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ANNUAL REPORT  
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PART III

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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 01/01/19 AND ENDING 12/31/19  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: GEORGE MCKELVEY CO., INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
2410 STATE HIGHWAY 34

(No. and Street)

MANASQUAN

NEW JERSEY

08736

(City)

(State)

(Zip Code)

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

ROBERT MCKELVEY

732-449-5323

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

DASZKOWSKI, TOMPKINS, WEG & CARBONELLA, CPA, P.C.

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

278 ROUTE 34

MATAWAN

NEW JERSEY 07747

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

SEC Mail Processing

FEB 28 2020

Washington, DC

FOR OFFICIAL USE ONLY

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

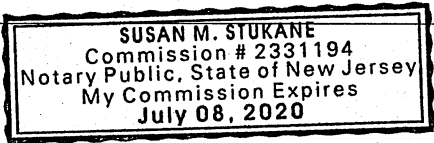
SEC 1410 (11-05)

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OATH OR AFFIRMATION

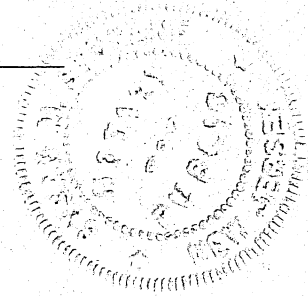
I, ROBERT MCKELVEY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of GEORGE MCKELVEY CO., INC., as of DECEMBER 31, 2019, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Robert Mckelvey  
Signature

MANAGING DIRECTOR  
Title

Susan M. Stukane  
Notary Public



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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

# George McKelvey Co., INC.

FOUNDED 1960

A REGISTERED INVESTMENT ADVISOR  
AND SECURITIES BROKER-DEALER

JOHN C. ALEXANDER III  
JESSICA C. BAUMGARTNER  
KIMBERLY A. CALDWELL  
ROBERT A. GIUNCO, JR.  
SHARON C. JONES  
RICHARD LOONEY  
ROBERT G. MCKELVEY  
MICHAEL J. MESSINGER  
DARAVY SON  
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February 25, 2020

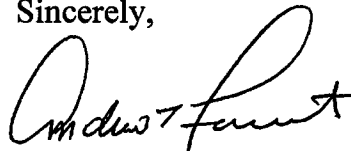
Securities and Exchange Commission  
Division of Trading and Markets  
Mail Stop 7010  
100 F Street, NE  
Washington, DC 20549

Dear Sir or Madam:

Enclosed please find a copy of our audited financial statement for the year ending December 31, 2019 for public inspection. We have also included a copy of the Independent Accountant's Agreed-Upon Procedures Report on Schedule of Assessment and Payments (SIPC-7) for your review.

If you have any questions, please call me at 732-449-5323.

Sincerely,



Andrew T. Foerst  
Vice President

Encl:

# DASZKOWSKI, TOMPKINS, WEG & CARBONELLA, P.C.

Certified Public Accountants & Advisors

Walter Daszkowski, CPA, PFS  
Michele Tompkins, CPA  
Mark Weg, CPA, PFS

Dan Carbonella, CPA  
Michael R. Ferraro, CPA  
Richard P. Wismer, CPA

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
of George McKelvey Co., Inc.

### Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of George McKelvey Co., Inc. as of December 31, 2019, 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 George McKelvey Co., Inc. as of December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

This financial statement is the responsibility of George McKelvey Co., Inc.'s management. Our responsibility is to express an opinion on George McKelvey Co., 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 George McKelvey Co., 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.

*Daszkowski, Tompkins, Weg & Carbonella, CPA, P.C.*

Daszkowski, Tompkins, Weg & Carbonella, CPA, P.C.

We have served as George McKelvey Co., Inc. auditor since 2005.

Matawan, NJ

February 20, 2020

**GEORGE McKELVEY CO., INC.**  
**Statement of Financial Condition**  
**December 31, 2019**

**Assets**

Cash	\$ 55,971
Deposit with clearing organization	50,000
Receivable from clearing organization	12,275
Receivables from investment advisory fees	496,330
Temporary investments	133,116
Securities pledged under subordination agreement	300,000
Furniture and equipment, at cost, less accumulated depreciation of \$187,456	37,865
Other assets	278,597
	<u>\$ 1,364,154</u>

**Liabilities and Stockholders' Equity**

Accounts payable, accrued expenses, and other liabilities	\$ 456,397
Subordinated borrowings	300,000
	<u>756,397</u>
Stockholders' equity	
Common stock, no par value, authorized 2,500 shares issued 100 shares	25,000
Paid-in capital	48,167
Retained earnings	534,590
Total stockholders' equity	<u>607,757</u>
	<u>\$ 1,364,154</u>

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

**GEORGE McKELVEY CO., INC.**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 1: Organization and Nature of Business**

George McKelvey Co., Inc. (the "Company") is a corporation organized in 1973 under the laws of New Jersey. The Company is duly registered and approved as a broker-dealer and investment advisor with the Financial Industry Regulatory Authority (FINRA) and Securities and Exchange Commission (SEC) on May 18, 1973 and September 4, 1990, respectively.

