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**ANNUAL AUDITED REPORTS**  
**FORM X-17A-5** *Mail Processing Section*  
**PART III**

SEC FILE NUMBER
8-34883

FEB 28 2017

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 01/01/2016 AND ENDING 12/31/2016  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Financial Northeastern Securities, Inc.**

OFFICIAL USE ONLY
FIRM I.D. NO.

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

**100 Passaic Avenue**

(No. and Street)

**Fairfield**

**New Jersey**

**07004**

(City)

(State)

(Zip Code)

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

**SandraIn Kiss (800)362-9876**

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**Withum Smith + Brown**

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

**465 South Street, Suite 200**

**Morristown**

**NJ**

**07960**

(Address)

(City)

(State)

(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)*

SEC 1410 (06-02)

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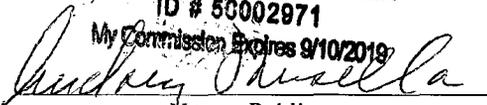
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OATH OR AFFIRMATION

I, Sandralin Kiss, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Financial Northeastern Securities, Inc., as of December 31, 2016, 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  
Executive Vice President, COO  
Title

**AUDREY MUSELLA**  
**NOTARY PUBLIC OF NEW JERSEY**  
**ID # 50002971**  
**My Commission Expires 9/10/2019**  
  
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 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).

# **Financial Northeastern Securities, Inc.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders of  
Financial Northeastern Securities, Inc.

We have audited the accompanying statement of financial condition of Financial Northeastern Securities, Inc. (the "Company"), as of December 31, 2016. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial condition of Financial Northeastern Securities, Inc. as of December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

*WithumSmith+Brown, PC*

February 23, 2017

Financial Northeastern Securities, Inc.  
Statement of Financial Condition  
December 31, 2016

**ASSETS**

Cash in Banks	\$ 937,661
Receivable from Broker - Clearance Accounts	11,572,201
Accounts receivable	436,885
Investments, at Fair Value	3,672,834
Property and equipment, net	54,847
Other assets	163,121
	<u>\$ 16,837,549</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Liabilities	
Accounts payable and accrued expenses	\$ 469,879
Investments Sold, not yet Purchased	13,287
Due to Affiliate	17,170
Total liabilities	<u>500,336</u>
Stockholders' equity	
Common stock (no par value, 2500 shares authorized, 20 shares issued outstanding)	1,000
Additional Paid-in-capital	3,077,130
Retained earnings	13,259,083
Total stockholders' equity	<u>16,337,213</u>
	<u>\$ 16,837,549</u>

See Accompanying Notes to Financial Statement.

# **Financial Northeastern Securities, Inc.**

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Notes to Financial Statement

December 31, 2016

## **1. Nature of Business**

Financial Northeastern Securities, Inc. (the "Company") is a full-service broker-dealer that serves institutional investors, credit unions, and individual investors located throughout the United States. The Company is registered under the Securities and Exchange Act of 1934, and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company's operations consist primarily of engaging in principal transactions and underwriting certificates of deposit.

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

### **Basis of Accounting**

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which requires the use of the accrual method of accounting. Under this accounting method, revenues are recognized when earned and expenses are recognized when incurred.

### **Use of 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 the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates are based on several factors including the facts and circumstances available at the time the estimates are made, historical experience, risk of loss, general economic conditions and trends, and the assessment of the probable future outcome. Some of the more difficult, subjective and significant estimates include determinations of the useful lives of assets, allowance for doubtful accounts and present value assumptions. Estimates and assumptions are reviewed periodically, and the effects of changes, if any, are reflected in the statement of income in the period that they are determined. Actual results could differ from those estimates.

### **Subsequent Events**

The Company has evaluated subsequent events for recognition or disclosure through the date of the financial statements issuance.

### **Cash and Cash Equivalents**

For purposes of the statement of financial condition and statement of cash flows, the Company considers all highly liquid investments, consisting mostly of certificates of deposit, which are readily convertible into known amounts of cash and have a maturity of three months or less when acquired to be cash equivalents.

## Financial Northeastern Securities, Inc.

Notes to Financial Statement

December 31, 2016

### Concentration of Credit Risk

The Company places its cash and cash equivalents with four financial institutions that have offices located in New Jersey and New York. Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents. The Company's cash and cash equivalents are placed with high credit quality financial institutions. At times, such balances may exceed federally insured limits of \$250,000 per financial institution. The Company has not experienced any losses in such accounts, and it believes it is not exposed to any significant credit risk on cash and cash equivalents.

