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Securities and Exchange Commission ANNUAL AUDITED REPORT
Trading and Markets

JUL 11 2019

FORM X-17A-5 ~~★~~
PART III

SEC FILE NUMBER
8-32815

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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 10/01/2017 AND ENDING 09/30/2018
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Bernardi Securities Inc., and Subsidiary**

OFFICIAL USE ONLY
FIRM I.D. NO.

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

20 S. Clark St., Suite 2700

(No. and Street)

Chicago

Illinois

60603

(City)

(State)

(Zip Code)

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

Ronald Bernardi

(312) 726-7324

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

DeMarco Sciacotta Wilkens & Dunleavy, LLP

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

9645 Lincolnway Lane, Suite 214A

Frankfort

Illinois

60423

(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 (11-05)

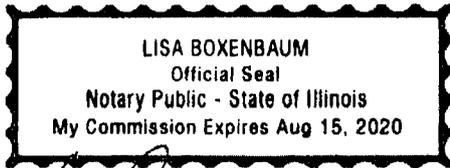
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OATH OR AFFIRMATION

I, Ronald P. Bernardi, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Bernardi Securities Inc., and Subsidiary, as of September 30, 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:

NONE



Signature of Notary Public Lisa Boxenbaum

Signature of Ronald P. Bernardi dated 11/28/18, President & CEO

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

- Checkboxes for report contents: (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).

Sciaccotta

Dunleavy
CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS ADVISORS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Bernardi Securities, Inc. and Subsidiary

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial condition of Bernardi Securities, Inc. and Subsidiary, (the "Company") as of September 30, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Bernardi Securities, Inc. and Subsidiary as of September 30, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company'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 the Company 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.

We have served as Bernardi Securities, Inc. and Subsidiary's auditor since 2014.

DeMarco Sciaccotta Williams & Dunleavy LLP

Frankfort, Illinois
November 28, 2018

BERNARDI SECURITIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2018

ASSETS

CURRENT ASSETS:

Cash and cash equivalents		\$	130,583
Interest receivable			45,212
Securities held for sale			13,648,686
Clearing fund deposit			100,000
Prepaid other expenses			78,323
Prepaid income taxes			18,562
Other current assets			286,010
			<u>14,307,376</u>

Total current assets

PROPERTY AND EQUIPMENT:

Office equipment	227,518		
Furniture and fixtures	36,715		
	<u>264,233</u>		
Less — Accumulated depreciation	(226,869)		37,364
			<u>37,364</u>
Total assets		\$	<u>14,344,740</u>

Less — Accumulated depreciation

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Due to clearing organization		\$	10,039,622
Accrued compensation			583,125
Other accrued liabilities			83,331
			<u>10,706,078</u>

Total current liabilities

LONG-TERM DEFERRED RENT

130,707

SHAREHOLDERS' EQUITY:

Common stock, no par value; 2,000 shares authorized; 1,128 shares issued and outstanding	241,181		
Paid in capital	169,607		
Retained earnings	3,097,167		3,507,955
			<u>3,507,955</u>
Total liabilities and shareholders' equity		\$	<u>14,344,740</u>

Total liabilities and shareholders' equity

The accompanying notes are an integral part of this consolidated financial statement.

BERNARDI SECURITIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2018

(1) DESCRIPTION OF THE COMPANY:

Bernardi Securities, Inc. (the Company) is an Illinois corporation that is a registered securities broker-dealer, offering primarily municipal, state, U.S. Government, and corporate securities.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following is a summary of the major accounting policies and practices of the Company which affect significant elements of the accompanying Statement of Financial Condition:

Basis of Presentation -

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

Consolidation Policy -

The accompanying Consolidated Statement of Financial Condition includes the accounts of the Company and its wholly owned subsidiary, Bernardi Asset Management, LLC (BAM). BAM is a registered investment adviser with the Securities and Exchange Commission (SEC). Inter-company transactions and balances have been eliminated in the consolidation.

Cash and Cash Equivalents -

The Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Company maintains cash balances at one financial institution. At times these deposits are in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. Historically the Company has not experienced any loss of its cash due to this concentration. Management does not believe it is exposed to significant risk with respect to the cash concentrations.

Fair Value Measurements -

The Company adopted accounting standards which provide a framework for measuring fair value. The standards define fair value as the exchange price that would be received for an asset, or paid to transfer a liability in the principal market for the asset or liability in a transaction between market participants on the measurement date. The standards establish a fair value hierarchy that prioritizes the

BERNARDI SECURITIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2018

inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level of the assets or liabilities within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Income Taxes -

Management follows accounting provisions which impose a threshold for determining when uncertain tax positions should be disclosed or recorded. The threshold now imposed for financial statement reporting generally is higher than the threshold now

BERNARDI SECURITIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2018

imposed for claiming deductions on income tax returns. As a result of the implementation, the Company utilized the “more likely than not” criteria, and determined that all of their tax positions meet that criteria. Therefore, the Company has not recorded any adjustments or disclosed any situations that arose from uncertain tax positions. The Company is subject to audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Company's federal and state income tax returns prior to fiscal year 2014, are closed.

Statement of Changes in Subordinated Liabilities -

The consolidated financial statement does not include a Statement of Changes in Subordinated Liabilities to the claims of general creditors as required under Rule 17a-5(d)(2) of the SEC since no such liabilities existed at September 30, 2018, or at any time during the year then ended.

Income Recognition -

Securities transactions and the related revenue and expense are recorded on the trade date.

