

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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| OMB APPROVAL   |
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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 01/01/2018 AND ENDING 12/31/2018  
MM/DD/YYYY MM/DD/YYYY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

WATERMILL INSTITUTIONAL TRADING LLC

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

111 TOWN SQUARE PLACE SUITE 1520

(No. and Street)

JERSEY CITY

NJ

07310

(City)

(State)

(Zip Code)

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

David J. Dempsey

917-621-3829

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

CITRIN COOPERMAN & COMPANY, LLP

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

290 WEST MOUNT PLEASANT AVE, SUITE 3310

LIVINGSTON

NJ

07039

(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).

SEC 1410 (06-02)

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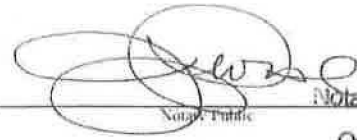
### OATH OR AFFIRMATION

I, David J. Dempsey, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of WATERMILL INSTITUTIONAL TRADING LLC, as of December 31, 2018, 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:

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

  
Signature

Chief Operating Officer  
Title

  
Notary Public

JANICE PARISE  
Notary Public, State of New York  
No. 41-4968956  
Qualified in Queens County  
Commission Expires July 9, 2022

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 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
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit
- ☐ (o) Exemption report

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

**WATERMILL INSTITUTIONAL TRADING LLC**  
**(A Limited Liability Company)**

**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2018**

# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

**DECEMBER 31, 2018**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Member  
Watermill Institutional Trading LLC

### Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Watermill Institutional Trading LLC 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 Watermill Institutional Trading LLC 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 Watermill Institutional Trading LLC's management. Our responsibility is to express an opinion on Watermill Institutional Trading LLC'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 Watermill Institutional Trading LLC 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 statement. 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 statement. We believe that our audit provides a reasonable basis for our opinion.

*Citrin Cooperman & Company, LLP*

We have served as Watermill Institutional Trading LLC's auditor since 2014.  
Livingston, New Jersey  
February 25, 2019

**WATERMILL INSTITUTIONAL TRADING LLC**  
(A Limited Liability Company)

**STATEMENT OF FINANCIAL CONDITION**

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**December 31, 2018**

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**ASSETS**

|   |                     |
|---|---------------------|
| Cash  | \$ 1,354,738        |
| Cash segregated in compliance with federal regulations                    | 16,028              |
| Receivables from clearing broker, including clearing deposit of \$200,000 | 2,171,013           |
| Property and equipment, net   | 79,272              |
| Prepaid expenses and other assets   | <u>155,236</u>      |
| <b>TOTAL ASSETS</b>   | <b>\$ 3,776,287</b> |

**LIABILITIES AND MEMBER'S EQUITY**

|  |                     |
|--|---------------------|
| Liabilities                                  |                     |
| Accounts payable and accrued expenses        | \$ 1,231,245        |
| Commitments (Notes 3, 4, and 8)              |                     |
| Member's equity                              | <u>2,545,042</u>    |
| <b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b> | <b>\$ 3,776,287</b> |

# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2018**

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#### **1. Nature of business and summary of significant accounting policies**

##### *Nature of Business*

Watermill Institutional Trading LLC (the "Company") is a limited liability company organized under the laws of the state of Delaware on August 24, 2009. Operations of the Company commenced in August 2010. The Company's operations consist primarily of engaging in agency equity transactions and investment banking services with institutional counterparties. Effective August 1, 2012, 100% of the Company's membership interest was acquired by Watermill Trading Holdings LLC.

The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and the National Association of Securities Dealers Automated Quotations ("NASDAQ").

##### *Basis of Presentation*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

##### *Revenue from Contracts with Customers*

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue with Contracts from Customers* ("ASU 2014-09") (Topic 606), which requires an entity to recognize revenue to depict the transfer of promised good or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Effective January 1, 2018, the Company adopted this ASU in using a modified retrospective approach. Management has determined that due to the nature of its business, related performance obligations and the transfer of control in service provided to its customers, the adoption of this ASU did not affect the accounting for the revenue earned. The adoption did not have an impact on its financial condition, results of operations or cash flows.

##### *Revenue and Expense Recognition from Securities Transactions*

Securities transactions and the related revenues and expenses are recorded on the trade-date basis and unrealized gains and losses are reflected in revenues.

##### *Service Income*

Service income is recorded when the services are performed.

##### *Advisory Income*

Investment Banking Advisory Income is recorded when the services are performed and the performance obligation is satisfied.

# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2018**

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#### **1. Nature of business and summary of significant accounting policies (continued)**

##### *Marketable Securities*

Marketable securities are stated at fair value as determined by quoted market prices. Securities not readily marketable are valued at fair value as determined by management. The resulting difference between cost and market (or fair value) is included in "Profits in firm trading accounts" on the accompanying statement of income.

##### *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization as follows:

| <b>Asset</b>               | <b>Useful Life</b> | <b>Estimated<br/>Principal Method</b> |
|----------------------------|--------------------|---------------------------------------|
| Furniture and fixtures     | 5 years            | Straight-line                         |
| Network & server equipment | 3 years            | Straight-line                         |
| Computer hardware          | 3 years            | Straight-line                         |
| Computer software          | 3 years            | Straight-line                         |
| Leasehold improvements     | Lease term         | Straight-line                         |

##### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires the Company's 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.

