

BIRCH LAKE PARTNERS, LP

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2020

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

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

OMB APPROVAL
OMB Number: 3235-0123
Expires: October 31, 2023
Estimated average burden hours per response..... 12.00

SEC FILE NUMBER
B-69853

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/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Birch Lake Partners, LP
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
Hyatt Center, 71 South Wacker Drive, Suite 2425

OFFICIAL USE ONLY
FIRM I.D. NO.

Chicago IL 60606
(City) (State) (Zip Code)

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

Chad Kirschenblatt

516-222-9111

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Topel Forman LLC

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

500 N. Michigan Ave, Ste 1700 Chicago IL 60611
(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)

OATH OR AFFIRMATION

I, Jack Butler, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Birch Lake Partners, LP, 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:




Signature

Title


Notary Public

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

- ☒ (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.
- ☐ (o) Exemption Report

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

BIRCH LAKE PARTNERS, LP

DECEMBER 31, 2020

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
of Birch Lake Partners, LP

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Birch Lake Partners, LP as of December 31, 2020, 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 Birch Lake Partners, LP 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 Birch Lake Partners, LP's management. Our responsibility is to express an opinion on Birch Lake Partners, LP'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 Birch Lake Partners, LP 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.

Topel Forman L.L.C.
Certified Public Accountants

We have served as Birch Lake Partners, LP's auditor since 2017.
Chicago, Illinois
February 23, 2020

BIRCH LAKE PARTNERS, LP
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2020

ASSETS

Cash	\$ 278,774
Due from affiliate	151,421
Accounts receivable	<u>30,117</u>
Total assets	<u>\$ 460,312</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities:

Accrued expenses and other payables	<u>\$ 878</u>
Total liabilities	878

Members' equity	<u>\$ 459,434</u>
Total liabilities and members' equity	<u>\$ 460,312</u>

BIRCH LAKE PARTNERS, LP
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2020

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Birch Lake Partners, LP (the "Company") is a registered broker-dealer, effective as of March 9, 2017 ("registration date"), with the U.S. Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 and is a member of both the Financial Industry Regulatory Authority, Inc. ("FINRA") and the Securities Investors Protection Corporation ("SIPC"). The Company earns fees from investment banking transactions.

As of September 3, 2020, the Company will not claim an exemption from SEA Rule 15c3-3, in reliance on footnote 74 to SEC Release 34-70073, and as discussed in Q&A 8 of the related FAQ issued by SEC staff. The Company has represented that it does not and will not, (1) directly or indirectly receive, hold, or otherwise owe funds or securities for or to customers, (2) does not and will not carry accounts of or for customers and (3) does not and will not carry PAB accounts.

The accompanying financial statements have been prepared from the separate records maintained by the Company and, due to certain transactions and agreements with the affiliated companies (see Note 5), such financial statements may not necessarily be indicative of the financial condition that would have existed or the results that would have been obtained from operations had the Company operated as an unaffiliated entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying financial statements of the Company have been prepared on the accrual basis of accounting.

Revenue recognition

Revenue from investment banking advisory services is recognized when the services are rendered and related expenses are recorded when incurred. Deal fees are recorded when earned and related expenses are recorded when incurred. During the period ended December 31, 2020, three clients accounted for 97% of total deal fees.

Concentration of risk

The Company maintains cash in bank accounts with a single financial institution. The balances are insured by the FDIC up to \$250,000. At times, the balances in these accounts may exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash.

BIRCH LAKE PARTNERS, LP
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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.

Receivables and credit policies

Accounts receivable, which represent unsecured customer obligations due under normal trade terms generally requiring payment within 30 days from the invoice date, are stated at the amount billed to the customer. Interest is not charged for receivables unpaid after the expiration of normal terms. Customer account balances with invoices over 90 days old are considered to be delinquent. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Periodically, the Company evaluates its accounts receivable and, if applicable, provides for an allowance for doubtful accounts equal to amounts estimated to be uncollectible. The Company's estimate is based on a review of current status of the individual accounts receivable. No allowance for doubtful accounts was deemed necessary at December 31, 2020.

Income taxes

The Company is not subject to U.S. federal nor state income taxes as it is a partnership and accordingly any income or loss is reported directly by the members in their income tax returns.

The Company recognizes and measures its unrecognized tax benefits as well as its unrecorded liability, if any, in accordance with FASB ASC 740, Income Taxes. Under that guidance, the Company assesses the likelihood, based on 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 as well as unrecorded tax liability is adjusted when new information is available, or when an event occurs that requires a change.

The Company files U.S. Federal and Illinois state income tax returns. There were no unrecognized tax positions as of December 31, 2020. The Company is subject to income tax examinations for the years 2018, 2019 and 2020. If applicable, the Company would recognize penalties and interest related to uncertain tax positions in income tax expense.

BIRCH LAKE PARTNERS, LP
NOTES TO THE FINANCIAL STATEMENT
DECEMBER 31, 2020

3. FAIR VALUE MEASUREMENTS

The Company's short-term financial instruments consist of cash, receivables, and current liabilities. The carrying value of these short-term instruments approximates their estimated fair values based on the instruments short term nature.

