

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

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

OMB APPROVAL
OMB Number:
Expires: October 31, 2023
Estimated average burden hours per response . . . 12.00

SEC FILE NUMBER
8 - 68311

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 01/01/2020 AND ENDING 12/31/2020  
MM/DD/YYYY MM/DD/YYYY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

WATERMILL INSTITUTIONAL TRADING LLC

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

111 TOWN SQUARE PLACE SUITE 1520

(No. and Street)

JERSEY CITY

NJ

07310

(City)

(State)

(Zip Code)

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

David J. Dempsey

917-621-3829

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

CITRIN COOPERMAN & COMPANY, LLP

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

290 WEST MOUNT PLEASANT AVE, SUITE 3310

LIVINGSTON

NJ

07039

(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

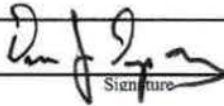
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
unless the form displays a currently valid OMB control number.

### OATH OR AFFIRMATION

I, David J. Dempsey, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of WATERMILL INSTITUTIONAL TRADING LLC, as of December 31, 2020, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
  
\_\_\_\_\_  
Chief Operating Officer  
\_\_\_\_\_  
Title

NOT NOTARIZED DUE TO COVID-19

\_\_\_\_\_  
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.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit
- ☐ (o) Exemption report

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**WATERMILL INSTITUTIONAL TRADING LLC**  
**(A Limited Liability Company)**

STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2020

# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

DECEMBER 31, 2020

### **TABLE OF CONTENTS**

---

	<b>Page</b>
<b>Report of Independent Registered Public Accounting Firm</b>	<b>1</b>
<b>Financial Statement</b>	
Statement of Financial Condition	2
Notes to Statement of Financial Condition	3-8



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Member  
Watermill Institutional Trading, LLC

### Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Watermill Institutional Trading, LLC as of December 31, 2020, and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of Watermill Institutional Trading, LLC as of December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

This financial statement is the responsibility of Watermill Institutional Trading, LLC's management. Our responsibility is to express an opinion on Watermill Institutional Trading, LLC'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 Watermill Institutional Trading, LLC 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 statement. 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 statement. We believe that our audit provides a reasonable basis for our opinion.

We have served as Watermill Institutional Trading, LLC's auditor since 2014.  
Livingston, New Jersey  
February 26, 2021



# **WATERMILL INSTITUTIONAL TRADING LLC**

(A Limited Liability Company)

## **STATEMENT OF FINANCIAL CONDITION**

---

**December 31, 2020**

---

### **ASSETS**

Cash	\$ 5,068,693
Cash segregated in compliance with federal regulations	33,711
Receivables from clearing broker	1,483,464
Receivables from broker dealers	836,823
Receivables from customer	850,000
Property and equipment, net	45,996
Prepaid expenses and other assets	81,980
Right of use asset	<u>316,742</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,717,409</u></b>

### **LIABILITIES AND MEMBER'S EQUITY**

Liabilities	
Accounts payable and accrued expenses	\$ 4,271,831
Present value of lease liability	319,701
Member's equity	<u>4,125,877</u>
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b><u>\$ 8,717,409</u></b>

# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2020**

---

#### **1. Nature of business and summary of significant accounting policies**

##### *Nature of Business*

Watermill Institutional Trading LLC (the "Company") is a limited liability company organized under the laws of the state of Delaware on August 24, 2009. Operations of the Company commenced in August 2010. The Company's operations consist primarily of engaging in agency equity transactions and investment banking services with institutional counterparties. Effective August 1, 2012, 100% of the Company's membership interest was acquired by Watermill Trading Holdings LLC.

The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and the National Association of Securities Dealers Automated Quotations ("NASDAQ").

##### *Basis of Presentation*

The statement of financial condition has been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

##### *Revenue from Contracts with Customers*

The Company accounts for revenues from contracts with customers in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue with Contracts from Customers* ("ASU 2014-09") (Topic 606), which requires an entity to recognize revenue to depict the transfer of promised good or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

##### *Revenue and Expense Recognition from Securities Transactions*

Securities transactions and the related revenues and expenses are recorded on the trade-date basis and unrealized gains and losses are reflected in revenues.