##### *Income Taxes*

The Company has elected to be treated as a partnership under the applicable provisions of income tax laws and, accordingly, no income taxes are incurred by the Company as all earnings and losses flow directly to the member.

The Company files income tax returns in the U.S. federal jurisdiction and various states and local jurisdictions.

##### *Uncertain Tax Position*

The Company recognizes and measures its unrecognized tax benefits in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*. Under that guidance, the Company assesses the likelihood, based on their technical merit, that 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 a change.



# WATERMILL INSTITUTIONAL TRADING LLC

## (A Limited Liability Company)

### NOTES TO STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2018

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#### 1. Nature of business and summary of significant accounting policies (continued)

##### *Recently Issued Accounting Pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with a term greater than 12 months to be recognized on the balance sheet through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. This new guidance is effective for years beginning after December 15, 2019, with early adoption permitted. The Company evaluated the effect of ASU 2016-02 and determined there is no material effect on its financial statements, related disclosures and net capital.

In November 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230). The amendments in this Update 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. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted ASU 2016-18 on January 1, 2018. As a result, restricted cash has been included with cash when reconciling the beginning-of-year and end-of-year total amounts shown on the statement of cash flows. The adoption of this standard did not have a material impact on the Company's financial statements.

##### *Subsequent Events*

The Company has evaluated events occurring after the date of the financial statements for potential recognition or disclosure in its financial statements. The Company did not identify any material subsequent events requiring adjustment to or disclosure in its financial statements.

#### 2. Property and equipment

Details of property and equipment at December 31, 2018 are as follows:

|   |    |         |
|---|----|---------|
| Furniture and fixtures                          | \$ | 157,468 |
| Network & server equipment                      |    | 168,110 |
| Computer hardware                               |    | 360,271 |
| Computer software                               |    | 11,414  |
| Leasehold improvements                          |    | 235,007 |
|   |    | <hr/>   |
|   |    | 932,270 |
| Less: accumulated depreciation and amortization |    | 852,998 |
|   |    | <hr/>   |
|   | \$ | 79,272  |

# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2018**

---

#### **3. Net capital requirement**

The Company, as a member of FINRA, is subject to the SEC Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2018, the Company's net capital was \$2,133,106, which was \$1,883,106 in excess of its minimum requirement of \$250,000.

#### **4. Commitment**

The Company leases its Jersey City office facility under an operating lease, which expires in September 2019.

Aggregate future minimum annual rental payments for the year subsequent to December 31, 2018, is as follows:

| Year Ending December 31: | Amount           |
|--------------------------|------------------|
| 2019                     | 66,268           |
|                          | <u>\$ 66,268</u> |

#### **5. Concentrations of credit risk**

At December 31, 2018, and routinely throughout the year then ended, the Company maintained its cash balances in major financial institutions that exceed federally insured limits. The Company has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk with respect to cash.

#### **6. Employee benefit plan**

The Company maintains a retirement plan (the "401(k) Plan"), pursuant to Section 401(k) of the Internal Revenue Code ("IRC"), for eligible participants. Under the terms of the 401(k) Plan, participants can contribute a portion of their annual compensation, subject to limitations provided by the IRC. The Company can make discretionary matching contributions to the 401(k) Plan on behalf of participating employees.

**WATERMILL INSTITUTIONAL TRADING LLC**  
**(A Limited Liability Company)**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2018**

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**7. Soft dollar payables**

The Company has soft dollar arrangements with certain clients within the provisions of Rule 28(e) which establishes a safe harbor for money managers, which allows them to purchase research and brokerage services for clients using soft dollars.

The Company has a restricted cash account segregated on the statement of financial condition in accordance with SEC Rule 15c3-3(k)(2)(i) of \$16,028 related to proceeds from soft dollar transactions. The Company has a soft dollar payable of \$3,285 at December 31, 2018, which is included in "accounts payable and accrued expenses" on the accompanying statement of financial condition. The Company disburses this cash to third parties on behalf of its customers following Rule 28(e) requirements.

**8. Off-balance-sheet risk**

Pursuant to clearance agreements, the Company introduces all of its securities transactions to clearing brokers on a fully-disclosed basis. All of the customers' money balances and long and short security positions are carried on the books of the clearing brokers. In accordance with the clearance agreements, the Company has agreed to indemnify the clearing brokers for losses, if any, which the clearing brokers may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing brokers monitor collateral on the customers' accounts.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

In addition, the receivables from the clearing brokers are pursuant to these clearance agreements and include a clearing deposit of \$200,000.

**9. Statement of Cash Flow**

The following table provides a reconciliation of cash and restricted cash reported within the statement of financial condition that sum to the total of the same such amounts shown in the statement of cash flows.

|                 | <u>12/31/2018</u>   | <u>1/1/2018</u>   |
|-----------------|---------------------|-------------------|
| Cash            | \$ 1,354,738        | \$ 822,046        |
| Restricted cash | <u>16,028</u>       | <u>11,380</u>     |
|                 | <u>\$ 1,370,766</u> | <u>\$ 833,426</u> |