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**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:

The Precursor Group Broker Dealer LLC

OFFICIAL USE ONLY
FIRM ID. NO.

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

901 15th Street, N.W., Suite 370

Washington, D.C. (No. and Street) 20005-2327
(City) (State) (Zip Code)

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

Barbara Buckley 202-828-7800

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Homes, Lowry, Horn & Johnson Ltd.

309 Maple Avenue West (Name - if individual, state last, first, middle name) Vienna Virginia 22180-4363
(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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*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).

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OATH OR AFFIRMATION

I, Barbara F. Buckley, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of The Precursor Group Broker Dealer LLC, as of February 20, 19 2002, 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:

Barbara F. Buckley
Signature
Vice President
Title

Jane b. Shapiro
Notary Public

My Commission Expires June 30, 2004

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.
- (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).

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	1
FINANCIAL STATEMENTS	
Balance sheet	2
Statement of income	3
Statement of changes in member's equity	4
Statement of cash flows	5
Notes to financial statements	6 and 7
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION	8
Supplementary schedule of computation of net capital	9
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	10 and 11

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INDEPENDENT AUDITOR'S REPORT

To the Member
The Precursor Group Broker-Dealer, LLC
Washington, DC

We have audited the accompanying balance sheet of The Precursor Group Broker-Dealer, LLC, as of December 31, 2001, and the related statements of income, changes in member's equity, and cash flows for the year ended December 31, 2001. 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 The Precursor Group Broker-Dealer, LLC, as of December 31, 2001, and the results of its operations and its cash flows for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Homes, Lowry, Horn & Johnson, Ltd.

January 31, 2002

BALANCE SHEET
December 31, 2001

ASSETS

Cash	\$ 158,287
Receivable from clearing organizations	<u>448,821</u>

Total assets	<u>\$ 607,108</u>
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MEMBER'S EQUITY	<u>\$ 607,108</u>
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See Notes to Financial Statements.

STATEMENT OF INCOME
For the Year Ended December 31, 2001

Revenues:	
Commissions	\$4,705,512
Interest	<u>3,104</u>
	<u>\$4,708,616</u>
Expenses:	
Commissions expense	\$ 619,349
Clearing fees	34,641
Bank fees	<u>170</u>
	<u>\$ 654,160</u>
Net income	<u>\$4,054,456</u>

See Notes to Financial Statements.

THE PRECURSOR GROUP BROKER-DEALER, LLC

4

STATEMENT OF CHANGES IN MEMBER'S EQUITY
For the Year Ended December 31, 2001

Balance, December 31, 2000	\$ 50,000
Correction of distribution due to member	<u>72,902</u>
Balance, December 31, 2000, as restated	\$ 122,902
Net income	4,054,456
Distributions to member	<u>(3,570,250)</u>
Balance, December 31, 2001	<u>\$ 607,108</u>

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 4,054,456
Net increase in receivable	<u>(375,919)</u>
Net cash provided by operating activities	<u>\$ 3,678,537</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Member distributions	<u>\$ (3,570,250)</u>
Net increase in cash	\$ 108,287
Cash at beginning of year	<u>50,000</u>
Cash at end of year	<u>\$ 158,287</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization:

The Precursor Group Broker-Dealer, LLC, was formed on March 17, 2000, as a limited liability company under the Delaware Limited Liability Company Act. The company is a wholly-owned subsidiary of The Precursor Group, Inc.

The company is a broker-dealer and is a member of the National Association of Securities Dealers, Inc. (NASD). The company provides research to its customers in return for trade orders that are placed through a clearing broker. The company receives commissions for customer trades under four clearance service agreements. Commission revenues are recorded on a settlement date basis.

All commission revenues are collected by the company and distributed to the parent company.

Cash and cash equivalents:

For purposes of the statement of cash flows, the company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Income taxes:

No provision for income taxes has been made in these financial statements because the parent company is responsible for reporting the income or loss from the company's income and expenses.

Note 2. Concentration of Credit Risk

The company maintains its cash in bank deposit accounts which at times may exceed federally insured limits. The company has not experienced any losses in such accounts. Management believes the company is not exposed to any significant risk related to cash.

Note 3. Expense and Rent Agreement

The Precursor Group, Inc., the member and parent company of The Precursor Group Broker-Dealer, LLC, has agreed to pay all expenses of the company and provide office space, rent free. These agreements expired in 2001 and were renewed for twelve months.

Note 4. Owner Distributions

All commission revenues earned by the company are distributed to the parent company. Distributions are recorded when paid.

Note 5. Net Capital Requirements

The company is subject to the Securities and Exchange Commission Rule 15c 3-1(a)(vi)(the Net Capital Rule), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). The company's net capital was \$607,108 as of December 31, 2001, which was \$602,108 in excess of its required net capital. The company's net capital ratio was 0 to 1 as of December 31, 2001.

Note 6 Subordinated Liabilities

The company had no subordinated liabilities at any time during the year ended December 31, 2001.

Note 7. Supplementary Schedules

Certain supplementary schedules are required to be filed with the financial statements under Rules 15c3-3 of the Securities and Exchange Commission and under the Commodity Exchange Act. These schedules are not applicable to the company and are not included in the supplementary schedules. These schedules are as follows:

- Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- Information Relating to Possession or Control Requirements Under Rule 15c3-3.
- Schedules of Segregation Requirements and Funds in Segregation Pursuant to the Commodity Exchange Act.

Note 8. Correction of Error

In 2001, the company corrected the reporting of its distributions to the parent. Previously, the company reported distributions due to the parent as commission revenues were earned instead of when the distributions were paid. The member's equity as of December 31, 2000, has been corrected to reflect only distributions paid.

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**INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION REQUIRED BY
RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION**

To the Member
The Precursor Group Broker-Dealer, LLC
Washington, DC

We have audited the accompanying financial statements of The Precursor Group Broker-Dealer, LLC, for the year ended December 31, 2001, and have issued our report thereon dated January 31, 2002. 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 on Page 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.

Homes, Lowry, Horn & Johnson, Ltd.

January 31, 2002

Schedule I
Computation of Net Capital Under Rule 15c3-1
of the Securities and Exchange Commission
December 31, 2001

Assets	\$ 607,108
Less liabilities	<u> -</u>
Total member equity	\$ 607,108
Less non-allowables	<u> -</u>
Haircuts	<u> -</u>
Net capital	\$ 607,108
Minimum net capital requirement	<u> 5,000</u>
Excess net capital	<u>\$ 602,108</u>
Ratio: Aggregate indebtedness to net capital	<u> 0 to 1</u>

Reconciliation with company's computation included in Part IIA of Form X-17a-5 as of December 31, 2001.

Net capital, as reported in company's Part IIA (unaudited) FOCUS report	\$ 52,579
Unpaid distributions to parent erroneously reported as liability (See Note 8)	<u> 554,529</u>
Net capital per above	<u>\$ 607,108</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Member
The Precursor Group Broker-Dealer, LLC
Washington, DC

In planning and performing our audit of the financial statements and supplemental schedule of the Precursor Group Broker-Dealer, LLC, 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 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 the preparation of financial statements in conformity with accounting principles generally accepted in the United States. Rule 17a-(5)(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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The Precursor Group Broker-Dealer, LLC

Page 2

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 member, management, the SEC, the National Association of Securities Dealers, Inc., 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.

Homes, Lowry, Horn & Johnson, L^{td}

January 31, 2002

THE PRECURSOR GROUP BROKER-DEALER, LLC

FINANCIAL REPORT

DECEMBER 31, 2001