



RMS

SEC  
Mail Processing  
Section

17016839

ANNUAL ADDITIONAL  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	May 31, 2017
Estimated average burden	
Hours per response.....	12.00

FEB 22 2017

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

SEC FILE NUMBER
6- 00353

REPORT FOR THE PERIOD BEGINNING 01/01/16

AND ENDING 12/31/16

MM/DD/YYYY

MM/DD/YYYY

A. REGISTRANT IDENTIFICATION

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

OFFICIAL USE ONLY

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

FIRM I.D. NO.

100 CONCOURSE BOULEVARD, SUITE 101

(No. and Street)

GLEN ALLEN

VA

23059

(City)

(State)

(Zip Code)

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

LIA GOFF

804-612-9712

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

LARRY D. LIBERFARB, P.C.

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

11 VANDERBILT AVENUE SUITE 220

NORWOOD

MA

02062

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirements that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17-a-8(e)(2)

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

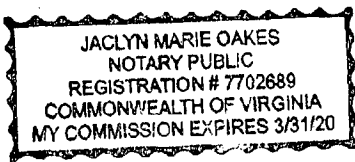
OMM

AMB

OATH OR AFFIRMATION

I, LIA GOFF, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITOL SECURITIES MANAGEMENT, INC., as of DECEMBER 31, 20 16, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principle officer or director has any proprietary interest in any account classified solely as that of A customer, except as follows:

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



Notary Public

*Jaclyn Marie Oakes*

*Lia B Goff*

Signature

CHIEF FINANCIAL OFFICER

Title

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control requirements Under Rule 15c2-3.
- (j) A Reconciliation. Including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

**CAPITOL SECURITIES MANAGEMENT, INC.**

**STATEMENT OF FINANCIAL CONDITION**

**As of and for the Year Ended December 31, 2016**

**And**

**Report of Independent Registered Public Accounting Firm**

**CAPITOL SECURITIES MANAGEMENT, INC.**

**TABLE OF CONTENTS**

---

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ..... 1

FINANCIAL STATEMENT

    Statement of Financial Condition..... 2

    Notes to Financial Statements..... 3 - 7

LARRY D. LIBERFARB, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND FINANCIAL ADVISORS

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

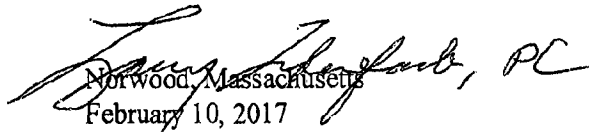
Report of Independent Registered Public Accounting Firm

To the Board of Directors  
of Capitol Securities Management, Inc.

We have audited the accompanying statement of financial condition of Capitol Securities Management, Inc. as of December 31, 2016, and the related notes to the financial statements. This financial statement is the responsibility of Capitol Securities Management, Inc.'s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial position presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Capitol Securities Management, Inc. as of December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

  
Norwood, Massachusetts  
February 10, 2017

**CAPITOL SECURITIES MANAGEMENT, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

---

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 401,861
Receivable from broker dealers and clearing organization	514,270
Notes receivable	158,622
Total current assets	<u>1,074,753</u>

Non-Current Assets:

Property and equipment, net	310,615
Notes receivable	284,061
Deferred tax asset	222,225
Other assets	360,874
Deposits with clearing organization	100,000
Total non-current assets	<u>1,277,775</u>
<b>Total assets</b>	<u><b>\$ 2,352,528</b></u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Current Liabilities:

Accounts payable	\$ 49,314
Accrued expenses	326,201
Rent abatement payable	98,431
Total current liabilities	<u>473,946</u>

Total liabilities

473,946

Stockholder's Equity

Common stock, \$1 par value; 5,000 shares authorized; 100 shares issued and outstanding	100
Additional paid-in capital	695,900
Retained earnings	1,182,582
Total stockholder's equity	<u>1,878,582</u>
<b>Total liabilities and stockholder's equity</b>	<u><b>\$ 2,352,528</b></u>

See Notes to Financial Statements and Independent Accountant's Report

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

---

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

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

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

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

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

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

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

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

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

*Income taxes* - The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered in income. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. Management has evaluated tax positions that could have a significant effect on the financial statements and determined that the Company had no uncertain tax positions at December 31, 2016.

