



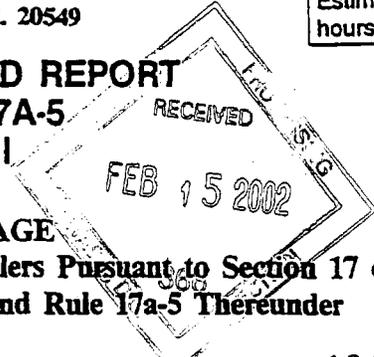
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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



SEC FILE NUMBER  
8- 51905

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

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: PENN FINANCIAL GROUP, INC.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
261 OLD YORK ROAD - SUITE #633

JENKINTOWN (City) PA (State) 19046 (Zip Code)

OFFICIAL USE ONLY  
FIRM ID. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
ERIC LAUCIUS (215) 886-4100  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
COHEN, ENGEL & CO., INC.

THE PAVILION - SUITE #615 (Address) JENKINTOWN, (City) PA (State) 19046 (Zip Code)

**PROCESSED**  
FEB 21 2002  
THOMSON  
FINANCIAL

CHECK ONE:  
 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).

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, ERIC LAUCIUS, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PENN FINANCIAL GROUP, INC., 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:

NOTARIAL SEAL
ARLENE CAPLIN, Notary Public
Jenkintown Boro., Montgomery County
My Commission Expires Jan. 31, 2005

Arlene Caplin
Notary Public

Eric Laucus
Signature
PRESIDENT
Title

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).

PENN FINANCIAL GROUP, INC.

Jenkintown, Pennsylvania

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2001 AND THE PERIOD FROM  
NOVEMBER 15, 1999 (DATE OF MEMBERSHIP TO NASD) TO DECEMBER 2000.

COHEN, ENGEL & CO., INC.

*Certified Public Accountants*

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PENN FINANCIAL GROUP, INC.  
DECEMBER 31, 2001

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# COHEN, ENGEL & CO., INC.

*Certified Public Accountants*

FRED S. COHEN  
ELI ENGEL

GERALD L. ALBERT  
RICHARD FINESTONE  
DAVID S. GRABEL  
PAMELA HAWES

THE PAVILION - SUITE 615  
261 OLD YORK ROAD  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Penn Financial Group, Inc.  
Jenkintown, Pennsylvania

We have audited the accompanying balance sheets of Penn Financial Group, Inc. as of December 31, 2001 and 2000, and the related statements of operations, changes in shareholder's equity, and cash flows for the year ended December 31, 2001 and the period from November 15, 1999 to December 2000. 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 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 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 Penn Financial Group, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the periods then ended, in conformity with generally accepted accounting principles.

Our audit of the basic financial statements was conducted primarily to form an opinion on such financial statements taken as a whole. The computation of net capital on Page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been selected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Cohen, Engel & Co., Inc.*

Jenkintown, Pennsylvania  
February 8, 2002

PENN FINANCIAL GROUP, INC.  
BALANCE SHEETS  
DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
ASSETS		
Current assets:		
Cash	\$118,088	\$ 73,603
Commissions receivable	12,268	7,301
Available-for-sale-Securities - Note 3	20	752
Refundable Federal income taxes	-	2,824
Refundable local taxes	60	-
Note receivable - shareholder - Note 4	<u>20,000</u>	<u>20,000</u>
Total current assets	<u>150,436</u>	<u>104,480</u>
Furniture and equipment at cost, less accumulated depreciation of \$3,822	-	-
Other assets:		
Deposit on trading account	35,000	35,000
Organization costs less accumulated amortization of \$413 in 2001 and \$263 in 2000	<u>337</u>	<u>487</u>
Total other assets	<u>35,337</u>	<u>35,487</u>
Total assets	<u>\$185,773</u>	<u>\$139,967</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ <u>6,648</u>	\$ <u>6,685</u>
Total current liabilities	<u>6,648</u>	<u>6,685</u>
Shareholder's equity:		
Common stock - no par value; 60 shares authorized, Issued and outstanding	600	600
Additional paid in capital	399,400	399,400
Accumulated deficit	(53,936)	(100,511)
Accumulated other comprehensive losses	<u>(166,939)</u>	<u>(166,207)</u>
Total shareholder's equity	<u>179,125</u>	<u>133,282</u>
Total liabilities and shareholder's equity	<u>\$185,773</u>	<u>\$139,967</u>

