

Bates Securities, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Bates Securities, Inc.

Opinion on the Financial Statements

I have audited the accompanying statement of financial condition of Bates Securities, Inc., as of January 31, 2025, the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended, and the related notes and schedules (collectively referred to as the financial statements). In my opinion, the financial statements present fairly, in all material aspects, the financial position of Bates Securities, Inc. as of January 31, 2025 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of Bates Securities, Inc.'s management. My responsibility is to express an opinion on Bates Securities, Inc.'s financial statements based on my audit. I am a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and am required to be independent with respect to Bates Securities, Inc. in accordance with the U.S. federal securities laws and the applicable rules and the regulations of the Securities and Exchange Commission and the PCAOB.

I conducted my audit in accordance with the standards of the PCAOB. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. My audit included performing procedures to assess the risks of material misstatement of the financial statements, 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. My 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. I believe that my audit provides a reasonable basis for my opinion.

Supplemental Information

The Schedule I, Computation of Net Capital Under SEC Rule 15c3-1, has been subjected to audit procedures performed in conjunction with the audit of Bates Securities, Inc.'s financial statements. The supplemental information is the responsibility of Bates Securities, Inc.'s management. My audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming my opinion on the supplemental information, I evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. §240.17a-5. In my opinion, Schedule I, Computation of Net Capital Under SEC Rule 15c3-1, is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read 'T. Faust', with a large loop and a horizontal line extending to the left.

Thomas Faust, CPA, LLC
d/b/a Thomas Faust, CPA

I have served as the Company's auditor since 2024.

Lafayette, Indiana
April 25, 2025

Bates Securities, Inc.
Statement of Financial Condition
As of January 31, 2025

Assets

Cash and cash equivalents	\$	28,786
Commissions receivable, net		22,102
Marketable securities, at fair value		53,207
Prepaid expenses		10,595
		<hr/>
Total assets	\$	114,690

Liabilities and Stockholder's Equity

Liabilities:

Accounts payable	\$	4,512
Related party payable		7,548
		<hr/>
Total liabilities		12,060

Stockholder's Equity:

Common stock, no par value, \$10 per share, 360 shares issued and outstanding		3,600
Additional paid-in capital		218,100
Retained earnings		(119,070)
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Total stockholder's equity		102,630

Total liabilities and stockholder's equity	\$	114,690
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Bates Securities, Inc.
Statement of Operations
For the Year Ended January 31, 2025

Revenue:

Commissions revenue	\$	335,051
Unrealized gain on marketable securities		5,865
Dividend income		115
Total revenue		341,031

Expenses:

Fees and reimbursements of expenses to affiliates		109,959
Professional fees		41,839
Rent		25,500
Regulatory fees		12,924
Insurance		25,992
Other expenses		46,138
Total expenses		262,352

Net income	\$	78,679
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Bates Securities, Inc.**Statement of Changes in Stockholder's Equity****For the Year Ended January 31, 2025**

	Common Stock 360 shares	Additional Paid In Capital	Retained Earnings	Total
Balance, January 31, 2024	\$ 3,600	\$ 218,100	\$ (127,816)	\$ 93,884
Net income	-	-	78,679	78,679
Stockholder distributions			(69,933)	(69,933)
Balance, January 31, 2025	\$ 3,600	\$ 218,100	\$ (119,070)	\$ 102,630

Bates Securities, Inc.**Statement of Cash Flows****For the Year Ended January 31, 2025**

Cash Flows from Operating Activities:

Net income	\$	78,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized gain on marketable securities		(5,865)
Dividend income		(115)
Decrease (increase) in operating assets:		
Commissions receivable		(794)
Prepaid expenses		265
Increase (decrease) operating liabilities:		
Accounts payable		(4,380)
Related party payable		3,675
Net cash provided by operating activities		<u>71,465</u>

Cash Flows from Financing Activities:

Stockholder distributions		(69,933)
Net Cash Used in Financing Activities	\$	<u>(69,933)</u>

Net increase in cash		1,532
Cash and cash equivalents, beginning		<u>27,254</u>
Cash and cash equivalents, ending	\$	<u><u>28,786</u></u>

Supplemental disclosure of cash flow information:

Income taxes paid	\$	-
Interest paid	\$	-

Bates Securities, Inc.
Notes to the Financial Statements
For the Year January 31, 2025

Note 1: Organization

Nature of Operations— Bates Securities, Inc. (“the Firm”) is a registered broker-dealer in securities under the Securities and Exchange Act of 1934, as amended. The Firm is registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Company limits its activities exclusively to retailing corporate securities, mutual funds and variable life insurance or annuities.

On October 1, 2018, the Firm was acquired by QCR Holdings, Inc. and is a wholly owned subsidiary of the Company. Prior to this date, the Firm was owned by George E. Bates and the Carol E. Bates Charitable Remainder Unit Trust.

On August 11, 2020, QCRH sold Bates Securities, Inc. back to George E. Bates.

