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**ANNUAL AUDITED REPORT
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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 01/01/2019 AND ENDING 12/31/2019
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Coastal Equities, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1201 North Orange Street, Suite 729

(No. and Street)

Wilmington

DE

19801

(City)

(State)

(Zip Code)

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

David Monahan 302-543-2704

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Clark, Schaefer, Hackett, & Co.

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

One East Fourth Street

Cincinnati

Ohio

45202

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

SEC Mail Processing

MAR 02 2020

Washington, DC

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*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.

OATH OR AFFIRMATION

I, David J Monahan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Coastal Equities, Inc. as of December 31, 2018, 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:

Notary Public signature and seal for Charles M. Sobel, Notary Public, State of Delaware, Commission Expires July 6, 2022. Chief Financial Officer signature and title line.

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 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).



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder
Coastal Equities, Inc. and Subsidiary
Wilmington, Delaware

Opinion on the Financial Statement

We have audited the accompanying consolidated statement of financial condition of Coastal Equities, Inc. and Subsidiary as of December 31, 2019 and the related notes (collectively referred to as the "consolidated financial statement"). In our opinion, the consolidated statement of financial condition presents fairly, in all material respects, the financial position of Coastal Equities, Inc. and Subsidiary as of December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

This consolidated financial statement is the responsibility of Coastal Equities, Inc. and Subsidiary's management. Our responsibility is to express an opinion on Coastal Equities, Inc. and Subsidiary's consolidated 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 Coastal Equities, Inc. and Subsidiary 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Other Matters

As discussed in Note 7 to the consolidated statement of financial condition, the Company is a party to various legal actions. Those actions claim substantial damages as a result of alleged unsuitable investment advice and other matters. Management and legal counsel for the Company are of the opinion that the legal actions are without merit and settlement of the actions will not have a material effect on the Company's financial position. They are also of the opinion that they have properly accrued for any assessments that might materialize from the legal actions. Nevertheless, it is at least reasonably possible that such an effect will occur, although the amount cannot be estimated. Settlement of the legal actions are expected within the next year. Our opinion is not modified with respect to that matter.

Clark, Schaefer, Hackett & Co.

We have served as Coastal Equities, Inc. and Subsidiary's auditor since 2008.

Cincinnati, Ohio
February 28, 2020

Confidential Treatment Requested

Coastal Equities, Inc. and Subsidiary
Consolidated Statement of Financial Condition
Year Ended December 31, 2019

Assets:

Cash and cash equivalents	\$	1,025,710
Accounts receivable:		
Commissions		538,272
Receivables from third parties		1,667
Receivables from representatives		71,174
Receivables from affiliate		76,153
Advances		15,954
Prepaid expenses		73,141
Investments		34,232
Deposit with correspondent broker		29,335
Right to use asset		40,964
Equipment and furnishings, at cost less accumulated depreciation of \$69,749		<u>15,202</u>
	\$	<u>1,921,804</u>

Liabilities and Stockholder's Equity:

Commissions payable	\$	680,547
Deferred revenue		887
Accrued expenses		552,837
Operating lease liability		40,964
Accounts payable		<u>119,279</u>
Total liabilities		<u>1,394,514</u>

Stockholder's equity:

Common stock, \$.01 par value - Authorized 200,000 shares, Issued and outstanding 10,000 shares		100
Capital in excess of par value		679,317
Retained earnings (deficit)		<u>(152,127)</u>
		<u>527,290</u>
	\$	<u>1,921,804</u>

CONFIDENTIAL TREATMENT REQUESTED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of Coastal Equities, Inc. and Subsidiary (the "Company") are set forth to facilitate the understanding of data presented in the financial statements.

Description of business operations

The Company operates a securities broker and dealer registered with the Financial Industry Regulatory Authority ("FINRA") and the Securities and Exchange Commission ("SEC"). It has a wholly-owned subsidiary, Coastal Equities Insurance Agency, Inc. that is currently dormant. It is a wholly-owned subsidiary of Orange Street Holdings, Inc. ("Orange Street").

