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

RECEIVED
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SEC FILE NUMBER
8-51425

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

f 3/4/02

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:

Community Investment Services, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

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

201 North Union Street

(No. and Street)

Olean

NY

14760

(City)

(State)

(Zip Code)

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

Ann M. Moneypenny Financial; Operations Principal 315-445-2282 ext. 306

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Pricewaterhousecoopers LLP

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

One Lincoln Center

Syracuse

NY

13202

(Address)

(City)

(State)

Zip Code)

CHECK ONE:

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

PROCESSED

MAR 07 2002

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THOMSON FINANCIAL

*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, Ann M. Money Penny, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Community Investment Services, 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:

N/A

DONNA P. VANAUKEN
Notary Public, State of New York
Qualified in Oswego County
No. 01VA6032629
Commission Expires November 8, 2005

Donna P. VanAuken
Notary Public

Ann M. Money Penny
Signature

Financial Operations Principal

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).



Community Investment Services, Inc.

Financial Statements

December 31, 2001



Community Investment Services, Inc.

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* These financial statements and supplemental schedules have not been included in the report as they are not applicable to Community Investment Services, Inc.

Report of Independent Accountants

To the Board of Directors of the
Community Investment Services, Inc.

In our opinion, the accompanying statement of financial condition and the related statements of income, changes in stockholder's equity and cash flows that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934 present fairly, in all material respects, the financial position of Community Investment Services, Inc. at 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. 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 audits. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 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.

PricewaterhouseCoopers LLP

February 6, 2002

Community Investment Services, Inc.

Statement of Financial Condition December 31, 2001

Assets

Cash and cash equivalents	\$ 147,844
Deposits with clearing brokers	25,000
Receivables from broker-dealers and clearing organizations	230,699
Furniture, fixtures and equipment, net	281,022
Prepaid expenses and other assets	<u>209,572</u>
Total Assets	<u>\$ 894,137</u>

Liabilities and Stockholder's Equity

Accounts payable and accrued expenses	\$ 80,214
Due to Community Bank System, Inc.	<u>24,415</u>
Total liabilities	<u>104,629</u>
Stockholder's equity:	
Common stock, \$1 par value; 140,000 shares authorized, issued and outstanding	140,000
Additional paid-in capital	433,535
Retained earnings	<u>215,973</u>
Total stockholder's equity	<u>789,508</u>
Total Liabilities and Stockholder's Equity	<u>\$ 894,137</u>

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

Community Investment Services, Inc.

Statement of Income for the Year Ended December 31, 2001

Revenues:	
Commissions	\$ 1,599,256
Interest and dividends	27,293
Investment advisory income	250,687
Other income	<u>311,066</u>
Total revenues	<u>2,188,302</u>
Expenses:	
Employee compensation and benefits	1,699,390
Clearance fees	115,132
Communications and data processing	99,259
Professional fees	40,188
General and administrative	114,199
Business development	155,148
Occupancy and maintenance	156,618
Other expenses	<u>7,201</u>
Total expenses	<u>2,387,135</u>
Net loss before taxes	(198,833)
Income tax benefit	<u>57,662</u>
Net Loss	<u>\$ (141,171)</u>

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

Community Investment Services, Inc.

**Statement of Changes in Stockholder's Equity
for the Year Ended December 31, 2001**

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Total Stockholder's Equity
Balance at January 1, 2001	100	\$ 140,000	\$ 267,535	\$ 357,144	\$ 764,679
Contributed capital		-	166,000	-	166,000
Net loss		-	-	(141,171)	(141,171)
Balance at December 31, 2001	100	\$ 140,000	\$ 433,535	\$ 215,973	\$ 789,508

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

Community Investment Services, Inc.

Statement of Cash Flows for the Year Ended December 31, 2001

Cash flows from operating activities:	
Net loss	\$ (141,171)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	59,194
Change in operating assets and liabilities:	
Receivable from clearing organizations and others	(77,475)
Prepaid expenses and other assets	(17,134)
Accounts payable and accrued liabilities	14,199
Due to Community Bank System, Inc.	(57,662)
Total adjustments	<u>(78,878)</u>
Net cash used in operating activities	<u>(220,049)</u>
Cash flows from investing activities:	
Purchase of furniture, fixtures and equipment	<u>(145,402)</u>
Net cash used in investing activities	<u>(145,402)</u>
Cash flows from financing activities:	
Proceeds from capital contributions	<u>166,000</u>
Net cash provided by financing activities	<u>166,000</u>
Decrease in cash and cash equivalents	(199,451)
Cash and cash equivalents at the beginning of the year	<u>347,295</u>
Cash and Cash Equivalents at the End of the Year	\$ <u>147,844</u>

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

Community Investment Services, Inc.

Notes to Financial Statements

1. Organization and Nature of Business

Community Investment Services, Inc. (the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). The company is a New York Corporation that is a wholly-owned subsidiary of Community Bank, N.A. (the Bank), which is a wholly-owned subsidiary of Community Bank System, Inc. (the Parent).

The Company is an introducing securities broker providing investment transaction services on an agency basis and investment advisory services.

