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CD 3/16/15

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

SEC FILE NUMBER  
8-30830

**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 01/01/14 AND ENDING 12/31/14  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Potomac Investment Company**

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

5600 Wisconsin Avenue  
(No. and Street)  
Chevy Chase, MD 20815  
(City) (State) (Zip Code)

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

Carol A. Greenwald (301) 657-2072  
(Area Code-Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

WILLIAM BATDORF & COMPANY, P.C.  
(Name- if individual, state last, first, middle name)  
1776 K STREET, NW, SUITE 840, WASHINGTON, DC 20006  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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

SECURITIES AND EXCHANGE COMMISSION  
**RECEIVED**  
MAR 02 2015  
REGISTRATIONS BRANCH  
05

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.

CD 3/16/15

## OATH OR AFFIRMATION

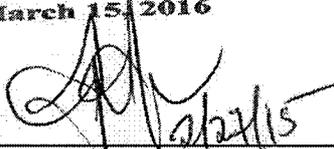
I, Carol A. Greenwald, swear (or affirm) that, to the best of my knowledge and belief that the accompanying financial statements and supporting schedules pertaining to the firm of Potomac Investment Company, as of December 31, 2014, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of customer, except as follows:

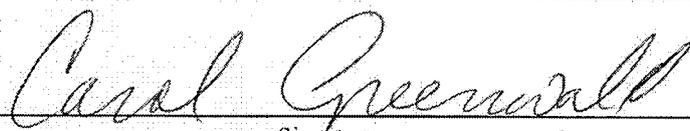
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Emiedafe P. Ideh**  
**Notary Public**  
**State of Maryland**  
**Commission Expires**  
**March 15, 2016**

  
\_\_\_\_\_  
Notary Public

  
\_\_\_\_\_  
Signature  
President  
\_\_\_\_\_  
Title  
2/27/15

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (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 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.
- (o) Exemption Report.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**POTOMAC INVESTMENT COMPANY**  
**STATEMENT OF FINANCIAL CONDITION**  
**INDEPENDENT AUDITORS' REPORT**  
**DECEMBER 31, 2014**

**POTOMAC INVESTMENT COMPANY  
STATEMENT OF FINANCIAL CONDITION  
AND INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2014**

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**WILLIAM BATDORF & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
1776 K STREET, N.W., SUITE 840  
WASHINGTON, DC 20006  
TELEPHONE: (202) 331-1040

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
of Potomac Investment Company

We have audited the accompanying statement of financial condition of Potomac Investment Company (a District of Columbia corporation) as of December 31, 2014, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the statement of financial condition. Potomac Investment Company's management is responsible for this financial statement. Our responsibility is to express an opinion on this statement of financial condition 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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition. 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 condition of Potomac Investment Company as of December 31, 2014, in accordance with accounting principles generally accepted in the United States of America.

*William Batdorf & Company, P.C.*

Washington, DC  
February 27, 2015

**POTOMAC INVESTMENT COMPANY**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2014**

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**ASSETS**

Cash and Cash Equivalents	\$	22,005
Investment Securities		270,630
Accounts Receivable - Trade		4,018
Prepaid Expenses		4,618
Loan to Stockholder		35,000
Property and Equipment	55,554	
Accumulated Depreciation	<u>(26,106)</u>	
Net Property and Equipment		<u>29,448</u>
 Total Assets	 \$	 <u><u>365,719</u></u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**LIABILITIES**

Accounts Payable	\$	82
Accrued Retirement Contribution		39,500
Loan Payable		<u>18,688</u>
 Total Liabilities		 <u>58,270</u>

**STOCKHOLDERS' EQUITY**

Common Stock (Authorized 100,00 shares, issued and outstanding 1,000 )		6,000
Additional Paid-In Capital		16,210
Retained Earnings		<u>285,239</u>
 Total Stockholders' Equity		 <u>307,449</u>
 Total Liabilities and Stockholders' Equity	 \$	 <u><u>365,719</u></u>

**POTOMAC INVESTMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE 1 - ORGANIZATION**

Potomac Investment Company (the Company), was incorporated under the laws of the District of Columbia on October 19, 1983, to provide securities brokerage and investment advisory services in the Washington metropolitan area. The Company, which is regulated by the Securities and Exchange Commission (SEC) under the Securities and Exchange Act of 1934, is an “introducing” broker-dealer as defined in Rule 15c3-1(a)(2).

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition** - Securities transactions and related commissions are recorded on a settlement date basis, which management believes is not materially different than trade date.

