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

SEC FILE NUMBER
8-33443

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 4/1/2018 AND ENDING 3/31/2019  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Carnes Capital Corporation

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
8889 Pelican Bay Blvd., Suite 500

(No. and Street)

Naples FL 34108  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
John F. Cheever (239) 254-2520  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Ohab and Company, P.A. SEC  
Mail Processing  
Section  
(Name - if individual, state last, first, middle name)

100 E. Sybelia Ave., Suite 130 Maitland FL 32751  
(Address) (City) (State) (Zip Code)

Washington DC  
408

CHECK ONE:

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

<b>FOR OFFICIAL USE ONLY</b>

\*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)

RMS

OATH OR AFFIRMATION

I, John F. Cheever, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Carnes Capital Corporation, as of March 31, 2019, 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:



John F Cheever
Signature
Director of Finance
Title

Nancy I. Dillard
Notary Public
NANCY I. DILLARD

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).



# **Carnes Capital Corporation**

## **Statement of Financial Condition**

**March 31, 2019**

**Filed as PUBLIC information pursuant to Rule 17a-5(d) under the Securities Exchange Act of 1934.**

**Page(s)**

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**Financial Statement**

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# **ohab and Company, P.A.**

100 E. Sybelia Ave. Suite 130  
Maitland, FL 32751

*Certified Public Accountants*  
Email: [pam@ohabco.com](mailto:pam@ohabco.com)

Telephone 407-740-7311  
Fax 407-740-6441

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder's  
of Carnes Capital Corporation

### **Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of Carnes Capital Corporation as of March 31, 2019, and the related notes (collectively referred to as the financial statement). In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Carnes Capital Corporation as of March 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

This financial statement is the responsibility of Carnes Capital Corporation's management. Our responsibility is to express an opinion on Carnes Capital Corporation'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 Carnes Capital Corporation 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.

*Ohab and Company, PA*

Ohab and Company, PA

We have served as Carnes Capital Corporation's auditor since 2019.

Maitland, Florida

May 1, 2019

**Carnes Capital Corporation**  
**Statement of Financial Condition**  
**March 31, 2019**

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**Assets**

Cash and cash equivalents	\$	281,169
Receivable from clearing broker		91,276
Property and equipment at cost, less accumulated depreciation and amortization of \$2,569,378		15,191
Other assets		18,017
		<hr/>
Total assets	\$	<u>405,653</u>

**Liabilities and Stockholder's Equity**

Liabilities

Accrued expenses	\$	43,568
		<hr/>
Total liabilities		<u>43,568</u>

Commitments and contingencies (Note 6)

Stockholder's Equity

Common stock, \$1 par value; 200,000 shares authorized; 105,600 shares issued and outstanding		105,600
Additional paid-in capital		4,282,726
Accumulated deficit		(4,026,241)
		<hr/>
Total stockholder's equity		<u>362,085</u>
		<hr/>
Total liabilities and stockholder's equity	\$	<u>405,653</u>

The accompanying notes are an integral part of this financial statement.

**Carnes Capital Corporation**  
**Notes to Statement of Financial Condition**  
**March 31, 2019**

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**1. Summary of Significant Accounting Policies**

**Organization**

Carnes Capital Corporation (the "Company"), wholly owned by Pelican Bay Holdings, LLC, is a broker-dealer registered with the Securities and Exchange Commission ("SEC") under the Securities and Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company provides securities trading and brokerage services to clients of an affiliated entity.

**Cash and Cash Equivalents**

The Company considers money market instruments with original maturities of 90 days or less to be cash equivalents. Cash equivalents at March 31, 2019 represent money market accounts at an unaffiliated bank and an unaffiliated broker-dealer. At times these balances may be in excess of allowable federally insured limits.

**Receivable from Clearing Broker**

Receivable from clearing broker represents commissions and interest receivable from the Company's clearing broker. Such amounts are not collateralized and are expected to be fully collectible.

**Property and Equipment**

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis using an estimated useful life of five to seven years for equipment and seven years for furniture and fixtures. Software is amortized on a straight-line basis using an estimated useful life of three years. Leasehold improvements are amortized on a straight-line basis over the lesser of the useful life of the improvement or the term of the lease.

