



02005057

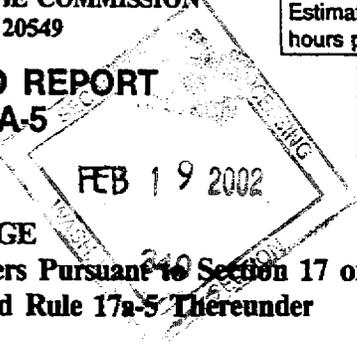
ES
JE COMMISSION
20549

1/2-21-02

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	September 30, 1998
Estimated average burden	hours per response . . . 12.00

SEC FILE NUMBER	
8-	29280

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



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 January 1, 2001 AND ENDING December 31, 2001
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Thomas Lynn Graybill
DBA: Graybill Investments

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
22151 Ventura Boulevard, Suite 203

<u>Woodland Hills</u>	<u>California</u>	<u>91364</u>
<small>(City)</small>	<small>(State)</small>	<small>(Zip Code)</small>

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Thomas L. Graybill (818) 348-4424
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Kevin G. Breard, CPA An Accountancy Corporation

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

<u>9010 Corbin Avenue, Suite 7</u>	<u>Northridge</u>	<u>California</u>	<u>91324</u>
<small>(Address)</small>	<small>(City)</small>	<small>(State)</small>	<small>Zip Code</small>

CHECK ONE:

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

PROCESSED

FEB 25 2002

THOMSON
FINANCIAL

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 (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.

114

OATH OR AFFIRMATION

I, Thomas L. Graybill, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Graybill Investments, 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:

State of California
County of Los Angeles
Subscribed and sworn (or affirmed) to before me this 11 day of Dec., 01

Thomas L. Graybill
Signature
Sole Proprietor
Title

[Signature]
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~~ Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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.

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

Thomas L. Graybill d.b.a. Graybill Investments

Report Pursuant to Rule 17a-5 (d)

Financial Statements

For the Year Ended December 31, 2001

KEVIN G. BREARD, CPA.
AN ACCOUNTANCY CORPORATION

Independent Auditor's Report

Board of Directors

Thomas L. Graybill d.b.a. Graybill Investments

I have audited the accompanying statement of financial condition of Thomas L. Graybill d.b.a. Graybill Investments (a sole proprietor) as of December 31, 2001 and the related statements of income, changes in owner's capital, 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. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thomas L. Graybill d.b.a. Graybill Investments as of December 31, 2001 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

My examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-III are presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respect in relating to the basic financial statements taken as a whole and in conformity with the rules of the Securities and Exchange Commission.



Kevin G. Breard
Certified Public Accountant

Northridge, California
January 16, 2002

NORTHRIDGE OFFICE PLAZA
9010 CORBIN AVENUE, SUITE 7
NORTHRIDGE, CALIFORNIA 91324
(818) 886-0940 • FAX (818) 886-1924
B r e a r d C P A @ a o l . c o m

Thomas L. Graybill d.b.a. Graybill Investments
Statement of Income
For the year ended December 31, 2001

Revenue

Commissions \$ 233,465

Total revenue 233,465

Expenses

Employee compensation and benefits 3,750

Communications 8,283

Occupancy and equipment rental 12,600

Taxes, other than income taxes 1,534

Other operating expenses 69,132

Total expenses 95,299

Net income \$ 138,166

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

Thomas L. Graybill d.b.a. Graybill Investments
Statement of Changes in Sole Proprietor's Capital
For the year ended December 31, 2001

	<u>Owner's Equity</u>
Balance on January 1, 2001	\$ 25,035
Owner's draw, net	(144,080)
Net income	<u>138,166</u>
Balance on December 31, 2001	<u>\$ 19,121</u>

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

Thomas L. Graybill d.b.a. Graybill Investments
Statement of Cash Flows
For the year ended December 31, 2001

Cash flows from operating activities:

Net income		\$ 138,166
Adjustments to reconcile net cash and cash equivalents provided by operating activities:		
Depreciation	\$ 557	
(Increase) decrease in:		
Receivable from customers	<u>(24)</u>	
Total adjustments		<u>533</u>
Net cash and cash equivalents provided by operating activities		<u>138,699</u>

Cash flows from investing activities:

Net cash and cash equivalents provided by investing activities		-
--	--	---

Cash flows from financing activities:

Owner's draw	<u>(144,080)</u>	
Net cash and cash equivalents used in financing activities		<u>(144,080)</u>
Net decrease in cash and cash equivalents		(5,381)
Cash and cash equivalents at beginning of year		<u>23,502</u>
Cash and cash equivalents at end of year		<u><u>\$ 18,121</u></u>

Supplemental disclosure of cash flow information:

Cash paid during the year for		
Interest	\$ -	
Income taxes	\$ -	

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

Thomas L. Graybill d.b.a. Graybill Investments
Notes to Financial Statements
For the year ended December 31, 2001

Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Thomas L. Graybill d.b.a. Graybill Investments (the "Company"), a sole proprietor, was founded in 1960 by Thomas L. Graybill's father, Floyd Graybill, as a dealer in mutual funds. In 1982, Thomas L. Graybill purchased the Company from his father. The Company is a fully disclosed broker/dealer whereby it does not hold customer funds or securities. The Company is a member of the National Association of Securities Dealers, Inc. (NASD).

The Company exclusively sells mutual funds. The Company has about 225 clients in the Southern California area, with approximately 20% of the clientele generating about 80% of the revenue.

Summary of Significant Accounting Principles

The presentation 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Commissions are received as compensation for services and are recorded when trades are placed or reinvestments are recorded. Costs and expenses are included in operations in the period they are incurred.

For the purpose of the statement of cash flows, cash and cash equivalents are defined as demand deposits at banks and cash deposits in money market funds.

Marketable securities are valued at market value. Mark to market accounting is used for purposes of determining unrealized gain/loss on security positions in proprietary trading and investment accounts. The securities are sold on a first in first out basis; however, certain securities are inventoried on a specific identification basis.

Furniture, equipment and leasehold improvements are depreciated over their useful lives, ranging from five (5) to ten (10) years, using the straight-line method of accounting.

There is no income tax provision provided as the Company, an unincorporated business, recognizes the income tax consequences on the owner's personal tax return.

Thomas L. Graybill d.b.a. Graybill Investments
Notes to Financial Statements
For the year ended December 31, 2001

Note 2: FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements as of December 31, 2001 consisted of the following:

		<u>Life in Years</u>	<u>Method</u>
Leasehold improvements	\$ 3,429	10	Straight-line
Furniture	9,655	5	Straight-line
Equipment	20,248	5	Straight-line
Computer software	2,674	5	Straight-line
Client list	<u>35,900</u>	5	Straight-line
	71,906		
Less accumulated depreciation	<u>(71,906)</u>		
	<u>\$ 0</u>		

Depreciation expense for the year ended December 31, 2001 is \$557.

Note 3: RELATED PARTY TRANSACTIONS

During the year ended December 31, 2001, the Company rented office space from 22151 Ventura Blvd. Partnership. Mr. Thomas L. Graybill is a partner in this partnership.

For the year ended December 31, 2001, rent expense of \$12,600 was reflected in the financial statements.

Thomas L. Graybill d.b.a. Graybill Investments
Notes to Financial Statements
For the year ended December 31, 2001

Note 4: COMMITMENTS AND CONTINGENCIES

The Company entered into various leases for vehicles. Auto expense under these agreements for the year ended December 31, 2001 was \$11,084.