**Investment Advisory Fees** – Investment advisory fees are received quarterly but are recognized as earned on a pro rata basis over the term of the contract.

**Securities Owned** - Securities owned by the Corporation are valued at market with the resultant unrealized gain or loss reflected in the statement of income. Dividends are recorded as income when received, which does not materially differ from the accrual basis.

The Company holds equity securities with a total cost basis of \$137,504 and a total fair market value of \$270,630 at December 31, 2014.

**Depreciation** - The Company’s equipment is depreciated using the straight line method over three to seven years.

**Use of Estimates** - The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

**Income Taxes** - Beginning with the taxable year ending December 31, 1983, the Company’s S shareholders elected to be treated as an S Corporation for Federal income tax purposes. Under this election, income, losses and credits are included in the individual tax returns of the shareholder. Therefore, no provision has been made for income taxes in the accompanying financial statements. In general, the prior three years tax returns filed with various taxing agencies are open to examination.

**Accounts Receivable** - Accounts receivable are recorded net of allowance for expected losses. The allowance, estimated at zero for 2014, is estimated based on historical performances.

**Cash and Cash Equivalents** - Cash and cash equivalents consisted of cash on deposit with established federally insured financial institutions. For purposes of the statement of cash flows, the Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

**POTOMAC INVESTMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014**

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES – Continued**

**Statement of Cash Flows** - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchases with a maturity of three months or less to be cash equivalents.

**Retirement Plan** - The Company maintains a Simplified Employer Plan (SEP) for employees. The Company provides a discretionary contribution to the SEP on an annual basis and the contribution is accrued as a liability in the year to which it applies. For 2014, the Company elected to make a contribution of \$39,500.

**NOTE 3 – LOAN PAYABLE**

At December 31, 2014 the Company had an auto loan with an outstanding balance of \$18,688. The loan has an interest rate of 0.9% and is payable at \$557 per month through August 14, 2017.

**NOTE 4 - 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, Level 2 and Level 3.

- 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 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.)

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, 2014.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Securities	<u>\$ 270,630</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,630</u>

**POTOMAC INVESTMENT COMPANY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

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**NOTE 5 - RELATED PARTY TRANSACTIONS**

The Company leases operating space from the sole shareholder. The monthly payment represents a percentage of space used and is determined on a month to month basis.

The Company has loaned the stockholder \$35,000. The loan is due in 3 years and is non-interest bearing.

**NOTE 6 - NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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, shall not exceed 15 to 1. At December 31, 2014, the Company had net capital of \$176,206 which was \$170,206 in excess of its required net capital of \$5,000. The Company's ratio of aggregate indebtedness to net capital was .33 to 1.

**NOTE 7 - OTHER REGULATORY REQUIREMENTS**

The Company is exempt from the provisions of the reserve requirements of the Securities and Exchange Commission under Section (k)(2)(ii) since the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

**NOTE 8 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 27, 2015, the date on which the financial statements were available to be issued. No events have occurred since the balance sheet date that would have material impact on the financial statements.

**WILLIAM BATDORF & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
1776 K STREET, N.W., SUITE 840  
WASHINGTON, DC 20006  
TELEPHONE: (202) 331-1040

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
of Potomac Investment Company

We have reviewed management's statements, included in the accompanying Exemption Report, in which (1) Client identified the following provisions of 17 C.F.R. §15c3-3(k) under which Client claimed an exemption from 17 C.F.R. §240.15c3-3: (k)(2)(ii) (the "exemption provisions") and (2) Client stated that Client met the identified exemption provisions throughout the period June 1, 2014 through December 31, 2014 without exception. Client's management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Client's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

*William Batdorf & Company, P.C.*

Washington, DC  
February 27, 2015

Potomac Investment Company  
5600 Wisconsin Ave #108  
Chevy Chase, MD 20815

301-657-2072  
301-657-2073 fax  
[cgreenwald1@verizon.net](mailto:cgreenwald1@verizon.net)

EXEMPTION REPORT

December 31, 2014

To the best of our knowledge and belief, Potomac Investment Company is exempt from the provisions of Rule 15c3-3 because it meets the conditions set forth in paragraph (k) of Rule 15c3-3 pursuant to subparagraph 15c3-3(k)(2)(ii). The Company met the exemption provision in paragraph (k)(2)(ii) of Rule 15c3-3 from the period June 1, 2014 through December 31, 2014 without exception.

Very truly yours,

A handwritten signature in cursive script that reads "Carol Greenwald". The signature is written in black ink and is positioned above a horizontal line.