##### *Service Income*

The Company provides research services for customers. Revenue for research arrangements is generally recognized at the point in time that performance under the arrangement is completed and the customer acknowledges benefit received from the services performed.

##### *Advisory Income*

The Company provides advisory services. Revenue for advisory arrangements is generally recognized at the point in time that performance under the arrangement is completed (the closing date of the transaction) or the contract is cancelled.

# WATERMILL INSTITUTIONAL TRADING LLC

## (A Limited Liability Company)

### NOTES TO STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2020

---

#### 1. Nature of business and summary of significant accounting policies (continued)

##### *Receivables from clearing broker*

As of December 31, 2020, receivables from clearing broker consisted of commissions due from the clearing agent for commission revenue earned and the clearing deposit held with the company's clearing agent of \$983,464 and \$500,000 respectively. The balances as of December 31, 2019, were \$856,606 and \$500,000, respectively.

##### *Receivables from broker dealers*

Receivables from broker dealers consist of receivables from various broker dealers for advisory income earned. As of December 31, 2020 and 2019, the receivables from broker dealers amounted to \$836,823 and \$132,501, respectively.

##### *Receivables from customers*

Receivables from customer is stated at the amount the Company expects to collect. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial conditions of the Company's customers were to deteriorate, adversely affecting their ability to make payments, allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2020 and 2019, receivables from customers amounted to \$850,000 and \$0, respectively, and management has determined that all of its receivables from customers were fully collectible.

##### *Commissions*

The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership of the securities have been transferred to/from the customer.

##### *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization as follows:

Asset	Useful Life	Estimated Principal Method
Furniture and fixtures	5 years	Straight-line
Network and server equipment	3 years	Straight-line
Computer hardware	3 years	Straight-line
Computer software	3 years	Straight-line
Leasehold improvements	Lease term	Straight-line



# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2020**

---

#### **1. Nature of business and summary of significant accounting policies (continued)**

##### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *Income Taxes*

The Company has elected to be treated as a partnership under the applicable provisions of income tax laws and, accordingly, no income taxes are incurred by the Company as all earnings and losses flow directly to the member.

The Company files income tax returns in the U.S. federal jurisdiction and various states and local jurisdictions.

##### *Uncertain Tax Positions*

The Company recognizes and measures its unrecognized tax benefits in accordance with FASB Accounting Standards Codification ("ASC") 740, *Income Taxes*. Under that guidance, the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

##### *Recently Adopted Accounting Pronouncements*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities, and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current U.S. GAAP, which generally require that a loss be incurred before it is recognized. For financial assets measured at amortized cost (e.g., cash and cash equivalents and receivables from broker-dealers) and receivables from customers, the Company has concluded that there are de minimus expected credit losses based on the nature and contractual life or expected life of the financial assets and immaterial historic and expected losses. On January 1, 2020, the Company adopted Topic 326 using the modified retrospective approach for all in-scope assets, which did not result in an adjustment to the opening balance in member's equity.

##### *Right of Use Assets and Lease Liabilities*

The Company recognizes its leases in accordance with ASC Topic 842, *Leases* ("ASC 842"). The guidance increases transparency by requiring the recognition of right to use assets and lease liabilities on the statement of financial condition.

In applying ASC 842, the Company made an accounting policy election not to recognize the right of use assets and lease liabilities relating to short term leases that have a lease term of 12 months or less at the lease

# WATERMILL INSTITUTIONAL TRADING LLC

## (A Limited Liability Company)

### NOTES TO STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2020

---

#### 1. Nature of business and summary of significant accounting policies (continued)

##### *Right of Use Assets and Lease Liabilities (continued)*

inception, and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company recognizes lease costs associated with short-term leases on a straight-line basis over the lease.

Right of use assets represent the Company's right to use the underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right of use assets and lease liabilities are recognized at the commencement date based on the present value of the lease payments over the lease term. As the Company's leases do not provide an implicit rate and the implicit rate is not readily determinable, the Company estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments.

The discount rate is the implicit rate if it is readily determinable or the Company may use its incremental borrowing rate. The present value of the lease payments was determined using a 6.00% incremental borrowing rate. Right of use assets also exclude lease incentives.

