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02007938 UNITED STATES EXCHANGE COMMISSION
Washington, D.C. 20549

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OMB APPROVAL
OMB Number: 3235-0123
Expires: October 31, 2001
Estimated average burden hours per response..... 12.00

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

SEC FILE NUMBER
8-36999

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 07/01/01 AND ENDING 06/30/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Alliance Advisory & Securities, Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

3390 Auto Mall Drive, #200

(No. and Street)

Westlake Village, CA 91362

(City)

(State)

(Zip Code)

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

Jerry Sanada

805-371-8020

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

McNutt & Taylor, Certified Public Accountants

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

6355 Topanga Canyon Blvd., #200, Woodland Hills, CA 91367

(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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FOR OFFICIAL USE ONLY
THOMSON FINANCIAL

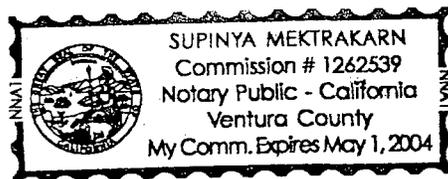
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (05-01)

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OATH OR AFFIRMATION

I, Jerry Sanada, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Alliance Advisory & Securities, Inc., as of June 30, 2002, 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]
Signature
Financial & Operations Principal
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 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 15c3-3 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).



SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

ANNUAL AUDIT REPORT

YEAR ENDED JUNE 30, 2002

ALLIANCE ADVISORY & SECURITIES, INC.

3390 AUTO MALL DRIVE, SUITE 200

WESTLAKE VILLAGE, CALIFORNIA 91362

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Certified Public Accountants

6355 Topanga Canyon Blvd., Suite 200 • Woodland Hills, California 91367

Tel: 818/883-3200 • Fax: 818/883-9157

Independent Auditor's Report

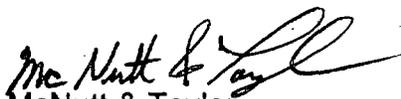
Board of Directors
Alliance Advisory and Securities, Inc.

We have audited the accompanying statement of financial condition of Alliance Advisory & Securities, Inc. (A wholly owned subsidiary of Alliance Financial Group, Inc.) as of June 30, 2002, 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 Alliance Advisory & Securities, Inc. as of June 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles 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 Part 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 of the Securities and Exchange Commission. 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.


McNutt & Taylor
Certified Public Accountants

Woodland Hills, California
August 23, 2002

ALLIANCE ADVISORY & SECURITIES, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE FINANCIAL GROUP, INC.)

STATEMENT OF FINANCIAL CONDITION
JUNE 30, 2002

ASSETS

CURRENT ASSETS

| | | |
|--|----|----------------|
| Cash in checking and savings | \$ | 52,868 |
| Cash with clearing organization (Note 3) | | 35,000 |
| Accounts Receivable (Note 4) | | 29,227 |
| Securities owned, not readily marketable(Note 5) | | 3,300 |
| Prepaid Insurance | | 479 |
| TOTAL CURRENT ASSETS | | <u>120,874</u> |

| | | |
|--|--|-------|
| Property and equipment-Net (Notes 2 and 5) | | 3,992 |
|--|--|-------|

| | | |
|---------------------|-----------|-----------------------|
| TOTAL ASSEST | \$ | <u>124,866</u> |
|---------------------|-----------|-----------------------|

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

| | | |
|-------------------------------------|----|---------------|
| Commission Payable | \$ | 3,445 |
| Accounts Payable | | 6,864 |
| Payroll Taxes Payable | | 87 |
| Lines of Credit Payable | | 20,422 |
| Security Deposits | | 1,000 |
| Deferred Income Tax Payable(Note 7) | | 4,098 |
| TOTAL CURRENT LIABILITIES | | <u>35,916</u> |

LONG TERM LIABILITES

| | | |
|-------------------------------------|--|------------|
| Deferred Income Tax Payable(Note 7) | | 193 |
| TOTAL LONG TERM LIABILITES | | <u>193</u> |

| | | |
|-------------------------|--|---------------|
| TOTAL LIABILITES | | <u>36,109</u> |
|-------------------------|--|---------------|