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

PENN FINANCIAL GROUP, INC.  
STATEMENTS OF OPERATIONS

	Year Ended December <u>31, 2001</u>	Period Ended December <u>31, 2000 (Note 1)</u>
Revenues:		
Commissions earned	\$234,353	\$195,803
Less: clearing house charges	<u>25,414</u>	<u>36,884</u>
Net revenues	<u>208,939</u>	<u>158,919</u>
Operating expenses:		
Salaries – officer	60,000	57,492
- office	57,370	36,481
Payroll taxes	9,975	8,201
Rent	21,938	22,844
Telephone	6,495	8,905
Computer expenses	5,378	7,603
Office expenses	8,152	18,723
Professional fees	12,960	8,060
Information expenses	19,696	19,258
Registration expenses	2,324	4,196
Postage and mailing	4,643	3,120
Security expense	1,002	663
Dues and subscriptions	1,072	2,451
Website development	-	4,000
Insurance	883	1,181
Sundry taxes	1,239	3,443
Interest	715	942
Depreciation and amortization	150	3,804
Miscellaneous	<u>2,935</u>	<u>4,065</u>
Total operating expenses	<u>216,927</u>	<u>215,432</u>
Loss before other income and losses	<u>(7,988)</u>	<u>(56,513)</u>
Other income and losses:		
Gains (losses) on sales of Securities	52,314	(33,222)
Interest and dividend income	<u>2,249</u>	<u>2,766</u>
Other income (loss)	<u>54,563</u>	<u>(30,456)</u>
Net income (loss)	46,575	(86,969)
Other comprehensive losses:		
Unrealized losses on Securities – Note 2(c)	<u>(732)</u>	<u>(166,207)</u>
Comprehensive income (loss)	<u>\$ 45,843</u>	<u>\$(253,176)</u>

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

PENN FINANCIAL GROUP, INC.  
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

Year Ended December 31, 2001

	<u>Accumulated Deficit</u>	<u>Accumulated Comprehensive Losses</u>
Balance, January 1, 2001	\$(100,511)	\$(166,207)
Net income	46,575	
Unrealized losses on securities	<u>-</u>	<u>(732)</u>
Balance, December 31, 2001	\$ <u>(53,936)</u>	\$ <u>(166,939)</u>

Period Ended December 31, 2000 (Note 1)

	<u>Accumulated Deficit</u>	<u>Accumulated Comprehensive Losses</u>
Balance, November 15, 1999	\$ (13,542)	\$ -
Net loss	(86,969)	-
Unrealized losses on securities	<u>-</u>	<u>(166,207)</u>
Balance, December 31, 2000	\$ <u>(100,511)</u>	\$ <u>(166,207)</u>

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

PENN FINANCIAL GROUP, INC.  
STATEMENTS OF CASH FLOWS

	Year Ended December <u>31, 2001</u>	Period Ended December <u>31, 2000 (Note 1)</u>
Cash flows from operating activities:		
Net income (loss)	\$ 46,575	\$ (86,969)
Operating items not requiring cash:		
Amortization and depreciation	150	3,804
Changes in assets and liabilities:		
Commissions receivable	(4,967)	(7,301)
Available-for-sale-Securities	-	178,417
Refundable local taxes	(60)	-
Refundable Federal income taxes	2,824	(2,824)
Accounts payable	<u>(37)</u>	<u>6,685</u>
Net cash provided by operating activities	<u>44,485</u>	<u>91,812</u>
Cash flows form investing activities:		
Acquisition of furniture and equipment	<u>-</u>	<u>(3,635)</u>
Net cash used in investing activities	<u>-</u>	<u>(3,635)</u>
Cash flows from financing activities:		
Loans to shareholder	<u>-</u>	<u>(20,000)</u>
Net cash used in financing activities	<u>-</u>	<u>(20,000)</u>
Net increase in cash	44,485	68,177
Cash, beginning of period	<u>73,603</u>	<u>5,426</u>
Cash, end of period	<u>\$118,088</u>	<u>\$ 73,603</u>
Supplemental Disclosures:		
Interest paid	\$ 715	\$ 942

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

PENN FINANCIAL GROUP, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION OF THE COMPANY

The Company was incorporated on January 22, 1999 in the Commonwealth of Pennsylvania under the name of Penn Investment Holdings, Inc. On July 28, 1999 the Company changed its name to Penn Financial Group, Inc. and subsequently registered as a broker-dealer with the Securities and Exchange Commission (SEC) and the National Association of Securities Dealers (NASD). The Company is required to maintain a minimum net capital of \$5,000 under the NASD regulations.

