

#### NOTE 8 - DEPOSITS WITH CLEARING ORGANIZATIONS

Included in the statement of financial condition in the line titled, "Deposits with Clearing Organizations" are deposits with clearing organizations in the amount of \$80,000, consisting of \$80,000 in cash as of December 31, 2017.

#### NOTE 9 - RISKS AND UNCERTAINTIES

The Company may have significant investments in various securities. Investments in these securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of such securities may occur, and that such changes could materially affect amounts reported in the Statement of Financial Condition.



#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors  
Hazlett, Burt & Watson, Inc.

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

We have audited the accompanying statement of financial condition of Hazlett, Burt & Watson, Inc. as of December 31, 2017, 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 Hazlett, Burt & Watson, Inc. as of December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

##### *Basis for Opinion*

This financial statement is the responsibility of Hazlett, Burt & Watson, Inc.'s management. Our responsibility is to express an opinion on Hazlett, Burt & Watson, Inc.'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 Hazlett, Burt & Watson, Inc. 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.

*Dixon Hughes Goodman LLP*

We have served as Hazlett, Burt & Watson, Inc.'s auditor since 2013.  
Richmond, Virginia  
February 26, 2018

#### OFFICERS

**Mark S. Prince**  
Chairman/Chief Executive Officer

**George S. Weaver, III \*\***  
Senior Executive Vice President

**Michael T. Barickman**  
**Timothy M. Bidwell**  
**Marilynn S. Echols**  
**George S. Weaver, Jr.**  
Executive Vice Presidents

**Harold B. Burech**  
**Nancy L. Deem \***  
**W. P. Holloway, Jr.**  
**Jason L. Marsh**  
**Jeanne M. Miller**  
**Bernadette M. Smith**  
Senior Vice Presidents

**C. Lewis Johnson\***  
First Vice President

**Joshua E. Braunlich \*\*\***  
**Melanie C. Herbst \***  
**Raymond E. Hindy \***  
**Walker P. Holloway, III**  
**E. Christopher Johns \*\***

**Gregory F. Marquart**  
**Tarina S. Olson**  
**James A. Pastorius**  
**Thomas M. Pié \*\*\***  
**Shawn P. Rohrig**  
**Steven T. Sell \*\***  
Vice Presidents

\* **Vienna Office**  
\*\* **Lancaster Office**  
\*\*\* **Barnesville Office**

#### MEMBERS

Financial Industry  
Regulatory Authority



Securities Investor  
Protection Corporation

[www.hazlettburt.com](http://www.hazlettburt.com)

# HAZLETT, BURT & WATSON, INC.



## Statement of Financial Condition & Report of Independent Registered Public Accounting Firm

December 31, 2017

#### Wheeling, West Virginia

Paxton House - 1300  
Chapline Street  
Wheeling, WV 26003  
Phone: (304) 233-3312  
(800) 537-8985  
Fax: (304) 233-7632

#### Vienna, West Virginia

1107 9th Street  
Vienna, WV 26105  
Phone: (304) 295-6700  
(800) 443-7449  
Fax: (304) 295-6701

#### Lancaster, Pennsylvania

100 East King Street  
P.O. Box 1267  
Lancaster, PA 17608-1267  
Phone: (717) 397-5988  
(800) 657-9944  
Fax: (717) 397-6012

#### Barnesville, Ohio

179 East Main Street  
Barnesville, OH 43713  
Phone: (740) 619-0327  
(855) 417-8473  
Fax: (740) 619-0129

**HAZLETT, BURT & WATSON, INC.**  
**STATEMENT OF**  
**FINANCIAL CONDITION**  
**DECEMBER 31, 2017**

**ASSETS**

Cash and cash equivalents due from financial institutions	\$ 415,927
Cash in money market fund	235,503
Total cash and cash equivalents	651,430
Deposits with clearing organizations	80,000
Due from clearing firm	70,203
Receivable from officers and employees	60,000
Due from affiliates	5,929
Furniture, equipment and leasehold improvements	
at cost, less accumulated depreciation of \$504,023	84,132
Real estate and improvements at cost,	
less accumulated depreciation of \$228,494	238,985
Advisory fee receivable	1,600,061
Other assets	100,414
<b>Total Assets</b>	<b>\$ 2,951,154</b>

**LIABILITIES**

Accounts payable and accrued liabilities	\$ 1,645,729
--	--------------

**SHAREHOLDER EQUITY**

Capital stock, \$1.6667 par value,	
250,000 shares authorized;	
205,500 shares issued; 203,500 shares outstanding	339,173
Less – Treasury stock, 2,000 shares at cost	(3,333)
Capital in excess of par value	400,754
Retained earnings	568,831
	1,305,425
	<b>\$ 2,951,154</b>

**HAZLETT, BURT & WATSON, INC.**  
**NOTES TO FINANCIAL STATEMENT**  
**DECEMBER 31, 2017**

**NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS**

Hazlett, Burt & Watson, 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 (“FINRA”). In May 2006, the Company formed Security Capital Management (“SCM”). This division of the Company is registered with the SEC as an Investment Advisor. SCM provides investment management services under an investment advisor model. The Company is a West Virginia S Corporation that is a wholly owned subsidiary of HB&W, Inc.

