



13013429

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2012
Estimated average burden	
Hours per response	12.00

SECURITIES AND EXCHANGE COMMISSION  
**RECEIVED**  
FEB 28 2013  
REGISTRATIONS BRANCH  
11

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

SEC FILE NUMBER
8- 51916

Handwritten initials and date: 3/7

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 01/01/2012 AND ENDING 12/31/2012  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

OFFICIAL USE ONLY
FIRM I.D. NO.

**CHELSEA MORGAN SECURITIES, INC.**

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

**242 Main Street**

(No. and Street)

**Staten Island**  
(City)

**New York**  
(State)

**10307**  
(Zip Code)

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

**John Pisapia**

**(718) 967-8400**

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**MaloneBailey LLP, Certified Public Accounting Firm**

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

**15 Maiden Lane, Suite 1003**  
(Address)

**New York**  
(City)

**New York**  
(State)

**10038**  
(Zip Code)

CHECK ONE:

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

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).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form

SEC 1410 (06-02)

Handwritten initials and date: EM 3/8/13

displays a currently valid OMB control number.

### OATH OR AFFIRMATION

I, John Pisapia, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CHELSEA MORGAN SECURITIES, INC., as of December 31, 20 12, 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:

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

*John Pisapia*

Signature

**President**

Title

DIERDRE STEINHAUS AINBINDER  
 Notary Public, State of New York  
 No. 01A14899711  
 Qualified in Nassau County  
 Commission Expires July 6, 20 15

*Dierdre Steinhaus Ainkinder*  
 Notary Public

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 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).

**CHELSEA MORGAN SECURITIES, INC.  
D/B/A CHELSEA FINANCIAL SERVICES**

Statement of Financial Condition

December 31, 2012

## **TABLE OF CONTENTS**

<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>1</b>
<b>STATEMENT OF FINANCIAL CONDITION</b>	<b>2</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>3</b>

INDEPENDENT AUDITOR'S REPORT

To the Stockholders of  
Chelsea Morgan Securities, Inc.,  
Stanton Island, New York

**Report on the Financial Statements**

We have audited the accompanying statement of financial condition of Chelsea Morgan Securities, Inc., as of December 31, 2012.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

*Opinion*

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Chelsea Morgan Securities, Inc., at December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

*Malone Bailey, LLP*

February 27, 2013

**CHELSEA MORGAN SECURITIES, INC.  
D/B/A CHELSEA FINANCIAL SERVICES**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2012**

**ASSETS**

Cash	\$	67,236
Clearing deposits at broker		25,000
Due from clearing broker		140,276
Insurance commissions receivable		2,450
Prepaid expenses		38,141
Fixed assets, net of accumulated depreciation of \$123,315		11,234
Rent deposit		<u>5,000</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>289,337</u></b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Accounts payable and accrued expenses	\$	<u>190,471</u>
<b>TOTAL LIABILITIES</b>		<b>190,471</b>
Commitments and contingent liabilities		-
Stockholders' equity		
Common stock, par value \$0.01, 1,000 shares authorized issued and outstanding		10
Paid-in capital		136,990
Deficit		<u>(38,134)</u>
Total stockholders' equity		98,866
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b><u>289,337</u></b>

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

CHELSEA MORGAN SECURITIES, INC.  
D/B/A CHELSEA FINANCIAL SERVICES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Organization

Chelsea Morgan Securities, Inc. D/B/A Chelsea Financial Services (the "Company"), a New York S Corporation formed in 1999, is registered as a broker-dealer with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority.

Nature of Business

The Company earns commission income by introducing and forwarding as a broker, transactions and accounts of customers to another broker-dealer who carries such accounts on a fully disclosed basis, and by participating in private placements.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

All short-term investments with an original maturity of three months or less are considered to be cash equivalents.

Depreciation

The cost of furniture and equipment is depreciated over the estimated useful lives of the related assets of 5 to 7 years on a straight line basis. The cost of leasehold improvements is depreciated over the estimated useful lives of the related assets or the term of the related lease, whichever is shorter.

Concentration of Credit Risk

The Company is engaged in various trading and brokerage activities in which 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.

CHELSEA MORGAN SECURITIES, INC.  
D/B/A CHELSEA FINANCIAL SERVICES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Customer securities transactions are reported on a settlement date basis with related commission fee income and expenses also reported on a settlement date basis. There is no material difference from reporting on a trade date basis.

Recent Accounting Pronouncements

The Company does not expect any recent accounting pronouncements to have any material impact on its financial condition or results of operations.

NOTE 3 – INCOME TAXES

The Company has elected "S Corporation" status with the Internal Revenue Service and state taxing authorities. The stockholder includes the "S Corporation" income or loss in his individual tax return, and accordingly, no federal or state income taxes or benefits are provided for in the financial statements during the period of "S Corporation" status.

CHELSEA MORGAN SECURITIES, INC.  
D/B/A CHELSEA FINANCIAL SERVICES  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

**NOTE 4 - 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 equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2012, the Company had net capital of \$44,491, which was \$31,793 in excess of its required net capital of \$12,698. The Company's ratio of aggregate indebtedness to net capital was 4.28 to 1.

**NOTE 5 – OFF BALANCE SHEET RISK**

Pursuant to a Clearing Agreement, the Company introduces all of its securities transactions to its sole clearing broker on a fully disclosed basis. Therefore, all of the customers' money balances and long and short security positions are carried on the books of the clearing broker. Under certain conditions as defined in the clearance agreement, the Company has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing broker monitor collateral on the securities transactions introduced by the Company.

**NOTE 6 – COMMITMENTS AND CONTINGENCIES**

In April of 2012, the Company entered into a one year lease agreement for office space with a related party. Rental payments are \$3,500 per month. Remaining commitments under the lease are as follows:

Year ending December 31, 2013	\$10,500
-------------------------------	----------