

KY 3/7



02007669

SECURITIES AND COMMISSION
Washington, D.C. 20549

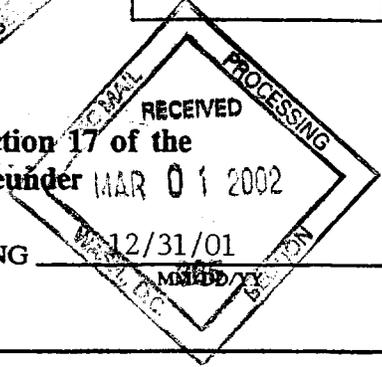
OMB APPROVAL
OMB Number: 3235-0123
Expires: September 30, 1998
Estimated average burden
hours per response . . . 12.00

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

SEC FILE NUMBER
8- 25958

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

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Downstate Securities Group, Inc.

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

259 Indian Rocks Road North

(No. and Street)

Belleair Bluffs

Florida

(City)

(State)

OFFICIAL USE ONLY
FIRM ID. NO.

PROCESSED
MAR 22 2002
THOMSON FINANCIAL

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

James M. Clark

727-586-3541

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Garcia & Ortiz, P.A., Certified Public Accountants

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

888 Executive Center Drive West, Suite 101

St. Petersburg, Florida 33702

(Address)

(City)

(State)

Zip Code)

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).

BB 3/21

OATH OR AFFIRMATION

I, James M. Clark, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Downstate Securities 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:

SANDRA L. ZUCHEGNO
Notary Public, State of Florida
My comm. exp. July 11, 2005
Comm. No. DD 041483

James M. Clark

Signature
President

Title

Sandra L. Zuchegno 2/27/02

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).

DOWNSTATE SECURITIES GROUP, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

DOWNSTATE SECURITIES GROUP, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

CONTENTS

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Income	3
Statement of Changes in Stockholders' Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6-7
SUPPLEMENTARY INFORMATION	
Schedule 1. Computation of Net Capital	8
Schedule 2. Reconciliation of Net Capital	9
Schedule 3. Computation of Aggregate Indebtedness	10
Schedule 4. Statement of Changes in Liabilities Subordinated to Claims of General Creditors	11
<hr/>	
Supplementary Independent Auditors' Report	12-13



**GARCIA &
ORTIZ, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS**



Dean A. Bruns, CPA, CFP
Bruce H. Buell, CPA, CPIM*
Erin D. Connors, CPA
J. Edward Del Rio, CPA
Janice M. Escobio, GCS
Luis Garcia, CPA, MBA
James H. Gordon, CPA, CFST
Clayton C. Kreis, CPA/PFS
Rose G. Kreis, CPA
C. Burt Linthicum, CPA
William J. Metz, CPA
Louis P. Ortiz, CPA, CBA, CFP
Dawn M. Papenfuss, CPA
Kenneth M. Rossman, CPA
N. Russell Shenk, CPA
Steve Tondreault, CPA/ABV, CBA
Marianne O. Touger, CPA
Frank J. Valdes, CPA, CFE
James P. Waters, CPA
David P. Wenzel, CPA

*Consultant to the Firm

888 Executive Center Dr. W.,
Suite 101
St. Petersburg, FL 33702

St. Petersburg (727) 576-1245
Tampa: (813) 228-9709
Fax (727) 578-4072

Mailing Address:
P. O. Box 20929
St. Petersburg, FL 33742

Offices in Tampa and
St. Petersburg

INDEPENDENT AUDITORS' REPORT

To the Stockholders and
Board of Directors
Downstate Securities Group, Inc.
Belleair Bluffs, Florida

We have audited the accompanying balance sheet of Downstate Securities Group, Inc. as of December 31, 2001, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended. 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 Downstate Securities Group, 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 1., 2., 3. and 4. as of December 31, 2001 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.

Garcia & Ortiz, P.A.

St. Petersburg, Florida
February 22, 2002

DOWNSTATE SECURITIES GROUP, INC.
BALANCE SHEET
DECEMBER 31, 2001

ASSETS

Cash	\$ 314,608
Deposits with clearing organizations (cash of \$10,007 and securities with a market value of \$195,943)	205,950
Receivables from brokers, dealers and clearing organizations	81,278
Securities owned	40,298
Property and equipment, net	152,885
Deposits	<u>2,584</u>
 Total assets	 <u>\$ 797,603</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:	
Note payable to stockholder	\$ 100,000
Rent deposit	2,300
Accrued expenses	<u>21,299</u>
 Total liabilities	 <u>123,599</u>
Stockholders' equity:	
Common stock, 750 shares authorized at \$1 par value, 100 shares issued and outstanding	100
Additional paid-in capital	15,595
Retained earnings	<u>658,309</u>
 Total stockholders' equity	 <u>674,004</u>
 Total liabilities and stockholders' equity	 <u>\$ 797,603</u>

See Notes to Financial Statements.