Basis of Presentation: On November 15, 1999, the Company became a member of NASD and as a result had to reflect its operations from that date to December 31, 2000.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

- (a) Furniture and Equipment: Furniture and equipment are recorded at cost. Depreciation is computed using accelerated methods for book and income tax purposes.
- (b) Available-For-Sale-Securities: The Company's securities investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the period included in earnings.
- (c) Comprehensive Loss: The Company adopted SFAS No. 130, reporting comprehensive loss. Accounting principles generally require that recognized revenue, expenses, gains and losses be included in income. Certain changes in assets and liabilities, however, such as unrealized losses on available-for-sale securities, are reported as a direct adjustment to the equity section of the balance sheet. Such items, along with net loss, are considered components of comprehensive loss under the new standard.
- (d) 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 amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – AVAILABLE-FOR-SALE-SECURITIES

The available-for-sale securities consist of 4,000 shares of E Toys, Inc.

NOTE 4 – RELATED PARTY TRANSACTIONS

The Company has a note receivable outstanding from the officer and shareholder of the Company for \$20,000. The note bears interest at 7% per annum and is due on March 15, 2002.

PENN FINANCIAL GROUP, INC.  
SCHEDULES OF NET CAPITAL  
DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
Total shareholders' equity	\$ <u>179,125</u>	\$ <u>133,282</u>
Non-allowable assets, deductions and/or charges:		
Refundable Federal income taxes	-	2,824
Note receivable	20,000	20,000
Organization costs	337	487
Refundable local taxes	<u>60</u>	<u>-</u>
Total	<u>20,397</u>	<u>23,311</u>
Net capital before haircuts on securities positions	158,728	109,971
Haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f)):		
Money market accounts	1,902	1,356
Equities	<u>3</u>	<u>113</u>
Total haircuts	<u>1,905</u>	<u>1,469</u>
Net capital	<u>\$156,823</u>	<u>\$108,502</u>
Aggregate indebtedness	\$ <u>6,648</u>	\$ <u>6,685</u>
Computation of basic capital requirement:		
Minimum net capital requirement	\$ 443	\$ 446
Minimum dollar requirement	<u>5,000</u>	<u>5,000</u>
Net capital requirement (the greater of the above amounts)	<u>\$ 5,000</u>	<u>\$ 5,000</u>

There are no material differences between the computation of net capital presented above and the computation of net capital reported in the Company's unaudited Form X-17A-5, Part IIA filing as of December 31, 2001.

# COHEN, ENGEL & CO., INC.

*Certified Public Accountants*

FRED S. COHEN  
ELI ENGEL

GERALD L. ALBERT  
RICHARD FINESTONE  
DAVID S. GRABEL  
PAMELA HAWES

THE PAVILION - SUITE 615  
261 OLD YORK ROAD  
JENKINTOWN, PENNSYLVANIA 19046

215 886-1150  
FAX 215 886-7221

## Independent Auditors' Report on

### Internal Controls Required by SEC Rule 17a-5

To the Board of Directors of  
Penn Financial Group, Inc.

In planning and performing our audit of the financial statements and supplemental schedule of Penn Financial Group, Inc. for the year ended December 31, 2001 we considered its internal control, including control activities for safe guarding 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 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 of securities under Section 8 of the 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 the 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 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. In addition, 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 use of the Board of Directors, management, the Securities and Exchange Commission, the New York Stock Exchange 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.

*Cohen, Engel & Co., Inc.*

Jenkintown, Pennsylvania  
February 8, 2002

**COHEN, ENGEL & CO., INC.**

*Certified Public Accountants*

FRED S. COHEN  
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Independent Auditors' Report on

Rule 15c3-3

Computation for 15c3-3 is not necessary for Penn Financial Group, Inc. The company qualifies under the exemptive provision of Rule 15c3-3, qualifying section that applies is (k)(2)(ii).

*Cohen, Engel & Co., Inc.*

Jenkintown, Pennsylvania  
February 8, 2002