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OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response.....	12.00

SEC Mail Process  
DEC 06 2018

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

SEC FILE NUMBER
8-19897

Washington, DC

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 10/01/17 AND ENDING 09/30/18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **CHESTER HARRIS & CO., INC.**

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

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)		
<b>WHITE PLAINS</b>	<b>NY</b>	<b>10605</b>
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
DAVID HARRIS, PRESIDENT 914-683-8400  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**LERNER & SIPKIN CPAs, LLP**

(Name - if individual, state last, first, middle name)			
<b>132 NASSAUT ST, SUITE 1023</b>	<b>NEW YORK</b>	<b>NY</b>	<b>10038</b>
(Address)	(City)	(State)	(Zip Code)

**CHECK ONE:**

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

<b>FOR OFFICIAL USE ONLY</b>

\*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)

OATH OR AFFIRMATION

I, **DAVID HARRIS**, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of **CHESTER HARRIS & CO., INC., as of SEPTEMBER 30, 2018**, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, member, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE

x David Harris  
Signature

PRESIDENT  
Title

x Lauren J Demase  
Notary Public

LAUREN J DEMASE  
Notary Public State of New York  
No. 02068023011  
Qualified in Westchester County  
Term Expires January 24 19 2022

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of Cash Flows.
- (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).

**CHESTER HARRIS & CO., INC.**  
STATEMENT OF FINANCIAL CONDITION  
SEPTEMBER 30, 2018

**ASSETS**

Cash and cash equivalents	\$ 40,118
Securities owned, at market value (Notes 2b and 3)	
Secured demand notes receivable from subordinated lenders (collateralized by securities with a market value of \$3,449,891)(Note 5)	2,794,033
Related party receivables (Note 7)	200,749
Furniture, fixtures, and leasehold improvements - net of accumulated depreciation of \$681,380 (Notes 2d and 4)	3,669
Other assets	<u>205,881</u>
Total assets	<u>\$ 3,244,450</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Liabilities**

Accounts payable, accrued expenses and other liabilities	\$ 81,875
Due to broker	2,801,199
Related party payables (Note 7)	<u>61,604</u>
Total liabilities	<u>2,944,678</u>

**Commitments and contingencies (Notes 9 and 10)**

**Liabilities subordinated to claims of general creditors**

Pursuant to subordinated loan agreements (Note 5)	<u>2,905,000</u>
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**Stockholders' Equity (Note 11)**

Preferred stock, non-cumulative; \$100 par value; authorized 30,000 shares; outstanding 22,990 shares	2,299,000
Preferred stock, 6%; \$100 par value; authorized 6,000 shares; outstanding 5,910 shares	591,000
Common stock; par value \$ .01 per share, authorized 10,000,000 shares; outstanding 1,072,000 shares	10,720
Paid-in capital	186,855
Retained earnings	<u>(5,692,803)</u>
Total stockholders' equity	<u>(2,605,228)</u>
Total liabilities and stockholders' equity	<u>\$ 3,244,450</u>

*The accompanying notes are an integral part of this statement.*

**CHESTER HARRIS & CO., INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

**Note 1- Nature of Business**

Chester Harris & Co., Inc. (The "Company") is a New York State Corporation formed for the purpose of conducting business as a broker-dealer in securities.

The Company operates under the provisions of Paragraph (k) (2) (ii) of Rule 15c3-3 of the Securities and Exchange Commission and, accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of Paragraph (k) (2) (ii) provide that the Company clears all transactions on behalf of customers on a fully disclosed basis with a clearing broker/dealer, and promptly transmits all customer funds and securities to the clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker/dealer. The Company also operates pursuant to the (k) (2) (ii) exemptive provisions of Rule 15c3-3.

**Note 2- Summary of Significant Accounting Policies**

*a) Revenue Recognition*

Securities transactions (and the recognition of related income and expenses) are recorded on a settlement date basis, generally the second business day following the transaction date. The difference between trade and settlement date reporting is not material.

*b) Fair Value Measurements*

The Company carries its investments at fair value. ASC 820, *Fair Value Measurements and Disclosure*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Fair values derived from unadjusted quoted prices of identical assets in active markets.

Level 2 - Fair values derived from quoted prices of similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and model driven valuations in which all significant inputs are observable in active markets.

Level 3 - Fair values derived from inputs which are not observable in markets.

The following is a summary of the inputs used as of September 30, 2018, in valuing the Company's investment assets.

**CHESTER HARRIS & CO., INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

**Note 2 - Summary of Significant Accounting Policies (continued)**

**b) Fair Value Measurements (continued)**

	Assets at Fair Value as of September 30, 2018			
	Level 1	Level 2	Level 3	Total
Investments – at fair value	\$-0-			\$-0-

**c) Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Company considers money market funds maintained with banks and brokers to be cash and cash equivalents. The Company maintains cash in bank accounts which, at times, may exceed federally insured limits or where no insurance is provided. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

**d) Depreciation**

Depreciation of furniture, equipment, and programming costs is provided on the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining terms of the lease.

**e) Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses.

**f) Income Taxes**

The Company accounts for income taxes under SFAS No. 109, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

**g) Subsequent Events**

The Company has evaluated events and transactions that occurred between September 30, 2018 and November 1, 2018, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

**CHESTER HARRIS & CO., INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

**Note 3- Securities Owned – At Market Value**

Securities owned at quoted market values, are summarized as follows:

Municipal bond	\$	-0-
Equities		<u>-0-</u>
	\$	<u>-0-</u>

**Note 4- Furniture, Fixtures and Leasehold Improvements**

Major classifications of fixed assets, as of September 30, 2018, are summarized as follows:

Furniture and equipment	\$634,984
Leasehold improvements	18,141
Automobile	<u>31,924</u>
	685,049
Less: Accumulated depreciation	<u>(681,380)</u>
	<u>\$ 3,669</u>

**Note 5- Liabilities Subordinated to the Claims of General Creditors**

Subordinated liabilities consist of both secured demand notes, as evidenced by secured demand note collateral agreements, and, subordinated loan agreements, both of which are approved by FINRA. All notes mature on March 31, 2021, and bear interest of from 5% to 15%. \$2,794,033 of such notes are covered by secured demand note collateral agreements.

