ALPACA SECURITIES LLC

SUMMARY OF FINANCIAL CONDITION

MAY 31, 2020
(UNAUDITED)

ALPACA SECURITIES LLC

Statement of Financial Condition
(unaudited)

May 31,		2020
ASSETS		
Cash	$	777,061
Due from broker		44,649
Clearing broker deposit		389,425
Prpaid expenses and other current assets		26,888
Total Assets	$	1,238,023
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable and accrued expenses	$	43,800
Related third party		118,477
	$	162,277
Equity	$	1,075,746
TOTAL LIABILITIES AND EQUITY	$	1,238,023

1. Nature of business and summary of significant accounting policies

Nature of Business and Organization

Alpaca Securities LLC (the “Company") is a wholly owned subsidiary of AlpacaDB, Inc. ("Parent"). The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company currently acts as an introducing broker for listed securities, and retails corporate equity securities over-the-counter.

The Company operates under Rule 15c3-1 of the Securities Exchange Act of 1934, where the requirement is to maintain sufficient liquidity in order to cover the Company’s obligations. The Company executes and clears its customer securities transactions on a fully disclosed basis with Electronic Transaction Clearing (“ETC”) and Apex Clearing Corporation ("Apex"). The clearing broker-dealers carry all of the accounts of the customers and maintain and preserve all related books. Receivables from and payables to broker reflected in the statement of financial condition are amounts due from and to the brokers at May 31, 2020.

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company’s management to make estimates and assumptions that affect the amounts disclosed in the financial statements. Actual results could differ from those estimates.

Income Taxes

The Company is a single-member limited liability company, which is disregarded for federal and state income tax purposes and is not subject to taxes on its income. The Parent of the Company is a “C” Corporation. As explained in Note 4, the Company has an expense sharing agreement with the Parent. Under the terms of the agreement, the Parent reimburses the Company for all taxes, including payroll and sales tax. Accordingly, the Company has not provided in these financial statements for federal or state income taxes.

In accordance with GAAP, the Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Company recording a tax liability that would reduce member’s equity. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities. Management’s conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof.

The Company files its income tax returns in various state and local jurisdictions. Any potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with state and local tax laws. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

2. Due from broker

Pursuant to its clearing agreements, the Company introduces all its securities transactions to its clearing brokers on a fully disclosed basis. Customers’ money balances and 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 addition, pursuant to its executing agreement, the Company executes securities transactions with executing brokers. As of May 31, 2020, the due from broker of $44,649 are pursuant to these agreements.

3. Clearing brokers deposit

The Company has a brokerage agreement with its clearing brokers to carry its accounts and the accounts of its clients as customers of the clearing brokers. The clearing brokers have custody of the Company’s cash balances which serve as collateral for any amounts due to the clearing brokers as well as collateral for securities sold short or securities purchased on margin. Interest is paid monthly on these cash deposits held at ETC and Apex. The balance at May 31, 2020 was $389,425.

4. Related party transactions

The Company has an expense sharing agreement with its Parent. The Parent performs and provides certain functions for the Company, including office facilities, payroll services, insurance, professional services, and technology.

The intercompany payable represents unpaid amounts due to Parent of approximately $118,477 at May 31, 2020 and is included on the accompanying statement of financial condition.

5. Net capital requirement

The Company, as a member of FINRA, is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness as defined to net capital, shall not exceed 15 to 1. The rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At May 31, 2020, the Company's net capital was approximately $765,69 which was approximately $515,692 in excess of its minimum net capital of $250,000.

6. Off-balance sheet risk and concentrations of credit risk

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.

The Company maintains cash in bank accounts which, at times, may exceed federally insured limits. The Company is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf

7. Commitments and contingencies

The Company has entered into a fully disclosed clearing agreements with ETC and Apex. The agreement requires minimum monthly charges that total an aggregate of $145,000 for the year ended period November 30, 2020.

In the normal course of business, the Company may be involved in disputes, claims or assessments from time to time. The Company is not aware of any such matters that would have a material impact on its financial statements.

The Company incurred significant losses in the current period associated with becoming a new entrant into its industry. Similar startup costs are not projected for the next fiscal period. The company has significant liquid funds to continue its operations and meet its obligations that are due within one year following the date that the financial statements are issued.

On March 24, 2020 FINRA granted approval of the Company's application to operate an omnibus account. As of May 31, 2020, the Company has not yet begun to operate the omnibus account.

8. Exemption from Rule 15c3-3

The Company is exempt from the Securities and Exchange Commission Rule 15c3-3 pursuant to the exemptive provisions of subparagraph (k)(2)(ii).

9. Recently issued accounting pronouncements

Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers: Topic 606, also referred to as Accounting Standards Codification Topic 606 ("ASC Topic 606"), supersedes nearly all existing revenue recognition guidance under GAAP. ASC Topic 606 requires a principle-based approach for determining revenue recognition. The core principle is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASC Topic 606 is effective for the Company as of May 31, 2020. ACS Topic 606 had no material impact on the Company's financial statements.

In February 2016, the FASB issued ASC Topic 842, Leases, which supersedes the existing guidance for lease accounting. ASC Topic 842 requires lessees to recognize leases with terms longer than 12 months on their statements of financial condition. It requires different patterns of recording lease expense for finance and operating leases. It also requires expanded lease agreement disclosures. Lessor accounting is largely unchanged. ASC Topic 842 is effective for the Company as of its year ended November 30, 2020. ASC Topic 842 had no material impact on the Company's financial statements.

10. Subsequent events

The Company has evaluated events subsequent to the statement of financial condition date for items requiring recording or disclosure in the financial statements. The evaluation was performed through the date the financial statements were available to be issued.