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

Washington, DC 110

SEC FILE NUMBER
8- 67776

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 04/01/08 AND ENDING 12/31/08 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: LARA, SHULL & MAY, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.) 7600 LEESBURG PIKE, SUITE 120 EAST

FALLS CHURCH VA 22043 (City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT FRANK T. SHULL, IV (703) 827-2300 (Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

BRACE & ASSOCIATES, PLLC

PMB 271, 44 NASHUA RD, STE 15 LONDONDERRY NH 03053 (Address) (City) (State) (Zip Code)

CHECK ONE:

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

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)

OATH OR AFFIRMATION

I, FRANK T. SHULL, IV, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of LARA, SHULL & MAY, LLC of DECEMBER 31, 20 08, 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
VICE PRESIDENT
Title

Given under my hand this 30th day of March 2009 in Fairfax County, Virginia

Wendy A. S. Payne Notary Public #7202850 My Commission Expires November 30, 2012

- 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 Proprietors' 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).

**LARA, SHULL & MAY, LLC**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

# BRACE & ASSOCIATES, PLLC

*Certified Public Accountant*

PMB 271, 44 NASHUA ROAD, SUITE 15

LONDONDERRY, NH 03053-3450

TEL. (603) 889-4243

FAX (603) 882-7371

## Independent Auditor's Report

To the Members of  
Lara, Shull & May, LLC  
Falls Church, VA

I have audited the accompanying statement of financial condition of Lara, Shull & May, LLC (the Company) as of December 31, 2008 and the related statements of income, changes in members' equity, and cash flows for the period 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 financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. 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 Lara, Shull & May, LLC as of December 31, 2008, and the results of their operations and their cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

My 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, III, and IV, 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 my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Brace & Associates, PLLC*

Brace & Associates, PLLC  
Certified Public Accountant  
Londonderry, New Hampshire  
March 25, 2009

LARA, SHULL & MAY, LLC

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2008

ASSETS

Cash and cash equivalents	\$ 283,641
Receivable from broker-dealers and clearing organizations	379,539
Deposit with clearing organization	25,000
Receivable from non-customers	1,348,853
Furniture and equipment, at cost less, accumulated depreciation of \$29,298	121,023
Security deposits	10,728
Customer list, management contract and trade names, net of accumulated amortization of \$554,375	4,117,267
Prepaid expenses and other assets	<u>31,917</u>
Total Assets	<u>\$ 6,317,968</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts payable and accrued expenses	\$ 934
Commissions payable	107,629
Due to member	33,000
Deferred rent	<u>97,286</u>
Total Liabilities	<u>238,849</u>
Members' Equity	
Members' equity	<u>6,079,119</u>
Total Members' Equity	<u>6,079,119</u>
Total Members' Equity and Liabilities	<u>\$ 6,317,968</u>

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

LARA, SHULL & MAY, LLC

STATEMENT OF INCOME

FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008

Revenues:

Commissions	\$ 1,216,185
Fee income	1,280,235
Interest and dividends	9,187
Other income	<u>21,602</u>
	<u>2,527,209</u>

Expenses:

Employee compensation and benefits	423,464
Commissions and clearance fees	671,674
Management fees	59,785
Occupancy	135,749
Other expenses	<u>712,884</u>
	<u>2,003,556</u>

Net Income (Loss) \$ 523,653

**LARA, SHULL & MAY, LLC**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

**FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008**

	<u>Members'</u> <u>Equity</u>	<u>Total</u>
Balance at April 1, 2008	\$ 5,555,466	\$ 5,555,466
Net Income (Loss)	523,653	523,653
Balance at December 31, 2008	<u>\$ 6,079,119</u>	<u>\$ 6,079,119</u>

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

**LARA, SHULL & MAY, LLC**

**STATEMENT OF CASH FLOWS**

**FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008**

Cash flows from operating activities:	
Net income (loss)	\$ 523,653
Adjustments to reconcile net income	
to net cash provided by operating activities	
Depreciation	\$ 17,579
Amortization	332,625
(Increase) decrease in operating assets:	
Decrease in receivable from broker-dealers	101,638
Increase in prepaid expenses and other assets	(21,189)
Increase in receivable from noncustomers	(1,265,297)
Increase (decrease) in operating liabilities:	
Increase in accounts payable	378
Increase in commissions payable	50,243
Increase in due to member	26,000
Decrease in deferred rent	<u>(4,452)</u>
Total adjustments	<u>(762,475)</u>
Net cash used by operating activities	(238,822)
Cash flows from investing activities	
Purchase of furniture, equipment and leasehold improvements	<u>(3,350)</u>
Net cash used by investing activities	(3,350)
Cash flows from financing activities	
None	<u>-</u>
Net cash provided by financing activities	<u>-</u>
Net decrease in cash	(242,172)
Cash at beginning of the period	<u>525,813</u>
Cash at end of the period	<u><u>\$ 283,641</u></u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the period for:	
Interest payments	\$ <u>26</u>
Income tax payments	<u>\$ -</u>