Carol A. Greenwald  
President

**WILLIAM BATDORF & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
1776 K STREET, N.W., SUITE 840  
WASHINGTON, DC 20006  
TELEPHONE: (202) 331-1040

INDEPENDENT ACCOUNTANT'S AGREED-UPON PROCEDURES REPORT  
ON SCHEDULE OF ASSESSMENT AND PAYMENTS (FORM SIPC-7)

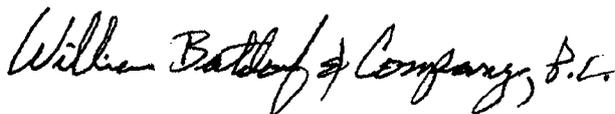
Board of Directors  
of Potomac Investment Company

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments (Form SIPC-7) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2014, which were agreed to by Potomac Investment Company, and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating Potomac Investment Company's compliance with the applicable instructions of Form SIPC-7. Potomac Investment Company's management is responsible for Potomac Investment Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

- 1) Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries, noting no differences;
- 2) Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2014, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2014, noting no differences;
- 3) Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers, noting no differences;
- 4) Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
- 5) Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed, noting no differences (if applicable).

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.



Washington, DC  
February 27, 2015

**SIPC-7**

(33-REV 7/10)

**SECURITIES INVESTOR PROTECTION CORPORATION**

P.O. Box 92185 Washington, D.C. 20090-2185

202-371-8300

**General Assessment Reconciliation**

**SIPC-7**

(33-REV 7/10)

For the fiscal year ended December 31, 2014  
(Read carefully the instructions in your Working Copy before completing this Form)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

POTOMAC INVESTMENT COMPANY  
5600 WISCONSIN AVENUE  
SUITE 108  
CHEVY CHASE, MD 20815

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

CAROL GREENWALD-(301) 657-2072

WORKING COPY

2. A. General Assessment (item 2e from page 2)	\$ 858.71
B. Less payment made with SIPC-6 filed (exclude interest)	( 392.32 )
<u>07/24/2014</u>	
Date Paid	
C. Less prior overpayment applied	( _____ )
D. Assessment balance due or (overpayment)	466.39
E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum	_____
F. Total assessment balance and interest due (or overpayment carried forward)	\$ 466.39
G. PAID WITH THIS FORM:	
Check enclosed, payable to SIPC	
Total (must be same as F above)	\$ 466.39
H. Overpayment carried forward	\$( _____ )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Potomac Investment Co.

(Name of Corporation, Partnership or other organization)

Carol Greenwald

(Authorized Signature)

President

(Title)

Dated the 27 day of Jan, 2015.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates: Postmarked \_\_\_\_\_ Received \_\_\_\_\_ Reviewed \_\_\_\_\_

Calculations \_\_\_\_\_ Documentation \_\_\_\_\_ Forward Copy \_\_\_\_\_

Exceptions:

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"  
AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning 01/01, 20 14  
and ending 12/31, 20 14  
Eliminate cents

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$ 382,764

2b. Additions:

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above. \_\_\_\_\_
- (2) Net loss from principal transactions in securities in trading accounts. \_\_\_\_\_
- (3) Net loss from principal transactions in commodities in trading accounts. \_\_\_\_\_
- (4) Interest and dividend expense deducted in determining item 2a. \_\_\_\_\_
- (5) Net loss from management of or participation in the underwriting or distribution of securities. \_\_\_\_\_
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities. \_\_\_\_\_
- (7) Net loss from securities in investment accounts. \_\_\_\_\_

Total additions \_\_\_\_\_

2c. Deductions:

- (1) Revenues from the distribution of shares of a registered open end investment company or Unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products. \_\_\_\_\_
- (2) Revenues from commodity transactions. \_\_\_\_\_
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions. \_\_\_\_\_
- (4) Reimbursements for postage in connection with proxy solicitation. \_\_\_\_\_
- (5) Net gain from securities in investment accounts. 38,985
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date. \_\_\_\_\_
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act). \_\_\_\_\_
- (8) Other revenue not related either directly or indirectly to the securities business.  
(See Instruction C): \_\_\_\_\_

(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income. \$ 296

(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960). \_\_\_\_\_

Enter the greater of line (i) or (ii)

296

Total deductions

39,281

2d. SIPC Net Operating Revenues

\$ 343,483

2e. General Assessment @ .0025

\$ 858.71

(to page 1, line 2.A.)