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PART III *

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Information Required Pursuant to Rules 17a-5, 17a-12, and 18a-7 under the Securities Exchange Act of 1934

Washington, DC

FILING FOR THE PERIOD BEGINNING 01/01/21 AND ENDING 12/31/21
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF FIRM: AQUILA DISTRIBUTORS LLC

TYPE OF REGISTRANT (check all applicable boxes):

- Broker-dealer
- Security-based swap dealer
- Major security-based swap participant
- Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use a P.O. box no.)

120 W 45TH STREET, SUITE 3600

(No. and Street)

NEW YORK

NY

10036

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

RANDALL S. FILLMORE

212-697-6666

RFILLMORE@AQUILAFUNDS.COM

(Name)

(Area Code - Telephone Number)

(Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing*

MAZARS USA LLP

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

60 CROSSWAYS PARK DR STE 301

WOODBURY

NY

11797

(Address)

(City)

(State)

(Zip Code)

10/08/2003

339

(Date of Registration with PCAOB)(if applicable)

(PCAOB Registration Number, if applicable)

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* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), if applicable.

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.

RMS

I, RANDALL S. FILLMORE, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of AQUILA DISTRIBUTORS LLC, as of DECEMBER 31, 2021, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.



Notary Public

PAMELA C. ROSE
NOTARY PUBLIC, STATE OF NEW YORK
Registration No. 01RO6089026
Qualified in New York County
Commission Expires March 17, 2023

Signature: Randall S. Fillmore

Title:
CHIEF COMPLIANCE OFFICER

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

- (a) Statement of financial condition.
- (b) Notes to consolidated 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 cash flows.
- (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- (f) Statement of changes in liabilities subordinated to claims of creditors.
- (g) Notes to consolidated financial statements.
- (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (t) Independent public accountant's report based on an examination of the statement of financial condition.
- (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- (z) Other: _____

****To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.**

Report of Independent Registered Public Accounting Firm

To the Member of Aquila Distributors LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Aquila Distributors LLC, (the "Company"), as of December 31, 2021, 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 the Company, as of December 31, 2021, 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 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 the Company's auditor since 2016.

Mazars USA LLP

New York, NY
February 16, 2022

Aquila Distributors LLC
Statement of Financial Condition
December 31, 2021

Assets

Cash and cash equivalents	\$ 1,126,956
Due from affiliates	54,187
Prepaid expenses	51,457
Marketable securities, at fair value	63,003
Commissions receivable	2,184
Deferred tax asset	400
Dividend receivable	162

Total assets \$ 1,298,349

Liabilities and Member's Equity

Liabilities

Payable to brokers	\$ 304,065
Due to an affiliate	240,052
Accounts payable and accrued expenses	2,141
Accrued taxes	1,800
Total liabilities	<u><u>548,058</u></u>

Total member's equity 750,291

Total liabilities and member's equity \$ 1,298,349

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

1. Organization

Aquila Distributors LLC (“ADL” or the “Company”), a Delaware Limited Liability Company, is a registered broker and dealer in securities under the Securities Exchange Act of 1934. ADL serves as the principal underwriter to the Aquila Group of Funds (the “Funds,” each a “Fund”) and acts as the exclusive distributor of shares in the Funds for Aquila Investment Management LLC (“AIM”), an entity under common ownership. AIM serves as the administrator for all of the Funds, and investment adviser and administrator for all but one of the Funds. ADL and AIM are wholly owned by Aquila Management Corporation (“AMC” or “Parent Company”), the sponsor and creator of the Funds.

As further described in the related party transactions Note 4, the Company is a member of a group of affiliated companies and has relationships with members of the group. Because of these relationships, it is possible that the terms of these transactions are not the same as those which would result from transactions among unrelated parties.

Revenue from Sale of Investment Company Shares

As exclusive distributor of the Funds, the Company receives income from the sales of affiliated mutual fund shares including underwriter fees and dealer commissions from mutual fund trades processed by the Company. Underwriter fees are earned on all sales of loaded A shares. Dealer commissions are earned on sales of loaded A shares and sales of C shares when the Company is listed as dealer of record or there is no current dealer of record. Underwriter fees and dealer commissions are based upon a percentage of sales prices of the shares sold, which percentage varies with the dollar amount of the purchase and shares already owned. Commission income is recognized on trade date, which is the date of the sale of the mutual fund shares.

