

**Duncan-Williams, Inc.**

**Statement of Financial Condition**

**December 31, 2018**

**(With Report of Independent Registered Public Accounting Firm Thereon)**

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



## Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors  
Duncan Williams, Inc.  
Memphis, Tennessee

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of financial condition of Duncan-Williams, Inc. (the "Company") as of December 31, 2018, 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 the Company as of December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

We have served as the Company's auditor since 2008.

Memphis, Tennessee  
February 14, 2019

# Duncan-Williams, Inc.

## Statement of Financial Condition

December 31, 2018

### Assets

|   |    |            |
|---|----|------------|
| Cash  | \$ | 583,793    |
| Cash segregated under federal regulations                     |    | 100,000    |
| Receivables from brokers or dealers and clearing organization |    | 347,541    |
| Securities owned, at fair value                               |    | 59,384,388 |
| Furniture, equipment and leasehold improvements, net          |    | 248,327    |

### Other Assets:

|  |    |                  |
|--|----|------------------|
| Accrued interest on securities owned           | \$ | 186,962          |
| Commissions, claims and other receivables, net |    | 157,916          |
| Deferred income taxes                          |    | 389,300          |
| Other receivables and miscellaneous            |    | <u>549,577</u>   |
|  |    | <u>1,283,755</u> |

\$ 61,947,804

See accompanying notes to statement of financial condition.

# Duncan-Williams, Inc.

## Statement of Financial Condition (Continued)

December 31, 2018

### Liabilities and Stockholders' Equity

#### Liabilities:

|   |               |
|---|---------------|
| Payable to brokers or dealers and clearing organization | \$ 23,075,394 |
| Payable to customers                                    | 27            |
| Securities sold, not yet purchased, at fair value       | 10,008,305    |

#### Other Liabilities:

|                            |            |
|----------------------------|------------|
| Accounts payable           | \$ 256,012 |
| Deferred income taxes      | 38,000     |
| Accrued expenses and other | 1,695,832  |
|                            | <hr/>      |
|                            | 1,989,844  |
|                            | <hr/>      |
|                            | 35,073,570 |

#### Stockholders' Equity:

##### Common stock:

|   |           |
|---|-----------|
| Class A (nonvoting) - authorized 1,000,000 shares,<br>issued and outstanding 744,725 shares<br>with par value of \$10 a share | 7,447,250 |
|---|-----------|

|   |       |
|---|-------|
| Class B (voting) - authorized 6,000<br>shares, issued and outstanding 1,307<br>shares with par value of \$1 a share | 1,307 |
|---|-------|

|                            |           |
|----------------------------|-----------|
| Additional paid-in capital | 2,383,345 |
|----------------------------|-----------|

|                   |            |
|-------------------|------------|
| Retained earnings | 17,042,332 |
|                   | <hr/>      |

|               |
|---------------|
| \$ 61,947,804 |
|---------------|

See accompanying notes to statement of financial condition.

# **Duncan-Williams, Inc.**

## **Notes to Statement of Financial Condition**

December 31, 2018

### **1. Operations and Organization**

#### **Nature of Business**

Duncan-Williams, Inc., (the "Company") a Tennessee Corporation, is a securities full service broker-dealer operating under provisions of the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Customers' funds and securities are protected to the limits provided by the Securities Investor Protection Corporation.

The Company operates primarily as a principal in transactions for the purchase and sale of various types of debt securities, which include: obligations of the United States government, federal government agencies, various state and local governments and corporate debt. The Company also acts as agent for customers in acquiring certificates of deposits, mutual funds and private placement of mortgage loans.

The Company's securities transactions are made primarily with individuals, financial institutions, credit unions, private organizations and other broker-dealers. Safekeeping services for customer securities are provided by Pershing Clearing Services ("Pershing"), on a fully disclosed basis. These securities are segregated in accordance with rules and regulations of the Securities and Exchange Commission ("SEC") which limits claims only to the owners of such securities.

### **2. Summary of Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. Actual results could differ from those estimates.

#### **Securities Transactions**

Purchases and sales of securities are recorded on a trade date basis.