The future minimum lease expense are:

	<u>December 31,</u>
2002	\$ 14,439
2003	9,147
2004	-
2005	-
Thereafter	-
Total	<u>\$ 23,586</u>

Note 5: NET CAPITAL

The Company is subject to the uniform net capital rule (Rule 15c3-1) of the Securities and Exchange Commission, which requires both the maintenance of minimum net capital and the maintenance of a maximum ratio of aggregate indebtedness to net capital. Net capital and aggregate indebtedness change day to day, but on December 31, 2001, the Company's net capital of \$18,776 exceeded the minimum net capital requirement by \$13,776; and the Company's ratio of aggregate indebtedness (\$0) to net capital was not applicable as the Company has no aggregate indebtedness, which is less than the 15 to 1 maximum ratio required of a Broker/Dealer.

Thomas L. Graybill d.b.a. Graybill Investments
Schedule I - Computation of Net Capital Requirements
Pursuant to Rule 15c3-1
As of December 31, 2001

Computation of net capital

Total owner's equity	\$ 19,121
Less: Non-allowable assets	-
Total adjustments	<u>-</u>
Net capital before haircuts	19,121
Haircuts	<u>(345)</u>
Net Capital	18,776

Computation of net capital requirements

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	n/a	
Minimum dollar net capital required	\$	5,000
Net capital required (greater of above)		<u>(5,000)</u>
Excess net capital		<u><u>\$ 13,776</u></u>
Ratio of aggregate indebtedness to net capital	n/a	

There was no material difference between net capital shown here and net capital as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2001.

See independent auditor's report.

Thomas L. Graybill d.b.a. Graybill Investments
Schedule II - Computation for Determination of Reserve
Requirements Pursuant to Rule 15c3-3
As of December 31, 2001

A computation of reserve requirement is not applicable to Thomas L. Graybill d.b.a. Graybill Investments as the Company qualifies for exemption under Rule 15c3-3 (k) (2).

See independent auditor's report.

Thomas L. Graybill d.b.a. Graybill Investments
Schedule II - Computation for Determination of Reserve
Requirements Pursuant to Rule 15c3-3
As of December 31, 2001

Information relating to possession or control requirements is not applicable to Thomas L. Graybill d.b.a. Graybill Investments as the Company qualifies for exemption under Rule 15c3-3 (k) (2).

See independent auditor's report.

Thomas L. Graybill d.b.a. Graybill Investments

Supplementary Accountant's Report

on Internal Accounting Control

Report Pursuant to 17a-5

For the Year Ended December 31, 2001

KEVIN G. BREARD, C.P.A.
AN ACCOUNTANCY CORPORATION

Board of Directors

Thomas L. Graybill d.b.a. Graybill Investments

In planning and performing my audit of the financial statements of Thomas L. Graybill d.b.a. Graybill Investments for the year ended December 31, 2001, I considered its internal control structure, for the purpose for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, I have made a study of the practices and procedures followed by Thomas L. Graybill d.b.a. Graybill Investments including tests of such practices and procedures that I considered relevant to 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 security accounts for customers or perform custodial functions relating to customer securities, I 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 structure and the practice and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures 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 Commission's above mentioned objectives. Two of the objectives of an internal control structure 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 conformity with generally accepted accounting principles. Rule 17-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

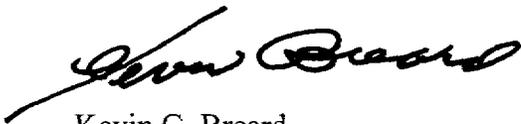
NORTHRIDGE OFFICE PLAZA
9010 CORBIN AVENUE, SUITE 7
NORTHRIDGE, CALIFORNIA 91324
(818) 886-0940 • FAX (818) 886-1924
B r e a r d C P A @ a o l . c o m

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

My consideration of the internal control structure would not necessarily disclose all matters in the 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 design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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, I noted no matters involving the internal control structure, including procedures for safeguarding securities, that I considered to be material weakness as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purpose 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 material inadequacy for such purposes. Based on this understanding on my study, I believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Kevin G. Breard
Certified Public Accountant

Northridge, California
January 16, 2002