Property and Equipment -

Property and equipment are stated at cost. Depreciation is calculated over the estimated useful lives of the assets using accelerated methods. The estimated useful lives used are as follows:

<u>Asset Description</u>	<u>Asset Life</u>
Office equipment	3 - 5 years
Furniture and fixtures	5 years

Use of Estimates in Preparation of the Consolidated Financial Statement -

The preparation of the consolidated financial statement, in conformity with GAAP, 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 consolidated financial statement. Actual results could differ from those estimates.

BERNARDI SECURITIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2018

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following are the major categories of investments measured at fair value, on a recurring basis, as of September 30, 2018, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Municipal Bonds	<u>\$ 13,648,686</u>	<u>\$ -</u>	<u>\$ 13,648,686</u>	<u>\$ -</u>

(4) SECURITIES HELD FOR SALE:

The Company is a broker-dealer in municipal, state, U.S. Government, and corporate securities. At September 30, 2018, these securities were classified as "trading" and reported at fair value. At September 30, 2018, these securities had a fair value of \$13,648,686, with a cost of \$13,520,456.

(5) LEASE COMMITMENTS:

The Company leases office and storage facilities for its corporate offices in Chicago, Illinois under an operating lease ending in 2021 with an option to renew for five consecutive years. Under the terms of the lease, the monthly rent was \$21,101 per month with payments increasing \$332 per month in August of each subsequent year. In addition to base rent, the Company is required to make monthly installments for their proportionate share of operating expenses and real estate taxes.

The Company leased a facility in Fairview Heights, Illinois from an employee under an operating lease for \$1,170 per month, which expired on June 30, 2018. Upon expiration, the Company did not renew the lease.

The Company leases a facility in Peru, Illinois. According to the terms of the lease, monthly rent is \$525 per month. The lease expires December 1, 2018, but can be renewed for an additional year for \$525 per month.

During the year, the Company entered into a lease to rent a facility in O'Fallon, Illinois. According to the terms of the lease, monthly rent is \$550 per month. The lease expires May 31, 2019.

BERNARDI SECURITIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2018

The Company has a thirty-six month software license and maintenance agreement which expires in December 2019. Annual payments for the software total \$89,499, and increase three percent each December for the duration of the contract.

The Company has a sixty month software license and maintenance agreement which expires in December 2021. Annual payments for the software total \$15,000 for the duration of the contract.

The future minimum commitments as of September 30, 2018, are as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2019	\$ 370,044
2020	292,210
2021	235,974
2022	3,750
	<u>\$ 901,978</u>

(6) DEFERRED RENT:

The Company recognizes rent expense by the straight-line method over the terms of its leases. In connection with the Chicago office detailed in Note 5, the lessor granted the Company rent abatement for the first seven months of the first lease year, and the first six months of the second lease year. An additional provision in the lease granted the Company a tenant improvement allowance to be used for location upgrades and equipment, with the unused portion of the tenant improvement allowance used to offset rental payments. Collectively, these lease incentives are recorded as deferred credits and are amortized over the lease term as a reduction of rent expense. As of September 30, 2018, deferred rent was \$130,707.

(7) RETIREMENT PLAN:

The Company maintains a defined contribution profit sharing plan with a 401(k) feature which permits pre-tax employee contributions. The plan covers all full-time employees who have met the minimum hours and service as required by the plan. Employer contributions to the plan are at the discretion of the Board of Directors. However, this discretion is subject to a minimum funding requirement of three percent of eligible participants' wages.

BERNARDI SECURITIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2018

(8) FINANCING AGREEMENT WITH CLEARING ORGANIZATION:

Among other items contained in the clearing agreement between the Company and Pershing LLC (Pershing), the Company has a financing agreement whereby Pershing will provide financing to the Company in order to purchase securities. The interest rate charged on this financing is the Pershing Cost of Funds rate plus fifty basis points. The interest rate at September 30, 2018, was 3.76 percent. Pershing uses the Company's securities held for sale (inventory) as collateral for the financing with the amount financed limited by the inventory and the Company's net capital requirements. Based upon the Company's inventory and its net capital, the maximum amount available for financing securities would be approximately \$7,000,000 as of September 30, 2018.

(9) NET CAPITAL REQUIREMENTS:

The Company is a broker-dealer subject to the SEC Uniform Net Capital Rule (Rule 15c3-1). Under this rule, the Company is required to maintain net capital equivalent to \$250,000 or six and two-thirds percent of aggregate indebtedness, whichever is greater, as these terms are defined. The net capital rule may effectively restrict the payment of cash dividends.

Net capital changes from day to day, but as of September 30, 2018, the Company had net capital and net capital requirements of \$2,061,854 and \$250,000, respectively, leaving excess net capital of \$1,811,854. The percentage of aggregate indebtedness to net capital as of September 30, 2018, was approximately thirty-nine percent.

The SEC Rule (Rule 15c3-1) requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1, or 1,500 percent. Under this rule, the Company could borrow up to \$31,000,000 as of September 30, 2018.

(10) ISSUANCE OF COMMON STOCK:

During the year, the Company issued thirty-three shares of common stock for \$103,956. The transaction was recorded as an increase in common stock of \$7,056 and paid-in capital of \$96,900.

BERNARDI SECURITIES, INC. AND SUBSIDIARY

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2018

(11) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

In the normal course of business, the Company's customer activities involve the execution and settlement of various 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 contractual obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. An estimate of the possible loss cannot be made based upon the quantity and size of all transactions.