

Mail Processing  
Section

**CAPITAL INSTITUTIONAL SERVICES, INC.**

MAK 01 2017

REPORT PURSUANT TO RULE 17A-5(d)

Washington DC

FOR THE YEAR ENDED 406

DECEMBER 31, 2016



**CAPITAL INSTITUTIONAL SERVICES, INC.**

Mail Processing  
Section

**CAPITAL INSTITUTIONAL SERVICES, INC.**

MAR 01 2017

REPORT PURSUANT TO RULE 17A-5(d)

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FOR THE YEAR ENDED 406

DECEMBER 31, 2016

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SEC  
Mail Processing  
Section  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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OMB APPROVAL	
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Washington DC  
406  
ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER
8-22273

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 01/01/16 AND ENDING 12/31/16  
MMDD/YY MMDD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Capital Institutional Services, Inc.

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

1700 Pacific Avenue, Suite 1100

(No. and Street)

Dallas

TX

75201

(City)

(State)

(Zip Code)

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

Tim R. Hall

(214) 720-0055

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Moss Adams, L.L.P.

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

8750 N. Central Expressway, Suite 300

Dallas

TX

75231

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

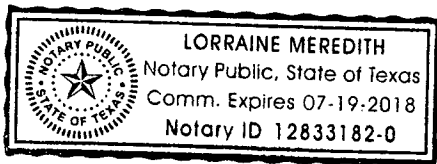
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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## OATH OR AFFIRMATION

We, Kristi P. Wetherington and Tim R. Hall, affirm that, to the best of our knowledge and belief the accompanying financial statements and supplemental schedules pertaining to the firm of Capital Institutional Services, Inc., as of December 31, 2016, are true and correct and such financial statements and supplemental schedules will be promptly made available to all members and allied members of the New York Stock Exchange, Inc. in our organization. We further affirm that neither the company nor any director or principal officer has any proprietary interest in any account classified solely as that of a customer.



*Kristi P. Wetherington*  
Signature

Chief Executive Officer and President  
Title

*Tim R. Hall*  
Signature

Chief Financial Officer and Treasurer  
Title

*Lorraine Meredith*  
Notary Public

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 Shareholders' 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 con-solidation.
- (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) Report of Independent Registered Public Accounting Firm on Management's Exemption Report.

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

**CAPITAL INSTITUTIONAL SERVICES, INC.**

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**MOSS-ADAMS** LLP  
Certified Public Accountants | Business Consultants

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
Capital Institutional Services, Inc.

We have audited the accompanying statement of financial condition of Capital Institutional Services, Inc. (the "Company") as of December 31, 2016, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are 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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Institutional Services, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The information in Schedule I has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The information in Schedule I is the responsibility of the Company's management. Our audit procedures include determining whether the information in Schedule I reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in Schedule I. In forming our opinion on the information in Schedule I, we evaluated whether the information in Schedule I, including its form and content is presented in conformity with 17 C.F.R. § 240.17a-5. In our opinion, the information in Schedule I is fairly stated in all material respects in relation to the financial statements as a whole.

*Moss Adams LLP*  
Dallas, Texas  
February 23, 2017

CAPITAL INSTITUTIONAL SERVICES, INC.  
Statement of Financial Condition  
December 31, 2016

ASSETS

Assets	
Cash	\$ 10,267,810
Restricted cash	1,771,996
Investments, at fair value	12,857,362
Receivables from brokers and dealers	143,452
Deferred research costs, net	1,575,509
Furniture and equipment, at cost, less accumulated depreciation of \$2,427,653	462,243
Prepaid and other assets	<u>2,205,082</u>
<b>Total Assets</b>	<b><u>\$ 29,283,454</u></b>

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities	
Accounts payable and accrued liabilities	\$ 4,263,093
Accrued commissions and bonuses	1,174,146
Accrued research services	9,284,977
Accrued state income taxes	<u>37,917</u>
<b>Total Liabilities</b>	<b><u>14,760,133</u></b>
Commitments and contingencies-Note 8	
Shareholders' Equity	
Voting common stock, \$0.01 par value, 1,000,000 shares authorized, 20,842 shares issued and outstanding	208
Non-voting common stock, \$0.01 par value, 9,000,000 shares authorized, 187,578 shares issued and outstanding	1,876
Additional paid-in capital	27,355
Retained earnings	<u>14,493,882</u>
<b>Total Shareholders' Equity</b>	<b><u>14,523,321</u></b>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 29,283,454</u></b>

The accompanying notes are an integral part of these financial statements.