Note 2: Summary of Significant Accounting Policies

A summary of the Firm’s significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

Cash and Cash Equivalents— Cash and cash equivalents include cash and investments in money market mutual funds. For purposes of the statements of cash flows, the Firm considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents. There were no cash equivalents at January 31, 2025.

The Firm places its cash in accounts with two local financial institutions. At times, balances in these accounts may exceed FDIC insured limits.

Commissions Receivable— Commissions Receivable consists of commissions, fees and other amounts owed to the Firm. The Firm considers all commissions receivable to be fully collectible. Uncollectible accounts receivable are charged directly against operations when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America. Management believes an allowance is unnecessary. Commissions receivable are written-off when collection efforts have been exhausted. At January 31, 2025, commissions receivable were \$22,102.

Investment in Marketable Securities—The Firm has an investment in a marketable equity security that is listed and traded on a national exchange. The Firm’s investment in marketable equity securities has been classified as available-for-sale and is stated at fair value. Unrealized holding gains and losses are reported in the Statement of Operations on the line titled unrealized gain on marketable securities. Dividends on marketable equity securities are recognized in income when declared. Realized gains and losses, including losses from declines in the value of specific securities determined by management to be other-than-temporary, are included in income. No other-than temporary impairment was recognized in the year ended January 31, 2025.

Basis of Accounting – These financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. Revenues are recognized in the period earned and expenses when incurred.

Bates Securities, Inc.
Notes to the Financial Statements
For the Year January 31, 2025

Note 2: Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition—Revenue from contracts with customers include commissions from the sale of variable annuity and mutual fund products. The recognition and measurement of revenue is based on the assessment of the individual contract terms. Significant judgement is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified.

The Firm recognizes commissions revenue on variable annuities and mutual fund products once received with an estimate booked representing outstanding commissions due. Commissions are recorded on a trade-date basis.

Use of Estimates—Preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

Recent Accounting Pronouncements – Accounting standards that have been issued by the Financial Accounting Standards Board are not expected to have a material impact on the Firm's financial position, results of operations or cash flows.

Note 3: Related Party Transactions

The Firm has an operating agreement with an affiliated company. The agreement provides for the affiliated company to pay the Firm's operating expenses, including occupancy, payroll and administrative expenses. These expenses totaled \$210,010 for the year ended January 31, 2025 and are included in the Statement of Operations. At January 31, 2025, the Firm owed the related party \$7,548.

Note 4: Exemption Under Rule 15c3-3

The Firm is exempt from the provisions of Rule 15C3-3 under the Securities Act of 1934 pursuant to paragraph (k)(2)(i) of the rule. The Firm does not carry customer margin accounts and promptly transmits all customer funds and securities received in connection with its activities as a broker dealer. The Firm does not hold funds or securities for or owe money or securities to customers.

Note 5: Net Capital Requirements

The Firm is required to maintain a minimum net capital under Rule 15c3-1 of the Securities and Exchange Commission. Net capital required under the rule is the greater of \$5,000 or 6 2/3 percent of the aggregate indebtedness of the Firm. At January 31, 2025, net capital as defined by the rules, equaled \$62,283, which was \$57,283 in excess of its required net capital of \$5,000 and its aggregate indebtedness was \$12,060. The Firm's ratio of aggregated indebtedness to net capital was 0.19 to 1.

Bates Securities, Inc.
Notes to the Financial Statements
For the Year January 31, 2025

Note 6: Reserve Requirements and Possession or Control Requirements Under Rule 15c3-3

The Firm does not hold funds or securities for or owe money or securities to customers, and therefore is exempt from the customer reserve and possession or control requirements pursuant to paragraph (k)(2)(i) of Rule 15c3-3 of the Securities Exchange Act of 1934.

Note 7: Fair Value Measurements

Accounting Standards Codification (ASC) 820 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Firm. Unobservable inputs are inputs that reflect the Firm's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

The fair value hierarchy input levels are as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 - Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, or quoted market prices for identical or similar assets or liabilities in markets that are not active.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At January 31, 2025, the Firm did not have any Level 2 or 3 inputs. There were also no transfers between level 2 and level 3 investments during the year ended January 31, 2025.

As of January 31, 2025, the Firm held certain financial assets that are required to be measured at fair value on a recurring basis. These marketable equity securities are valued at a Level 1 fair value of \$53,207. These marketable equity securities have an original cost of \$33,032, resulting in an accumulated unrealized gain of \$20,175.

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, other assets, accounts payable and accrued expenses, approximate their fair values due to their short maturities.

Note 8: Filing Requirements

There were no liabilities subordinated to claims of creditors during the year ended January 31, 2025. Accordingly, no Statement of Changes in Liabilities Subordinated to Claims of Creditors has been included in these financial statements as required by rule 17a-5 of the Securities and Exchange Commission.