DOWNSTATE SECURITIES GROUP, INC.
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2001

Revenues:	
Commissions	\$ 1,104,111
Interest rebate	265,356
Interest and dividend income	21,909
Rental income	7,200
Gains on company securities	<u>3,882</u>
Total revenues	<u>1,402,458</u>
Expenses:	
Salaries and wages	278,141
Commissions	118,163
Clearance charges	267,417
Other operating expenses	360,266
Interest	7,342
Depreciation	<u>6,489</u>
Total expenses	<u>1,037,818</u>
Net income	<u>\$ 364,640</u>

See Notes to Financial Statements.

DOWNSTATE SECURITIES GROUP, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2001

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2000	\$ 100	\$ 15,595	\$ 877,205	\$ 892,900
Net income	-	-	364,640	364,640
Stockholders' distributions	<u>-</u>	<u>-</u>	<u>(583,536)</u>	<u>(583,536)</u>
Balance, December 31, 2001	<u>\$ 100</u>	<u>\$ 15,595</u>	<u>\$ 658,309</u>	<u>\$ 674,004</u>

See Notes to Financial Statements.

DOWNSTATE SECURITIES GROUP, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2001

Cash flows from operating activities:	
Net income	\$ 364,640
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	6,489
Decrease in deposits with clearing organizations	10,033
Decrease in receivables from brokers, dealers and clearing organizations	7,965
Increase in accrued expenses	<u>21,299</u>
Total adjustments	<u>45,786</u>
Net cash provided by operating activities	<u>410,426</u>
Cash flows from investing activities:	
Investment in securities owned	(273)
Purchase of property and equipment	<u>(1,377)</u>
Cash used for investing activities	<u>(1,650)</u>
Cash flows from financing activities:	
Stockholders' distributions	<u>(583,536)</u>
Net decrease in cash	(174,760)
Cash, beginning of year	<u>489,368</u>
Cash, end of year	<u>\$ 314,608</u>

See Notes to Financial Statements.

DOWNSTATE SECURITIES GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

Note 1 - General and Summary of Significant Accounting Policies

General: The Company is a retail stock brokerage firm clearing through a correspondent member of the New York Stock Exchange on a fully disclosed basis. It is a member of the National Association of Securities Dealers, Inc. and the Securities Investor Protection Corporation (SIPC). Its customers are located primarily in Belleair Bluffs, Florida where its principal office is located. The Company opened a second office in 1997 in Evansville, Indiana to serve customers in Indiana, Illinois and Kentucky and a third office in Tampa in 1999. The Company is licensed in several other states without having an office in those states. On August 18, 1999, the Company changed its name from Downstate Discount Brokerage, Inc. to Downstate Securities Group, Inc. but continues to do business as Downstate Discount Brokerage in the Belleair Bluffs and Evansville offices.

Securities transactions: All operations for customer securities transactions are performed by the correspondent, which pays the Company a commission. Commissions are recorded on the accrual basis of accounting.

Property and equipment: Property and equipment are stated at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the related assets of 7 to 31.5 years.

Securities owned: Securities owned include NASDAQ stock warrants and a money market fund. Securities are stated at market value, which approximates cost. Market values are based on quoted market prices. Transactions in these securities are recorded on the trade date basis.

Income taxes: The Company has elected, with the unanimous consent of its stockholders, to be taxed under the provisions of Subchapter S of the Internal Revenue Code. No provision for income taxes is made in these financial statements since the stockholders report their proportionate share of the Company's taxable income or loss on their individual tax returns.

Use of estimates: Certain estimates have been made by the Company's management, as required by generally accepted accounting principles, in the preparation of the accompanying financial statements. Actual results could differ from those estimates.

Net capital requirements: Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and Exchange Act of 1934, the Company is required to maintain minimum net capital as defined under such provisions. At December 31, 2001, the Company had net capital and net capital requirements of \$595,062 and \$50,000, respectively. The net capital rules may effectively restrict distributions.

Note 2 - Property And Equipment

Property and equipment consisted of the following at December 31, 2001:

Land	\$ 40,000
Building	175,627
Office equipment	<u>34,111</u>
	249,738
Less accumulated depreciation	<u>96,853</u>
	<u>\$ 152,885</u>

DOWNSTATE SECURITIES GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2001

Note 3 - Note Payable to Stockholder

The Company has a note payable to a stockholder, secured by a mortgage on the Company's real property. The note was renewed on January 30, 2001 and was due on January 30, 2006. The note had an interest rate of 8%. On February 1, 2002, the note was refinanced at 5% interest payable annually and matures on February 1, 2007.

Note 4 - Employee Benefit Plan

Effective January 1, 2000, the Company instituted a 401(k) profit sharing plan for all eligible employees at least 21 years of age. Employees may defer salary up to 12% of eligible compensation. The Company makes required matching contributions up to a maximum of 4% of compensation. The Company may also make discretionary contributions up to a maximum of 3% of compensation. Company contributions to the plan were \$13,679 for 2001.