CAPITAL INSTITUTIONAL SERVICES, INC.

Statement of Income

For the Year Ended December 31, 2016

**Revenues**

Commissions	\$ 23,184,075
Underwriting concessions	637,673
Correspondent clearing fees	588,591
Investment income	100,802
Other income	<u>121,996</u>

Total Revenues 24,633,137

**Expenses**

Employee compensation and benefits	12,571,900
Floor brokerage, exchange and clearance fees	6,697,594
Research	61,715
Occupancy and equipment	2,804,754
Promotional	645,785
General and administrative	<u>976,401</u>

Total Expenses 23,758,149

Income before provision for income taxes 874,988

Provision (benefit) for state income taxes 41,854

Net Income \$ 833,134

The accompanying notes are an integral part of these financial statements.



CAPITAL INSTITUTIONAL SERVICES, INC.  
Statement of Changes in Shareholders' Equity  
For the Year Ended December 31, 2016

	Voting and Non- Voting Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	<u>Shares</u>	<u>Amount</u>			
Balances at December 31, 2015	208,420	\$ 2,084	\$ 27,355	\$ 17,203,324	\$ 17,232,763
Net Income	-	-	-	833,134	833,134
Distributions to Shareholders	-	-	-	(3,542,576)	(3,542,576)
Balances at December 31, 2016	<u>208,420</u>	<u>\$ 2,084</u>	<u>\$ 27,355</u>	<u>\$ 14,493,882</u>	<u>\$ 14,523,321</u>

The accompanying notes are an integral part of these financial statements.

CAPITAL INSTITUTIONAL SERVICES, INC.

Statement of Cash Flows

For the Year Ended December 31, 2016

<b>Cash flows from operating activities</b>	\$ 833,134
Net income	
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	271,984
Change in assets and liabilities	
Decrease in receivables from brokers and dealers	78,140
Decrease in investments	11,556,873
Decrease in other assets	299,711
Change in deferred research costs and accrued research services, net	771,779
Decrease in accounts payable and accrued liabilities	(155,902)
Decrease in accrued commissions and bonuses	(283,572)
Increase in accrued state income taxes	14,352
	<hr/>
Net cash provided by operating activities	13,386,499
<b>Cash flows from investing activities</b>	
Purchase of furniture and equipment	(149,115)
	<hr/>
Net cash used by investing activities	(149,115)
<b>Cash flows from financing activities</b>	
Distribution to shareholders	(3,542,576)
	<hr/>
Net cash used by financing activities	(3,542,576)
Net increase in cash and restricted cash	9,694,808
Beginning cash and restricted cash	2,344,998
	<hr/>
Ending cash and restricted cash	\$ 12,039,806

**Supplemental schedule of cash flow information**

Cash paid for:	
Income state taxes	\$ 39,219
	<hr/>

The accompanying notes are an integral part of these financial statements.

CAPITAL INSTITUTIONAL SERVICES, INC.

Notes to Financial Statements

December 31, 2016

**Note 1 - Nature of Operations and Summary of Significant Accounting Policies**

Capital Institutional Services, Inc. (the "Company") is a securities broker-dealer and is a member firm of the New York Stock Exchange and other principal exchanges. The Company executes debt, equity, futures, options and currency transactions for domestic and international investment advisors, money managers and plan sponsors (the "Money Managers"). The Company transacts business out of its offices in Dallas, Texas and New York, NY.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results may differ from these estimates.

**Research Credit**

The Company conducts a portion of its business within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended. In that regard, the Company executes brokerage transactions for the Money Managers at a negotiated commission rate. As an incentive to use the Company's facilities for the execution of such brokerage transactions, the Company has developed a system to provide third-party research services to Money Managers based upon the frequency of use of its facilities.

The amount of third-party research services that the Company will furnish to the Money Managers is based on the amount of commissions that the Company receives or expects to receive for execution of brokerage transactions and is measured by the Company in terms of a Research Credit. As the Company acts as an agent in these transactions, it records expenses on a net basis within commission revenue on the statement of income. During the year ended December 31, 2016, the Company provided Research Credit of \$23,491,283 to Money Managers. It is understood by the Money Managers and the Company that Research Credit is not redeemable in cash and, when redeemed, may only be used to obtain third-party research services through the Company or another broker-dealer. Accordingly, management does not consider Research Credit to be a financial instrument. The accumulated Research Credit of Money Managers is reduced when the Company provides third-party research at the request of such Money Managers.

