

SECURITIES AND EXCHANGE COMMISSION  
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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 01/01/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

VFIC Securities, Inc.

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

1022 Old Valley Forge Road

OFFICIAL USE ONLY  
FIRM ID. NO.

(No. and Street)

King of Prussia

PA

194065

(City)

(State)

(Zip Code)

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

Edward M. McLean

610-783-6650

(Area Code -- Telephone No.)

### B. ACCOUNTANT IDENTIFICATION

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

Hege Kramer Connell Murphy & Goldkamp, P.C.

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

200 Gibraltar Road, Suite 129

Horsham, PA

19044

(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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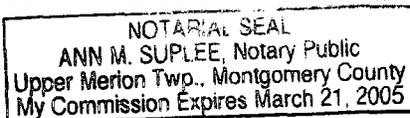
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THOMSON FINANCIAL

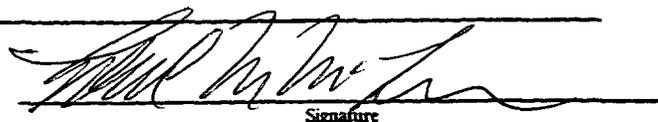
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

3/18/02  
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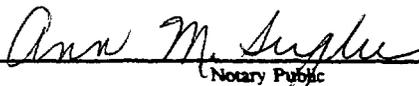
## OATH OR AFFIRMATION

I, Edward M. McLean, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of VFIC Securities, Inc., as of December 31, 192001, 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

Financial Operations Officer/CFO  
Title

  
Notary Public

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).

**VFIC SECURITIES, INC.**

**Financial Statements  
With Supplementary Information**

December 31, 2001

(With Independent Auditors' Report Thereon)

# VFIC SECURITIES, INC.

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HEGE KRAMER CONNELL MURPHY & GOLDKAMP, P.C.

Certified Public Accountants

North Point Office Center  
200 Gibraltar Road, Suite 129  
Horsham, PA 19044-2380

Phone (215) 672-6404  
Fax (215) 672-6775

The Board of Directors  
VFIC Securities, Inc.:

We have audited the accompanying balance sheet of VFIC Securities, Inc. as of December 31, 2001 and the related statements of income and retained earnings, changes in liabilities subordinated to claims of general creditors, and 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 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 VFIC Securities, Inc. as of 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.

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 and II 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.

Hege Kramer Connell Murphy & Goldkamp, P.C.

Horsham, PA  
February 5, 2002

**VFIC SECURITIES, INC.**

**Balance Sheet**

December 31, 2001

**Assets**

Current assets:		
Cash	\$	36,935
Accounts receivable - commissions		12,482
Prepaid insurance		5,955
Prepaid taxes		<u>30,561</u>
Total current assets		85,933
Other assets:		
Investment		<u>6,500</u>
Total assets	\$	<u><u>92,433</u></u>

**Liabilities and Stockholder's Equity**

Current liabilities:		
Accounts payable to affiliate	\$	<u>6,241</u>
Stockholder's equity:		
Capital stock, no par value; authorized, 100,000 shares; issued and outstanding, 100 shares		15,000
Retained earnings		<u>71,192</u>
Total stockholder's equity		<u>86,192</u>
Total liabilities and stockholder's equity	\$	<u><u>92,433</u></u>

*See accompanying notes to financial statements.*

VFIC SECURITIES, INC.

Statement of Income and Retained Earnings

Year Ended December 31, 2001

Gross commissions earned	\$ <u>513,010</u>
General and administration expenses:	
Broker dealer fees	4,580
Dues and licenses	9,472
Education	2,278
Employee benefits	17,935
Insurance	1,105
Maintenance expense	2,400
Management fee	332,428
Office expenses	3,399
Professional fees	6,074
Rent	14,609
Salaries	92,659
Selling	5,871
Supplies	9,275
Taxes	958
Telecommunication	5,002
Travel and entertainment	<u>4,623</u>
	<u>512,668</u>
Operating income	342
Other income	<u>1,378</u>
Income before income taxes	1,720
Income taxes	<u>2,615</u>
Net loss	(895)
Retained earnings:	
Beginning of year	<u>72,087</u>
End of year	\$ <u><u>71,192</u></u>

See accompanying notes to financial statements.