The Company has independent brokers who operate offices in Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Massachusetts, Maryland, Minnesota, Maine, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas Virginia, and Washington. Its primary source of revenue is commissions for providing brokerage services to small businesses and individuals. Each broker receives a share of the commissions earned and is responsible for his or her own expenses.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue recognition

On January 1, 2018, the Company adopted ASU 2014-9, Revenue from Contracts with Customers, and all subsequent amendments to the ASU. Revenue from contracts with customers includes commission income and fees from asset management services and broker-dealer operations. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgement is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

Brokerage commissions. The Company records revenues and expenses from its clearing firm (commissions and brokerage expenses) directly related to security transactions on a trade date basis. The Company believes that the performance obligation is satisfied on the trade date because that is the point in time when the financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

Distribution fees. The Company enters into arrangements with providers of alternative investments (annuities, REITS, limited partnerships), or other pooled investment vehicles (funds) to distribute to investors. The Company may receive distribution fees paid at a point in time or over time or as a combination thereof. The Company believes that its performance obligation is the sale of securities to investors and as such this is fulfilled on the trade date.

Marketing fees. The Company may receive a contractually agreed upon marketing fee for distribution of alternative investments based on a percentage of the sale price of the underlying investment. This marketing fee is non-refundable and the Company believes the performance obligation is satisfied at a point in time on the trade date.

AGI revenue. The Company receives revenues from its clearing broker, First Clearing, for the recruitment of new representatives. The amount is based on whether the representative comes from outside the First Clearing umbrella, and the assets under management (AUM) the representative brings to First Clearing. The amounts are paid to the Company but are subject to a clawback period of three quarters after the quarter the representative incepts. The Company records the revenue once the clawback period has expired as that is that is the point in time when the performance obligation is met.

Due diligence revenue. The Company receives monies from potential sponsors of alternative products. The Company performs a due diligence review of the proposed product. The sponsor pays the Company a non-refundable fee for this service. The reviews take two to four weeks to complete and the Company believes that the performance obligation is materially satisfied at a point in time when the service is completed.

Retention fee. The Company receives a contractually obligated annual \$100,000 payment from First Clearing at the end of each year the Company remains an affiliate. The Company believes that the performance obligation is satisfied at the end of each year (point in time) the company is affiliated and records the amount as revenue at each year end.

Cash and cash equivalents

The Company considers all bank accounts, cash accounts with our clearing agent (First Clearing), and all highly liquid debt instruments purchased with original maturities of less than three months to be cash equivalents.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to net receivables based on its assessment of the current status of individual accounts. If balances were still outstanding after management had used reasonable collection efforts, they would be written off through a charge to the reserve and a credit to accounts receivable. The Company had an reserve for doubtful accounts of \$5,704 as of December 31, 2019.

Investments

Investments consist of common stock and a mutual fund that is valued at fair value. Unrealized gains and losses are included in net income. The first-in, first-out method is used to determine realized gains and losses.

Deferred Revenue

The Company also receives funds from its clearing agent, First Clearing, to support recruitment of additional financial advisors. Funds received are subject to a clawback by First Clearing for four calendar quarters, starting in the quarter the advisor is recruited (Earnings Period). The Company books funds received to deferred revenue until the Earnings Period is complete, then recognizes the amounts as revenue. As of December 31, 2019, the accumulated amount in deferred revenue is \$887.

Equipment & Furnishings

Property and equipment consist mainly of furniture, fixtures, and equipment that are stated at cost and are being depreciated over estimated useful lives of three to five years using straight-line methods.

Income taxes

As a wholly-owned subsidiary, the Company is part of the consolidated tax return filing of Orange Street Holdings. The Company, as a wholly-owned subsidiary of this consolidated group, is responsible for its share of its income tax allocated by its share of taxable income. There are no material differences between the book and tax amounts.

Leases

In February 2016 the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over twelve months to be capitalized as a right-of-use-asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. The distinction will be relevant for the pattern of expense recognition in the income statement. Coastal has implemented the new standard in 2019. Operating lease assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. The Company's incremental borrowing rate was used to calculate the present value of the lease payments. Lease costs for lease payments is recognized on a straight-line basis over the lease term. The weighted average remaining lease term for this lease is 1.25 years. The weighted average discount rate for the lease was 4%.

Coastal has one operating lease, which is for its Wilmington office. As of December 31, 2019, the total lease asset is \$40,964 with a matching lease liability of \$40,964. The current agreement expires March 31, 2020. It is expected that a one-year extension for approximately the same rent will be agreed upon before the expiration of the current agreement. See Note 4 for additional information.

Subsequent events

The Company evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through February 28, 2020, the date these financial statements were available to be issued.

