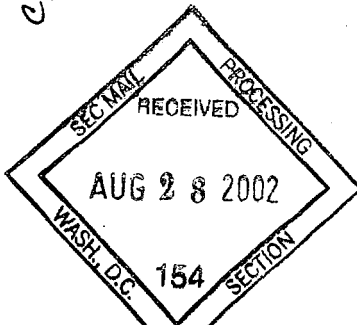


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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

OMB APPROVAL
OMB Number: 3235-0123
Expires: September 30, 1998
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SEC FILE NUMBER
8-30097

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 1
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder



02022968

REPORT FOR THE PERIOD BEGINNING JULY 1, 2001 AND ENDING JUNE 30, 2002
MM/DD/YY

TV 8-3002

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

PORTSMOUTH FINANCIAL SERVICES

OFFICIAL USE ONLY
FIRM ID. NO.

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

1990 NORTH CALIFORNIA BLVD., SUITE 330

(No. and Street)

WALNUT CREEK,

CALIFORNIA

94596

(City)

(State)

(Zip Code)

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

JOSEPH A. BAKER

(925) 988-8660

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

K. H. WM. KRUEGER, CERTIFIED PUBLIC ACCOUNTANT

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

591 REDWOOD HIGHWAY, SUITE 5295, MILL VALLEY, CALIFORNIA

(Address)

(City)

(State)

94941
(Zip Code)

CHECK ONE:

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

SEP 11 2002

THOMSON
FINANCIAL

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).

OATH OR AFFIRMATION

I, JOSEPH A. BAKER, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of _____, as of JUNE 30, 2002, 19____, 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:

None

Joseph A. Baker
Signature

CEO
Title

John M. Pylant
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).

August 22, 2002

Board of Directors
Portsmouth Financial Services
San Francisco, California

REPORT OF INDEPENDENT AUDITOR

I have audited the statement of financial condition of Portsmouth Financial Services, as of June 30, 2002, and related statements of operations, changes in shareholders' equity, changes in liabilities subordinated to the claims of general creditors, and cash flow for 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 Management of Portsmouth Financial Services. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Portsmouth Financial Services as of June 30, 2002, and the results of its operations, changes in shareholders equity, changes in liabilities subordinated to the claims of general creditors, and cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedule appearing on page 11 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 Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountant

PORTSMOUTH FINANCIAL SERVICES
STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2002

<u>ASSETS</u>	
CASH	\$180 802
DEPOSIT - PERSHING & CO.	50 000
COMMISSIONS RECEIVABLE FROM BROKER DEALERS	165 973
SECURITIES NOT READILY MARKETABLE AT ESTIMATED VALUE (Cost \$1,100)	1 100
PREPAID INCOME TAXES (\$13,000 Refundable)	19 390
PREPAID EXPENSES	18 623
FURNITURE & EQUIPMENT, LESS ACCUMULATED DEPRECIATION OF \$88,940	<u>24 000</u>
	<u>\$459 888</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

SALARIES AND COMMISSIONS	\$ 89 567
ACCRUED EXPENSES	12 210
LIABILITIES SUBORDINATED TO THE CLAIMS OF GENERAL CREDITORS	60 000

SHAREHOLDERS' EQUITY:

Common stock - no par value:

Authorized 100,000 shares - voting

500,000 shares - non-voting

Issued and outstanding 30,000 voting shares \$91 783

Paid in capital 36 964

Retained earnings 169 364 298 111

\$459 888

See notes to financial statements.

PORTSMOUTH FINANCIAL SERVICES

STATEMENT OF OPERATIONS

YEAR ENDED JUNE 30, 2002

REVENUES:

Commissions and Fees	\$2 524 496
Interest	<u>41 851</u>
	2 566 347

EXPENSES:

Commissions	\$1 136 377	
Officers salaries and commissions	319 736	
Employee compensation and benefits	370 743	
Operating expenses	420 556	
Depreciation	36 000	
Rent	<u>208 188</u>	<u>2 491 600</u>
INCOME BEFORE INCOME TAXES		74 747
INCOME TAX		<u>17 000</u>
NET INCOME		<u>\$57 747</u>

See notes to financial statements.

