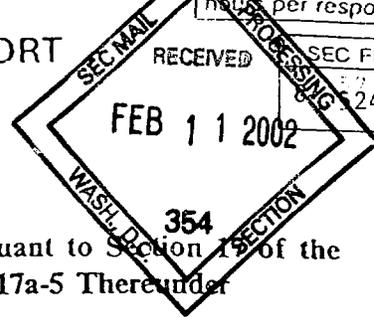


2/13/02

SECURITIES AND COMMISSION  
02005477

ANNUAL AUDITED REPORT  
FORM 17-15  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	September 30, 1998
Estimated average burden hours per response	12.00
SEC FILE NUMBER 2463	



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:

Crestone Securities, LLC

OFFICIAL USE ONLY

FIRM ID. NO.

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

1050 Walnut Street, Suite 402

(No. and Street)

Boulder

CO

80302

(City)

(State)

(Zip Code)

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

Doug Bonnette

(303) 544-7249

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

SPICER, JEFFRIES & CO.

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

4155 E. JEWELL AVENUE, STE. 307 DENVER, CO

(Address)

(City)

(State)

80222

(Zip Code)

CHECK ONE:

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

PROCESSED

FEB 14 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)

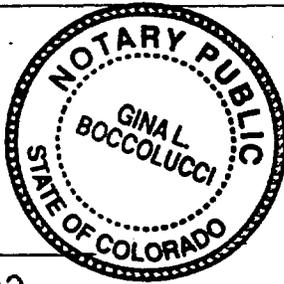
SEC 1410 (3-91)

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.

OATH OR AFFIRMATION

I, Doug Bonnette, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Crestone Securities, LLC, 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:

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



Doug Bonnette  
Signature

CFO

Title

Gina L. Boccolucci

Notary Public

My Commission Expires: 7-1-02

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of 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.
- (o) Independent Auditors' Report on Internal Accounting Control.

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

CRESTONE SECURITIES, LLC  
(formerly KCM Securities, LLC)

REPORT PURSUANT TO RULE 17a-5(d)

YEAR ENDED DECEMBER 31, 2001

**CRESTONE SECURITIES, LLC**  
**(formerly KCM Securities, LLC)**

**CONTENTS**

	<u>Page</u>
Independent Auditors' Report	3
Statement of Financial Condition	4
Statement of Operations	5
Statement of Changes in Member's Equity	6
Statement of Cash Flows	7
Notes to Financial Statements	8-9
Supplementary Information:	
Computation of Net Capital Pursuant to Uniform Net Capital Rule 15c3-1	10
Independent Auditors' Report on Internal Accounting Control Required by SEC Rule 17a-5	11-12

## INDEPENDENT AUDITORS' REPORT

To the Manager  
Crestone Securities, LLC  
(formerly KCM Securities, LLC)

We have audited the accompanying statement of financial condition of Crestone Securities, LLC (formerly KCM Securities, LLC) as of December 31, 2001, and the related statements of operations, changes in member's equity, and cash flows for the year then ended. 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 Crestone Securities, LLC (formerly KCM Securities, LLC) 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 financial statements taken as a whole. The information contained in the supplemental schedule listed in the accompanying index is presented for purposes of additional analysis and is not required for a fair presentation of the financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Spicer, Jeffries & Co.*

Denver, Colorado  
January 22, 2002

CRESTONE SECURITIES, LLC  
(formerly KCM Securities, LLC)

STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2001

ASSETS

Cash	\$	56 597
Deposit with clearing broker		50 000
Accounts receivable		101
Commissions receivable		6 614
Prepaid expenses		<u>12 629</u>
	\$	<u>125 941</u>

LIABILITIES AND MEMBER'S EQUITY

**LIABILITIES:**

Accounts payable	\$	750
Due to clearing broker		<u>895</u>

*TOTAL LIABILITIES* 1 645

MEMBER'S EQUITY (Note 2)		<u>124 296</u>
	\$	<u>125 941</u>

CRESTONE SECURITIES, LLC  
(formerly KCM Securities, LLC)

STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2001

REVENUE:

Commissions	\$	953 066
Other income		<u>1 097</u>
<i>Total revenue</i>		954 163

EXPENSES:

Management fees (Note 3)		114 000
Software expenses		23 726
Professional fees		11 750
General and administrative		<u>64 490</u>
<i>Total expenses</i>		<u>213 966</u>

NET INCOME

\$ 740 197

CRESTONE SECURITIES, LLC  
(formerly KCM Securities, LLC)

STATEMENT OF CHANGES IN MEMBER'S EQUITY  
YEAR ENDED DECEMBER 31, 2001

	<u>MEMBER'S EQUITY</u>
BALANCE, December 31, 2000	\$ 93 991
Distribution	(709 892)
Net income	<u>740 197</u>
BALANCE, December 31, 2001	<u>\$ 124 296</u>

The accompanying notes are an integral part of this statement.

