

4/8/2002

TC 4/4

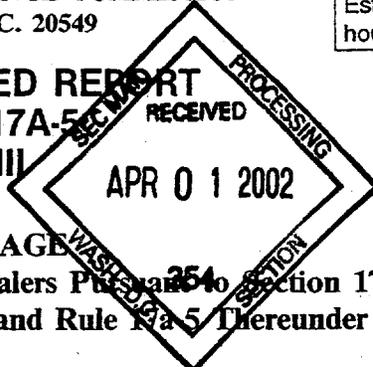


02022837

UNITED STATES SECURITIES AND EXCHANGE 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- 29565

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 01/01/2001 AND ENDING 12/31/2001

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

First Financial Securities of America, Inc.

OFFICIAL USE ONLY

FIRM ID. NO.

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

515 North Sam Houston Parkway, Suite 500

(No. and Street)

Houston

Texas

77060

(City)

(State)

(Zip Code)

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

Larry Forrester

281-847-8422

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

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

700 Louisiana

Houston

Texas

77002

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

[X] Certified Public Accountant

[] Public Accountant

[] Accountant not resident in United States or any of its possessions.

PROCESSED

APR 09 2002

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).

OATH OR AFFIRMATION

I, Larry Forrester, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First Financial Securities of America, 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:

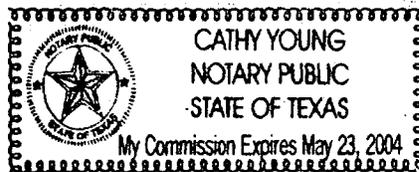
[Signature]

Signature

President

Title

Cathy Young
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).

FIRST FINANCIAL SECURITIES OF AMERICA, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Statement of Financial Condition	2
Statement of Income	3
Statement of Changes in Shareholder's Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission	8
Independent Auditors' Report on Internal Control Required by SEC Rule 17a-5	9



700 Louisiana
Houston, TX 77002

Telephone 713 319 2000
Fax 713 319 2041

Independent Auditors' Report

The Board of Directors
First Financial Securities of America, Inc.:

We have audited the accompanying statement of financial condition of First Financial Securities of America, Inc. as of December 31, 2001, and the related statements of income, changes in shareholder's equity 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 First Financial Securities of America, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the schedule is presented for the purpose 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.

KPMG LLP

February 8, 2002



FIRST FINANCIAL SECURITIES OF AMERICA, INC.

Statement of Financial Condition

December 31, 2001

Assets

Cash and cash equivalents	\$	378,848
Commissions receivable		90,078
Furniture and equipment - at cost, net of accumulated depreciation of \$7,683		3,385
Prepaid expenses		15,672
	\$	<u>487,983</u>

Liabilities and Shareholder's Equity

Liabilities

Accounts payable and accrued expenses	\$	94,287
Accounts payable - related party		212,263
Income tax payable		24,050
Total liabilities		<u>330,600</u>

Shareholder's Equity

Class A common stock - no par value, 375,000 shares authorized, issued and outstanding		1,000
Additional paid-in capital		11,000
Retained earnings		145,383
Total shareholder's equity		<u>157,383</u>
	\$	<u>487,983</u>

See accompanying notes to financial statements.

FIRST FINANCIAL SECURITIES OF AMERICA, INC.

Statement of Income

Year ended December 31, 2001

Revenues:	
Commission revenue	\$ <u>1,488,745</u>
Expenses:	
Sales commissions	808,859
Service fee	210,000
Salaries	162,394
Licenses and fees	40,740
Insurance	33,658
Auto expense	37,984
Other benefits	31,612
Other operating expenses	8,780
Equipment leasing	9,355
Printing and graphics	8,643
Postage and shipping	6,746
Accounting	6,000
Telephone	5,721
Rent	3,045
Depreciation and amortization	<u>2,482</u>
Total expenses	<u>1,376,019</u>
Net income before income taxes	112,726
Provision for income taxes	<u>39,454</u>
Net income	<u>\$ <u>73,272</u></u>

See accompanying notes to financial statements.

FIRST FINANCIAL SECURITIES OF AMERICA, INC.

Statement of Changes in Shareholder's Equity
Year ended December 31, 2001

	<u>Class A common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total shareholder's equity</u>
Balance - December 31, 2000	\$ 1,000	11,000	72,111	84,111
Net income	<u>—</u>	<u>—</u>	<u>73,272</u>	<u>73,272</u>
Balance - December 31, 2001	<u>\$ 1,000</u>	<u>11,000</u>	<u>145,383</u>	<u>157,383</u>

See accompanying notes to financial statements.

FIRST FINANCIAL SECURITIES OF AMERICA, INC.

Statement of Cash Flows

December 31, 2001

Cash flows from operating activities:	
Net income	\$ 73,272
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	2,482
Changes in:	
Commissions receivable	(28,593)
Prepaid expenses	28,856
Accounts payable and accrued expenses	59,074
Accounts payable - related party	186,244
Income tax payable	24,050
Net cash provided by operating activities	<u>345,385</u>
Cash flows from investing activities -	
Equipment purchase	<u>(4,075)</u>
Net cash used in investing activities	<u>(4,075)</u>
Net increase in cash and cash equivalents	341,310
Cash and cash equivalents - beginning of year	<u>37,538</u>
Cash and cash equivalents - end of year	<u>\$ 378,848</u>

See accompanying notes to financial statements.