## **2. Summary of Significant Accounting Policies (continued)**

### **Fair Value of Financial Instruments**

Certain assets and liabilities are recognized, on a recurring or nonrecurring basis, at fair value. Fair value is an exit price, representing 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. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability under a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

### **Derivative Financial Instruments**

Derivative financial instruments used for trading purposes, including economic hedges of trading instruments, are carried at fair value. Fair values for exchange-traded derivatives, principally futures, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally swaps, are based on pricing models intended to approximate the amounts that would be received from or paid to a third party in settlement of the contracts. Factors taken into consideration in estimating fair value of OTC derivatives include credit spreads, market liquidity, concentrations, and funding and administrative costs incurred over the life of the instruments.

The Company does not apply hedge accounting as financial instruments are marked to market with changes in fair values reflected in earnings. Therefore, the disclosures required in hedge accounting are generally not applicable with respect to these financial instruments. The fair value of futures contracts is recorded in receivable/payable to broker or dealer and clearing organization.

### **Securities Owned and Securities Sold, Not Yet Purchased**

Marketable securities, consisting of corporate bonds, state, municipal, United States and agency obligations are recorded at fair value.

## **2. Summary of Significant Accounting Policies (continued)**

### **Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements are stated at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Ordinary expenditures for maintenance and repair costs are expensed as incurred while major additions and improvements are capitalized.

### **Long-Lived Assets**

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no indicators of impairment at December 31, 2018.

### **Income Taxes**

The Company files a separate return as a member of a controlled group and accounts for income taxes under the liability method whereby deferred tax assets and liabilities are determined based on differences between amounts reported for financial reporting purposes and income tax purposes and based on enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Company's financial statement. The Company has determined that it does not have any material unrecognized tax positions as of December 31, 2018.

### **Advertising**

The costs of general advertising, promotion and marketing programs are expensed as incurred.

## **2. Summary of Significant Accounting Policies (continued)**

### **New Accounting Pronouncements**

Effective January 1, 2018, the Company adopted FASB Accounting Standards Update 2014-09, *Revenue From Contracts with Customers (Topic 606)*. There were no changes to the financial statement related to the adoption of the new standard.

The FASB issued ASU No. 2016-12, *Leases (Topic 842)*, which requires lessees to recognize on their balance sheet all lease contracts with lease terms greater than 12 months, including operating leases. Specifically, lessees are required to recognize on the balance sheet at lease commencement both a right-of-use (ROU), representing the lessee's right to use the leased asset over the term of the lease, and a lease liability, representing the lessee's contractual obligation to make lease payments over the term of the lease. The new lease standard requires lessees to classify leases as operating or finance leases, which are similar to the current operating and capital lease classifications. However, the distinction between these two classifications under the new standard does not relate to balance sheet treatment, but relates to treatment and recognition in the statements of income and cash flows. The Company adopted the amendment as of January 1, 2019.

### **Subsequent Events**

The Company has evaluated the effect subsequent events would have on the financial statement through \_\_\_\_\_, 2019, which was the date the financial statement was issued.

## **3. Fair Value Measurements**

Prices for certain U.S. government and agency obligations are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1.

Level 2 investment securities include certain U.S. government and agency obligations, corporate debt obligations, state and municipal obligations and certain types of certificates of deposits for which quoted prices are not available in active markets for identical instruments. The Company utilizes a third party pricing service to determine the fair value of each of these investment securities. Because quoted prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

Level 3 investment securities include certain municipal securities that are in technical default. They are valued based on anticipated refinanced proceeds available under current cash flows of the underlying assets reduced for any contingent payments anticipated to refinance.

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at December 31, 2018.