STOCKHOLDERS' EQUITY

| | | |
|-------------------|--|--------|
| Common Stock | | 1,000 |
| Paid In Capital | | 14,000 |
| Retained Earnings | | 73,757 |

| | | |
|-----------------------------------|--|---------------|
| TOTAL STOCKHOLDERS' EQUITY | | <u>88,757</u> |
|-----------------------------------|--|---------------|

| | | |
|-------------------------------------|-----------|-----------------------|
| TOTAL LIABILITIES AND EQUITY | \$ | <u>124,866</u> |
|-------------------------------------|-----------|-----------------------|

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

ALLIANCE ADVISORY & SECURITIES, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE FINANCIAL GROUP, INC.)

INCOME STATEMENT
FOR THE YEAR ENDED JUNE 30, 2002

REVENUE

| | |
|-----------------------------|----------------|
| Commissions & Fees (Note 2) | \$ 528,474 |
| Interest and dividends | 1,269 |
| Other | 19,925 |
| TOTAL REVENUES | <u>549,668</u> |

DIRECT COSTS

| | |
|---------------------------|----------------|
| Commissions | 79,502 |
| TOTAL DIRECT COSTS | <u>79,502</u> |
| GROSS PROFIT | <u>470,166</u> |

OPERATING EXPENSES

| | |
|---------------------------------|----------------|
| Advertising | 2,529 |
| Bank Charges | 528 |
| Computer Expense | 414 |
| Depreciation | 3,178 |
| Dues & Subscriptions | 719 |
| Equipment lease | 838 |
| Meals & Entertainment | 1,129 |
| Medical Insurance | 18,730 |
| Miscellaneous | 238 |
| Insurance | 6,383 |
| Interest | 1,492 |
| Licenses & Fees | 4,263 |
| Office Expense | 5,286 |
| Payroll Processing | 1,339 |
| Payroll Taxes | 25,536 |
| Legal and Professional Fees | 3,668 |
| Rent | 39,653 |
| Repairs & Maintenance | 561 |
| Office Employee Benefits | 532 |
| Salaries & Wages | 174,453 |
| Salaries-Officers | 155,550 |
| Telephone | 8,470 |
| Travel & Meetings | 3,180 |
| Total Operating Expenses | <u>458,669</u> |

Income (loss) before income taxes 11,497

Income taxes(Note 7) 3,528

NET INCOME (LOSS) \$ 7,969

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

ALLIANCE ADVISORY & SECURITIES, INC.
(A WHOLLY OWNED SUBSIDIARY OF ALLIANCE FINANCIAL GROUP, INC.)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

Cash flows from operating activities:

| | |
|---|-----------------|
| Net Income | \$ 7,969 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization | 3,178 |
| (Increase) decrease in commissions receivable | (335) |
| (Increase) decrease in prepaid expenses | 198 |
| Increase (decrease) in commissions payable | (13,140) |
| Increase (decrease) in income taxes payable | (572) |
| Increase (decrease) in deferred taxes payable | 3,093 |
| Increase (decrease) in accounts payable | (6,055) |
| Total adjustments | <u>(13,633)</u> |
| Net cash provided (used) by operating activities | <u>(5,664)</u> |

Cash flow from financing activities:

| | |
|--|--------------|
| Net borrowings on line of credit | 2,422 |
| Net cash provided (used) by financing activities | <u>2,422</u> |

Cash flow from investing activities:

| | |
|--|----------|
| Net cash provided (used) by investing activities | <u>0</u> |
|--|----------|

| | |
|--|------------------|
| Net increase (decrease) in cash and savings | <u>(3,242)</u> |
| Cash in checking and savings, begining of year | 91,110 |
| Cash in checking and savings, end of year | <u>\$ 87,868</u> |

Supplemental disclosures of cash flow information:

Cash paid during the year for:

| | |
|------------------|----------|
| Interest expense | \$ 1,492 |
| Income Tax | \$ 1,007 |

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

ALLIANCE ADVISORY & SECURITIES, INC.
 (A WHOLLY OWNED SUBSIDIARY OF ALLIANCE FINANCIAL GROUP, INC.)