PORTSMOUTH FINANCIAL SERVICES

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED JUNE 30, 2002

	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
BALANCE AT JUNE 30, 2001	\$91 783	\$36 964	\$111 617	\$240 364
NET INCOME	_____	_____	<u>57 747</u>	<u>57 747</u>
BALANCE AT JUNE 30, 2002	<u>\$91 783</u>	<u>\$36 964</u>	<u>\$169 364</u>	<u>\$298 111</u>

See notes to financial statements.

PORTSMOUTH FINANCIAL SERVICES

STATEMENT OF CASH FLOW

YEAR ENDED JUNE 30, 2002

CASH FLOW FROM OPERATING ACTIVITIES:

Net loss from operations	\$ 57 747
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and amortization	36 000
Changes in assets and liabilities:	
Commissions receivable	(63 116)
Prepaid expenses	8 748
Federal and state income taxes	3 168
Salaries and commissions	20 346
Accrued expenses	<u>(4 977)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	57 916

CASH FLOW FROM INVESTING ACTIVITIES:

Purchase of equipment	<u>\$60 000</u>
CASH USED BY INVESTING ACTIVITIES	(60 000)

CASH FLOW FROM FINANCING ACTIVITIES:

Subordinated note issued	<u>\$60 000</u>
CASH PROVIDED BY FINANCING ACTIVITIES	60 000
NET INCREASE IN CASH	<u>57 916</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>122 886</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$180 802</u>
INCOME TAXES PAID	<u>\$ 16 000</u>
INTEREST PAID	<u>\$ 3 850</u>

See notes to financial statements.

PORTSMOUTH FINANCIAL SERVICES

STATEMENT OF CHANGES IN LIABILITIES
SUBORDINATED TO CLAIMS AND GENERAL CREDITORS

YEAR ENDED JUNE 30, 2002

Subordinated liabilities at June 30, 2001	\$ 0
Issue of Subordinated Notes	60 000
Repayment of Subordinated Note	<u>0</u>
Subordinated liabilities at June 30, 2002	<u>\$60,000</u>

See notes to financial statements.

PORTSMOUTH FINANCIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Company is a licensed securities broker/dealer engaged in the sale of securities, and is a registered investment advisor. Substantially all revenue is generated from clients in Northern California.

Security Transactions and Commissions

In accordance with industry practice, securities transactions and related commission revenues and expense are recorded on a settlement date basis. The Company has entered into contracts with Pershing & Co., Inc. who agreed to act as clearing brokers on a fully disclosed basis for all the Company's dealings with customers' securities accounts. Accordingly, the Company has no direct receivables or payables to customers or brokers as a result of securities transactions.

The Company does have receivables and payables from and to brokers as a result of sales commissions earned on security and mutual fund transactions.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is computed on a straight-line basis over estimated useful lives of five years. New acquisitions are expensed to the extent allowable for Federal income tax purposes, which is a maximum of \$24,000 per year.

Valuation of Securities Not Readily Marketable

Securities not readily marketable include securities for which there is no market on a securities exchange or an independent publicly quoted market, and securities which cannot be offered or sold because of restriction on the transfer of the security are carried at estimated fair value as determined by the Board of Directors.

Marketable Securities

Marketable securities are valued at market value. The resulting difference between cost and market is included in income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PORTSMOUTH FINANCIAL SERVICES

NOTES TO FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2002

NOTE B - DEPOSIT

The Company has deposited \$50,000 with Pershing and Co. as security for its transactions with them. Interest is paid monthly on the deposit at the average overnight repurchase agreement rate.

NOTE C - LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

The borrowings under subordination agreements at June 30, 2002 are listed below:

Subordinated notes:

7.5% due July 31, 2004

\$60 000

NOTE D - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company places its temporary cash investments with financial institutions and brokerage companies, thereby limiting the amount of credit exposure to any one financial institution. At June 30, 2002 the Company's only significant concentration of credit risk was with its checking accounts at a commercial bank. The Company balances on any day may exceed the insured amount by a material amount.

