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

#B 3/5/03

OMB APPROVAL
OMB Number: 3235-0123
Expires: October 31, 2004
Estimated average burden
hours per response..... 12.00

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

SEC MAIL RECEIVED
FEB 25 2003
WASH DC SECTION

SEC FILE NUMBER
8-44619

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 1/1/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
S.B.S. FINANCIAL GROUP, INC.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
25 SYLVAN ROAD SOUTH, SUITE B

OFFICIAL USE ONLY
FIRM I.D. NO.

WESTPORT (City) **CT** (State) **06880** (Zip Code)
(No. and Street)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
ILENE SCHLICHER **203-221-1916**
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
MALAKOFF, WASSERMAN & PECKER, CPA, PC

ONE OLD COUNTRY ROAD, CARLE PLACE, NY 11514
(Address) (City) (State) (Zip Code)
(Name - if individual, state last, first, middle name)

CHECK ONE:

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

PROCESSED

MAR 11 2003

**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, ILENE SCHLICHER, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SBS FINANCIAL GROUP, INC., as of DECEMBER 31, 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:

FZ/PL 5426-419-42-650-0 (04-08)

Ilene K. Schlicher
Signature



Marlene L. Shields 2-20-03
Notary Public

PRESIDENT/CEO
Title

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).

S.B.S. FINANCIAL GROUP, INC.
TABLE OF CONTENTS
DECEMBER 31, 2002

	Page
Independent auditor's report	1
Financial statements:	
Statement of financial condition	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:	
Computation of net capital under rule 15c 3-1 of the Securities and Exchange Commission	8
Independent auditor's report on internal control	9-10

Malakoff, Wasserman & Pecker, C.P.A., P.C.
Certified Public Accountants
One Old Country Road, Carle Place, N.Y. 11514

Arnold M. Malakoff, C.P.A.
Clifford R. Wasserman, C.P.A., J.D.
Edward J. Pecker, C.P.A.

Telephone: (516) 741-5700
Fax: (516) 741-5779

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of

S.B.S. Financial Group, Inc.

We have audited the accompanying statement of financial condition of S.B.S. Financial Group, Inc. as of December 31, 2002, and the related statements of income, changes in stockholders' 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 statements 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 S.B.S. Financial Group, Inc. at December 31, 2002, 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 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 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.

Malakoff, Wasserman & Pecker CPA, PC

January 23, 2003

S.B.S. FINANCIAL GROUP, INC.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2002

Page 2

ASSETS

Current Assets:

Cash and cash equivalents	\$ 265,668
Due from broker	<u>50,515</u>

Total current assets 316,183

Property and equipment, net of accumulated depreciation of \$9,329	1,776
Security deposits	<u>3,682</u>

Total assets \$ 321,641

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Accounts payable and accrued expenses	\$ <u>46,442</u>
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Stockholders' Equity:

Class A common stock, \$1.00 par value; authorized- 400,000 shares; issued and outstanding- 70,000 shares	70,000
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Class B common stock, \$1.00 par value; authorized- 100,000 shares; issued and outstanding - none	-
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Additional paid-in capital	70,000
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Retained earnings	<u>135,199</u>
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Total stockholders' equity 275,199

Total liabilities and stockholders' equity \$ 321,641

See notes to financial statements.

S.B.S. FINANCIAL GROUP, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

Page 3

Revenues:

Commissions	\$ 752,931
Less direct costs of services rendered	<u>188,445</u>
Net commissions	564,486
Interest and dividend income	<u>4,080</u>
Total revenues	<u>568,566</u>
Operating expenses:	
Compensation-shareholders	282,973
Compensation-others	66,626
Payroll taxes	18,165
Employee benefits	38,492
Travel and promotion	49,271
Rent and utilities	23,516
Telephone	20,164
Office expenses	7,882
Professional fees	6,025
Dues, subscriptions and licenses	8,188
Information services	17,042
Clearing charges	48,760
Insurance	480
Depreciation	3,554
Miscellaneous	<u>971</u>
Total operating expenses	<u>592,109</u>
Net loss before income taxes	(23,543)
Provision for income taxes	<u>0</u>
Net loss	<u>\$ (23,543)</u>

See notes to financial statements.