In addition, the Company earns distribution fees in the form of C share service fees. The C share service fee is earned on outstanding C shares aged greater than 12 months and less than 72 months at which time C shares automatically convert to A shares. Distribution fees also includes 12b-1 fees on A, C and I shares outstanding primarily when the Company is listed as dealer of record, the full amount is not re-allowed to the dealer of record, or there is no current dealer of record. Distribution fees are earned and recognized on a monthly basis based on shares outstanding of the affiliated funds during the month.

Contingent deferred sales charges (“CDSC”) fees are earned when redemption occurs during the CDSC period. CDSC fees are recognized when shares over \$250,000 are purchased at NAV (“Net Asset Value”) with dealer allowance and redeemed prior to the 2 or 4 year CDSC period and C share redemptions within the first year.

Market impact to the NAV of C shares creates gain/loss as the paydown occurs on C Share receivable balances. The paydown occurs monthly during the first year, and respective gain/loss are recognized at the time of each paydown.

Clearance of Mutual Fund Shares

The Company is a member of Fund/Serv, a facility offered to registered broker-dealers for the clearance of purchases and redemptions of mutual fund shares by member financial institutions. Pursuant to arrangements with the affiliated mutual funds and their bank, the Company does not

1. Organization – (Continued)

hold cash or securities from Fund/Serv nor does it owe money or securities to the affiliated mutual funds for the liabilities associated with such funds or securities. All fund shareholder records are maintained by BNY Mellon Investment Servicing (US) Inc., (including omnibus accounts for several brokers), as transfer and shareholder servicing agent for the affiliated mutual funds.

2. Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all money market accounts and all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents.

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.

Income Taxes

ADL is a Limited Liability Company and is disregarded for Federal income tax purposes. All income and expenses are included on the Parent Company's income tax return. The Parent Company has elected to be treated as an "S" Corporation under the provisions of the Internal Revenue Code and for New York State tax purposes. Accordingly, the Parent Company is not subject to Federal income tax and pays New York State tax at a minimum rate. Stockholders of the Parent Company are responsible for their respective shares of Federal and New York State income taxes. However, the Parent Company is subject to New York City corporate taxes.

The Company uses the asset and liability method to calculate deferred tax assets and liabilities. Deferred taxes are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Generally, the Company's tax returns are subject to examination by Federal, state, and local authorities for a period of three years from the later of either the due date of such returns or the actual date the returns were filed.

The Company has elected to adopt ASU 2019-12 ("Topic 740") to simplify the accounting for income taxes. The ASU amends the guidance to specify that legal entities that are not subject to tax such as certain partnerships and disregarded Single Member LLCs are not required to include, in their separate financial statements, allocated amounts of consolidated current and deferred taxes. The adoption of the ASU did not have a material impact on its financial statements and related disclosures.

2. Summary of Significant Accounting Policies (Continued)

Revenue from Contracts with Customers

The Company accounts for revenue earned from contracts with customers for various services relating to the sales of affiliated mutual fund shares under ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” As such, revenues for these services are recognized when performance obligations related to the underlying transactions are completed and are presented under “Revenue from sale of investment company shares” in the accompanying statement of operations. ASU 2014-09 provides comprehensive guidance on the recognition of revenue earned from contracts with customers arising from the transfer of goods and services, guidance on accounting for certain contract costs and new disclosures.

3. Revenue from Sale of Investment Company Shares

The following table reflects the changes in the Company’s contract assets, which the Company classifies as “Commissions receivable” or “Due from affiliates”, and the Company’s contract liabilities, which the Company classifies as “Payable to brokers” for the year ended December 31, 2021:

	12/31/20	12/31/21
Commissions receivable	\$ 10,342	\$ 2,184
Due from affiliates	\$ 87,478	\$ 54,187
Payable to brokers	\$342,492	\$304,065

Commissions receivable represent underwriting and dealer commissions in the amount of \$2,184 for trades occurring at the end of December 2021 which were collected in the subsequent month. Due from affiliates in the amount of \$54,187 represent receivables for December 12b-1 distribution fees which were collected in the subsequent month and receivable for C Shares which will be collected over the next twelve months. Payable to brokers in the amount of \$304,065 represent 12b-1 distribution and CDSC fees as of December 31, 2021.