Amounts relating to Money Managers with a positive Research Credit balance are reflected in the accompanying statement of financial condition as accrued research services. Such amounts represent the estimated third-party research services to be provided to Money Managers from whom the Company has earned commissions for execution of brokerage transactions. Amounts relating to Money Managers with a negative Research Credit balance are reflected in the accompanying statement of financial condition as deferred research costs. Such amounts represent the amount of research services paid on behalf of Money Managers for which future commissions are expected to be received.

The reserve for uncollectible negative Research Credit balances is determined using a method which approximates net realizable value.

**Commission Rebate**

The Company provides a commission rebate program to plan sponsors whereby a portion of the commissions associated with trades executed on their behalf are rebated back to the plan. Plan sponsors may also make payments to vendors to offset certain plan expenses. During the year ended December 31, 2016, the Company provided commission rebates of \$9,503,959 to plan sponsors.

CAPITAL INSTITUTIONAL SERVICES, INC.

Notes to Financial Statements

December 31, 2016

**Note 1 - Nature of Operations and Summary of Significant Accounting Policies, continued**

Commissions

Commissions earned on securities transactions are normally recorded on a settlement date basis, generally the third business day following the transaction date, which is not materially different than on a trade-date basis.

Underwriting Concessions

Underwriting concessions represent concessions from managing underwriters on syndicates generated by Money Managers doing business with the Company. Underwriting concessions are accrued when the Company receives notification from both the managing underwriter and the Money Managers that the settlement has occurred.

Correspondent Clearing Fees

Correspondent clearing fees represent income received for providing institutional quality execution and clearing services to fully disclosed correspondent broker/dealers.

Fair Value of Financial Instruments

The carrying amount of cash and short-term investments approximates fair value due to the short maturity of those instruments. Investments are carried at fair value which is estimated based on quoted market prices for those or similar instruments (see Note 5).

Furniture and Equipment

Furniture and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets.

Shareholder Equity

The Company has voting and non-voting classes of common stock. Both classes of common stock are treated equally with respect to the declaration and payment of dividends, the making of any distribution in connection with the dissolution and winding up of the Company, or in any merger or consolidation. Holders of voting common stock have voting rights at all meetings of shareholders, whereas holders of non-voting common stock have no voting rights.

Cash and Restricted Cash

The Company defines cash and cash equivalents as highly liquid investments with original maturities of three months or less at the time of purchase, other than those held for sale in the ordinary course of business. During the year the Company adopted the provisions of Financial Accounting Standard Board (FASB) Accounting Standards Update (ASU) No. 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

Investments

Investments at December 31, 2016 consist of money market funds, certificates of deposit, U.S. Treasury notes and mutual funds. Investments are recorded at fair value with realized and unrealized gains and losses included in investment income. Profit and loss arising from all securities transactions entered into for the account of the Company are recorded on settlement date basis.

CAPITAL INSTITUTIONAL SERVICES, INC.

Notes to Financial Statements

December 31, 2016

**Note 2 - Concentration Risk**

At various times throughout 2016, the Company had cash balances in excess of federally insured limits of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules. Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing accounts for the combined total coverage of at least \$250,000.

**Note 3 - Fair Value**

Fair value is defined 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; that is, an exit price. The exit price assumes the asset or liability is exchanged in an orderly transaction; it is not a forced liquidation or distressed sale.

In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. This methodology prioritizes the inputs to valuation techniques by giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when market prices are not readily available or reliable. The three levels of the hierarchy are described below:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Changes in valuation techniques may result in transfers in or out of an investment's assigned level within the hierarchy. There were no transfers into or out of the Level 1, 2 or 3 categories in the fair value measurement hierarchy for the year ended December 31, 2016.

Investments in money market funds and certificates of deposits are highly liquid instruments readily convertible to known amounts of cash with maturities of less than one year. Investments in U.S. Treasury Notes and Mutual Funds are traded on a national exchange and are stated at the last reported sales price on the day of valuation. The Company considers all such investments to be Level 1 investments. The following table summarizes the inputs used to value the Fund's assets and liabilities measured at fair value as of December 31, 2016:

CAPITAL INSTITUTIONAL SERVICES, INC.

