

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

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

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**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 19a-5 Thereunder**

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

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
Gustafson Financial, Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
7050 Friars Road, Suite 204
(No. and Street)
San Diego CA 92108
(City) (State) (Zip Code)

OFFICIAL USE ONLY
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Vance Gustafson (619) 234-0358
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Diehl, Evans & Company, LLP
(Name - if individual, state last, first, middle name)
2121 Alton Parkway, Suite 100 Irvine CA 92606-4906
(Address) (City) (State) (Zip Code)

- CHECK ONE:
- Certified Public Accountant
 - Public Accountant
 - Accountant not resident in United States or any of its possessions.

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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, Vance Gustafson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Gustafson Financial, Inc., as of September 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:

None

Vance Gustafson
Signature

Chairman
Title

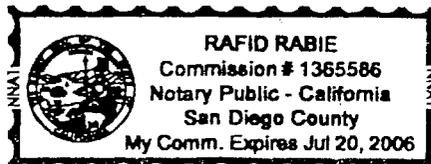
[Signature]
Notary Public

SUBSCRIBED AND SWORN TO BEFORE ME
THIS 26 DAY OF Nov 2002
BY Vance Gustafson
[Signature]
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).





DIEHL, EVANS & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A PARTNERSHIP INCLUDING ACCOUNTANCY CORPORATIONS

2121 ALTON PARKWAY, SUITE 100

IRVINE, CALIFORNIA 92606-4906

(949) 399-0600 • FAX (949) 399-0610

www.diehlevans.com

- MICHAEL R. LUDIN, CPA
- CRAIG W. SPRAKER, CPA
- NITIN B. PATEL, CPA
- ROBERT J. CALLANAN, CPA
- PHILIP H. HOLTNAME, CPA
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- MICHAEL C. FRIEDMAN, CPA
- A PROFESSIONAL CORPORATION

November 18, 2002

INDEPENDENT AUDITORS' REPORT

Board of Directors
 Gustafson Financial, Inc.
 San Diego, California

We have audited the balance sheet of Gustafson Financial, Inc. as of September 30, 2002, and the related statements of income and retained earnings 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 Gustafson Financial, Inc. as of September 30, 2002, and the results of its operations and 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 on page 8 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.

Diehl, Evans and Company, LLP

FINANCIAL STATEMENTS

GUSTAFSON FINANCIAL, INC.

BALANCE SHEET

September 30, 2002

ASSETS

CURRENT ASSETS:

Cash and brokerage money fund in the amount of \$10,259	\$ 10,621
Commissions receivable	<u>9,378</u>

TOTAL CURRENT ASSETS	19,999
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PROPERTY AND EQUIPMENT, AT COST NET OF
ACCUMULATED DEPRECIATION OF \$1,582

-

OTHER ASSETS:

Deposit on lease (Note 4)	<u>645</u>
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TOTAL ASSETS	<u>\$ 20,644</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accrued liabilities	\$ 192
Accrued commissions	<u>7,234</u>

TOTAL CURRENT LIABILITIES	<u>7,426</u>
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STOCKHOLDERS' EQUITY:

Common stock, no par value, 1,000 shares authorized, 100 shares issued and outstanding	15,000
Retained earnings	<u>(1,782)</u>

TOTAL STOCKHOLDERS' EQUITY	<u>13,218</u>
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 20,644</u>
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See independent auditors' report and notes to financial statements.

GUSTAFSON FINANCIAL, INC.

STATEMENT OF INCOME

For the year ended September 30, 2002

REVENUES:

Commissions	\$ 172,604
Interest income	<u>3,162</u>

TOTAL REVENUES 175,766

EXPENSES:

Commissions	124,706
Employee compensation and benefits	30,162
Payroll tax expense	2,320
Insurance	1,994
Legal and professional services	4,150
Licenses	428
Office supplies and expense	2,200
Postage and messenger service	1,677
Regulatory fees	3,712
Rents	11,055
Repairs and maintenance	719
Securities quotation services and other subscriptions	12,021
Telephone	2,841
Other expenses	1,347
Expense reimbursements from sales agents	<u>(21,141)</u>

TOTAL EXPENSES 178,191

NET LOSS BEFORE INCOME TAXES (2,425)

PROVISION FOR INCOME TAXES 800

NET LOSS \$ (3,225)

See independent auditors' report and notes to financial statements.

GUSTAFSON FINANCIAL, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended September 30, 2002

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	
Balance - October 1, 2001	100	\$ 15,000	\$ 1,443	\$ 16,443
Dividends	-	-	-	-
Net income (loss)	-	-	(3,225)	(3,225)
Balance - September 30, 2002	<u>100</u>	<u>\$ 15,000</u>	<u>\$ (1,782)</u>	<u>\$ 13,218</u>

See independent auditors' report and notes to financial statements.

GUSTAFSON FINANCIAL, INC.