Disclosure of accounting policy:

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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

# LARA, SHULL & MAY, LLC

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

### NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

#### **Organization and Nature of Business**

The Company's predecessor was incorporated on March 17, 1981 in the Commonwealth of Virginia. On October 1, 2007 the Company's assets were purchased by Focus Financial Partners, LLC and the Company was reorganized as a limited liability company, Lara, Shull & May, LLC. As a limited liability company the members' liability is limited to their investment. The accompanying financial statements include the results of operations for the LLC from April 1, 2008 through December 31, 2008. It provides a securities brokerage service to its clients, but does not clear its own transactions or hold customer funds or securities. Related commission revenue and expenses are recorded on a trade date basis. The Company also provides investment and financial planning services and insurance and annuity products. The Company is registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA).

#### **Fixed Assets**

Furniture and equipment are being depreciated using the straight-line method over their estimated useful lives, ranging from three to seven years. Leasehold improvements are amortized over the term of the lease. For the period ended December 31, 2008, depreciation expense was \$17,579.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as of 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.

#### **Allowance for Bad Debts**

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

#### **Investment Advisory Fees**

Investment advisory fees are received quarterly, but are recognized as earned on a pro rata basis over the term of the contract.

**Clearing Agreements** – All company customer transactions are cleared on a fully disclosed basis through independent broker/dealers. The clients pay these broker/dealers various charges and fees for the clearing services provided. All customers' related balances are carried on the books of the clearing agents.

LARA, SHULL & MAY, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

**Advertising and Marketing** – The Company’s policy is to expense advertising and marketing costs as incurred. Advertising and marketing expense for the period ended December 31, 2008 was \$57,494.

**NOTE 2- NET CAPITAL**

As a broker dealer, the Company is subject to the Securities and Exchange Commission’s regulations and operating guidelines, which require the Company to maintain a specified amount of net capital as defined, and a ratio of aggregate indebtedness to net capital as derived, not exceeding 15 to 1. The Company’s net capital as computed under 15c3-1, was \$77,806 at December 31, 2008, which exceeded required net capital of \$15,923 by \$61,883. The ratio of aggregate indebtedness to net capital at December 31, 2008 was 307.0%.

**NOTE 3- TAXES ON INCOME**

The Company operating as an LLC has chosen to be treated as a partnership for federal and state income tax purposes. A partnership is not a taxpaying entity for federal or state income tax purposes. Accordingly, no income tax expense has been recorded in the statements. All income or losses will be reported on the individual members’ income tax returns.

**NOTE 4- COMMITMENTS AND CONTINGENCIES**

The Company is committed to an operating lease for office space. Approximate future minimum lease payments of all non-cancelable operating leases for the next five years are as follows:

2009	\$132,623
2010	136,607
2011	140,688
2012	<u>144,914</u>
	<u>\$554,832</u>

Rent expense for the office space for the period ended December 31, 2008 was \$120,568.

The Company received a claim from two former customers in regards to their investment in Triton Real Estate Partners. The customers are claiming material misrepresentation and seeking at least \$200,000. The Company has not recorded a provision for this matter as management intends to vigorously defend these allegations and believes the payment of this claim is not probable. The Company believes, however, that any liability that it may incur would not have a material adverse effect on its financial condition or its results of operations.

**LARA, SHULL & MAY, LLC**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**DECEMBER 31, 2008**

**NOTE 4 – COMMITMENTS AND CONTINGENCIES (Continued)**

The Company is also involved in an arbitration case in which a former customer is alleging securities fraud, breach of fiduciary duty, common law fraud and negligent misrepresentation. The Company denies any liability and intends to vigorously defend its position. The ultimate outcome of this case cannot presently be determined. However, in management's opinion, the likelihood of a material adverse outcome is remote. Accordingly, adjustments, if any, which might result from the resolution of this matter, have not been reflected in the financial statements.

**NOTE 5- RETIREMENT PLAN**

The Company offers a 401(k) retirement plan for the benefit of all employees. The Company does not match any employee contributions. Employee contributions to the plan were \$31,961 for the period ended December 31, 2008.

**NOTE 6- CONCENTRATION OF CREDIT RISK**

The Company is engaged in various trading and brokerage activities with counterparties. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2008 consists of the following:

Furniture and Equipment	\$ 26,099
Leasehold Improvements	<u>124,222</u>
	150,321
Less Accumulated Depreciation and Amortization	<u>29,298</u>
	<u>\$121,023</u>

LARA, SHULL & MAY, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2008

**NOTE 8 - INTANGIBLE ASSETS**

Intangible assets consist of the following:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Customer List	\$3,700,000	\$462,500
Management Contract	1,200,000	75,000
Trade Names	270,000	16,875
Negative Goodwill	<u>(498,358)</u>	<u>0</u>
Total Intangible Assets	\$4,671,642	\$554,375

The Company's intangible assets, except goodwill, will be amortized over the estimated useful life of each asset, ranging from 10 to 20 years. Negative goodwill will be reviewed by management annually to determine if re-evaluation should be considered.