Note 5 - Financial Instruments with Off-balance-sheet Risk and Concentrations of Credit Risk

In the normal course of business, the Company's customers and correspondent clearance activities may expose the Company to the risks of loss in the event customers, other brokers and dealers, banks, depositories or clearing organizations are unable to fulfill contractual obligations. The Company monitors the credit standing of counter parties and correspondents with whom it conducts business on a periodic basis.

Note 6 - Commitments

The Company has entered into certain agreements for stock market data services, premises and equipment with terms of up to five years. Future minimum payments required under these operating agreements are as follows:

2002	\$ 101,826
2003	11,544
2004	11,544
2005	<u>420</u>
	<u>\$ 125,334</u>

Total expenses under these agreements for the year ended December 31, 2001 were \$124,485.

SUPPLEMENTARY INFORMATION

DOWNSTATE SECURITIES GROUP, INC.
SCHEDULE 1.
COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1
OF THE SECURITIES EXCHANGE ACT OF 1934
DECEMBER 31, 2001

Total Stockholders' Equity	\$ 674,004
Less Haircuts on Investments	
Exempted Securities	(1,414)
Debt Securities	(1,959)
Other Securities	(20,100)
Less Non-Allowable Assets	<u>(55,469)</u>
Net Capital	595,062
Net Capital Requirement	<u>50,000</u>
Excess Net Capital	<u>\$ 545,062</u>

See accompanying independent auditors' report.

DOWNSTATE SECURITIES GROUP, INC.
SCHEDULE 2.
RECONCILIATION OF NET CAPITAL
PURSUANT TO RULE 17a5(d)(4) OF THE
SECURITIES EXCHANGE ACT OF 1934
DECEMBER 31, 2001

Net Capital, Per Respondent's Computation	\$ 591,144
Net Adjustments	<u>3,918</u>
Net Capital	<u>\$ 595,062</u>

See accompanying independent auditors' report.

DOWNSTATE SECURITIES GROUP, INC.
SCHEDULE 3.
COMPUTATION OF AGGREGATE INDEBTEDNESS
PURSUANT TO RULE 15c3-1 OF THE SECURITIES
EXCHANGE ACT OF 1934
DECEMBER 31, 2001

Net Capital Per Schedule 1.	<u>\$ 595,062</u>
Total Aggregate Indebtedness Per Balance Sheet	<u>\$ 123,599</u>
Percentage of Aggregate Indebtedness to Net Capital	<u>20.8%</u>

See accompanying independent auditors' report.

DOWNSTATE SECURITIES GROUP, INC.
SCHEDULE 4.
STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS
DECEMBER 31, 2001

NONE

See accompanying independent auditors' report.



**GARCIA &
ORTIZ, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS**



Dean A. Bruns, CPA, CFP
Bruce H. Buell, CPA, CPIM*
Erin D. Connors, CPA
J. Edward Del Rio, CPA
Janice M. Escobio, GCS
Luis Garcia, CPA, MBA
James H. Gordon, CPA, CFST
Clayton C. Kreis, CPA/PFS
Rose G. Kreis, CPA
C. Burt Linthicum, CPA
William J. Metz, CPA
Louis P. Ortiz, CPA, CBA, CFP
Dawn M. Papenfuss, CPA
Kenneth M. Rossman, CPA
N. Russell Shenk, CPA
Steve Tondreault, CPA/ABV, CBA
Marianne O. Touger, CPA
Frank J. Valdes, CPA, CFE
James P. Waters, CPA
David P. Wenzel, CPA

**Consultant to the Firm*

888 Executive Center Dr. W.,
Suite 101
St. Petersburg, FL 33702

St. Petersburg (727) 576-1245
Tampa: (813) 228-9709
Fax (727) 578-4072

Mailing Address:
P. O. Box 20929
St. Petersburg, FL 33742

*Offices in Tampa and
St. Petersburg*

SUPPLEMENTARY INDEPENDENT AUDITORS' REPORT

To the Stockholders and
Board of Directors
Downstate Securities Group, Inc.
Belleair Bluffs, Florida

In planning and performing our audit of the financial statements of Downstate Securities Group, Inc. for the year ended December 31, 2001, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5 (g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Downstate Securities Group, Inc., 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).

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, since the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (K)(2)(ii) of the Rule. The Company does not handle securities; accordingly, it has not established procedures for safeguarding securities.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the second paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the second paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of an internal control structure 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 second paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities 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 the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 the internal control structure 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 Commission 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 Commission's objectives.

This report is intended solely for the information and use of management, the Securities and Exchange Commission and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and is not intended to be and should not be used by anyone other than these specified parties.

Doreia J. Ortiz, P.A.

St. Petersburg, Florida
February 22, 2002