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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 JANUARY 1, 2006 AND ENDING DECEMBER 31, 2006  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

**GRANITE FINANCIAL GROUP, LLC**

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

**12220 EL CAMINO REAL, SUITE 400**

OFFICIAL USE ONLY
FIRM ID NO.

**SAN DIEGO, CALIFORNIA 92130-2091**  
(City) (State) (Zip Code)

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

**ALLISON D. DIAMOND, CHIEF FINANCIAL OFFICER (858) 509 - 8800**  
(Area Code - Telephone No.)

## B. ACCOUNTANT IDENTIFICATION

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

**ROBERT R. REDWITZ & Co., An Accounting and Consulting Corporation**

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

**9404 GENESEE AVENUE, SUITE 220 LA JOLLA CALIFORNIA 92037-1354**  
(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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***Granite Financial Group, LLC***  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2006  
WITH  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**Table of Contents**

Annual Audited Report Form X-17A-5 Part III .....	1
Oath or Affirmation .....	2
Independent Auditors' Report .....	3
<b><u>Financial Statements</u></b>	
Statement of Financial Condition .....	4
Statement of Operations .....	5
Statement of Changes in Member's Equity .....	6
Statement of Cash Flows .....	7
<b><u>Notes to Financial Statements</u></b> .....	8 – 10
<b><u>Supplementary Information</u></b>	
Schedule I - Computation of Net Capital and Aggregate Indebtedness .....	11
Schedule II - Exemptive Provision Under Rule 15c3-3k(2)(ii) .....	12
Schedule III - Reconciliation of Net Capital Pursuant to Rule 17a-5(d)(4) .....	13
Certified Public Accountants' Supplementary Report On Internal Control .....	14 – 15

**INDEPENDENT AUDITORS' REPORT**

To the Member  
Granite Financial Group, LLC  
San Diego, California

We have audited the accompanying statement of financial condition of Granite Financial Group, LLC (the Company), as of December 31, 2006, and the related statements of operations and of 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 U.S. generally accepted auditing standards. 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 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 Company as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in schedules I, II, and III 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. The information contained in the schedule of details of financial condition is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary 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.

As discussed in Note 7 to the financial statements, the Company is respondent in arbitration proceedings stemming from the Company's alleged responsibility for trading operations of a former customer. The ultimate outcome of the arbitration cannot presently be determined, but management is of the opinion that it will not have a material impact on the Company's financial position. Accordingly, no provision for any liability that may result from this contingency has been made in the financial statements.

*Robert R. Redwitz & Co.*

**ROBERT R. REDWITZ & CO.**  
*An Accounting and Consulting Corporation*

La Jolla, California  
February 20, 2007

# Granite Financial Group, LLC

Statement of Financial Condition

December 31, 2006

## ASSETS

### Current assets

Cash and cash equivalents	\$ 244,947
Commissions receivable	10,606
Accounts receivable	29,113
Prepaid expenses and other current assets	59,026
Marketable securities held for investment	31,738
Loan receivable - member	38,923
Total current assets	<u>414,353</u>

### Furniture, equipment, and improvements

Computer equipment	258,433
Furniture and fixtures	177,606
Leasehold improvements	123,368
	<u>559,407</u>
Less accumulated depreciation and amortization	<u>(301,949)</u>
	<u>257,458</u>

### Other assets - deposits

288,764

\$ 960,575

## LIABILITIES AND MEMBERS' EQUITY

### Current liabilities

Accounts payable	\$ 112,402
Accrued expenses	78,628
Payable to clearing firm	24,830
Total current liabilities	<u>215,860</u>

### CONTINGENCY (See Note 7)

### Members' equity

744,715

\$ 960,575

# Granite Financial Group, LLC

## Statement of Operations

For The Year Ended December 31, 2006

### REVENUES

Gains on securities, net	\$ 1,558,960
Commissions	186,981
Private placement income	329,500
Consulting income	148,634
Interest income	92,419
Other income	16,940
	<hr/>
	2,333,434