**NOTE 2: Significant Accounting Policies**

Basis of Presentation

The accounting policies and reporting practices of the Company conform to the predominant practices in the broker-dealer industry and are in accordance with accounting principles generally accepted in the United States of America. The Company is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services, including financial planning and investment advisory.

Use of Estimates

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

Leases

The Company recognizes and measures its leases in accordance with FASB ASC 842, Leases. The Company is a for office space. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rate of our lease is not readily determinable and accordingly, we use our incremental borrowing rate based on the information available at the commencement date for the lease. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

**GEORGE McKELVEY CO., INC.**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 2: Significant Accounting Policies (continued)**

Income Taxes

The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

The Company recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Under that guidance the Company assesses the likelihood, based on their technical merit, that the tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires change.

Depreciation

Depreciation is provided on a straight-line basis using estimated useful lives of five years to ten years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than three months that are not held for sale in the ordinary course of business.

Cash and Cash Equivalents

Cash consists of deposits with banks and all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes.

**NOTE 3: Revenue from Contracts with Customers**

Significant Judgments

Revenue from contracts with customers includes commission income and fees from investment banking and asset management services. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

**GEORGE McKELVEY CO., INC.**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 3: Revenue from Contracts with Customers (continued)**

Commissions

*Brokerage commissions.* The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

*Distribution fees.* The Company enters into arrangements with managed accounts or other pooled investment vehicles (funds) to distribute shares to investors. The Company may receive distribution fees paid by the fund up front, over time, upon the investor's exit from the fund (that is, a contingent deferred sales charge), or as a combination thereof. The Company believes that its performance obligation is the sale of securities to investors and as such this is fulfilled on the trade date. Any fixed amounts are recognized on the trade date and variable amounts are recognized to the extent it is probable that a significant revenue reversal will not occur once the uncertainty is resolved. For variable amounts, as the uncertainty is dependent on the value of the shares at future points in time as well as the length of time the investor remains in the fund, both of which are highly susceptible to factors outside the Company's influence, the Company does not believe that it can overcome this constraint until the market value of the fund and the investor activities are known, which are usually monthly or quarterly. Distribution fees recognized in the current period are primarily related to performance obligations that have been satisfied in prior periods.

Asset Management

*Investment advisory fees.* The Company provides investment advisory services on a daily basis. The Company believes the performance obligation for providing advisory services is satisfied over time because the customer is receiving and consuming the benefits as they are provided by the Company. Fee arrangements are based on a percentage applied to the customer's assets under management. Fees are received quarterly and are recognized as revenue at that time as they relate specifically to the services provided in that period, which are distinct from the services provided in other periods.

**GEORGE McKELVEY CO., INC.**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 3: Revenue from Contracts with Customers (continued)**

Disaggregated Revenue from Contracts with Customers

The following table presents revenue by major source

Revenue From Contracts With Customers

Commissions	
Brokerage Commissions	\$ 409,085
Distribution Fees	91,180
Total Commissions Revenue	<u>500,265</u>
Asset Management Fees	
Investment Advisory Fees	5,762,866
Total Asset Management Fee Revenue	<u>5,762,866</u>
Total Revenue From Contracts With Customers	<u><u>\$ 6,263,131</u></u>

**NOTE 4: Fair Value**

Fair Value Hierarchy

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy of fair value inputs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3. Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available; representing the Company's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other

**GEORGE McKELVEY CO., INC.**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 4: Fair Value (continued)**

characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value is greatest for instruments categorized in level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Investments in securities listed on a national exchange are valued at the last reported sales price on the day of valuation. Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price.

Other assets are securities for which market quotations are not readily available are valued at fair value as determined by or under the direction of the investment advisor in accordance with US GAAP.

The resulting unrealized gains and losses are reflected in the statement of operations. Realized gains and losses from securities transactions are determined on the basis of identified cost.

