\$ 107,196
Furniture and fixtures	194,948
Leasehold improvements	80,451
	<u>382,595</u>
Less accumulated depreciation	<u>(271,631)</u>
Net property and equipment	<u>\$ 110,964</u>

**Note 7—Operating leases**

The Company leases office space at nine locations. All leases are accounted for as operating leases. Lease terms expire over the next one to five years and contain renewal options.

Some of the leases include excess operating expense clauses and scheduled rent increases at specified intervals during the terms of the leases.

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2013

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**Note 7—Operating leases (Continued)**

Future minimum lease payments under non-cancellable operating leases are as follows:

Years ending December 31,	
2014	\$ 855,760
2015	732,834
2016	598,678
2017	342,172
Thereafter	-
	<u>\$ 2,529,444</u>

**Note 8—Related party transactions**

The Company receives consulting services from the Parent. The related party charged \$200,000 for these services for the year ending December 31, 2013. At December 31, 2013, the Company owed \$0 to the related party. Since the Company is a 100% subsidiary of the Parent, operating results could vary significantly from those that would be obtained if the entities were autonomous.

**Note 9—Notes receivable**

As described in Note 2, the Company has four outstanding notes with related parties. At December 31, 2013, the notes receivable balance totaled \$99,400. The first note was issued on October 1, 2013 for \$55,000. The agreement specified that the principal balance will be paid back over 25 months with an interest rate of 5%. The aforementioned note had a remaining balance at December 31, 2013 of \$48,400. The second note totaled \$24,000 and was issued on October 2, 2013. The agreement's payment terms specify that the borrower will make monthly payments of \$2,000 over a 12 month period, beginning January 15, 2014, which are to be withheld from the related party's monthly pay. This note is non-interest bearing; management has determined imputed interest to be immaterial. The third and fourth notes totaled \$13,500 each and were issued on November 14, 2013. The agreements' payment terms specify that the borrowers will make monthly payments of \$1,125 over a 12 month period beginning January 15, 2014, which are to be withheld from the related party's monthly pay. These notes are non-interest bearing; management has determined imputed interest to be immaterial.

**Note 10—Income taxes**

The Company is a member of a group that files a consolidated tax return. The separate return method is used to allocate current and deferred taxes among the group members when issuing separate financial statements. In the current year, the Company included this amount as part of the income taxes payable recorded on the balance sheet in the amount of \$252,276 and a corresponding deferred tax asset of \$17,517 and a deferred tax liability of \$6,592. The Company also had income taxes payable of \$11,782 related to the year ended December 31, 2010.

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2013

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**Note 11—Litigation**

The Company is involved in various legal proceedings arising in the ordinary course of its business activities. The Company believes that these various asserted claims and litigation will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claims or litigation.

**Note 12—Subsequent Events**

Management has evaluated subsequent events through January 30, 2014, the date on which the financial statements were available to be issued. There were no subsequent events that require adjustment or disclosure in the financial statements.