**Clearing Arrangements**

Pursuant to agreements between the Company and its correspondent clearing broker, securities transactions effected by the Company are cleared on a fully disclosed basis through the correspondent clearing broker.

**Commissions**

Securities transaction revenue and related expenses are recorded on a trade date basis. Certain clients of the Company have also entered into agreements with the Company's clearing broker covering securities lending in their accounts. Revenue generated pursuant to these agreements is split between the relevant client and the Company on a 60/40 basis.

**Use of Estimates**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America that require management to make assumptions and estimates that affect the amounts and disclosures presented. Actual results could differ from those estimates and the differences could have a material impact on the financial statements.

**Carnes Capital Corporation**  
**Notes to Statement of Financial Condition**  
**March 31, 2019**

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**1. Summary of Significant Accounting Policies (Continued)**

**Income Taxes**

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income 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 or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income taxes.

FASB ASC 740 requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance, if based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed periodically based on the FASB ASC 740's more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with loss carryforwards not expiring unused and tax planning alternatives. Based upon the level of historical taxable income and projections for future taxable income over the expiration period of the operating loss carryforwards, management does not believe that it is more likely than not that the Company will realize the benefits of the operating loss carryforwards nor other deferred tax assets and accordingly, has recorded a full valuation allowance as of March 31, 2019.

The Company follows the provisions of accounting for uncertainty in income taxes. These rules establish a standard for tax benefits to meet before they can be recognized in a company's financial statements. The Company can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained on audit based on the technical merit of the position. See Note 4 – Income Taxes for additional disclosures. The Company recognizes both interest and penalties as a component of other operating expenses, if applicable.

**Carnes Capital Corporation**  
**Notes to Statement of Financial Condition**  
**March 31, 2019**

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**1. Summary of Significant Accounting Policies (Continued)**

**Liquidity**

The Company has experienced a very modest incremental loss during the year ended March 31, 2019. The Company's sole owner, Pelican Bay Holdings, LLC (PBH) currently maintains a guaranty agreement with the Company's clearing broker dated October 19, 2017, whereby it agreed to provide certain guarantees with respect to the Company and its continuing operations. Management believes that PBH has the available working capital and resources to support the operations of the Company if necessary. PBH also has agreed with the Company to provide necessary capital to the Company to ensure the Company's continued compliance with its regulatory capital requirements. In addition, PBH has provided the Company with management support to develop a strategy to improve the profitability of the Company.

**New Accounting Pronouncements**

On April 1, 2018, the Company adopted ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606") using the modified retrospective method of adoption. ASC 606 created a single framework for recognizing revenue from contracts with customers that fall within its scope. Under ASC 606, revenue is recognized upon satisfaction of performance obligations by transferring control over goods or services to a customer. The adoption of ASC 606 did not result in any changes to beginning retained earnings for the year ended March 31, 2019 or net income for the preceding year-end.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, "Leases". From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the pending adoption.

**Carnes Capital Corporation**  
**Notes to Statement of Financial Condition**  
**March 31, 2019**

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**2. Property and Equipment**

The balances of property and equipment at March 31, 2019 are:

Leasehold improvements	\$ 1,329,966
Office equipment	510,598
Office furniture	172,942
Software	571,063
	<hr/>
	2,584,569
Less: Accumulated depreciation and amortization	<hr/>
	(2,569,378)
	<hr/>
	\$ 15,191
	<hr/>

**3. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule pursuant to Rule 15c3-1 (the "Rule"), which requires the maintenance of minimum net capital equal to \$100,000 or 6-2/3% of total aggregate indebtedness, whichever is greater, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and the related ratio of aggregate indebtedness to net capital, as defined, may fluctuate on a daily basis.

As of March 31, 2019, the Company had net capital of \$313,213, which was \$213,213 in excess of required minimum net capital of \$100,000. The Company's percentage of aggregate indebtedness to net capital was 13.91%, which does not exceed the maximum allowable percentage of 1,500%.