The Company is a fully-disclosed introducing broker. The Company has contracted with National Financial Services (“NFS”) to execute and clear all customer trades, as well as for the purpose of carrying the securities positions of the customers, along with any corresponding margin balances. Per the agreement with NFS, the Company does not reflect any receivables or liabilities for customer accounts in its financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Cash and cash equivalents: Cash and cash equivalents include cash and deposits with financial institutions with maturities fewer than 90 days and money market mutual funds.

Income Tax: The Company has elected by unanimous consent to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay Federal or State corporate income taxes on its taxable income. Instead, all taxable income flows through to the shareholder, HB&W, Inc.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2017.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Subsequent Events: The company evaluated the effect subsequent events would have on the financial statements through February 26, 2018, which is the date the financial statement was issued.

New accounting pronouncement: In February 2016, the FASB issued ASU 2016-02, leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after the date of initial application, with an option to elect to use certain transaction relief. The Company is currently assessing the impact that the adoption of ASU 2016-02 will have on its financial statements.

**NOTE 3 – LEASE COMMITMENTS**

The Company leases office facilities and equipment under noncancelable leases which expire at different dates from 2018 through 2021. Certain existing leases contain renewal options. Minimal lease payments under these operating leases are as follows:

2018	\$	84,329
2019		73,468
2020		74,014
2021		38,390
	\$	<u>270,201</u>

**NOTE 4 – NET CAPITAL REQUIREMENT**

The Company is subject to regulatory capital requirements set forth by the Securities and Exchange Commission Uniform Net Capital Rule, which requires that “aggregate indebtedness” shall not exceed fifteen times “net capital” as defined by the Rule and “net capital”, shall at least be \$250,000. At December 31, 2017, the Company had net capital of \$786,252, which was \$536,252 in excess of its required minimum net capital of \$250,000. The Company’s percentage of aggregate indebtedness to net capital was 209.3% at December 31, 2017.

**NOTE 5 – SHORT-TERM BORROWINGS**

The Company maintains a credit facility with WesBanco Bank. The facility permits the Company to borrow amounts up to \$200,000. The interest rate on borrowings under this credit facility is a fluctuating rate equal to a minimum of 4% at December 31, 2017. This credit facility expires on April 30, 2019. There were no borrowings outstanding on this credit facility at December 31, 2017.

The Company maintains its proprietary trading accounts with its clearing broker. These accounts hold the Company’s securities inventory and are collateralized by deposits totaling \$75,000 at December 31, 2017, as well as all the Company’s securities inventory. The Company may borrow up to an agreed-upon percentage of the value of the collateral as specified in the clearing agreements. The accounts bear interest at a rate of 6.00% percent at December 31, 2017. The Company had no short term borrowings outstanding under these agreements at December 31, 2017.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

During 1999, a West Virginia Corporation, HB&W, Inc. was formed to serve as a holding company for Hazlett, Burt & Watson, Inc. and Security National Trust Company. Security National Trust Company is a national non-depository bank that provides trust and custodial services. Both Hazlett, Burt & Watson, Inc. and Security National Trust Company are 100% owned subsidiaries of HB&W, Inc.

Hazlett, Burt & Watson, Inc. advances funds to HB&W, Inc. as needed on an interest free basis. This amount is payable on demand. As of December 31, 2017, no amounts were outstanding with HB&W, Inc.

Security National Trust Company maintains a line of credit at Hazlett, Burt & Watson, Inc. in the amount of \$500,000. As of December 31, 2017, Security National Trust Company had not drawn on the available credit. This line of credit is unsecured, is payable on demand and carries an interest rate of prime less 1%.

As of December 31, 2017, Hazlett, Burt & Watson, Inc. reflects \$4,038 in accounts payable and accrued liabilities that are payable to Security National Trust Company.

**NOTE 7 – CONCENTRATIONS OF CREDIT RISK**

The clearing and depository operations for the Company’s securities transactions are performed by its clearing firm pursuant to a clearance agreement. At December 31, 2017, all of the securities owned, which are presented on the accompanying Statement of Financial Condition, are held by the clearing firm, who is the custodian. The clearing firm is a member of a nationally recognized exchange. Included on the balance sheet at December 31, 2017, the Company has \$235,503 included in cash and cash equivalents; \$75,000 included in deposits with clearing organizations; and \$70,203 as a receivable from clearing firm. The Company consistently monitors the credit worthiness of the clearing firm to mitigate the Company’s exposure to credit risk.

The Company currently maintains operations in Wheeling and Vienna, West Virginia, Barnesville, Ohio and in Lancaster, Pennsylvania. At these locations the Company engages 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 creditworthiness 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.

In the normal course of its business, the Company is contingently liable to its clearing brokers/dealers for margin requirements of customer margin securities transactions, the failure to deliver securities sold or nonpayment of securities purchased by a customer.