2. DEPOSIT WITH CORRESPONDENT BROKER:

Because the Company does not handle customer securities or trades directly, it has entered into a relationship with a clearing, or correspondent, broker. As part of the terms of its contract with this broker, it maintains with them a \$25,000 deposit, held in a money-market fund. Interest earned on this account inures to the benefit of the Company.

3. FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that 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 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 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 indirect
- Level 3 inputs 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 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, 2019.

Fair Value Measurements at Reporting Date Using

	Quoted prices in active markets for identical assets (Level 1)	Total at December 31, 2019
Common stock	\$ 16	\$ 16
Mutual fund	<u>\$ 34,216</u>	<u>\$34,216</u>
	<u>\$34,232</u>	<u>\$34,232</u>

4. LEASE COMMITMENT:

The Company leases its main office facility in Wilmington, Delaware with monthly payments of \$2,518 - \$2,585, plus administrative charges through March 2020. It is the intention to stay in the current offices for one more year, though the final agreement has not been completed. It is anticipated that the rent expense will remain approximately the same as under the expiring agreement. The right of use asset obtained in exchange for this lease was \$87,508.

Future minimum rental payments, including the anticipated renewal of the existing agreement are as follows:

2020	\$33,341
2021	<u>\$ 8,529</u>
Total	\$41,870
Less imputed interest	<u>(\$ 906)</u>
Total lease liability	<u>\$40,964</u>

5. NET CAPITAL REQUIREMENTS AND EXEMPT PROVISIONS UNDER RULE 15c3-3:

The Company is subject to the uniform net capital rule of the Securities and Exchange Commission (Rule 15c3-1), which requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital not exceed 15 to 1 (as those terms are defined by the Rule). In addition, equity capital may not be withdrawn if the resulting net capital ratio would exceed 10 to 1. Net capital and the related net capital ratio may fluctuate on a daily basis. As of December 31, 2019, the Company's net capital requirement was \$90,237. At December 31, 2019, the Company had net capital of \$222,872 which was \$132,635 in excess of the required amount, and aggregate indebtedness to net capital ratio was 6.07 to 1.

6. RELATED PARTY TRANSACTIONS:

The Company is a wholly owned subsidiary of Orange Street. Orange Street has two other subsidiaries: Coastal Investment Advisors, Inc. ("CIA"), and Coastal Risk Advisors, LLC ("CRA"). CIA is 100% owned by Orange Street. CRA is 99% owned by Orange Street.

The Company purchases errors and omissions insurance from an unaffiliated insurance company through CRA. Errors and omissions insurance expense amounted to (\$21,743) net of reimbursements from registered representatives in 2019. Prepaid errors and omissions insurance amounted to \$23,157 at December 31, 2019.

During 2019 the Company began the year with an outstanding receivable balance of \$12,861 with CIA. Shared expenses between the Company and CIA are allocated based on percentage of combined revenue. Investment advisory fees paid to the Company by First Clearing are credited to CIA on a monthly basis. A net \$310,147 of shared revenue/expenses was allocated to CIA in 2019. CIA reimbursed the Company \$250,000 during the year. At December 31, 2019, the Company has a receivable due from CIA of \$73,008 for the repayment of these expenses.

During 2019, the Company began the year with an outstanding balance of \$6,023 with Orange Street. A net of \$82,645 in expenses for the annual Coastal 2019 sales/compliance conference was allocated to OSH in 2019. OSH reimbursed the Company \$85,523 for the conference expenses and a prior balance during year. At December 31, 2019, the Company has a receivable due from Orange Street of \$3,145.

7. LITIGATION AND REGULATORY MATTERS

The firm is a respondent and co-respondent in FINRA arbitrations brought by former customers, or in discussions with customers who have threatened to file FINRA arbitrations. The customers generally allege that products sold to them by registered representatives of the firm were unsuitable. The claim amounts approximate \$3,000,000. The company believes that the matters will settle for substantially less than the amounts claimed. The Company has accrued \$228,500 against possible exposure.

The firm is currently under investigation by FINRA concerning potential supervision omissions concerning a former registered representative's trading activity in several of his customers' accounts. There have been active discussions between the firm and FINRA however the matter has not been resolved. The firm has accrued the amount of \$190,000 against possible exposure in this matter.

Coastal Equities, Inc.

SEC#8-40822

Firm ID#23769

Annual audited report

Public form