Amortization expense for the period ending December 31, 2008 was \$332,625. Estimated amortization expense at December 31, 2008 for the each of the five succeeding years is as follows:

Year Ending December 31,

2009	\$443,500
2010	443,500
2011	443,500
2012	443,500
2013	443,500

**NOTE 9- RELATED PARTY TRANSACTIONS**

The Company's member Focus Financial Partners, LLC charges the Company for various overhead expenses paid by the member on its behalf. The total of overhead expenses paid to the member during the period ending December 31, 2008 was \$26,000. As of December 31, 2008 the Company owed the member \$33,000 and \$914,361 was owed to the Company from the member and included in the receivables from noncustomers.

**LARA, SHULL & MAY, LLC**  
**SUPPLEMENTARY SCHEDULES**  
**FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 2008**

LARA, SHULL & MAY, LLC

SCHEDULE I

COMPUTATION OF AGGREGATE INDEBTEDNESS AND NET CAPITAL  
PURSUANT TO RULE 15c3-1

DECEMBER 31, 2008

Total ownership equity from statement of financial condition	\$	6,079,119
Total nonallowable assets from statement of financial condition		<u>(5,975,310)</u>
Net capital before haircuts on securities positions		103,809
Haircuts on securities		<u>(26,003)</u>
Net capital	\$	<u>77,806</u>
Aggregate indebtedness:		
Total A.I. liabilities from statement of financial condition	\$	<u>238,849</u>
Total aggregate indebtedness	\$	<u>238,849</u>
Percentage of aggregate indebtedness to net capital		<u>307.0%</u>
Computation of basic net capital requirement:		
Minimum net capital required (6-2/3% of A.I.)	\$	<u>15,923</u>
Minimum dollar net capital requirement of reporting broker or dealer	\$	<u>5,000</u>
Net capital requirement	\$	<u>15,923</u>
Excess net capital	\$	<u>61,883</u>

There were no material differences between the audited and unaudited computation of net capital.

**SCHEDULE II**

**LARA, SHULL & MAY, LLC**

**INFORMATION RELATING TO POSSESSION OR CONTROL  
REQUIREMENTS UNDER RULE 15c3-3**

**DECEMBER 31, 2008**

The Company had no items reportable as customers' fully paid securities: (1) not in the Company's possession or control as of the audit date (for which instructions to reduce to possession or control had been issued as of the audit date) but for which the required action was not taken by the Company within the time frames specified under Rule 15c3-3 or (2) for which instructions to reduce to possession or control had not been issued as of the audit date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.

**SCHEDULE III**

**LARA, SHULL & MAY, LLC**

**SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS  
IN SEGREGATION FOR CUSTOMERS' REGULATED  
COMMODITY FUTURES AND OPTION ACCOUNTS**

**DECEMBER 31, 2008**

The Company claims exemption from the segregation requirements of the Commodities Futures Act since it has no commodity customers as the term is defined in Regulation 1.3(k).

**SCHEDULE IV**

**LARA, SHULL & MAY, LLC**

**COMPUTATION FOR DETERMINATION OF  
RESERVE REQUIREMENTS FOR BROKER/DEALER UNDER  
RULE 15c3-3 OF THE SECURITIES EXCHANGE ACT OF 1934**

**DECEMBER 31, 2008**

Lara, Shull & May, LLC, is exempt from the reserve requirements of Rule 15c3-3 (k) (2) (ii) as it is an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and it promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of SEC Sec. 240.17a-3 and 240.17a-4 of this chapter, as are customarily made and kept by a clearing broker or dealer, accordingly, the computation for determination of reserve requirements pursuant to Rule 15c3-3 and information relating to the possession or control requirement pursuant to Rule 15c3-3 are not applicable.

# BRACE & ASSOCIATES, PLLC

*Certified Public Accountant*

PMB 271, 44 NASHUA ROAD, SUITE 15

LONDONDERRY, NH 03053-3450

TEL. (603) 889-4243

FAX (603) 882-7371

## Independent Auditor's Report on Internal Control Structure Required by SEC Rule 17a-5

### Members

Lara, Shull & May, LLC

In planning and performing my audit of the financial statements and supplemental schedules of Lara, Shull & May, LLC, (the Company), for the period ended December 31, 2008, I considered its internal control, including control activities 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 internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), I have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that I considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness 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, I 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 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 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.

My 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, I noted no matters involving internal control, including control activities for safeguarding securities, which I consider 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 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 my study, I believe that the Company's practices and procedures were adequate at December 31, 2008, to meet the SEC's objectives.

This report is intended solely for the information and use of the members, management, the Securities and Exchange Commission, the Financial Industry Regulatory Authority, 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.

*Brace & Associates, PLLC*

Brace & Associates, PLLC  
Certified Public Accountant  
Londonderry, New Hampshire  
March 25, 2009

**BRACE & ASSOCIATES, PLLC**

*Certified Public Accountant*