FIRST FINANCIAL SECURITIES OF AMERICA, INC.

Notes to Financial Statements

Year ended December 31, 2001

(1) Description of Business

First Financial Securities of America, Inc., the Company, a wholly-owned subsidiary of American Fidelity Assurance Company (the Parent), located in Houston, Texas, is a private investment banking firm and fully-disclosed Securities Broker-Dealer. The Company is registered as a Broker-Dealer with the Securities and Exchange Commission, and is a member of the National Association of Securities Dealers, Inc. (NASD). The Company's business is primarily the sale of variable annuity products to employees of school districts which are marketed through First Financial Corporation, Inc. (FFC), a company associated with its former parent and which shares certain common management.

(2) Summary of Significant Accounting Policies

Revenue Recognition

Revenue consisting of commissions earned is generally recognized upon receipt of commissions from the sponsors of the variable annuity products.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Furniture and Equipment

Furniture and equipment are recorded at cost. Depreciation is computed at rates considered sufficient to amortize the cost of the assets over three to five years.

Income Taxes

In accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes resulting from temporary differences between financial statement and income tax reporting purposes. Deferred taxes were not material to the financial statements at December 31, 2001. The Company files a consolidated federal tax return with American Fidelity Corporation, its ultimate Parent, based on a tax allocation agreement effective May 30, 2000. The Company's share of the consolidated federal tax liability for each taxable year for which the Company is a member of the consolidated group is determined as if the Company were at all times during the taxable year and all previous years, liable for taxation as a separate taxpayer not included or includible in the consolidated group.

Use of 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.

FIRST FINANCIAL SECURITIES OF AMERICA, INC.

Notes to Financial Statements

Year ended December 31, 2001

(3) Deposit With Clearing Organization

The Company has an agreement with a clearing organization whereby the clearing organization performs clearing functions for all security transactions with brokers and dealers. The clearing organization required that a security deposit balance of \$10,000 as of December 31, 2001 be maintained by the Company and is included in the cash and cash equivalents balance.

(4) Income Taxes

There is no difference in federal income tax expense allocated from the parent company at the statutory rate with income taxes recorded in the statement of income for the year ended December 31, 2001.

(5) Transactions with Related Party

As of December 31, 2001, the Company had accounts payable of \$212,263 to FFC. The accounts bear no interest and are payable upon demand, and represent allocations of general operating costs.

(6) Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis.

At December 31, 2001, the Company had net capital excess of \$88,326 and a net capital requirement of \$50,000. The Company's ratio of aggregate indebtedness to net capital was 2.4 to 1. The Securities and Exchange Commission permits a ratio for the Company at this time of no greater than 15 to 1.

(7) Exemption From Rule 15c3-3

The Company claims the exemptive provisions of SEC Rule 15c3-3 under paragraph (k)(2)(ii). Under this exemption, the "Computation for Determination of Reserve Requirements" and "Information Relating to the Possession or Control Requirements" are not required.

(8) Subordinated Liabilities

The Company had no subordinated liabilities during the year ended December 31, 2001. Therefore, the statement of changes in liabilities subordinated to claims of general creditors has not been presented.

FIRST FINANCIAL SECURITIES OF AMERICA, INC.Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission

December 31, 2001

Net capital:		
Total shareholder's equity per the accompanying financial statements		\$ <u>157,383</u>
Nonallowable assets:		
Property and equipment		3,385
Prepaid expenses		<u>15,672</u>
Total nonallowable assets		19,057
Net capital before haircuts on security positions		138,326
Haircuts on security positions		<u>—</u>
Net capital		\$ <u>138,326</u>
Minimum net capital required (the greater of \$50,000 or 6-2/3% of total aggregate indebtedness)		<u>50,000</u>
Excess net capital		\$ <u><u>88,326</u></u>
Aggregate indebtedness:		\$ <u><u>330,600</u></u>
Ratio of aggregate indebtedness to net capital		<u><u>2.4 to 1</u></u>

Note: Computed regulatory net capital and aggregate indebtedness differ from that disclosed in the FOCUS report filed under X-17A-5 on January 25, 2002 as follows:

	Net Capital	Aggregate Indebtedness
Per FOCUS report	\$ 421,095	240,422
Post-closing adjustments	<u>(282,769)</u>	<u>90,178</u>
Per above	\$ <u><u>138,326</u></u>	<u><u>330,600</u></u>

See accompanying independent auditors' report.



700 Louisiana
Houston, TX 77002

Telephone 713 319 2000
Fax 713 319 2041

Independent Auditors' Report on the Internal Control Required by SEC Rule 17a-5

The Board of Directors
First Financial Securities of America, Inc.:

In planning and performing our audit of the financial statements and supplemental schedule of First Financial Securities of America, 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 exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making 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 Federal Reserve 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.

The management of the Company is responsible for establishing and maintaining an 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 control 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 abovementioned objectives. Two of the objectives of an 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 accounting principles generally accepted in the United States of America. 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 errors 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 procedures 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 National Association of Securities Dealers, Inc. and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker dealers, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

February 8, 2002