CRESTONE SECURITIES, LLC  
(formerly KCM Securities, LLC)

STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2001  
INCREASE (DECREASE) IN CASH

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$	740 197
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in commissions receivable		3 298
Increase in deposit with clearing broker		(25 000)
Increase in prepaid expenses		(5 233)
Increase in accounts receivable		(101)
Decrease in due to clearing broker		(287)
		<hr/>
<i>Net cash provided by operating activities</i>		<u>712 874</u>

**CASH FLOWS USED IN FINANCING ACTIVITIES**

Distributions		<hr/> <u>(709 892)</u>
<b>NET INCREASE IN CASH</b>		2 982
<b>CASH, at beginning of year</b>		<hr/> <u>53 615</u>
<b>CASH, at end of year</b>	\$	<u><u>56 597</u></u>

**CRESTONE SECURITIES, LLC**  
**(formerly KCM Securities, LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

KCM Securities, LLC is a Colorado Limited Liability Company and operates as a securities broker-dealer. The Company was formed on January 4, 2000 and commenced operations in August of 2000. During the year ended December 31, 2001 the Company changed its name to Crestone Securities, LLC. The Company's sole member is Crestone Capital Advisors. The Company is registered as a broker-dealer with the Securities and Exchange Commission dealing mainly with securities and mutual funds.

The Company records securities transactions and related revenue and expenses on a settlement date basis, unless materially different on a trade date basis.

The Company under rule 15c3-3(k)(2)(ii) is exempt from the reserve and possession or control requirements of rule 15c3-3 of the Securities and Exchange Commission. The Company does not carry or clear customer accounts. Accordingly, all customer transactions are executed and cleared on behalf of the Company by its clearing broker on a fully disclosed basis. The Company's agreement with its clearing broker provides that as clearing broker, that firm will make and keep such records of the transactions effected and cleared in the customer accounts as are customarily made and kept by a clearing broker pursuant to the requirements of Rules 17a-3 and 17a-4 of the Securities and Exchange Act of 1934, as amended (the Act). It also performs all services customarily incident thereon, including the preparation and distribution of customer's confirmations and statements and maintenance margin requirements under the Act and the rules of the Self Regulatory Organization of which the Company is a member.

The Company is not considered an entity for tax purposes. All income is reported on its sole member's tax return.

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.

**NOTE 2 - NET CAPITAL REQUIREMENTS**

Pursuant to the net capital provisions of rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. At December 31, 2001, the Company had net capital and net capital requirements of \$108,473 and \$50,000, respectively. The Company's net capital ratio (aggregate indebtedness to net capital) was .01 to 1. According to Rule 15c3-1, the Company's net capital ratio shall not exceed 15 to 1.

CRESTONE SECURITIES, LLC  
(formerly KCM Securities, LLC)

NOTES TO FINANCIAL STATEMENTS

***NOTE 3 - RELATED PARTY TRANSACTIONS***

The Company has a management agreement with its parent whereby the Company is provided office space and administrative support for a monthly fee. The Company paid \$114,000 during the year ended December 31, 2001 to its parent for these services.

***NOTE 4 - FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES***

In the normal course of business, the Company's client activities ("clients") through its clearing broker involve the execution, settlement and financing of various client securities transactions. These activities may expose the Company to off-balance sheet risk. In the event the client fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the client's obligation.

The Company bears the risk of financial failure by its clearing broker. If the broker should cease doing business, the Company's receivable and clearing deposit from this clearing broker could be subject to forfeiture.

The Company's financial instruments, including cash, deposits and receivables are carried at amounts which approximate fair value. Payables and other liabilities are carried at amounts which approximate fair value.

**SUPPLEMENTARY INFORMATION**

CRESTONE SECURITIES, LLC  
(formerly KCM Securities, LLC)

COMPUTATION OF NET CAPITAL PURSUANT TO UNIFORM  
NET CAPITAL RULE 15c3-1  
DECEMBER 31, 2001

**CREDIT:**

Member's equity \$ 124 296

**DEBITS:**

Nonallowable asset:  
Accounts receivable 101  
Commissions receivable 3 093  
Prepaid expenses 12 629

*Total debits* 15 823

**NET CAPITAL** 108 473

Minimum requirements of 6-2/3% of aggregate indebtedness of  
\$1,645 or \$50,000, whichever is greater 50 000

*Excess net capital* \$ 58 473

**AGGREGATE INDEBTEDNESS:**

Accounts payable 750  
Due to clearing broker 895

**TOTAL AGGREGATE INDEBTEDNESS** \$ 1 645

**RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL** .01 to 1

NOTE: There are no material differences in the above computation of net capital with that included in the Company's corresponding unaudited Form X-17A-5 Part II filing.

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

To the Manager  
Crestone Securities, LLC  
(formerly KCM Securities, LLC)

In planning and performing our audit of the financial statements of Crestone Securities, LLC (formerly KCM Securities, LLC) for the year ended December 31, 2001, we considered its internal control structure, including procedures 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 the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Crestone Securities, LLC (formerly KCM Securities, LLC) that we considered relevant to the objectives stated in rule 17a-5(g), (i) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3; and (ii) for safeguarding the occasional receipt of securities and cash until promptly transmitted to the Company's clearing organizations. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 or complying with the requirements for prompt payment for securities under section 8(b) of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices 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 the preparation of financial statements in conformity 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 any internal control structure 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. This report recognizes that it is not practicable in an organization the size of Crestone Securities, LLC (formerly KCM Securities, LLC) to achieve all the divisions of duties and cross-checks generally included in a system of internal accounting control and that alternatively greater reliance must be placed on surveillance by management.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements 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 the internal control structure, including procedures 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 Commission 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 Commission's objectives.

In addition, our review indicated that Crestone Securities, LLC (formerly KCM Securities, LLC) was in compliance with the conditions of exemption from rule 15c3-3 pursuant to paragraph k(2)(ii) as of December 31, 2001, and no facts came to our attention to indicate that such conditions had not been complied with during the year.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange, Inc. 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.

Denver, Colorado  
January 22, 2002

*Spicer, Jeffrey & Co.*