Notes to Financial Statements

December 31, 2016

**Note 3 - Fair Value**, continued

<u>Assets</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Money Market Funds	\$ 4,949,148	\$ 4,949,148	\$ --	\$ --
Certificates of Deposit	5,546,968	5,546,968		
U.S. Treasury Notes	498,830	498,830		
Mutual Funds	1,862,416	1,862,416		
Total Investments	<u>\$ 12,857,362</u>	<u>\$ 12,857,362</u>	<u>\$ --</u>	<u>\$ --</u>

At December 31, 2016, the Company did not hold any financial liabilities measured at fair value.

**Note 4 - Furniture and Equipment**

The following is a summary of furniture and equipment as of December 31, 2016:

	<u>Estimated Useful Life</u>	
Furniture, fixtures and leasehold improvements	7 years	\$ 1,336,601
Computer equipment	5 years	1,220,181
Computer software	5 years	333,114
		<u>2,889,896</u>
Less – accumulated depreciation		<u>(2,427,653)</u>
Total		<u>\$ 462,243</u>

Depreciation expense was \$271,984 for the year ended December 31, 2016 and is included in occupancy and equipment expense in the accompanying statement of income.

**Note 5 - Customer Protection - Reserves and Custody Securities**

The Company does not hold funds or securities for customers and, accordingly, is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, pursuant to Paragraph (k)(2)(ii) of such rule. Rule 15c3-3 provides for the maintenance by broker dealers of basic reserves with respect to customers' cash and securities and enumerates standards relating to the physical possession of customer securities.

Cash of \$1,771,996 has been segregated in a special bank account for the exclusive benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission and is classified as restricted cash on the statement of financial condition.

The Company carries no customer regulated commodities futures accounts; therefore, the computation of segregated funds pursuant to Section 4d(2) of the Commodity Exchange Act is not applicable.

**Note 6 - Income Taxes**

The Company has elected S corporation status under the Internal Revenue Code ("IRC") and is not subject to federal income taxes. Profits or losses of the Company are included in the federal income tax returns of its shareholders. The provisions for income tax and accrued income taxes payable included in the accompanying financial statements represent estimated state and local income taxes.

CAPITAL INSTITUTIONAL SERVICES, INC.

Notes to Financial Statements

December 31, 2016

**Note 6 - Income Taxes, continued**

The Company files income tax returns in the U.S. federal jurisdiction and in various state and local jurisdictions. The Company applies FASH ASC 740-10 relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as de-recognition interest, penalties and disclosures required. The Company does not have any uncertain tax positions. Generally, the Company is subject to examination by U.S. federal (or state and local) income tax authorities for the years ended December 31, 2013, 2014 and 2015.

**Note 7 - Net Capital Requirements**

The Company is subject to the Securities and Exchange Commissions' Uniform Net Capital Rule (Rule 15c3-1). The Company has elected to compute minimum net capital under the Alternative Net Capital method under Rule 15c3-1(a)(1)(ii), which requires maintenance of minimum net capital of the greater of 2% of aggregate debit items or \$250,000. At December 31, 2016, the Company had net capital as defined by Rule 15c3-1 of \$9,931,888 which was \$9,681,888 in excess of the required minimum net capital.

Proprietary accounts held at clearing brokers ("PAIB Assets") are considered allowable assets in the computation of net capital pursuant to an agreement between the Company and its clearing brokers which requires, among other things, for the clearing brokers to perform a computation of PAIB Assets similar to the customer reserve computation set forth in Rule 15c3-3.

Capital distributions to shareholders can be made under a capital distribution policy approved by the Company's Board of Directors. Periodic distributions approved by the Board of Directors are made to enable shareholders to pay federal income taxes on the Company's profits, among other purposes. Such distributions totaled \$3,542,576.

During January 2017, the Company made cash distributions of \$272,506 to shareholders.

**Note 8 - Commitments and Contingencies**

The Company leases office and equipment under operating leases with expiration dates through July, 2023. Certain leases provide for renewal options.

Future minimum rentals at December 31, 2016 are as follows:

Year Ending December 31	Amount
2017	\$ 461,577
2018	459,235
2019	439,571
2020	414,824
2021	426,877
Thereafter	699,074
Total	\$ 2,901,158

Total rent expense for the year ended December 31, 2016 was \$654,497 and is included in occupancy and equipment expense in the accompanying statement of income.

The accompanying notes are an integral part of these financial statements.

