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



02003808
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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III
RECEIVED
FEB 28 2002

SEC FILE NUMBER
8-28009

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

3/6/02 f

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

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
Royal Securities Company

Official Use Only

Firm ID. NO.

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

4095 Chicago Drive, SW

(No. and Street)

Grandville
(City)

Michigan
(State)

49418
(Zip Code)

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

Mrs. Ruth Newenhouse
Chief Financial Officer

(616) 538-2550

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Rehmann Robson

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

3230 Eagle Park Dr. NE Suite 201
(Address)

Grand Rapids
(City)

MI
(State)

49525
(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED
MAR 15 2002
THOMSON
FINANCIAL

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* 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(3-91)

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.

Handwritten signature/initials

OATH OR AFFIRMATION

I Ruth Newenhouse, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Royal Securities Company, as of December 31, 2001, 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:

Ruth Newenhouse
Signature

CEO.
Title

Barbara J. Love
Notary Public

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Earnings.
- (d) Statement of Cash Flows.
- (e) Statement of Shareholders' Equity.
- (f) Statement of Changes in Liabilities Subordinated to Claims to 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.
- (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) Independent Auditors' Report on Internal Accounting Control.
- (p) Schedule of Segregation Requirements and Funds in Segregation-Customers' Regulated Commodity Future Accounts Pursuant to Rule 17A-5.

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

ROYAL SECURITIES COMPANY
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
IN ACCORDANCE WITH RULE 17a-5
AND
INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL
FOR THE YEAR ENDED DECEMBER 31, 2001



REHMANN ROBSON

Certified Public Accountants

ROYAL SECURITIES COMPANY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

January 22, 2002

To the Stockholders and Board of Directors
Royal Securities Company
Grandville, Michigan

We have audited the accompanying statement of financial condition of Royal Securities Company as of December 31, 2001, and the related statements of income, stockholders' equity and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Royal Securities Company as of December 31, 2001, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary schedule on pages 8 and 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rehmann Robson

ROYAL SECURITIES COMPANY
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2001

ASSETS	
Cash and cash equivalents	\$ 371,223
Commissions receivable	28,931
Employee receivables	4,250
Securities owned, at market value	99,021
Net furniture, equipment, and leasehold improvements	40,825
Deposits	25,000
Refundable income taxes	35,000
Prepaid expense	4,270
Total assets	<u>\$ 608,520</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities	
Accrued sales commissions	\$ 55,160
Accounts payable and accrued expenses	28,014
Total liabilities	<u>83,174</u>
Stockholders' equity	
Common stock (Class B), \$1 par value; 100,000 shares authorized; 10,875 shares issued and outstanding	10,875
Additional paid-in capital	83,108
Retained earnings	431,363
Total stockholders' equity	<u>525,346</u>
Total liabilities and stockholders' equity	<u>\$ 608,520</u>

The accompanying notes are an integral part of these financial statements.

ROYAL SECURITIES COMPANY

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2001

Revenues	
Commissions	\$1,585,108
Net dealer inventory and investment gains	129,324
Interest	19,418
Other	3,469
	<hr/>
Total revenues	1,737,319
	<hr/>
Expenses	
Broker commissions	870,609
Clearing fees	90,599
Administrative salaries and benefits	184,146
Taxes, other than income	57,313
Communications	115,965
Advertising	39,793
Occupancy	49,816
Depreciation and amortization	14,512
Dues and subscriptions	25,313
Maintenance	9,170
Utilities	6,066
Taxes and licenses	9,882
Regulatory fees	12,331
Legal and professional	26,220
Single business tax	16,305
Postage	14,574
Insurance	59,166
Office supplies	16,098
Interest	2,760
Other	48,563
	<hr/>
Total expenses	1,669,201
	<hr/>
Income before income taxes	68,118
	<hr/>
Income taxes	11,675
	<hr/>
Net income	\$ 56,443

The accompanying notes are an integral part of these financial statements.

ROYAL SECURITIES COMPANY
STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2001

	Class B Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balances, January 1, 2001	14,791	\$ 14,791	\$ 84,963	\$ 555,281	\$ 655,035
Net income	-	-	-	56,443	56,443
Redemption of common stock	(4,316)	(4,316)	(19,728)	(180,361)	(204,405)
Issuance of common stock	400	400	17,873	-	18,273
Balances, December 31, 2001	<u>10,875</u>	<u>\$ 10,875</u>	<u>\$ 83,108</u>	<u>\$ 431,363</u>	<u>\$ 525,346</u>

The accompanying notes are an integral part of these financial statements.

ROYAL SECURITIES COMPANY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2001

Cash flows from operating activities	
Net income	\$ 56,443
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	14,512
Net changes in operating assets and liabilities which provided (used) cash:	
Commissions receivable	8,391
Employee receivables	4,555
Securities owned	22,224
Refundable income taxes	(35,000)
Prepaid expense	977
Accrued sales commissions	(21,309)
Accounts payable and accrued expenses	(79,252)
	<u>(28,459)</u>
Net cash used in operating activities	
Cash flows used in investing activities	
Purchase of furniture, equipment, and leasehold improvements	<u>(16,572)</u>
Cash flows from financing activities	
Common stock repurchased and retired	(204,405)
Proceeds from issuance of common stock	18,273
	<u>(186,132)</u>
Net cash used in financing activities	
Net decrease in cash and cash equivalents	<u>(231,163)</u>
Cash and cash equivalents, January 1, 2001	<u>602,386</u>
Cash and cash equivalents, December 31, 2001	<u><u>\$ 371,223</u></u>
Supplemental disclosures of cash flows information	
Income taxes paid	<u>\$ 46,775</u>
Interest paid	<u>\$ 2,760</u>

The accompanying notes are an integral part of these financial statements.

