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

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**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 December 1, 2000 AND ENDING November 30, 2001  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Energy Securities, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

14N679 Route 25, Suite C  
(No. and Street)

East Dundee, IL 60118-3218  
(City) (State) (Zip Code)

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

Lawrence Buettner

847-836-2000  
(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Wolf & Company LLP  
(Name — if individual, state last, first, middle name)

2100 Clearwater Drive, Oak Brook, IL 60523  
(Address) (City) (State) Zip Code

CHECK ONE:

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

PROCESSED

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FINANCIAL

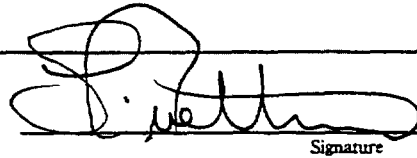
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

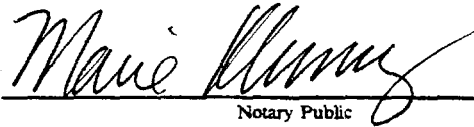
I, Lawrence R. Buettner, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Energy Securities, Inc., as of November 30, ~~19~~ 2001, are true and correct. I further swear (or affirm) that neither the company 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
Signature

PRESIDENT

Title

  
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 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.
- XX (o) Independent Auditor's Report on Internal Control.

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

**ENERGY SECURITIES, INC.**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
  
**FOR THE YEAR ENDED**  
**NOVEMBER 30, 2001**



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**Wolf & Company LLP**

Certified Public Accountants

2100 Clearwater Drive  
Oak Brook, Illinois 60523-1927  
(630) 545-4500 FAX: (630) 574-7818

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Energy Securities, Inc.  
East Dundee, Illinois

We have audited the accompanying statement of financial condition of ENERGY SECURITIES, INC. as of November 30, 2001, and the related statements of income, changes in 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 Energy Securities, Inc. as of November 30, 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I 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.

Oak Brook, Illinois  
December 14, 2001

*Wolf & Company LLP*

ENERGY SECURITIES, INC.  
STATEMENT OF FINANCIAL CONDITION  
November 30, 2001

ASSETS

Cash	\$ 160,623
Commissions receivable (Note 3)	205,920
Deferred income taxes	2,357
Refundable income taxes	<u>5,975</u>
	<u>\$ 374,875</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Professional fees payable (Note 3)	\$ 320,000
Accounts payable	<u>2,983</u>

Total liabilities 322,983

Stockholders' equity:

Common stock, \$1 par value, 1,000,000 shares authorized, 10,000 shares issued and outstanding	10,000
Additional paid-in-capital	10,000
Retained earnings	<u>31,892</u>

Total stockholders' equity 51,892

\$ 374,875

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

ENERGY SECURITIES, INC.  
STATEMENT OF INCOME  
For the Year Ended November 30, 2001

Revenues (Note 3):	
Commissions	\$ 1,646,145
Services	135,000
Interest	<u>8,901</u>
Total revenues	<u>1,790,046</u>
Expenses:	
Professional services (Note 3)	689,485
Commissions	82,200
Filing fees	57,710
Office services (Note 3)	933,179
Miscellaneous	<u>13,631</u>
Total expenses	<u>1,776,205</u>
Income before income taxes	<u>13,841</u>
Provision for income taxes (Note 4):	
Current	1,976
Deferred	<u>3,441</u>
	<u>5,417</u>
Net income	<u>\$ 8,424</u>
Basic earnings per share	<u>\$ 0.84</u>

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

ENERGY SECURITIES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
 For the Year Ended November 30, 2001

	<u>Shares</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at November 30, 2000	10,000	\$ 10,000	\$ 10,000	\$ 23,468	\$ 43,468
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,424</u>	<u>8,424</u>
Balance at November 30, 2001	<u>10,000</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 31,892</u>	<u>\$ 51,892</u>

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



ENERGY SECURITIES, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended November 30, 2001