CAPITAL INSTITUTIONAL SERVICES, INC.  
Notes to Financial Statements  
December 31, 2016

**Note 9 - Employee Benefits**

The Company adopted an employee savings plan (the "Plan") effective January 1, 1991, with employer participation in accordance with the provisions of Section 401(k) of the IRC. The vast majority of the Company's employees are eligible to become participants in the Plan after three months of service. The Plan allows participants to make pretax contributions up to 60% of their salary and commissions, not to exceed amounts allowable under the IRC, with the Company making discretionary matching contributions. All amounts contributed to the Plan are deposited in a trust fund which is administered by an independent financial institution. The Company's contributions to the Plan were \$131,306 for 2016.

In 2004, the Company implemented a Deferred Compensation Plan (the "DCP") for eligible management employees to defer a portion of their compensation. The DCP is funded through employee contributions, employer contributions, and the Company's matching contributions up to a specific limit. Investments are made at the participants' discretion. All assets associated with the DCP are classified as investments with the related liability to deferred compensation. Employer contributions to the DCP and investment gains on assets in the DCP are included in compensation expense.

At December 31, 2016, the Company had no obligation to provide other post-retirement benefits to current or former employees.

**Note 10 - Financial Instruments with Off-Balance Sheet Risk**

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. As of December 31, 2016, the Company has recorded no liabilities with regard to the right.

In addition, the Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations. The Company monitors the credit standing of the clearing broker and all counterparties with which it conducts business.

The accompanying notes are an integral part of these financial statements.



Supplemental Information  
Pursuant to Rule 17a-5 of the  
Securities Exchange Act of 1934  
as of  
December 31, 2016

CAPITAL INSTITUTIONAL SERVICES, INC.  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of December 31, 2016

**Computation of Net Capital**

Total shareholders' equity qualified for net capital		\$ 14,523,321
Add:		
Other deductions or allowable credits		<u>          --</u>
Total Capital and allowable subordinated liabilities		14,523,321
Deductions and/or charges		
Non-allowable assets:		
Aged receivables from brokers and dealers	\$ 62,527	
Deferred research costs	1,575,509	
Furniture and equipment, net	462,243	
Other assets	<u>2,182,268</u>	<u>(4,282,547)</u>
Net capital before haircuts on securities positions		10,240,774
Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(a)(1)(ii)):		<u>(308,886)</u>
Net Capital		9,931,888
Minimum net capital required under Rule 15c3-1 <sup>(1)</sup>		<u>250,000</u>
Net capital in excess of minimum requirements <sup>(2)</sup>		<u>\$ 9,681,888</u>

<sup>(1)</sup> The Company has elected to compute minimum net capital using the Alternative Net Capital method defined in Rule 15c3-1(a)(1)(ii).

<sup>(2)</sup> There were no material differences in the computation of net capital under Rule 15c3-1 from the Company's computation in its unaudited FOCUS Report.

Report of  
Independent Registered Public Accounting Firm  
On Management's Exemption Report  
Year Ended December 31, 2016

**MOSS ADAMS** LLP  
Certified Public Accountants | Business Consultants

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON MANAGEMENT'S EXEMPTION REPORT**

To the Board of Directors  
Capital Institutional Services, Inc.

We have reviewed management's statements, included in the accompanying Management's Statement Regarding Compliance with Certain Exemption Provisions Under Rule 15c3-3 of the Securities Exchange Act of 1934, in which (1) Capital Institutional Services, Inc. (the "Company") identified provision 17 C.F.R. §15c3-3(k)(2)(ii) (the "exemption provisions") under which the Company claimed an exemption from 17 C.F.R. §240.15c3-3 and (2) the Company stated that the Company met the identified exemption provisions throughout the most recent fiscal year without exception. The Company'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 the Company'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 conditions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

*Moss Adams LLP*

Dallas, Texas

February 23, 2017

Exemption Report

Capital Institutional Services, Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. § 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:


(1) The Company claimed an exemption from 17 C.F.R. § 240.15c3-3 under the following provisions of 17 C.F.R. § 240.15c3-3(k)(2)(ii).

(2) The Company met the identified exemption provisions in 17 C.F.R. § 240.15c3-3(k) throughout the year ended December 31, 2016 without exception.

Capital Institutional Services, Inc.

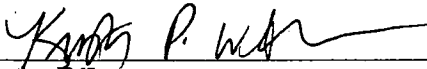
I, Tim R. Hall, swear that, to my best knowledge and belief, this Exemption Report is true and correct.

By:

  
\_\_\_\_\_  
Chief Financial Officer  
February 23, 2017

I, Kristi Wetherington, swear that, to my best knowledge and belief, this Exemption Report is true and correct.