### 3. Fair Value Measurements (continued)

|  | Level 1              | Level 2             | Level 3           | Total               |
|--|----------------------|---------------------|-------------------|---------------------|
| <b>Assets</b>                          |                      |                     |                   |                     |
| Securities owned:                      |                      |                     |                   |                     |
| U.S. government and agency obligations | \$ -                 | \$51,905,926        | \$ -              | \$51,905,926        |
| Corporate obligations                  | -                    | -                   | 2,627             | 2,627               |
| State and municipal obligations        | -                    | 6,700,857           | 402,000           | 7,102,857           |
| Other securities                       | -                    | 372,978             | -                 | 372,978             |
| <b>Total</b>                           | <b>\$ -</b>          | <b>\$58,979,761</b> | <b>\$ 404,627</b> | <b>\$59,384,388</b> |
| <b>Liabilities</b>                     |                      |                     |                   |                     |
| Securities sold, not yet purchased:    |                      |                     |                   |                     |
| U.S. government and agency obligations | \$ 10,008,305        | \$ -                | \$ -              | \$10,008,305        |
| <b>Total</b>                           | <b>\$ 10,008,305</b> | <b>\$ -</b>         | <b>\$ -</b>       | <b>\$10,008,305</b> |

There were no changes during the year ended December 31, 2018, to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis.

The following is a reconciliation of beginning and ending balances for Level 3 assets and liabilities:

|                                     |                       |
|-------------------------------------|-----------------------|
| Fair value at January 1, 2018       | \$ 3,492,333          |
| Acquisitions                        | 3,099                 |
| Less payment received               | (3,605,778)           |
| Change in unrealized gains          | <u>514,973</u>        |
| <br>Fair value at December 31, 2018 | <br><u>\$ 404,627</u> |

The determination of fair value incorporates various factors including not only the credit standing of the counterparties involved, but also the Company's nonperformance risk or its liabilities.

### 4. Cash and Securities Segregated Under Federal Regulations

In accordance with provisions of Rule 15c3-3 of the SEC, cash of \$100,000 has been segregated in special accounts. The amount required to be on deposit at December 31, 2018, was \$28.

## **5. Receivables from and Payables to Brokers or Dealers and Clearing Organization**

The amount receivable from and payable to brokers or dealers and clearing organizations at December 31, 2018, consists of the following:

### **Receivables:**

|  |                          |
|--|--------------------------|
| Unsecured deposits and other with brokers or dealers | \$ 247,541               |
| Unsecured deposit with clearing organization         | <u>100,000</u>           |
|  | <u><u>\$ 347,541</u></u> |

|  |                      |
|--|----------------------|
| Payables to brokers or dealers and clearing organization | <u>\$ 23,075,394</u> |
|--|----------------------|

## **6. Commissions, Claims, Other Receivables**

The Company records other receivables, which are comprised of former and current employee advances, at their estimated net realizable value. The Company charges interest rates ranging from 3.25% to 6.0% on outstanding notes receivable. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific accounts. Delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. The allowance for doubtful accounts was \$134,170 at December 31, 2018.

## **7. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consisted of the following at December 31, 2018:

|   |                          |
|---|--------------------------|
| Computer hardware   | \$ 1,482,302             |
| Furniture and fixtures                                    | 926,297                  |
| Leasehold improvements                                    | 240,039                  |
| Office equipment  | <u>622,754</u>           |
|   | <u>3,271,392</u>         |
| Less: accumulated depreciation                            | <u>(3,023,065)</u>       |
| Total property, equipment and leasehold improvements, net | <u><u>\$ 248,327</u></u> |

## **8. Bank Loan**

The Company has established a \$5,000,000 letter of credit with a bank in December 2016. The term has been extended to June 2019 with a requirement that it has a zero balance for a minimum of two months during the term.

## **9. Derivative Financial Instruments and Hedging Activities**

The Company participates in interest rate swaps fee revenue through various primary broker dealers collected during the issuance of federal agency securities.

## **10. Common Stock**

The Company has both Class A nonvoting and Class B voting stock. Class A stock has preferences to dividends and liquidation. Class B stock is restricted in transfer and redemption price.

## **11. Income Taxes**

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Act”) was signed into law. The Tax Act reduces the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. GAAP requires that the effects of a change in tax law and rates be accounted for in the period of enactment. As a result of the Tax Act, the Company revalued deferred tax assets and liabilities at the enacted rates at December 31, 2017.