Bates Securities, Inc.
Notes to the Financial Statements
For the Year January 31, 2025

Note 9: Income Tax Expense and Accounting for Uncertainty in Income Taxes

The firm has elected to be treated as an S Corporation for tax purposes. In lieu of corporate income taxes, the shareholder of an S Corporation is taxed on its proportionate share of the Firm's taxable income. Therefore, no Provision or liability for income taxes has been included in these financial statements. In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain. The Firm regularly assess uncertain tax positions in each of the tax jurisdictions in which it has operations and accounts for the related financial statement implications. Unrecognized tax benefits are reported using the two-step approach under which tax effects of a position are recognized only if it is "more-likely-than-not" to be sustained and the amount of the tax benefit recognized is equal to the largest tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement of the tax position. Determining the appropriate level of unrecognized tax benefits requires the Firm to exercise judgement regarding the uncertain application of tax law. The amount of unrecognized tax benefits is adjusted when information becomes available or when an event occurs indicating a change is appropriate. The Firm includes interest and penalties related to its uncertain tax positions as part of income tax expense, if any. As of January 31, 2025, the Firm did not have any uncertain tax positions.

Note 10: Segment Reporting

The Firm is engaged in a single line of business as a securities broker-dealer which is comprised of retail services described in Note 1. The Firm has identified its President as the chief operating decision maker ("CODM"), who uses net income to evaluate the results of the business, predominantly in the forecasting process, to manage the Firm. Additionally, the CODM uses excess net capital (see Note 5), which is not a measure of profit and loss, to make operational decisions while maintaining capital adequacy, such as whether to maintain profits or pay distributions. The Firm's operations constitute a single operating segment and therefore, a single reportable segment, because the CODM manages the business activities using information of the Firm as a whole. The accounting policies used to measure the profit and loss of the segment are the same as those described in the policies listed in Note 1.

Note 11: Commitments and Contingencies

Litigation

The Firm from time to time may be involved in litigation relating to claims arising out of its ordinary course of business. Management believes that there are no claims or actions pending or threatened against the Firm, the ultimate disposition of which would have a material impact on the Firm's financial position, results of operations or cash flows.

Risk Management

The Firm maintains various forms of insurance that the Firm's management believes are adequate to reduce the exposure of these risks to an acceptable level.

Note 12: Subsequent Events

The Company has evaluated subsequent events through April 18, 2025, the date of the Report of independent Registered Public Accounting Firm, which was the date the financial statements was available to be issued. Based on this evaluation, there were no such matters requiring recognition or disclosure in the financial statements for the year ended January 31, 2025.

Bates Securities, Inc.
Computation of Net Capital Requirements
As of January 31, 2025

SCHEDULE I

Computation of net capital:

Total ownership equity from Statement of Financial Condition	\$	102,630
Non-allowable assets		
Commissions receivable		22,102
Prepaid expenses		10,595
Total nonallowable assets		32,697
Net capital before haircuts on securities positions		69,933
Less: haircuts on securities		(7,650)
Net capital	\$	62,283
Aggregate indebtedness		
Accounts payable and accrued expenses	\$	12,060
Total aggregate indebtedness	\$	12,060
Minimum net capital requirement (greater of \$5,000 or 6 2/3 % of aggregate indebtedness)	\$	5,000
Net Capital in excess or minimum requirement	\$	57,283
Ratio of aggregate indebtedness to net capital		.19 to 1

Net capital reconciliation pursuant to Rule 17A-5(D)(4):

There were no material differences between the computation of net capital presented above and the computation of net capital reported in the Firm's unaudited Form X-17A-5, Part IIA filing as of January 31, 2025.

THOMAS FAUST, CPA

Certified Public Accountant

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholder of
Bates Securities, Inc.

I have reviewed management's statements, included in the accompanying Exemption report of Broker and Dealers, in which (1) Bates Securities, Inc., identified the following provisions 17 C.F.R. § 15c3-3(k) under which the Firm claimed an exemption from 17 C.F.R. § 240.15c3-3: (k)(2)(i), and (2) Bates Securities, Inc., stated that Bates Securities, Inc. has met the identified exemption provision above for the entire period February 1, 2024 through January 31, 2025 without exception. and to the best of their knowledge and belief the above statement is true and correct. Bates Securities, Inc.'s management is responsible for compliance with the exemption provision and its statements.

My review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and accordingly included inquiries and other required procedures to obtain evidence about the Firm's compliance with the exemption provision. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provision set forth in paragraph (k)(i) of Rule 15c3-3 under the Securities Exchange Act of 1934.




Thomas Faust, CPA, LLC
d/b/a Thomas Faust, CPA
Lafayette, Indiana
April 25, 2025

Bates Securities, Inc.
Exemption Report
January 31, 2025

Bates Securities, Inc., (“Company”) is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, “Reports to be made by certain brokers and dealers”). This Exemption Report was prepared as required by 17 C.F.R. §240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

- 1) The Company claims an exemption from 17 C.F.R. §240.15c3-3 under Section (k)(2)(i).
- 2) The Company met the identified exemption provisions in 17 C.F.R. §240.15c3-3 (k)(2)(i) for the entire period February 1, 2024 through January 31, 2025, without exception.

I, George E. Bates, swear (or affirm) that, to the best of my knowledge and belief, this Exemption Report is true and correct.



George E. Bates, President and CCO