### Customer Receivables

Accounts receivable from customers are recorded at the present value of estimated cash flows on the date the receivables were established. The Company receives collections on its customer receivables based on the length of the certificates of deposit. The present value discounts on the customer receivables are computed using assumptions made by management of the Company regarding the market and ultimate collectability of the receivables. Uncollectible accounts receivable are charged to operations during the period they are determined to be uncollectible. The Company wrote-off \$234,145 during 2016. It is management's policy to review the outstanding accounts receivable from its customers and write-off any uncollectible accounts as they arise. At December 31, 2016, there was no allowance for doubtful accounts.

Customer receivables consist of the following:

Receivables due in less than one year	\$	309,905
Receivables due in more than one year		135,545
Less discounts to present value (ranging from 0.7% to 2.5%)		<u>(8,565)</u>
Total	\$	<u>436,885</u>

### Investments

The Company's investments are comprised of certificates of deposit, corporate obligations, preferred equities and mortgage-backed securities.

Investments are bought and held principally for the purpose of selling them in the near term and are classified as trading securities. Trading securities are measured at fair value in the accompanying statement of financial condition.

The Company uses the specific identification method in determining realized gains and losses reflected in revenues under other income in the statement of operations. The unrealized gains and losses are also reflected in revenues under other income in the statement of operations.

## Financial Northeastern Securities, Inc.

Notes to Financial Statement  
December 31, 2016

### Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Expenditures for maintenance, repairs and betterments which do not materially prolong the normal useful life of an asset are charged to operations as incurred. Purchases of property and equipment and additions and betterments which substantially extend the useful life of the asset are capitalized at cost. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected in the statement of income. The Company provides for depreciation as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>	<u>Principle Method</u>
Furniture and fixtures	7 years	Straight-line
Office equipment	3 -10 years	Straight-line

### Revenue Recognition from Securities Transactions

The Company's revenue is derived from several classes of services summarized as follows:

#### Underwriting of Certificates of Deposit Revenue

Underwriting revenues are derived from underwriting services provided on the purchase of certificates of deposit and are recorded in accordance with the terms of the respective underwriting agreements.

#### Principal Transactions Revenue

Principal transactions revenue is derived from the mark up or mark down on securities purchased and re-sold by the Company. Principal transactions and the related revenue are recorded on a settlement-date basis, which is not materially different from trade-date basis.

#### Write-off of Accounts Receivable from Spread Sales on Certificates of Deposit

Spread Sales on certificates of deposit was derived from the interest rate of a particular certificate of deposit sold to a customer. The customer receives a portion of the interest income based upon the net rate while the remaining portion is paid to the Company. Revenue was recognized on a settlement-date basis, which was not materially different from trade-date basis.

With the announcement of JPMCC's exit from the clearing business, the Company stopped selling custody CDs in October of 2015. Due to the reduction of the Accounts Receivable, combined with the clearing firm change, the Company undertook the effort to produce an actual accounting of the outstanding receipts and reconciled it exactly to JPMCC's records. This resulted in a write-off of the accounts receivable and corresponding present value reserve for a net loss of \$220,006.

## **Financial Northeastern Securities, Inc.**

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Notes to Financial Statement

December 31, 2016

### **Commission Revenue**

Commission revenues are derived from investment transactions where the Company acts as agent and are recognized on a settlement-date basis, which is not materially different from trade-date basis.

### **Other Income**

Revenue derived from participation in a selling group of corporate note programs and various other corporate underwritings is recognized in accordance with the terms of the respective note programs.

### **Income Taxes**

As an "S" corporation, the Company is not subject to federal, New Jersey and Florida corporate income taxes. The individual shareholders are responsible for the payment of income taxes on the Company's earnings. Accordingly, there is no provision for federal, New Jersey, and Florida income tax in the accompanying financial statements, however, the Company is subject to income taxes in Ohio and the City of Dublin, Ohio.

The Company has evaluated its tax positions and has concluded that there are no unrecognized tax benefits at December 31, 2016. There are no tax related penalties and interest reflected in these financial statements.

### **Distributions and Dividends Payable**

The Company reimburses its stockholders for the individual income tax liability that will be incurred by the stockholders as a result of the "S" corporation earnings. As of December 31, 2016, dividends payable was \$0. During 2016, the Company distributed \$27,169 to its stockholders toward their individual tax liabilities and other cash distributions.