NOTE E - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK

The Company's transactions, as a securities broker, are executed with and on behalf of customers. The Company introduces these transactions for clearance to an Exchange member firm on a fully disclosed basis.

In the normal course of business, the Company's customer activities involve the execution of securities transactions and settlement by its clearing broker. The agreement between the Company and its clearing broker provides that the Company is obligated to assume any exposure related to nonperformance by its customers. Therefore, these activities may expose the Company to off-balance sheet credit risk in the event the customer is unable to fulfill its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations, which may result in a gain or a loss to the Company.

The Company seeks to control off-balance sheet credit risk by monitoring its customer transactions and reviewing information it receives from its clearing broker on a daily basis.

PORTSMOUTH FINANCIAL SERVICES

NOTES TO FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2002

NOTE F - CAPITAL REQUIREMENTS

The Corporation is required to maintain minimum net capital as defined by the Securities and Exchange Commission equivalent to the greater of \$50,000 or one-fifteenth of "aggregate indebtedness" as defined. Net capital and the related net capital ratio fluctuate on a daily basis. At June 30, 2002 the Corporation had net capital of \$294,998 and aggregate indebtedness of approximately \$102,000, a ratio of .35 to 1.00.

NOTE G - LEASES

The Corporation leases its offices under non-cancelable operating leases expiring in 2003 through 2004. Minimum rental payments for the four fiscal years are as follows:

2003	\$187 000
2004	72 000

NOTE H - NET OPERATING LOSS CARRY FORWARD

State of California income taxes were reduced by \$3,600 as a result of the application of a \$41,000 net operating loss carryforward.

SUPPLEMENTAL INFORMATION

PORTSMOUTH FINANCIAL SERVICES

COMPUTATION OF NET CAPITAL FOR BROKERS

AND DEALERS PURSUANT TO RULE 15c3-1

JUNE 30, 2002

COMPUTATION OF NET CAPITAL

Stockholders' equity	\$298 111
Subordinated liabilities	<u>60 000</u>
Total	358 111

NON ALLOWABLE ASSETS:

Securities not readily marketable	1 100
Prepaid expenses	38 013
Furniture and fixtures	<u>24 000</u>
Total non-allowable assets	<u>63 113</u>

NET CAPITAL	<u>\$294 998</u>
-------------	------------------

COMPUTATION OF AGGREGATE INDEBTEDNESS

Total Aggregate Indebtedness - Liabilities from Statement of Financial Condition	\$ <u>101 777</u>
Ratio of Aggregate Indebtedness to Net Capital	<u>.35 to 1</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum Net Capital Required (6-2/3% of aggregate indebtedness)	\$ <u>6 785</u>
Minimum Dollar Net Capital Requirement	\$ <u>50 000</u>
Net Capital Requirement (greater of above two amounts)	\$ <u>50 000</u>
Excess Net Capital	<u>\$244 998</u>

There are no material differences between the amounts reported above and amounts reported in the Company's unaudited Focus Report, Part IIa, as of June 30, 2002.

PORTSMOUTH FINANCIAL SERVICES

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS

FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3

JUNE 30, 2002

The Company is exempt from provisions of Rule 15c3-3 under the Securities and Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule.

All customary transactions are cleared through Pershing & Co. on a fully disclosed basis.

August 22, 2002

Board of Directors
Portsmouth Financial Services
San Francisco, California

In planning and performing my audit of the financial statements of Portsmouth Financial Services for the year ended June 30, 2002, I considered its internal control structure, including procedures for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

I 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-3-3. I did not review the practices and procedures followed by 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.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 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 of 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 preceding 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.

My 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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, I noted no matters involving the internal control structure, including procedures for safeguarding securities, that I consider to be material weaknesses as defined above.

I 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 my study, I believe that the Company's practices and procedures were adequate at June 30, 2002, to meet the Commission's objectives.

This report is intended solely for the 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 should not be used for any other purpose.

A handwritten signature in black ink, appearing to read "K H WM KRUEGER", followed by a long horizontal line extending to the right.

Certified Public Accountant