S.B.S. FINANCIAL GROUP, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2002

Page 4

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	<u>Class A</u>	<u>Class B</u>			
Balance - January 1, 2002	\$ 70,000	-	\$ 70,000	\$ 158,742	\$ 298,742
Net loss	-	-	-	(23,543)	(23,543)
Balance - December 31, 2002	<u>\$ 70,000</u>	<u>-</u>	<u>\$ 70,000</u>	<u>\$ 135,199</u>	<u>\$ 275,199</u>

S.B.S. FINANCIAL GROUP, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

Page 5

Cash flows from operating activities:	
Net loss	\$ <u>(23,543)</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	3,554
(Increase) decrease in operating assets:	
Due from broker	(50,515)
Security deposit	(130)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	<u>(5,834)</u>
Net cash provided by operating activities	<u>(52,925)</u>
Net decrease in cash and cash equivalents	(76,468)
Cash and cash equivalents, beginning of year	<u>342,136</u>
Cash and cash equivalents, end of year	\$ <u><u>265,668</u></u>
Supplemental Cash Flows Disclosures:	
Income taxes paid	\$ <u><u>0</u></u>

See notes to financial statements.

S.B.S. FINANCIAL GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

Page 6

Note A - ORGANIZATION

S.B.S. Financial Group, Inc.(the "Company") is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD).

Note B - SIGNIFICANT ACCOUNTING POLICIES

Securities Transactions

Proprietary securities transactions are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. Customers' securities transactions are reported a settlement date basis with related commission income and expenses reported on a trade date basis.

Commissions

Commissions and related clearing expenses are recorded on a trade date basis as securities transactions occur.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

At various times during the year the Company's bank balance exceeded federal deposit insurance coverage.

Income Taxes

The Company has elected to be taxed as an "S" corporation for Federal and Connecticut corporation income tax purposes. Accordingly, the operations of the Company will not be subject to Federal or Connecticut corporation income taxes.

S.B.S. FINANCIAL GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

Page 7

Note C - COMMITMENTS

The Company currently occupies office space pursuant to a lease which expires on October 31, 2003. The minimum future payments under the lease amount to \$9,982 at December 31, 2002.

The Company occupies a second office under a one year lease which expires on July 31, 2003. The minimum future payments under this lease amount to \$6,615 at December 31, 2002.

Note D - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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, shall not exceed 15 to 1. At December 31, 2002, the Company had net capital of \$269,741, which was \$264,741 in excess of its required net capital of \$5,000.

S.B.S. FINANCIAL GROUP, INC.
COMPUTATION OF NET CAPITAL
UNDER RULE 15c 3-1 OF THE SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2002

Page 8

Net capital	\$ <u>275,199</u>
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Deductions for nonallowable assets:

Property and equipment, net	1,776
Security deposits	<u>3,682</u>
	5,458

Net capital	<u>269,741</u>
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Minimum dollar net capital required	<u>5,000</u>
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Excess net capital	<u><u>\$ 264,741</u></u>
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Aggregate indebtedness:

Items included in statement of financial condition:

Accounts payable and accrued liabilities	\$ <u>46,442</u>
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Total aggregate indebtedness	<u><u>\$ 46,442</u></u>
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Ratio of aggregate indebtedness to net capital	<u><u>16.84%</u></u>
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Reconciliation with Company's computation (included in Part II of Form X-17A-5 as of December 31, 2002):

Net capital, as reported in Company's Part II (unaudited) FOCUS report	\$ 269,741
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Audit adjustments to record additional accruals	<u>0</u>
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Net capital per above	<u><u>\$ 269,741</u></u>
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Malakoff, Wasserman & Pecker, C.P.A., P.C.

Certified Public Accountants

One Old Country Road, Carle Place, N.Y. 11514

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors of
S.B.S. Financial Group, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of S.B.S. Financial Group, Inc. (the "Company") for the year ended December 31, 2002, 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 the internal control.

Also, as required by Rule 17a-5 (g)(i) 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. Because the Company does not perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by rule 17a-13.
3. 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.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of controls 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 above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute assurance that the 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 preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error 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 error 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 control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objective 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, 2002 to meet the SEC'S objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specific parties.

Malekoff, Wasserman & Fecker CPA, PC

January 23, 2003