The Company claims exemption from the SEC's Customer Protection Rule ("Rule 15c3-3") pursuant to section (k)(2)(ii) of Rule 15c3-3 since all customer transactions are cleared through other broker-dealers on a fully-disclosed basis.

**Carnes Capital Corporation**  
**Notes to Statement of Financial Condition**  
**March 31, 2019**

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**4. Income Taxes**

The Company's federal and state income taxes are recorded as a benefit and expense for income taxes and income taxes receivable.

The income tax effects of temporary differences that give rise to deferred tax assets and liabilities are as follows:

<b>Deferred income tax assets, net</b>	
Accrued expenses	\$ 6,633
Depreciation	187,847
Federal net operating loss carryforward	241,106
State net operating loss carryforward <sup>(1)</sup>	196,999
	<u>632,585</u>
Less: valuation allowance	(632,585)
Net deferred income tax asset	<u>\$ -</u>

<sup>(1)</sup> The state net operating loss carryforward related to the Company's allocated portion of state net operating losses due to combined filings with Legg Mason (former owner) and separate company filing with the State of Florida. The net operating loss carryforward by state is as follows: Florida (\$4,275,931), California (\$35,403), Illinois (\$120,075) and Minnesota (\$16,447). The state net operating loss carryforward expires during the 2037 tax filing year.

The Company has analyzed its tax positions taken on federal and state income tax returns for all open tax years and has concluded that there are no material uncertain tax positions that would require disclosure in the Company's financial statements. U.S. federal and the State of Florida are the Company's principle taxing jurisdictions and fiscal years after 2015 are open with each of these authorities.

The valuation allowance increased from the March 31, 2018 balance of (\$630,938) to (\$632,585) at March 31, 2019. The federal net operating loss carryforward is \$1,148,123 and expires through the 2038 tax filing year.

**Carnes Capital Corporation**  
**Notes to Statement of Financial Condition**  
**March 31, 2019**

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**5. Employee Benefits**

The Company's employees participate in a 401(k) salary deferral plan primarily sponsored by Private Capital Management, LLC. Private Capital Management, LLC is an affiliate to the Company due to common ownership. Employees may elect pre-tax contributions up to \$19,000 per year (adjusted annually in accordance with regulations) to the 401(k) plan pursuant to salary reduction agreements. The maximum match contribution is the lesser of 4.0% of eligible employee compensation or \$11,200.

**6. Commitments and Contingencies**

Under an operating lease for all affiliates, with remaining non-cancelable terms in excess of one year as of March 31, 2019, minimum aggregate annual rentals for office space and equipment are as follows:

<b>Year Ending</b>	
2020	\$ 387,846

The Company clears all of its securities transactions through a clearing broker on a fully disclosed basis. Pursuant to the terms of the agreement between the Company and the clearing broker, the clearing broker has the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations.

As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At March 31, 2019, the Company has recorded no liabilities, and during the year then ended incurred no costs, with regard to this right.

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties, and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as they would involve future claims that may be made against the Company that have not yet occurred.

**7. Related Party Transactions**

The Company has significant transaction with affiliates. One affiliate serves as an investment advisor to the Company's clients. The Company shares various assets with the affiliate investment advisor and the Company pays for those expenses.

**Carnes Capital Corporation**  
**Notes to Statement of Financial Condition**  
**March 31, 2019**

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**8. Off-Balance-Sheet Risk**

In the normal course of business, the Company's customer activities involve the execution and settlement of various securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contracted obligations.

The Company maintains all of its cash and cash equivalents in a commercial bank and broker dealer located in Naples, Florida and Jersey City, New Jersey. Balances on deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") or the Securities Investor Protection Corporation ("SIPC") up to specified limits. Balances in excess of FDIC or SIPC limits are uninsured. Total cash and cash equivalents held by these institutions were \$280,169 at March 31, 2019 and the balances were within the specified limits.

**9. Subsequent Events**

The Company has evaluated subsequent transactions and events after the balance sheet date through May 1, 2019, the date on which these financial statements were issued, and except as already included in the notes to the financial statements, has determined that no additional items require disclosure.