ROYAL SECURITIES COMPANY

NOTES TO FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Royal Securities Company (the "Company") is a securities broker/dealer that introduces transactions and accounts on a fully disclosed basis and does not carry customer accounts. The Company is registered with the Securities and Exchange Commission and the State of Michigan. It is a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation. Its customers are predominantly individuals residing in Western Michigan.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, money market funds, and cash on hand. The company at times maintains deposits that exceed insured limits. Management does not consider this a significant risk.

Securities Owned

Securities owned consist of state and municipal obligations, which are reported at quoted market values. Unrealized gains and losses are recognized currently and are included in net dealer inventory and investment gains on the statement of income.

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Depreciation is computed using accelerated methods over the estimated useful lives of the assets, which range from 3 to 10 years. Management annually reviews these assets to determine whether carrying values have been impaired.

Advertising Expenses

The costs of advertising and promotion are expensed as incurred.

2. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital of \$250,000 at December 31, 2001 and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

ROYAL SECURITIES COMPANY

NOTES TO FINANCIAL STATEMENTS

At December 31, 2001 the Company had net capital of \$428,235, which was \$178,235 in excess of the required amount of net capital. The Company's net capital ratio was .19 to 1.

3. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements are as follows at December 31, 2001:

Leasehold improvements	\$ 47,711
Office furniture and equipment	67,278
Computer equipment	<u>31,556</u>
Total	146,545
Less accumulated depreciation	<u>105,720</u>
Net furniture, equipment and leasehold improvements	<u>\$ 40,825</u>

4. LEASES

The Company has entered into an agreement to lease office space for its operations through May 2002 at a monthly rental rate of approximately \$4,500, which is increased annually by the Consumer Price Index.

5. RETIREMENT PLAN

The Company contributes to a Salary Reduction Simplified Employee Pension Plan, which covers substantially all employees. Contributions are determined annually by the Board of Directors. The contribution was \$51,549 for 2001.

6. STOCK REPURCHASE AGREEMENT

The Company and its stockholders are parties to an agreement under which the Company is obligated to repurchase the shares from the stockholders upon the stockholder's death, disability, and termination of employment or offer to sell. The purchase price is the net book value of the stock except for termination of employment, whereby, the purchase price is reduced by 20% for each year that the stockholder's employment is less than 5 years.

During the year, certain stockholders tendered all or a portion of their shares to the Company. The excess of the redemption price over the par value of the common stock was first charged to additional paid-in capital to the extent the original issuance price was credited to additional paid-in capital and the remainder was charged to retained earnings.

7. SUBSEQUENT EVENT

In 2002, the Company has committed to repurchase 1,500 shares of its common stock for approximately \$75,000.

* * * * *

ROYAL SECURITIES COMPANY

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION

AS OF DECEMBER 31, 2001

Total stockholders' equity	<u>\$ 525,346</u>
Deductions	
Non-allowable assets	
Non-customer receivables	5,090
Furniture, equipment and leasehold improvements	40,825
Prepaid expenses and other	<u>39,370</u>
Total deductions	<u>85,285</u>
Net capital before haircuts on securities positions	<u>440,061</u>
Haircuts on securities positions	
Trading and investment securities	
Money market account	4,895
State and municipal obligations	4,980
Corporate obligations	<u>1,951</u>
Total haircuts on securities positions	<u>11,826</u>
Net capital	<u><u>\$ 428,235</u></u>

SUPPLEMENTARY SCHEDULE

ROYAL SECURITIES COMPANY

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION (CONTINUED)

AS OF DECEMBER 31, 2001

Aggregate indebtedness	
Accounts payable and other liabilities	<u>\$ 83,174</u>
Computation of basic net capital requirement	
Minimum net capital required	<u>\$ 250,000</u>
Excess net capital	<u>\$ 178,235</u>
Excess net capital at 1500%	<u>\$ 422,690</u>
Excess net capital at 1000%	<u>\$ 419,917</u>
Ratio: Aggregate indebtedness to net capital	<u>.19 to 1</u>

Statement Pursuant to Paragraph (d)(4) of Rule 17a-5

There are no material differences between this net capital computation pursuant to Rule 15c3-1 and the corresponding computation prepared by the Company as of the close of business December 31, 2001.

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL**



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

A MEMBER OF REHMANN ASSOCIATES, INC.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5

January 22, 2002

To the Stockholders of
Royal Securities Company
Grandville, Michigan

In planning and performing our audit of the financial statements and supplemental schedule of Royal Securities Company (the "Company") for the year ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons.
2. Recordation of differences required by rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL REQUIRED BY SEC RULE 17a-5 (CONTINUED)**

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used for any other purpose.

Rehmann Lobson