The Company reconciles the operating lease expense with the operating lease payments by presenting the amortization of the right of use asset and the change in the lease liability in a single line item within the adjustments to reconcile net income to net cash provided by operating activities in the accompanying statement of cash flows.

##### *Uncertainty due to COVID-19*

During the calendar year 2020, the World Health Organization has declared COVID-19 to constitute a "Public Health Emergency of International Concern." This pandemic has disrupted economic markets and the impact, duration and spread of the COVID-19 virus is uncertain at this time. The impact on the financial markets and the overall economy, all of which are highly uncertain, cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Company's results may be materially affected. The statement of financial condition does not include any adjustments that might result from the outcome of this uncertainty.

##### *Subsequent Events*

The Company has evaluated events occurring after the date of the statement of financial condition for potential recognition or disclosure in its financial statements. The Company did not identify any material subsequent events requiring adjustment to or disclosure in its financial statement.

#### 2. Property and equipment

Details of property and equipment at December 31, 2020 are as follows:

Furniture and fixtures	\$	157,468
Network & server equipment		168,109
Computer hardware		420,976
Computer software		11,414
Leasehold improvements		235,007
		<hr/>
		992,974
Less: accumulated depreciation and amortization		946,978
		<hr/>
	\$	45,996



# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2020**

---

#### **2. Property and equipment (Continued)**

Depreciation and amortization expense for the year ended December 31, 2020, was \$25,994.

#### **3. Net capital requirement**

The Company, as a member of FINRA, is subject to the SEC Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2020, the Company's net capital was \$3,860,684, which was \$3,610,684 in excess of its minimum requirement of \$250,000.

#### **4. Commitment**

The Company leases its Jersey City office facility under an operating lease, which expires in September 2024.

As of December 31, 2020, maturities of the outstanding lease liability for the company, is as follows:

<u>Year Ending December 31:</u>	<u>Amount</u>
2021	93,729
2022	95,045
2023	96,360
2024	73,010
Total	\$ 358,144
Discount to present value	\$ 38,443
Lease Liability	<u>\$ 319,701</u>

As of December 31, 2020, the weighted average remaining lease term is 3.67 years and the weighted average discount rate is 6.0%.

The Company leases its Florida office facility on a month-to-month basis for \$5,000 per month from Watermill Trading Holdings LLC.

Occupancy expense for the year ended December 31, 2020, was \$158,097, including the short-term lease cost of \$60,000.

#### **5. Concentrations of credit risk**

At December 31, 2020, and routinely throughout the year then ended, the Company maintained its cash balances in major financial institutions that exceed federally insured limits. The Company has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk with respect to cash.

During the year ended December 31, 2020, approximately 32% of the Company's revenues were from 2 customers.

# **WATERMILL INSTITUTIONAL TRADING LLC**

## **(A Limited Liability Company)**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2020**

---

#### **6. Employee benefit plan**

The Company maintains a retirement plan (the "401(k) Plan"), pursuant to Section 401(k) of the Internal Revenue Code ("IRC"), for eligible participants. Under the terms of the 401(k) Plan, participants can contribute a portion of their annual compensation, subject to limitations provided by the IRC. The Company can make discretionary matching contributions to the 401(k) Plan on behalf of participating employees. At December 31, 2020, the Company incurred expenses related to the 401(k) Plan of \$91,120.

#### **7. Soft dollar payables**

The Company has soft dollar arrangements with certain clients within the provisions of Rule 28(e) which establishes a safe harbor for money managers, which allows them to purchase research and brokerage services for clients using soft dollars.

The Company has a restricted cash account segregated on the statement of financial condition in accordance with SEC Rule 15c3-3(k)(2)(i) of \$33,710.68 related to proceeds from soft dollar transactions. The Company has a soft dollar payable of \$13,809 at December 31, 2020, which is included in "accounts payable and accrued expenses" on the accompanying statement of financial condition. The Company disburses this cash to third parties on behalf of its customers following Rule 28(e) requirements.

#### **8. Off-balance-sheet risk**

Pursuant to clearance agreements, the Company introduces all of its securities transactions to clearing brokers on a fully-disclosed basis. All of the customers' money balances and long and short 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 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 and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

In addition, the receivables from the clearing brokers are pursuant to these clearance agreements and include a clearing deposit of \$500,000.