### EXPENSES

Salaries, payroll taxes, and benefits	878,580
Clearing firm charges	1,226,405
Information services	84,328
Occupancy	220,582
Consulting	109,235
Other general and administrative expenses	416,962
Regulatory fees and expenses	10,029
Margin interest expense	6,654
	<hr/>
	2,952,775

Net income (loss) before income tax provision (619,341)

Provision for income taxes 6,800

Net income (loss) (626,141)

**Granite Financial Group, LLC**  
 Statement of Changes in Member's Equity  
 For The Year Ended December 31, 2006

	Member's Equity		Total
	Series A	Series B	Member's Equity
BALANCE AT, December 31, 2005	\$ 1,420,346	\$ 4,950,510	\$ 6,370,856
Net income (loss)	(688,391)	62,250	(626,141)
Transfers	12,760	(12,760)	-
Distributions	-	(5,000,000)	(5,000,000)
BALANCE AT, December 31, 2006	<u>\$ 744,715</u>	<u>\$ -</u>	<u>\$ 744,715</u>

# Granite Financial Group, LLC

## Statement of Cash Flows

For The Year Ended December 31, 2006

### **CASH FLOWS FROM OPERATING ACTIVITIES**

Net income (loss)	\$ (626,141)
Adjustments to reconcile net loss to cash used by operating activities:	
Depreciation and amortization	104,522
Effect of changes in:	
Receivable from clearing firm	693,467
Accounts receivable	(2,204)
Prepaid expenses and other current assets	94,430
Marketable securities	(22,431)
Deposits	68,606
Employee loans receivable	169,110
Accounts payable	(7,687)
Accrued expenses	(232,945)
Payable to clearing firm	24,830
	<hr/>
Net cash provided by operating activities	263,557

### **CASH FLOWS FROM INVESTING ACTIVITIES**

Cover of short position	<hr/> (301,950)
Net cash investments used by investing activities	<hr/> (301,950)

### **CASH FLOWS FROM FINANCING ACTIVITIES**

Capital distribution	<hr/> (5,000,000)
Net cash used by financing activities	<hr/> (5,000,000)
Decrease in cash and cash equivalents	(5,038,393)
CASH AND CASH EQUIVALENTS, beginning of year	<hr/> 5,283,340
CASH AND CASH EQUIVALENTS, end of year	<hr/> <hr/> \$ 244,947

# **Granite Financial Group, LLC**

Notes to Financial Statements

December 31, 2006

## **Note 1 - Description of company and summary of significant accounting policies**

Granite Financial Group, LLC, a Delaware Series LLC (the Company), was formed on September 22, 2005, from the conversion of Granite Financial Group, Inc., a California Corporation, and is registered as an Introducing Broker-Dealer with the National Association of Securities Dealers, Inc. (NASD), effective August 27, 1998. During 2006, the Company was composed of two LLC Series (Series A and Series B). Series A consisted of the Company's primary activities of traditional brokerage services and corporate finance. Series B was a joint venture between the Company and Headwaters, LLC (an unaffiliated entity). Series B was capitalized in 2005, however, upon further review, the NASD required that the Company unwind Series B. As such, the Series B was liquidated on July 31, 2006 and Headwaters' total investment was returned.

Granite's main activities include both traditional brokerage services and corporate finance. Brokerage activities include, but are not limited to, principal and agency transactions and institutional sales. Granite does not carry security accounts for customers or perform custodial functions relating to customer securities.

Customers' securities transactions and related commission income and expenses are recorded on a settlement-date basis. Profit and loss arising from securities transactions entered into for the account and risk of the Company are recorded on a trade-date basis.

Corporate finance revenues include fees earned from providing full service investment banking activities. Certain of these services include PIPE ("Private Investments in Public Equities") transactions, merger and advisory activity, and consulting and research. Fees for advisory services are recorded when earned and received. Investment banking management fees and related commissions are recorded at the time the transaction/underwriting is completed and received.