To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

**Note 6- Profit Sharing Plan**

The Company is a sponsor of a defined contribution profit sharing plan for its eligible employees. Contributions to the plan, if any, are determined by the employer and come out of its current accumulated profits. The employer's contribution for any fiscal year shall not exceed the maximum allowable as a deduction to the employer under the provisions of the IRS code Section 404, as amended, or replaced from time to time. The Company's liability to the plan for the fiscal year ended September 30, 2018 was \$-0-.

**Note 7- Related Party Transactions**

The Company and CDH Holdings, Inc., the parent company of David Harris & Co., Inc. ("David"), are owned by the same shareholders. The Company and "David" share office space, personnel and other administrative expenses. During the year, the Company was reimbursed \$10,000 for such expenses. Such amount is included in other revenues. At September 30, 2018 \$200,749 of such reimbursements are owed by "David" to the Company, including cash loans.

**CHESTER HARRIS & CO., INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

**Note 7- Related Party Transactions (continued)**

At September 30, 2018 \$61,604 is owed to shareholders of the Company for accrued interest payable on secured demand notes. During the year an additional 4,450 shares of preferred stock totaling \$445,000 was purchased by such shareholders.

**Note 8- Income Tax**

At September 30, 2018, the Company had a net operating loss of approximately \$6,000,000 for income tax purposes. This carryforward will expire in 2029-2038. A valuation allowance of \$1,500,000 has been established to offset the deferred tax asset arising from this carryforward. Therefore, no deferred tax assets have been recorded on the accompanying statement of financial condition.

**Note 9- Commitments and Contingencies**

*Office Space*

The Company leases its premises under a lease expiring June 30, 2020. Future approximate minimum annual rental expenses for the fiscal year ended September 30, are:

2019	\$128,772	
2020	\$ 96,581	(9 months)

The lease contains rent escalation provisions based on increased real estate taxes and other operating expenses. Utilities are included in the minimum rental expense.

**Note 10- Financial Instruments with Off-Balance Sheet Credit Risk**

As a securities broker/dealer, the Company is engaged in buying and selling securities for a diverse group of institutional and individual investors. The Company's transactions are collateralized and are executed with and on behalf of banks, brokers and dealers and other financial institutions. The Company introduces these transactions for clearance to another broker/dealer on a fully disclosed basis.

**CHESTER HARRIS & CO., INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

**Note 10- Financial Instruments with Off-Balance Sheet Credit Risk (continued)**

The Company may be exposed to a risk of loss not reflected on the accompanying statement of financial condition for securities sold, but not yet purchased, should the value of such securities rise. At September 30, 2018, the Company holds no such securities. The Company's exposure to credit risk associated with non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair customers' ability to satisfy their obligations to the Company and the Company's ability to liquidate the collateral at an amount equal to the original contracted amount. The agreement between the Company and its clearing broker provides that the Company is obligated to assume any exposure related to such non-performance by its customers. The Company seeks to control the aforementioned risks by requiring certain customers to maintain margin collateral in compliance with various regulatory requirements and the clearing brokers internal guidelines. The Company monitors its customer activity by reviewing information it receives from its clearing broker on a daily basis, and requiring customers to deposit additional collateral, or reduce positions when necessary.

**Note 11- Net Capital Requirements**

The capital ratio of the Company, as independently computed by our auditors, was 244.82%, versus an allowable maximum of 1500%, under the rules of the Securities and Exchange Commission. The Company's net capital requirement under SEC Rule 15c3-1 was \$9,565. The net capital as computed was \$58,605, leaving capital in excess of requirements in the amount of \$49,040.

**Note 12- Going Concern Operation**

The accompanying statements have been prepared assuming the Company will continue as a going concern. The Company has recurring losses from operations and a deficit in stockholders' equity which, if repeated in the next year, raises substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**CHESTER HARRIS & CO., INC.**  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

**Note 12-      Going Concern Operation (continued)**

The continued existence of the Company depends on a number of factors, including but not limited to, its ability to reduce future losses by either adding revenues and or reducing expenses or raising capital through the addition of subordinated debt or by the infusion of capital by the Officers/Shareholders of the Company.

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A copy of the Company's Statement of Financial Condition as of September 30, 2018, pursuant to SEC Rule 17a-5, is available for examination at the Company's office and at the regional office of the Securities and Exchange Commission and the office of FINRA.



**LERNER & SIPKIN**  
CERTIFIED PUBLIC ACCOUNTANTS LLP

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders of  
Chester Harris & Co., Inc.  
222 Mamaroneck Avenue  
White Plains, NY 10605

**Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of Chester Harris & Co., Inc. as of September 30, 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 Chester Harris & Co., Inc. as of September 30, 2018 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

The financial statement is the responsibility of Chester Harris & Co., Inc.'s management. Our responsibility is to express an opinion on Chester Harris & 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 Chester Harris & 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 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 12 to the financial statements, the Company has suffered recurring losses and has a deficit in stockholder equity. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

*Lerner & Sipkin CPAs LLP*  
Lerner & Sipkin CPAs, LLP  
Certified Public Accountants (NY)

We have served as Chester Harris & Co., Inc.'s auditor since 1995.

New York, NY  
November 1, 2018