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEAR ENDED JUNE 30, 2002

| | Common Stock | Paid-in Capital | Retained Earnings | Total |
|---|-----------------|--------------------|----------------------|-----------|
| Common Stock, no par value, 1,000,000 shares authorized 106,000 shares issued. | | | | |
| BALANCE - July 1, 2001 | \$ 1,000 | \$ 14,000 | \$ 65,788 | \$ 80,788 |
| Net Income(loss) for the year | | | 7,969 | 7,969 |
| BALANCE - June 30, 2002 | \$ 1,000 | \$ 14,000 | \$ 73,757 | \$ 88,757 |

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

ALLIANCE ADVISORY & SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 1 - Nature of the Business -

Alliance Advisory & Securities, Inc., (AASI) a wholly owned subsidiary of Alliance Financial Group, Inc. was incorporated on May 12, 1982. Alliance Advisory is a broker/dealer in securities and is registered with the Securities and Exchange Commission (SEC) and is regulated primarily by the Securities Exchange Act of 1934. AASI is also a member of the National Association of Securities Dealers (NASD). AASI provides financial planning & consulting, insurance and brokerage services.

NOTE 2 - Significant Accounting Policies

Commission & Fee Revenues

AASI records commissions and fees when they are earned or the service has been provided.

Depreciation

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method for financial reporting purposes and at accelerated rates for income tax purposes. The Company follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,500.

Income Taxes

Deferred taxes arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods.

Computation of Net Capital Pursuant to Rule 15c3-1

The schedule entitled "Computation of New Capital Requirements Pursuant to Rule 15c3-1" is required by the SEC. The Broker or dealer is required to be in compliance with the net capital rule (rule 15c3-1) at all times. AASI is required to maintain a minimum net capital as defined under the provisions of Rule 15c3-1 of the Securities and Exchange Act of 1934. See page 8 for the net capital requirements computation.

ALLIANCE ADVISORY & SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

Estimates used in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 3 - Deposit with clearing organization

Cash of \$35,000 has been segregated in a deposit account held by the clearing broker pursuant to a clearing agreement with RPR Correspondent Clearing, a division of Dain Rauscher Inc. The clearing broker provides certain services to the company with respect to accounts of customers of the company, such as executing, clearing and settling securities transactions of behalf of the company as well as the safeguarding of account funds and securities.

NOTE 4 - ACCOUNTS AND COMMISSIONS RECEIVABLE

Following is a summary of receivables at June 30, 2002:

| | |
|---------------------------------------|-----------------|
| Commissions and Fees | \$37,797 |
| Due from advisors and employees | <u>230</u> |
| Less: Allowance for doubtful accounts | <u>(8,800)</u> |
| Net Receivables | <u>\$29,227</u> |

NOTE 5 - Investment

The company's securities investments consisted of stock warrants on 300 shares of the NASDAQ Stock Market, which are being considered as available-for-sale securities. Available-for-sale securities are recorded at fair value in investments, with the change in fair value during the period excluded from earnings and recorded net of tax as a component of other comprehensive income. As of June 30, 2002 these securities are not readily marketable and are valued at fair value by the Board of Directors.

ALLIANCE ADVISORY & SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002

NOTE 6 - Property and Equipment

Property and equipment consists of the following:

| | |
|--------------------------------|------------------|
| Office Equipment | <u>\$ 18,212</u> |
| Less: Accumulated Depreciation | <u>(14,220)</u> |
| Net Property and Equipment | <u>\$ 3,992</u> |

Depreciation expense was \$3,178 for the year ended June 30, 2002.

NOTE 7 - Bank Line of Credit

Under the terms of a line of credit with a bank, the company may borrow up to \$50,000 at 1.75% above the bank's prime interest rate. As of June 30, 2002, the company had \$31,250 of unused line of credit with the bank to be drawn upon as needed.