Income tax expense differs from the expense computed at the federal statutory rate primarily due to non-deductible meals and entertainment, and tax exempt income and expense related to municipal securities and changes related to the Tax Act.

The deferred tax asset and liability consist of the following components:

Deferred tax asset:

|                                 |                   |
|---------------------------------|-------------------|
| Net operating loss carryover    | \$ 150,600        |
| Accrued expenses and allowances | <u>238,700</u>    |
| Total deferred tax asset        | <u>\$ 389,300</u> |

Deferred tax liability:

|  |           |
|--|-----------|
| Property and equipment and State loss carryovers | \$ 38,000 |
|--|-----------|

## **12. 401(k) Retirement Savings Plan**

The Company provides a qualified deferred compensation plan (401(k) plan) which is available to all employees upon hire date. The Company matches employee contributions to the plan up to a maximum of \$1,000 for each employee after six months of employment.

## **13. Commitments and Contingencies**

### **Leases**

The Company leases office space under various operating leases through December 2023, with renewal options thereafter. Rent expense is calculated using the straight-line basis.

Future minimum lease payments due under non-cancelable agreements are as follows:

| For the Year Ending | Amount           |
|---------------------|------------------|
| December 31         | \$               |
| 2019                | 451,465          |
| 2020                | 444,570          |
| 2021                | 453,388          |
| 2022                | 462,410          |
| 2023                | 471,638          |
| Total               | <u>2,283,471</u> |

### **Legal Matters**

The Company is involved in various legal matters arising in the ordinary course of its business. Management is of the opinion that these matters will not have a material adverse effect on the Company's financial statement.

### **Other Matters**

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such underwriting commitments that were open at December 31, 2018, and were subsequently settled had no material effect on the financial statement as of that date. Open underwriting positions at December 31, 2018 were \$245,000. The Company has open transactions that settle on future dates through its Pershing clearing agreement on a fully disclosed basis. At December 31, 2018, buys with a contractual value of \$1,388,754,437 and sells of \$1,369,511,107 were open.

## **14. Related Party Transactions**

The Company has a shared services agreement with a related party whereby for providing regulatory, advertising, data processing, and accounting services. The Company receives \$12,500 per month under this agreement.

## **15. Financial Instruments with Off-Balance Sheet Risks and Concentration of Credit Risk**

In the normal course of business, the Company may be exposed to risks in the execution of securities transactions. These transactions involve elements of risk as to credit extended, market fluctuations, and interest rate changes.

The Company's securities transactions clear primarily on a delivery versus payment basis. In transactions with repurchase agreements, margin may be required if market conditions are such as to indicate excessive elements of risk in these transactions. The execution of substantially all purchases and sales of securities requires the performance of another party to fulfill the transactions. In the event that the counterparty to the transaction fails to satisfy its obligation, the Company may be required to purchase or sell the security at the prevailing market price, which may have an adverse effect.

The nature of the securities industry is such that large cash balances are maintained in various financial institutions. These balances may exceed the limits of coverage guaranteed by the Federal Deposit Insurance Corporation.

The Company, as a securities broker-dealer, is engaged in various securities trading activities with a variety of customers including individuals, financial institutions, credit unions, insurance companies, pension plans and other broker-dealers. The Company's exposure to credit risk associated with the non-performance of these counterparties could be impacted by changing market conditions which could impair the counterparty's ability to satisfy their obligations to the Company.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statement at December 31, 2018, at fair values of the related securities and will incur a loss if the fair value of the securities increases subsequent to December 31, 2018.

## **16. Net Capital Requirement**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2018, the Company had net capital of \$20,288,912 which was \$20,038,912 in excess of its required net capital of \$250,000. Withdrawals of excess net capital, including advances to affiliates, are subject to regulatory approval if the withdrawals exceed 30% of excess net capital over a 30-day period or reduce excess net capital below 25% of deductions from net worth. The Company's net capital ratio was .09 to 1 at December 31, 2018.

## **17. Annual Report on Form X-17A-5**

The annual report to the SEC on Form X-17A-5 is available for examination and copying at the Company's office and at the regional office of the SEC.