The Company's management at the year-end has reviewed their assets and liabilities and in their opinion the book value is the same as estimated fair value at December 31, 2019.

**NOTE 5: Clearing Broker**

Pursuant to an agreement with a clearing broker, the Company is required to maintain a clearing deposit of \$50,000. As of December 31, 2019, a deposit in the amount of \$50,000 for 2019 is included in deposit with clearing organization on the accompanying statement of financial condition.

In the normal course of its business, the Company indemnifies its clearing broker against specified potential losses in connection with their acting as an agent of, or providing services to, the Company. The maximum potential amount of future payments that the Company could be required to make under this indemnification cannot be estimated. However, the Company believes that it is unlikely it will have to make payments under these arrangements and as such has not recorded any contingent liability in the financial statements for this indemnification.

**NOTE 6: Concentrations**

All cash deposits are held by one major financial institution in the United States. At various times throughout the year, the Company's cash balance may exceed the Federal Deposit

**GEORGE McKELVEY CO., INC.**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 6: Concentrations (continued)**

Insurance Corporation insurance limits. The company has not experienced any losses in such accounts and does not believe there to be any significant credit risk with respect to these deposits.

Substantially all of the Company's assets are held at the clearing broker and therefore are subject to the credit risk at that financial institution. The Company has not experienced any losses in such accounts and does not believe there to be any significant credit risk with respect to these assets held at the clearing broker.

**NOTE 7: Pension and Other Postretirement Benefit Plans**

The Company maintains a qualified retirement program in accordance with Section 401(k) of the Internal Revenue Code. The Company provided a retirement contribution of \$87,900 for the year ended December 31, 2019. The plan provides for an employer contribution of 3% of all eligible employees' compensation.

**NOTE 8: Regulatory Requirements**

Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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 (and the rule of the 'applicable' exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2019, the Company had net capital of \$337,089 which exceeded requirements by \$87,089. The Company's net capital ratio was .63 to 1.

**NOTE 9: Guarantees**

FASB ASC 460, *Guarantees*, requires the Company to disclose information about its obligations under certain guarantee arrangements. FASB ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, and index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

**GEORGE McKELVEY CO., INC.**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 9: Guarantees (continued)**

Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with the acting as an agent of, or providing services to, the Company. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company with its clearing agent National Financial Services, LLC has a reciprocal indemnification agreement which holds the Company harmless against any losses, claims, liabilities or expenses including without limitation those asserted by its customers if any employee or agent of National Financial Services, LLC has acted improperly.

**NOTE 10: Commitments and Contingent Liabilities**

The components of lease cost for the year ended December 31, 2019 are as follows:

Operating lease cost	\$ 10,800
Variable lease cost	<u>36,041</u>
Total lease cost	<u>\$ 46,841</u>

Amounts reported in the consolidated balance sheet as of December 31, 2019 were as follows: Operating leases:

Operating lease ROU assets	\$244,800
Operating lease liabilities	244,800

Amounts disclosed for ROU assets obtained in exchange for lease obligations and reductions to ROU assets resulting from reductions to lease obligations include amounts added to or reduced from the carrying amount of ROU assets resulting from new leases, lease modifications or reassessments.

Maturities of lease liabilities under non-cancellable operating leases as of December 31, 2019 are as follows:

2020	\$121,200
2021	<u>123,600</u>
Total	<u>\$244,800</u>

**GEORGE McKELVEY CO., INC.**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 11: Related Party Transaction**

The Company entered into a lease agreement with BR&D Realty, LLC which is owned by its majority shareholders. Based on the agreement, the monthly rent payments of \$9,900 were paid through December 31, 2019.

Total rent expense to related parties was \$118,800 for the year ended December 31, 2019.

**NOTE 12: Subordinated Borrowings**

The borrowings under subordination agreements at December 31, 2019, are listed in the following:

Subordinated Secured Demand Notes, zero percent interest rate, renewable annually.

November 20, 2021	<u>\$300,000</u>
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The subordinated borrowings are with related parties and are available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

The subordinated borrowings are collateralized by securities pledged by the three principals of the Company.

The fair value of subordinated borrowings is \$481,457.

**NOTE 13: Subsequent Events**

The Company has performed an evaluation of events that have occurred subsequent to December 31, 2019, and through February 20, 2020, its financial statements were available to be issued. There have been no material subsequent events that occurred during such period that would require disclosure in this report or would be required to be recognized in the financial statements as of December 31, 2019.