4. REVENUE RECOGNITION

Investment banking revenues are recognized in accordance with terms agreed upon with each client and are generally based on a percentage of capital raised or gross proceeds of a transaction.

In accordance with ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASC Topic 606") revenues from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring the promised services to the customers. A service is transferred to a customer when, or as, the customer obtains control of that service. A performance obligation may be satisfied at a point in time or over time. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised service. Revenue from a performance obligation satisfied over time is recognized by measuring the Company's progress in satisfying the performance obligation in a manner that depicts the transfer of the services to the customer. The amount of revenue recognized reflects the consideration the Company expects to receive in exchange for those promised services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration, if any.

The Company recognizes revenue on success fee-based transactions when the transaction closes as this satisfies the only performance obligation identified in accordance with this standard. When client terms include a monthly advisory fee, it is determined whether the monthly advisory fee is non-refundable and in connection with specific performance obligations. If distinct performance obligations are identified and the monthly advisory fee does not offset a transaction fee, the revenue is recognized at the time of receipt.

The Company's significant revenue stream consists entirely of investment banking revenues and all revenues are earned at a specific point in time.

Investment banking revenues consist of advisory services on corporate finance activities. These investment banking revenues are received based on contractual terms. The performance obligation for the advisory services is the completion of the corporate finance activities such as mergers and acquisitions, reorganizations and leveraged buyouts.

The Company made no significant judgements in applying the revenue guidelines prescribed in ASC-606 that affect the determination of the amount and timing of revenue from the above described investment banking revenues.

BIRCH LAKE PARTNERS, LP

NOTES TO THE FINANCIAL STATEMENT

DECEMBER 31, 2020

5. RELATED PARTY TRANSACTIONS

Through an expense sharing agreement with Birch Lake Partners GP, LLC (the "Parent") and Birch Lake Associates, LLC (the "Affiliate"), the Company was allocated certain operating expenses including occupancy, administrative salaries, communications, and office expenses. As of December 31, 2020, the Company had no payable balance due to Affiliate.

During the normal course of business, the Affiliate received revenue deposits on behalf of the Company which are transferred to the Company's account. There was a due from affiliate balance of \$151,421 at December 31, 2020.

6. MEMBERS' EQUITY

For the year ended December 31, 2020, the changes in members' equity consisted of the following:

	General Partner	Limited Partners	Total
Balance, January 1, 2020	\$ 14,531	\$ 438,615	\$ 453,146
Net Income	15,313	1,515,975	1,531,288
Distributions	-	(1,525,000)	(1,525,000)
Balance, December 31, 2020	\$ 29,844	\$ 429,590	\$ 459,434

7. EQUITY GRANTS

Effective January 3, 2017, an affiliate of the Company entered into an employment agreement with an officer of the Company which granted the officer a limited partnership interest in the affiliate. Effective January 1, 2018, the employment agreement was amended and corrected to include the grant of a limited partnership interests to other affiliated companies, including the Company. The fair value, vesting conditions and equity classification of the grant did not change from the original agreement, therefore ASU 2017-09 was not applicable to the modification. Per terms of the agreement, the officer was granted a 5% limited partner interest in the Company. The fair value of the equity interest was calculated as \$0 at the effective date of the original grant. These equity grants are being made by the majority owner directly and are not additional units issued from the Company and are contingent on the officer's continuous employment with the affiliate and subject to the following vesting schedule:

<u>January 1</u>	<u>Vesting Percentage</u>
2018	20%
2019	40%
2020	60%
2021	80%
2022	100%

BIRCH LAKE PARTNERS, LP
NOTES TO THE FINANCIAL STATEMENT
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7. EQUITY GRANTS *(continued)*

Effective June 16, 2020, there was a grant of limited partnership interests to another partner who joined the Company. Pursuant to the terms of the employment agreement, the partner was granted a 5% limited partner interest in the Company. These equity grants are being made by the majority owner directly and are not additional units issued from the Company and are contingent on various terms and conditions, including the partner's continuous employment with the affiliate and are subject to the following vesting schedule:

<u>January 1</u>	<u>Vesting Percentage</u>
2021	20%
2022	40%
2023	60%
2024	80%
2025	100%

The fair value of the equity grant was \$0 at the grant date, therefore no compensation cost was recorded relating to these equity grants.

The following is an analysis of the unvested units on the Company's limited partnership grant percentages issued and vested for the year ended December 31, 2020:

Limited partnership grant percentage unvested at January 1, 2020	3%
Vested during year	-1%
Granted during year	5%
Limited partnership equity grant percentage unvested at December 31, 2020	7%

8. NET CAPITAL REQUIREMENTS

The Company is subject to the uniform net capital requirements of Rule 15c3-1 of the Securities and Exchange Act, as amended, which requires the Company to maintain, at all times, sufficient liquid assets to cover indebtedness. In accordance with the Rule, the Company is required to maintain defined minimum net capital of the greater of \$5,000 or 6 2/3% of aggregate indebtedness.

At December 31, 2020, the Company had net capital, as defined, of \$277,896, which exceeded the required minimum net capital of \$5,000 by \$272,896. There was \$878 of Aggregate indebtedness as of December 31, 2020. The Company's percentage of aggregate indebtedness to net capital was .32%.

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through February 23, 2021 the date on which the financial statements were issued.