2. Significant Accounting Policies

Basis of Presentation

The Company's financial statements have been prepared on the accrual basis of accounting.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and highly liquid investments with original maturities of less than ninety days. The carrying amounts approximate fair values because of the short maturity of cash equivalents.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost less accumulated depreciation. The annual provision for depreciation is computed using the straight-line method in amounts sufficient to recognize the cost of depreciable assets over their estimated useful lives. Maintenance and repairs are charged to expense as incurred.

Securities Transactions

The Company clears all of its proprietary and customer transactions through an unaffiliated broker-dealer on a fully disclosed basis.

Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Customers' securities transactions are reported on a settlement date basis with related commission income and expense reported on a trade date basis.

Commissions

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Community Investment Services, Inc.

Notes to Financial Statements

2. Significant Accounting Policies (Continued)

Investment Advisory Income

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

Income Taxes

The Company is included in the consolidated federal and state income tax returns filed by its Parent. Income taxes are calculated on a consolidated return basis, with the Company's pro rata share of current and deferred tax or benefit either remitted to or received from the Parent. Accordingly, the Company has not recorded deferred tax assets or liabilities.

Operating and General and Administrative Expenses

Operating and general and administrative expenses consist primarily of direct costs incurred by the Company. Other operating expenses and general and administrative expenses incurred by the Bank and the Parent that may impact the Company are not allocated to the Company by the Bank or the Parent.

3. Cash and Securities Segregated Under Federal and Other Regulations

There are no funds deposited by customers or funds accruing to customers as a result of trades or contracts. As a result, there are no cash or U. S. Treasury Bills segregated under the Commodity Exchange Act.

There is no cash aggregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission.

4. Receivable from Broker-Dealers and Clearing Organizations

Amounts receivable from broker-dealers and clearing organizations at December 31, 2001, consist of the following:

Clearing broker-dealer receivable	\$ 135,000
Fees and commissions receivable	95,699
	<u>\$ 230,699</u>

5. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment consist of the following at December 31, 2001:

Leasehold improvements	\$ 1,448
Equipment	299,027
Furniture and fixtures	27,158
Uncompleted capital improvement	79,700
	<u>407,333</u>
Furniture, fixtures and equipment, gross	
Less: Accumulated depreciation	(126,311)
	<u>\$ 281,022</u>

Community Investment Services, Inc.

Notes to Financial Statements

6. Other Assets

Other assets include \$186,942 of employee sign-on bonuses/loans which are being expensed over the term of the respective employment agreements. If the employee voluntarily terminates their employment prior to expiration of the agreement the remaining unrecognized portion of the bonus/loan must be repaid to the Company.

7. Contributed Capital

During 2001, the Bank contributed cash of \$166,000 to the Company.

8. Concentrations of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

9. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The Rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2001, the Company had net capital of \$205,580, which was \$155,580 in excess of its required net capital of \$50,000. The Company's net capital ratio was .51 to 1.

10. Income Taxes

The deferred portion of the income tax benefit included in the statement of operations amounted to \$57,662 in 2001. At December 31, 2001 the Company owed \$24,415 in taxes to its Parent.

Community Investment Services, Inc.

Notes to Financial Statements

11. Employee Benefit Plans

The Company participates in the defined benefit and defined contribution plans sponsored by the Parent. Expenses incurred for the defined benefit and defined contribution plans approximated \$44,000 and \$19,000 during 2001.

12. Leases

The Company leases a building and office space that expire in 2006 and 2004, respectively. Rental expense included in occupancy and maintenance expense amounted to approximately \$36,000 in 2001. The future minimum rental commitments as of December 31, 2001 for all noncancelable operating leases are as follows:

Year ended December 31:

2002	\$ 50,000
2003	50,000
2004	50,000
2005	28,000
2006	18,667
	<u>\$ 196,667</u>

Community Investment Services, Inc.

Schedule I

**Computation of Net Capital Under Rule 15c-3-1 of the
Securities and Exchange Commission
As of December 31, 2001**

Net capital	
Total stockholder's equity qualified for net capital	\$ 789,508
Add:	
Subordinated borrowing allowable in computation of net capital	-
Other (deductions) or allowable credits - deferred income taxes payable	-
Total capital and allowable subordinated borrowings	<u>789,508</u>
Deductions and/or charges:	
Nonallowable assets:	
Other assets	299,919
Fixed assets	<u>281,023</u>
Net capital before haircuts on securities positions (tentative net capital)	208,566
Haircuts on securities:	
Money Market Securities	<u>2,986</u>
Net capital	<u>\$ 205,580</u>
Aggregate indebtedness:	
Items included in consolidated statement of financial condition:	
Accounts payable and other liabilities	<u>\$ 104,629</u>
Total aggregate indebtedness	<u>\$ 104,629</u>
Computation of basic net capital requirement	
Minimum net capital required	<u>\$ 50,000</u>
Excess net capital	<u>\$ 155,580</u>
Excess net capital at 1,000 percent	<u>\$ 195,117</u>
Ratio: Aggregate indebtedness to net capital	<u>.51 to 1</u>