**VFIC SECURITIES, INC.**

**Statement of Cash Flows**

Year Ended December 31, 2001

Cash flows from operating activities:	
Net loss	\$ (895)
Adjustments to reconcile net loss to net cash used in operating activities:	
Decrease (increase) in assets:	
Accounts receivable	21,690
Prepaid insurance	(5,955)
Prepaid taxes	(30,561)
Decrease in liabilities:	
Accounts payable to affiliate	(21,820)
Accrued income taxes	<u>(29,510)</u>
Net cash used in operating activities	(67,051)
Cash:	
Beginning of year	<u>103,986</u>
End of year	\$ <u><u>36,935</u></u>
Supplemental cash flow information:	
Income taxes paid	\$ <u><u>63,175</u></u>

*See accompanying notes to financial statements.*

**VFIC SECURITIES, INC.**

**Statement of Changes in Liabilities  
Subordinated to General Creditors**

Year Ended December 31, 2001

There were no liabilities subordinated to general creditors outstanding as of December 31, 2001 or during the year then ended.

# VFIC SECURITIES, INC.

## Notes to Financial Statements

December 31, 2001

### (1) Description of Business

The Company was incorporated in 1999 and began operations in August, 2000. The Company is a broker-dealer which receives commissions from investment transactions in mutual funds and private equity securities. The majority of the Company's customers are located in the Northeast section of the United States. The Company is controlled by one shareholder.

### (2) Summary of Significant Accounting Policies

#### *Basis of Accounting*

The Company's policy is to prepare its financial statements on the accrual basis of accounting.

#### *Cash*

The Company's cash balance occasionally exceeds the federal deposit insurance limits of \$100,000 during the year.

#### *Accounting Estimates*

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.

### (3) Investment

The investment at December 31, 2001 is comprised of 500 shares of common stock in the National Association of Security Dealers, Inc. The investment is carried at cost, which, in management's opinion, approximates market value at December 31, 2001.

### (4) Related Party Transactions

The Company pays a management fee to Valley Forge Investment Consultants, Inc. (VFIC) for payroll and other management services provided to the Company by VFIC. The management fee for 2001 amounted to \$332,428. In addition, Valley Forge Financial Group, Inc. (VFFG) allocates costs to the Company including salary, employee benefits, insurance and occupancy expenses. Rental expense, which amounted to \$14,609 in 2001, is paid to an entity controlled by VFFG's controlling shareholder. At December 31, 2001, accounts payable to VFIC were \$6,241.

**VFIC SECURITIES, INC.**  
**Notes to Financial Statements**

**(5) Income Taxes**

Income taxes for the year ended December 31, 2001 are comprised as follows:

Federal	\$ 985
State	<u>1,630</u>
	<u>\$ 2,615</u>

Income tax expense exceeds the statutory rate primarily due to the overaccrual of income taxes in the prior year and certain non-deductible expenses.

## VFIC SECURITIES, INC.

Computation of Net Capital Under Rule 15c3-1 of the  
Securities and Exchange Commission

December 31, 2001

Net capital	\$	86,192
Nonallowable assets:		
Investment		(6,500)
Prepaid expenses		<u>(36,516)</u>
Net capital	\$	<u><u>43,176</u></u>
Aggregate indebtedness:		
Accounts payable	\$	<u>6,241</u>
Total aggregate indebtedness	\$	<u><u>6,241</u></u>
Computation of Basic Net Capital Requirement:		
Minimum net capital required (computed amount \$416)	\$	<u><u>5,000</u></u>
Excess net capital at 1,500 percent	\$	<u><u>42,760</u></u>
Excess net capital at 1,000 percent	\$	<u><u>42,552</u></u>
Ratio: Aggregate indebtedness to net capital		<u><u>.14 to 1</u></u>

## Reconciliation with Company's Computation of Net Capital:

There is no difference between the Company's computation of net capital and that reflected above.

**VFIC SECURITIES, INC.**

**Computation for Determination of Reserve Requirements  
Under Rule 15c3-3 of the Securities and Exchange Commission**

*December 31, 2001*

The Company is exempt from this requirement at December 31, 2001 since there were no customer accounts carried on its books as of that date or at any time during the year ended December 31, 2001.



# HEGE KRAMER CONNELL MURPHY & GOLDKAMP, P.C.

Certified Public Accountants

North Point Office Center  
200 Gibraltar Road, Suite 129  
Horsham, PA 19044-2380

Phone (215) 672-6404  
Fax (215) 672-6775

## Report on Internal Control

Board of Directors  
VFIC Securities, Inc.

In planning and performing our audit of the financial statements of VFIC Securities, Inc. (the Company), 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 and net capital under rule 17a-3(a)(11) and for determining compliance with the exemption 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 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 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 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, errors 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 Board of Directors, management, the SEC, the NASD, 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.

*Hege Kramer Connell Murphy & Goldkamp, P.C.*

Hege Kramer Connell Murphy & Goldkamp, PC

Horsham, PA  
February 5, 2002