The Company also has a overdraft line of credit with the bank in the amount of \$10,000 at an annual interest rate of 17.0% effective at June 1, 2002.

NOTE 8 - Income Taxes

AASI files its Federal Income Tax return on the cash basis. For the Fiscal year ended June 30, 2002, the current income tax liability is \$800 and net deferred income taxes (due to temporary differences) of \$2,728.

NOTE 9 - Related Party

AASI pays rent, on a month to month basis, for its office facilities from Westlake Partners, a partnership of which its parent company is a 75% general partner. The current monthly rent being paid is \$4,209.37.

SCHEDULE I
ALLIANCE ADVISORY & SECURITIES, INC.

COMPUTATION OF NET CAPITAL REQUIREMENTS PURSUANT
TO RULE 15C3-1

JUNE 30, 2002

COMPUTATION OF NET CAPITAL

| | |
|--|-----------------|
| Total Ownership Equity from Statement of Financial Condition | \$88,757 |
| Less: Non-allowable assets | |
| Petty Cash | 37 |
| Receivables 30+Days | -0- |
| Employee/Agent Receivable | 230 |
| Prepaid Insurance | 479 |
| Stock Warrants | 3,300 |
| Property and Equipment | <u>3,992</u> |
| Net capital before haircuts on securities positions | \$80,719 |
| Hair cuts on securities(computed, where applicable, pursuant to rule 15c3-1(f) | |
| Other securities | <u>1,056</u> |
| NET CAPITAL | <u>\$79,663</u> |

COMPUTATION OF AGGREGATE INDEBTEDNESS

| | |
|--|---------------|
| Total Liabilities (from Statement of Financial Condition) | <u>36,109</u> |
| Percentage of Aggregate Indebtedness to Net Capital | <u>45.33</u> |
| Percentage of Debt-Equity to Total Computed in accordance with Rule 15c3-1 (d) | N/A |

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

| | |
|--|-----------------|
| Minium Net Capital Requirements: | |
| 6 2/3 of Net Aggregate Indebtedness | \$ 2,407 |
| Minium Dollar Net Capital Required | <u>5,000</u> |
| Net Capital required of above amounts | <u>5,000</u> |
| EXCESS CAPITAL | <u>\$74,663</u> |
| Excess net capital at 1000% (Net Capital less 10% of Aggregate Indebtedness) | <u>\$76,052</u> |

SCHEDULE I
ALLIANCE ADVISORY & SECURITIES, INC.

COMPUTATION OF NET CAPITAL REQUIREMENTS PURSUANT
TO RULE 15C3-1

JUNE 30, 2002

RECONCILIATION BETWEEN AUDITED AND
UNAUDITED FINANCIAL STATEMENTS

| | |
|--|-----------------|
| Net Capital per Unaudited Financial Statements | \$82,184 |
| Adjustments: | |
| Net audit adjustments | <u>(2,521)</u> |
| Net Capital per above | <u>\$79,663</u> |

PART II

ALLIANCE ADVISORY & SECURITIES, INC.

STATEMENT OF INTERNAL CONTROL

JUNE 30, 2002



Certified Public Accountants

6355 Topanga Canyon Blvd., Suite 200 • Woodland Hills, California 91367

Tel: 818/883-3200 • Fax: 818/883-9157

BOARD OF DIRECTORS

Alliance Advisory & Securities, Inc.

In planning and performing our audit of the financial statements of Alliance Advisory & Securities, Inc. for the year ended June 30, 2002, we considered its internal control structure, including procedures for safeguarding assets, 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.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3 (a) (11) and the procedures for determining compliance with the exemptive provisions of rule 15c-3. We did not review the practices and procedures followed the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 or in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

Because of inherent limitations in any internal control structure or the practices and procedures structure, errors can 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.

McNutt & Taylor
Certified Public Accountants

Woodland Hills, California
August 23, 2002