The Company considers all highly liquid investments such as money market funds with a maturity of three months or less at the date of acquisition to be "cash equivalents". The Company maintains its cash and cash equivalent balances at financial institutions which are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2006, the Company's uninsured cash and cash equivalents balances totaled approximately \$139,000. Management believes these accounts not to be at risk.

Marketable securities and investments are valued at market.

The Company considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts or loans is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and equipment are stated at cost. Depreciation is provided for by using the straight-line basis over the estimated useful lives of the assets, which are estimated to be three to seven years. Leasehold improvements are amortized to expense over the term of the lease. Depreciation and amortization expenses charged to operations for the year ended December 31, 2006, totaled \$104,522.

Cash paid for interest on all Company debt was \$6,654 for the year ended December 31, 2006.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

# Granite Financial Group, LLC

Notes to Financial Statements

December 31, 2006

## **Note 2 - Net capital requirements**

The Company, as a registered broker-dealer, is required under the provisions of Securities Exchange Act of 1934 (the Act) Rule 15c3-1 to maintain the greater of a minimum net capital of at least \$250,000 or one-fifteenth of the aggregate indebtedness as defined under the Act. At December 31, 2006, the Company's net capital was \$355,254 and the Company's aggregate indebtedness was \$215,861, or 61% of net capital.

## **Note 3 - Marketable securities held for investment**

Marketable securities held for investment consist of publicly traded corporate stocks, which are as follows at December 31, 2006:

<u>Marketable Securities</u>	<u>Shares</u>	<u>Market Value</u>
Devcon International Corporation	2,518	\$ 14,353
Western Alliance	500	<u>17,385</u>
		<u>\$ 31,738</u>

These securities are held for investment and are valued at market at December 31, 2006. Unrealized gains and losses resulting from increases or decreases in fair market value during the period the securities are held by the Company, along with realized gains and losses on securities sold during the year ending December 31, 2006, are reflected in the statement of income. The marketable securities held at December 31, 2006, have no restrictions or other arrangements or conditions, which limit their marketability.

## **Note 4 - Income taxes**

The Company is a California limited liability company (LLC). As such, it does not pay Federal or State income taxes. Instead, the current annual taxable income and losses of the Company is reported by the single member of this LLC on his individual Federal and State income tax returns. The LLC is annually assessed an \$800 LLC tax, and an LLC fee based upon gross receipts. The LLC tax and fee for the Company has been included in the provision for income taxes on the accompanying Statement of Operations.

Cash paid for income taxes totaled \$10,990 for the year ended December 31, 2006.

## **Note 5 - Commitments**

The Company leases office facilities in San Diego, California, under a non-cancelable operating lease agreement, which expires in 2008, with an option to extend the term for an additional five years. The current monthly rent is approximately \$35,000 and is subject to scheduled escalations. The Company must also pay for its share of property taxes, insurance, repairs and maintenance, and common area expenses related to the facilities, under the terms of the agreement.

The Company has also entered into various non-cancelable operating lease agreements for office equipment and automobiles. As of December 31, 2006, aggregate monthly rent on these leases is approximately \$1,518. The leases have expiration dates ranging to September 2007.

# Granite Financial Group, LLC

Notes to Financial Statements

December 31, 2006

## **Note 5 - Commitments (continued)**

The total rent expense charged to operations under leases for the year ended December 31, 2006, was approximately \$171,000 (net of month-to-month sublease income of approximately \$289,000).

The total minimum lease commitments for all non-cancelable operating leases with terms of one year or more as of December 31, 2006, are as follows:

<u>For The Years Ended December 31,</u>	
2007	\$ 425,866
2008	<u>326,631</u>
	<u>\$ 752,497</u>

The Company as a sub-lessor has entered into sub-leases with several sub-tenants on a month-to-month or yearly basis, with options to renew. The total commitment receivable for 2007 under these leases is approximately \$298,000.