### **Commissions Expense**

Commissions are paid to various brokers based upon a percentage of sales on the settlement date and are paid at the end of the month following the settlement date.

## Financial Northeastern Securities, Inc.

Notes to Financial Statement

December 31, 2016

### 3. Property and Equipment

Property and equipment consists of the following:

Furniture and fixtures	\$	18,452
Office equipment		<u>385,432</u>
Total		403,884
Less accumulated depreciation and amortization		<u>349,037</u>
Net	\$	<u>54,847</u>

Depreciation expense for 2016 was \$45,582.

### 4. Investments

The Company measures its investments on a recurring basis at fair value.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 – Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

## Financial Northeastern Securities, Inc.

Notes to Financial Statement  
December 31, 2016

As of December 31, 2016, investments include various certificates of deposit and corporate obligations maturing at dates through 2034 at interest rates ranging from 0% to 7%. These items were measured using the following inputs at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Certificates of Deposit	\$ 2,927,973	\$	\$	\$ 2,927,973
Corporate Obligations	722,866			722,866
Preferred Stocks	18,630			18,630
Mortgage-Backed Securities	3,365			3,365
Total	<u>\$ 3,672,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,672,834</u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies as of December 31, 2016.

Certificates of Deposit: Valued based upon quoted prices from an exchange and liquidation value of direct CD.

Corporate Obligations, Preferred Stocks and Mortgage-backed Securities: Valued at the closing price reported on the active market on which the individual security is traded.

### 5. Net Capital Requirement

The Company is subject to the Securities and Exchange Commission 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. Rule 15c3-1 also provides that equity may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2016, the Company had net capital of \$15,564,780, which was \$15,464,780 in excess of its required net capital of \$100,000. The Company's net capital ratio was .0302 to 1.

### 6. Off-Balance Sheet Risk

The security transactions of the Company's customers are introduced on a fully disclosed basis with a clearing broker-dealer. The Company holds no customer funds or securities. The clearing broker-dealer is responsible for execution, collection of and payment of funds, and receipt and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker-dealer may charge any related losses to the Company. The Company seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and to ensure that the clearing broker-dealer executes customer transactions properly.

## Financial Northeastern Securities, Inc.

Notes to Financial Statement  
December 31, 2016

### 7. Related Party Transactions

Pursuant to an administrative annual cost sharing agreement, renewable on a year-to-year basis, the Company shares the cost of overhead expenses with an affiliated company through common ownership, Financial Northeastern Corporation (the "Affiliate"), based on relative sales levels. The shared overhead expenses pertain to rent, employee compensation and benefits, professional fees, utilities, travel and other miscellaneous expenses. As of December 31, 2016, the affiliate owed the Company \$18,170 toward 2016 shared costs. This liability is reflected in the Due to Affiliate on the Statement of Financial Condition offset by a \$1,000 receivable from officers. The Company incurred shared costs of \$2,482,789 for 2016 from the Affiliate representing 94.07% of the total expenses to be allocated.

### 8. Commitments and Contingencies

#### Operating Lease

The Affiliate of the Company have entered into various operating leases for office space located in New Jersey and Ohio through 2017 and 2018, respectively. The Company and its' Affiliate have options to renew its office leases. Minimum annual lease payments subsequent to December 31, 2016 are as follows:

Years ending December 31:

2017	\$	307,786
2018		<u>8,522</u>
Total	\$	<u>316,308</u>

Rent expense charged to the Company under operating leases was \$399,027 during 2016. As described in Note 7, an agreement is in place whereby the Affiliate shares the cost relative to the office space leases with the Company.

### 9. Pension Plans

#### Defined Contribution Pension Plan

The Company is a participating employer of a 401K plan that allows for pre-tax employee contributions and a discretionary employer match in addition to a discretionary employer profit sharing contribution. Eligible employees to benefit from employer contributions must meet certain age and service requirements. Full vesting is reached in year three after 33% vesting each in years one and two. The Company's total expense for the defined contribution pension plan for 2016 was \$215,724.

## **Financial Northeastern Securities, Inc.**

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Notes to Financial Statement

December 31, 2016

### **Supplemental Executive Retirement Plan**

The Affiliate established a non-qualified deferred compensation program and a Supplemental Executive Retirement Plan (SERP) in 2004, both of which were amended and restated effective January 1, 2007. Effective January 1, 2010, the affiliate has suspended contributions to the SERP Plan. Current year expenses for this plan are allocated to the Company in accordance with the Cost Sharing Agreement and are included in Other General and Operating Expenses on the Statement of Operations.