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

---

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

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

*Deposits with Clearing Organizations* – Deposits with clearing organizations consist of cash which has been placed with the Company's clearing organization in the normal course of business. These transactions are recorded on a trade date basis. At December 31, 2016, the Company had \$100,000 in cash on deposit with the Company's clearing organization.

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

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

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

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

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

*Concentration of credit risk* - The Company places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage, through December 31, 2016, for certain qualifying and participating non-interest bearing transaction accounts. The Company, from time to time, may have amounts on deposit in excess of the insured limits. As of December 31, 2016, the Company had \$667,239, which exceeded these insured amounts.

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



CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

---

**Note 4—Net capital requirements**

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

Rule 15c3-1 further requires that equity capital may not be withdrawn, or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. In addition, certain advances, payment of dividends, and other equity withdrawals are subject to certain notification provisions of Rule 15c3-1. At December 31, 2016, the Company had net capital of \$380,007, as defined under Rule 15c3-1, which respectively exceeded the requirements by \$130,007. The Company's ratio of aggregate indebtedness to net capital at December 31, 2016 was 2.97 to 1.

**Note 5—Retirement plan**

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

**Note 6—Property and equipment**

Property and equipment at December 31, 2016 consists of the following:

Computer equipment	\$ 153,940
Furniture and fixtures	295,235
Leasehold improvements	<u>203,246</u>
	652,421
Less accumulated depreciation	<u>(385,021)</u>
Net property and equipment	<u>\$ 267,400</u>

**Note 7—Operating leases**

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

The Company entered into a sublease agreement for one of its locations in April 2014. The sublease expires in August 2017 when the lease term expires.

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

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

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

Years ending December 31,	
2017	\$ 949,215
2018	705,408
2019	610,138
2020	621,651
2021	636,467
Thereafter	<u>756,787</u>
	<u>\$ 4,279,666</u>

**Note 8—Notes receivable**

As described in Note 2, the Company has eleven outstanding notes with related parties. At December 31, 2016, the notes receivable balance totaled \$407,420. The agreements' payment terms specify that the borrowers will make monthly payments over various time periods as detailed in each individual note. These payments are to be withheld from the related party's monthly pay. These notes are non-interest bearing; management has determined imputed interest to be immaterial. The current portion of the receivable totaled \$152,667 at December 31, 2016.

**Note 9—Income taxes**

The provision for federal and state income taxes, for the year ended December 31, 2016 is as follows:

Deferred income tax expense	
Federal	\$ 41,000
State	<u>14,000</u>
	<u>55,000</u>
Provision for income taxes	<u>\$ 55,000</u>

The income tax provision differs from the expense that would result from applying federal and state statutory rates to income before income taxes because the Company is subject to deferred income taxes. A portion of meals and entertainment and key man life insurance are not tax deductible. The Company as part of one of its lease agreements received six months of free rent. This benefit also impacts deferred income taxes.

The Company is a member of a group that files a consolidated tax return. The separate return method is used to allocate current and deferred taxes among the group members when issuing separate financial statements. In the current year, the Company included this amount as part of the income taxes payable recorded on the balance sheet as a deferred tax liability of \$55,000.

CAPITOL SECURITIES MANAGEMENT, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

---

The Company is subject to routine audits by taxing jurisdictions, however, there are currently no audits in progress. The Company remains subject to examinations by U.S. Federal and various state authorities for years ending after December 31, 2013.

**Note 10—Related Parties**

The Company received a capital contribution of \$300,000 from the Parent and made distributions of \$930,000 to the Parent for the year ending December 31, 2016.

**Note 11—Litigation**

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

**Note 12—Subsequent Events**

Management has evaluated subsequent events through February 10, 2017, the date on which the financial statements were available to be issued. There were no subsequent events that require adjustment or disclosure in the financial statements.