Cash flows from operating activities:	
Net income	\$ 8,424
Adjustments to reconcile net income to net cash provided by operating activities:	
Change in:	
Commissions receivable	(28,520)
Professional fees payable	170,000
Income taxes payable	(7,517)
Deferred income taxes	3,441
Refundable income taxes	(5,975)
Accounts payable	<u>2,983</u>
Net cash provided by operating activities	142,836
Cash, beginning of year	<u>17,787</u>
Cash, end of year	<u>\$ 160,623</u>
<u>Supplemental disclosures in cash flow information:</u>	
Cash paid during the year for:	
Income taxes	<u>\$ 15,460</u>

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

ENERGY SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

1. Organization and Nature of Operations

Energy Securities, Inc. (the Company) is a broker dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc. (NASD).

The Company operates a branch in Kentucky, providing brokerage and marketing services for limited partnerships in the oil and gas industry. These services are provided for a corporation with identical ownership as the Company.

2. Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of the Company have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the user.

Accounting 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 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.

Revenue Recognition – The Company recognizes commission income, as determined in sales agreements for each partnership, upon release of subscribed amounts from escrow.

Net Capital Requirements – The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1) which requires maintenance of minimum net capital of \$5,000. Based upon this capital requirement, the Company is required to operate pursuant to the SEC's Customer Protection Rule and is not permitted to hold customer funds.

Prior to establishing escrow accounts to hold customer funds, the Company held customer funds in an account that the Company could access. Accordingly, the NASD imposed sanctions upon the Company requiring net capital of \$250,000 for a 30 day period, beginning December 1, 2000.

Basic Earnings Per Share – Basic earnings per share of common stock were computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share are not presented because the Company has issued no dilutive potential common shares.

ENERGY SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

3. Related Parties

Entities owned by stockholders of the Company receive periodic payments in connection with their marketing efforts for the limited partnerships and administrative services provided to the Company. Included in professional fees is \$620,000 earned by these entities for the year ended November 30, 2001. Included in office services is \$920,000 earned by a related entity for the year ended November 30, 2001. At November 30, 2001, the amount owed to the shareholders' entities was \$320,000. All commission and service revenues earned by the Company are earned from related entities.

4. Deferred Taxes

Temporary differences giving rise to the deferred tax asset consist of organization costs expensed for financial reporting purposes, but capitalized and amortized for tax purposes.

**SUPPLEMENTARY INFORMATION**

ENERGY SECURITIES, INC.  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION

As of November 30, 2001

Net capital:	
Total stockholders' equity	\$ 51,892
Deductions:	
Nonallowable assets:	
Deferred tax asset	(2,357)
Refundable income taxes	<u>(5,975)</u>
Net capital	<u>\$ 43,560</u>
Reconciliation of Company's computation:	
Net capital, as reported in Company's Part II (unaudited)	
FOCUS report	\$ 76,522
Audit adjustments:	
Reclass unallowed assets	194,803
To record professional fees payable	(220,000)
To record income tax liability	<u>(7,765)</u>
Net capital per above	<u>\$ 43,560</u>
Minimum net capital requirements	<u>\$ 5,000</u>
Excess net capital	<u>\$ 38,560</u>
Aggregate indebtedness:	
Total liabilities from statement of financial condition/aggregate indebtedness	<u>\$ 322,983</u>
Percentage of aggregate indebtedness to net capital	<u>7.4/1</u>



# Wolf & Company LLP

Certified Public Accountants

2100 Clearwater Drive  
Oak Brook, Illinois 60523-1927  
(630) 545-4500 FAX: (630) 574-7818

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

Board of Directors  
Energy Securities, Inc.  
East Dundee, Illinois

In planning and performing our audit of the financial statements of Energy Securities, Inc. (Company) for the year ended November 30, 2001, we considered its internal control 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 compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in the following:

    Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e).

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 the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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 November 30, 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, NASD, 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 by anyone other than these specified parties.

Oak Brook, Illinois  
December 14, 2001

*Wolf & Company LLP*