The Company maintains a non-cancelable agreement with its trading software provider with an expiration date of October 2007. The future payments under this commitment amount to \$110,000.

## **Note 6 - Retirement plan**

In 2001 the Company adopted a 401(K) Retirement Savings Plan. Employees are eligible to participate upon reaching twenty-one years of age and after completing six months of service. Participants may contribute up to \$15,000 of their compensation, subject to statutory limitations. The Company may make discretionary matching contributions as well as discretionary profit sharing contributions to the Plan. For the year ended December 31, 2006, the Company did not make any discretionary contributions to the Plan.

## **Note 7 - Contingency**

The Receiver of a former customer of the Company has filed a claim subject to arbitration stemming from the Company's alleged responsibility for the trading operations of its former customer. Management believes that the Company will prevail, and no adjustment has been made to the financial statements as a result of this contingency.

**SUPPLEMENTARY INFORMATION**

**Granite Financial Group, LLC**

Schedule I - Computation of Net Capital and Aggregate Indebtedness

December 31, 2006

Total ownership equity from statement of financial condition	\$ 744,716
Total non-allowable assets	<u>(384,701)</u>
Net capital before haircuts on securities positions	360,015
Haircuts on securities:	
Trading and investment securities—other	<u>(4,761)</u>
Net capital	<u>\$ 355,254</u>
Minimum net capital required (based on aggregate indebtedness)	<u>\$ 14,390</u>
Minimum net capital requirement	<u>\$ 250,000</u>
Net capital requirement	<u>\$ 250,000</u>
Excess net capital	<u>\$ 105,254</u>
Excess net capital at 1000%	<u>\$ 333,667</u>
Total aggregate indebtedness	<u>\$ 215,861</u>
Percentage of aggregate indebtedness to net capital	<u>61%</u>

**Granite Financial Group, LLC**

Schedule II - Exemptive Provision Under Rule 15c3-3k(2)(ii)

December 31, 2006

Granite Financial Group, LLC, has an exemption from the Computation for the Determination of Reserve Requirements Pursuant to Rule 15c3-3 and an exemption from Information Relating to the Possession or Control Requirements under Rule 15c3-3 due to SEC Rule 15c3-3k(2)(ii) because all customer transactions are cleared through another Broker-Dealer on a fully disclosed basis.

Name of Clearing Firm:

ADP Clearing and Outsourcing Services

SEC No. 8-23522

Product Code A

**Granite Financial Group, LLC**

Schedule III - Reconciliation of Net Capital Pursuant to Rule 17a-5(d)(4)

December 31, 2006

Net capital as reported in Part II of the Company's FOCUS report at December 31, 2006	<u>\$ 355,254</u>
Adjusted net capital	<u>\$ 355,254</u>
Regulatory net capital, per audit	<u>\$ 355,254</u>

***Granite Financial Group, LLC***  
Certified Public Accountants' Supplementary Report  
On Internal Control

**CERTIFIED PUBLIC ACCOUNTANTS' SUPPLEMENTARY REPORT  
ON INTERNAL CONTROL**

To the Member  
Granite Financial Group, LLC  
San Diego, California

In planning and performing our audit of the financial statements and supplementary information of Granite Financial Group, LLC (the Company), for the year ended December 31, 2006, 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 accordance with U.S. 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. This report recognizes that it is not practicable in an organization the size of Granite Financial Group, LLC, to achieve all the divisions of duties and cross-checks generally included in a system of internal control and that alternatively greater reliance must be placed on surveillance by management.

To the Member  
Granite Financial Group, LLC  
Page Two

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, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Members, 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.

*Robert R. Redwitz & Co.*

**ROBERT R. REDWITZ & CO.**  
*An Accounting and Consulting Corporation*

La Jolla, California  
February 20, 2007

*END*