By:

  
\_\_\_\_\_  
Chief Executive Officer  
February 23, 2017

Report of  
Independent Registered Public Accounting Firm  
On the SIPC Annual Assessment  
Year Ended December 31, 2016

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors  
Capital Institutional Services, Inc.

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934 and with the SIPC Series 600 Rules, we have performed the procedures enumerated below, which were agreed to by Capital Institutional Services, Inc. (the "Company") and the Securities Investor Protection Corporation ("SIPC") with respect to the accompanying General Assessment Reconciliation ("Form SIPC-7") of the Company for the year ended December 31, 2016, solely to assist you and SIPC in evaluating the Company's compliance with the applicable instructions of the Form SIPC-7. Management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the Public Company Accounting Oversight Board (United States). 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 Annual Audited Report Form X-17A-5 Part III for the year ended December 31, 2016 with the amounts reported in Form SIPC-7 for the year ended December 31, 2016, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences; and,
4. Recalculated 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;
5. We were unable to compare the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed as there was no such overpayment amount stated on Form SIPC-7 and management represented to us that no such overpayment exists.

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We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the applicable instructions of the Form SIPC-7. 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.

*Moss Adams LLP*

Dallas, Texas

February 23, 2017



**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 12/31/2016

(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:

2273 FINRA DEC  
CAPITAL INSTITUTIONAL SERVICES INC  
1700 PACIFIC AVE STE 1100  
DALLAS, TX 75201-7307

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.

BENIN HUSEINBEGOVIC 214-922-3240

WORKING COPY

2. A. General Assessment (item 2e from page 2)	\$	<u>55,642</u>
B. Less payment made with SIPC-6 filed (exclude interest) <u>July 26, 2016</u> Date Paid	(	<u>                    </u> )
C. Less prior overpayment applied	(	<u>29,157</u> )
D. Assessment balance due or (overpayment)		<u>                    </u>
E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum		<u>                    </u>
F. Total assessment balance and interest due (or overpayment carried forward)	\$	<u>26,485</u>
G. PAID WITH THIS FORM: Check enclosed, payable to SIPC Total (must be same as F above)	\$	<u>26,485</u>
H. Overpayment carried forward	\$(	<u>                    </u> )

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.

Capital Institutional Services, Inc.

Tom R. Hall  
(Name of Corporation, Partnership or other organization)  
(Authorized Signatura)

CFO & Treasurer

(Title)

Dated the 24 day of January, 20 17

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 01/01/2016  
and ending 12/31/2016

Item No.	Eliminate cents
2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)	\$ <u>24,633,137</u>
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.	<u>2,115,185</u>
(4) Reimbursements for postage in connection with proxy solicitation.	_____
(5) Net gain from securities in investment accounts.	_____
(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):	_____
<hr/>	
(Deductions in excess of \$100,000 require documentation)	_____
<hr/>	
(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.	\$ <u>261,133</u>
(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)	_____
Total deductions	<u>261,133</u>
2d. SIPC Net Operating Revenues	\$ <u>22,256,819</u>
2e. General Assessment @ .0025	\$ <u>55,642</u>

(to page 1, line 2.A.)

**MOSS ADAMS** LLP  
Certified Public Accountants | Business Consultants

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL

To the Board of Directors and Shareholders  
Capital Institutional Services, Inc.

In planning and performing our audit of the financial statements of Capital Institutional Services, Inc. (the "Company"), as of and for the year ended December 31, 2016, 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 statements, 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 Regulation 1.16 of the Commodity Futures Trading Commission ("CFTC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding firm assets. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Regulation 1.16 in making the periodic computations of minimum financial requirements pursuant to Regulation 1.17.

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 CFTC's previously 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 financial statements in conformity with generally accepted accounting principles. Regulation 1.16(d)(2) 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 misstatements on a timely basis.

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A significant deficiency is a deficiency, or a 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 Company'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 firm assets 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 CFTC to be adequate for its purposes in accordance with the Commodity Exchange Act 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 December 31, 2016, to meet the CFTC's objectives.

This report is intended solely for the information and use of Board of Directors and Shareholders, Management, the CFTC, the National Futures Association, and other regulatory agencies that rely on Regulation 1.16 of the CFTC in their regulation of registered introducing brokers, and is not intended to be and should not be used by anyone other than these specified parties.

*Moss Adams LLP*

Dallas, Texas  
February 23, 2017