STATEMENT OF CASH FLOWS

For the year ended September 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (3,225)
Adjustments to reconcile net loss to net cash used by operating activities:	
Decrease in commissions receivable	\$ 1,412
Decrease in accrued federal income tax	-
Decrease in accrued liabilities	192
Decrease in accrued commissions	<u>1,890</u>
Total adjustments	<u>3,494</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>269</u>
NET INCREASE IN CASH	269
CASH AND CASH EQUIVALENTS, OCTOBER 1, 2001	<u>10,352</u>
CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2002	<u>\$ 10,621</u>
NOTE: Cash flows from operating activities include cash payments for:	
Income taxes	<u>\$ 800</u>

See independent auditors' report and notes to financial statements.

GUSTAFSON FINANCIAL, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- a. Gustafson Financial, Inc. (the Company) operates as a registered broker-dealer in marketable securities and other financial instruments. Under the terms of its registration agreement, the Company does not carry customer accounts, and does not receive or hold customer funds or securities. Security trades on behalf of customers are executed on a "Fully-Disclosed" basis, wherein all orders from customers are forwarded directly to a reciprocal broker for execution and all monies are sent directly from the customer to the reciprocal broker. The Company receives commissions on these trades.
- b. The Company uses the accrual method of accounting for financial reporting purposes. Commission revenue and the related commission expense are recorded on a trade date basis.
- c. Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over an estimated life of ten years. As of September 30, 2002, property and equipment are fully depreciated.
- d. The office lease, more fully described in Note 4, is an operating lease.
- e. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- f. For the purpose of the statement of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of three months or less.

2. NET CAPITAL REQUIREMENT:

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined under the Rule, shall not exceed 15 to 1. Under its registration agreement as a fully disclosed broker-dealer and pursuant to Rule 15c3-1 of the Securities Exchange Act of 1934, as amended, the Company is required to maintain minimum net capital of the greater of \$5,000 or 6.67% of aggregate indebtedness. At September 30, 2002, the Company had net capital of \$12,314, which was \$7,314 in excess of its required net capital. This amount may fluctuate on a daily basis. The Company's aggregate indebtedness to net capital ratio was .60 to 1.

The Company had no outstanding subordinated liabilities as of September 30, 2002.

See independent auditors' report.

GUSTAFSON FINANCIAL, INC.

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

September 30, 2002

3. INCOME TAXES:

California income tax expense for the year ended September 30, 2002 was \$800. Income and expenses are included in the determination of taxable income in the same period they are recognized for financial reporting purposes. Accordingly, there is no provision for deferred income taxes. There was no federal income tax expense for the year ended September 30, 2002 due to the net loss for the year.

4. OPERATING LEASE OBLIGATIONS:

The Company is leasing office space in a commercial office building in the City of San Diego, California. The lease term ended July 31, 2000. The lease is now on a month to month basis and there are no future minimum lease payments as of September 30, 2002. There is a deposit of \$645 with the landlord.

5. STOCKHOLDERS' EQUITY:

There was no change in ownership of the Company's common stock nor was there any shares of stock issued or redeemed during the fiscal year ended September 30, 2002.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

GUSTAFSON FINANCIAL, INC.

COMPLIANCE WITH NET CAPITAL REQUIREMENT PURSUANT
TO SECURITIES AND EXCHANGE COMMISSION RULE 15c3-1

September 30, 2002

AGGREGATE INDEBTEDNESS		<u>\$ 7,426</u>
MINIMUM NET CAPITAL REQUIRED:		
Greater of \$5,000 or 6.67% of aggregate indebtedness		\$ 5,000
ACTUAL NET CAPITAL:		
Total stockholder's equity	\$ 13,218	
Less non-allowable asset:		
Deposit on lease	(645)	
Less: Haircut on undue concentration in brokerage money fund	<u>(259)</u>	
NET CAPITAL		<u>12,314</u>
EXCESS OVER REQUIREMENT		<u>\$ 7,314</u>
PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL		<u>60%</u>

See independent auditors' report.



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www.diehlevans.com

November 18, 2002

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE REQUIRED BY SECURITIES AND EXCHANGE COMMISSION RULE 17a-5

Board of Directors
Gustafson Financial, Inc.
San Diego, California

In planning and performing our audit of the financial statements of Gustafson Financial, Inc. for the year ended September 30, 2002, we considered its internal control structure, including procedures 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 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 Gustafson Financial, Inc. that we considered relevant to the objectives stated in rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e); (2) in making quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13; (3) 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; and (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15c3-3. Tests 2 through 4 (described above) were not performed, as they were not applicable in the circumstances.

The management of Gustafson Financial, Inc. 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 Gustafson Financial, Inc. 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 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 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, 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 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 Gustafson Financial, Inc.'s practices and procedures were adequate at September 30, 2002, to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange 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.

Diehl, Evans and Company, LLP

GUSTAFSON FINANCIAL, INC.
FINANCIAL STATEMENTS
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

SEPTEMBER 30, 2002

GUSTAFSON FINANCIAL, INC.

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