4. Related Party Transactions

Related party transactions are between (a) AMC, and its other wholly owned subsidiary, AIM, (b) the Funds, and (c) a consultant who also serves as a manager of the Company (collectively, the “Affiliated Parties”).

Expense Sharing Agreement

ADL and AIM entered into an Expense Sharing Agreement (“Agreement”), covering: (1) Payroll and Fringe Benefits, (2) Rent, Utilities and Use of Office Equipment, (3) Communications Expense, (4) Customer Relationship Management System, and (5) Corporate American Express Credit Card Charges. In addition, the agreement calls for AIM to compensate the Company for certain services, specifically for shareholder services, marketing, professional, and support services provided for AIM’s benefit. The Agreement establishes systematic and rationale allocation methodologies for each shared expense category consistent with U.S. generally accepted accounting principles. The Agreement will automatically renew on a year-to-year basis unless and until terminated by either party on thirty days’ notice.

4. Related Party Transactions (Continued)

The Company owes AIM \$240,052 related to this expense sharing agreement which is reported as due to affiliate in the accompanying statement of financial condition at December 31, 2021.

Shareholder Services, Marketing, Professional and Support Services

ADL and AIM have also determined that it is appropriate for AIM to compensate ADL for certain shareholder services, marketing, professional and support services performed by ADL relating to the operations, and necessary for the functioning that benefit AIM and the Funds, through ADL's role as distributor of the Funds. AIM continues to provide support to ADL through support fees.

Purchased C Share Receivables

ADI and AIM are parties to a Purchase and Sale Agreement, whereby, the Company from time to time may sell purchased receivables related to each fund to AIM. For the year ended December 31, 2021, AIM did not purchase any receivables. AIM will continue to provide support to ADL through purchased receivables when needed.

These actions (Support Service Fee and C Share Receivable purchase transactions) serve to infuse additional Net Capital into ADL with a goal to maintain a satisfactory level of Net Capital. ADL management continues to carefully monitor its level of Net Capital and AIM is prepared to purchase additional C Share Receivables, or take such other actions (to maintain adequate levels of Net Capital) as may be necessary in the circumstances.

Consulting Services

For the year ended December 31, 2021, the Company made payments to an affiliated party for consulting services.

Due from Affiliates

At December 31, 2021, due from affiliates amounts to \$54,187 and represents 12b-1 distribution and service fees due from the Funds.

5. Net Capital Requirements

The Company is subject to the uniform net capital requirements of Rule 15c3-1 of the Securities and Exchange Commission Act, as amended, which requires a broker-dealer to have, 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 \$25,000 or 1/15 of aggregate indebtedness.

At December 31, 2021, the Company had net capital, as defined, of \$634,797, which exceeded the required minimum net capital of \$36,537 by \$598,260. Aggregate indebtedness at December 31, 2021 totaled \$548,058. The ratio of aggregate indebtedness to net capital was 0.86 to 1.

Additionally, National Securities Clearing Corporation requires a broker-dealer to have \$50,000 in excess net capital over the minimum net capital requirement imposed by the Securities and Exchange Commission. The Company exceeded this requirement by \$548,260.

6. Off-Balance-Sheet Risk and Concentration of Credit Risk

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various securities transactions. These activities may expose the

Company to off-balance-sheet credit risk in the event the customer or other party is unable to fulfill its contractual obligations.

The uncertain financial market could adversely affect the Company's business.

The Company had cash in excess of FDIC insured limits in the amount of \$826,478 at December 31, 2021 and was exposed to the credit risk resulting from this concentration of cash.

7. Fair Value Measurements

The Company accounts for its financial instruments at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels is explained below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2: Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3: Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Company's own estimates about the assumptions a market participant would use in valuing the asset or liability, based on the best information available.

The following are the major categories of assets measured at fair value on a recurring basis and summarized by the fair value hierarchy as described above, as of December 31, 2021.

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities	<u>\$63,003</u>	<u>\$63,003</u>	<u>\$ -</u>	<u>\$ -</u>

8. Subsequent Events

No other events or transactions subsequent to December 31, 2021 through the date that this financial statement was issued would require recognition or disclosure in this financial statement.