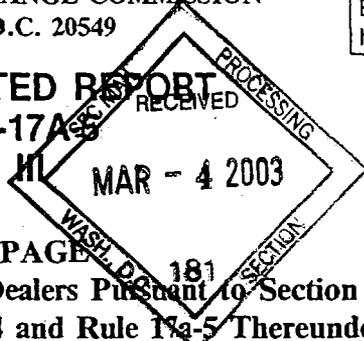




UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: September 30, 1998  
Estimated average burden  
hours per response . . . 12.00

ANNUAL AUDITED REPORT  
FORM X-17A  
PART III



SEC FILE NUMBER  
8-37928

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 1/1/2002 AND ENDING 12/31/2002  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Grand Financial, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
15303 Dallas Parkway, Suite 1010

Addison, TX 75001 (No. and Street)  
(City) (State) (Zip Code)

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

Claudia Young (Area Code — Telephone No.)  
972-788-2080

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ryan, Davidson & Company

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

12900 Preston Rd., Suite 800 Dallas, TX 75230  
(Address) (City) (State) Zip Code

CHECK ONE:

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

PROCESSED

MAR 24 2003

FOR OFFICIAL USE ONLY  
THOMSON FINANCIAL

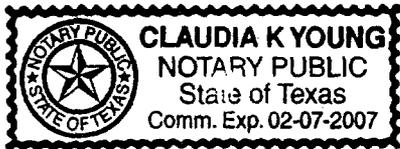
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

MAR 21 2003

**OATH OR AFFIRMATION**

I, James L. Harris, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Grand Financial, 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:

None



James L. Harris  
Signature  
PRESIDENT  
Title

Claudia K. 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.
- (o) Independent Auditor's Report on Internal Control

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**GRAND FINANCIAL, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL REQUIRED BY SEC RULE 17a-5  
CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3

Board of Directors  
Grand Financial, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Grand Financial, 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 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 (or aggregate debits) 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 carry securities accounts for customers or 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, estimates and judgments by management are required 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 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 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 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, 2002, to meet the SEC's objectives.

This report is intended solely for the information and 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 specified parties.

*Raymond Davidson & Company*

February 7, 2003

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# RYAN, DAVIDSON & COMPANY

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

NORTH DALLAS BANK TOWER  
12900 PRESTON ROAD, SUITE 800  
DALLAS, TEXAS 75230-1324

TELEPHONE: (972) 788-2992  
FACSIMILE: (972) 991-2787  
EMAIL: mail@davidsoncompany.net

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Grand Financial, Inc.  
Addison, Texas

We have audited the following financial statements and supplemental schedules of Grand Financial, Inc. (an S corporation), for the year ended December 31, 2002, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934:

	<u>Page No.</u>
Financial Statements:	
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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.

Grand Financial, Inc.  
Independent Auditor's Report  
Page 2

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grand Financial, Inc., as of 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 of the basic financial statements taken as a whole. The Supplemental Schedules on pages 8 and 9 are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 and in conformity with the rules under the Securities and Exchange Act of 1934.

*Ryan Davidson & Company*

February 7, 2003

GRAND FINANCIAL, INC.  
STATEMENT OF FINANCIAL CONDITION  
YEAR ENDED DECEMBER 31, 2002

ASSETS

CURRENT ASSETS

Cash	\$ 57,578
Investments	<u>3,300</u>
Total current assets	<u>\$ 60,878</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Payable to section 125 plan	<u>4,535</u>
Total current liabilities	<u>4,535</u>

STOCKHOLDER'S EQUITY

Common stock; no par; 100,000 shares authorized; 1,000 shares issued and outstanding	1,000
Additional paid-in capital	336,000
Retained deficit	<u>(280,657)</u>
Total stockholder's equity	<u>56,343</u>
	<u>\$ 60,878</u>

The accompanying notes are an integral part of these financial statements

GRAND FINANCIAL, INC.  
STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 2002

REVENUES	<u>\$ 281,152</u>
EXPENSES	
Commissions	184,049
Salaries	95,023
Payroll taxes	20,045
Employee benefits	480
Professional fees	<u>1,348</u>
Total expenses	<u>300,945</u>
NET LOSS	<u><u>\$ (19,793)</u></u>

The accompanying notes are an integral part of these financial statements

GRAND FINANCIAL, INC.  
 STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY  
 YEAR ENDED DECEMBER 31, 2002

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)
Balance, December 31, 2001	\$ 1,000	\$331,000	\$ (260,864)
Contributed capital		5,000	
Net loss			(19,793)
Balance, December 31, 2002	<u>\$ 1,000</u>	<u>\$336,000</u>	<u>\$ (280,657)</u>

The accompanying notes are an integral part of these financial statements

GRAND FINANCIAL, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (19,793)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Decrease in accounts payable	(150)
Increase in payable to section 125 plan	<u>3,136</u>
Cash used by operating activities	<u>(16,807)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contributions	<u>5,000</u>
Cash provided by financing activities	<u>5,000</u>
NET DECREASE IN CASH	(11,807)
CASH, beginning of year	<u>69,385</u>
CASH, end of year	<u><u>\$ 57,578</u></u>

The accompanying notes are an integral part of these financial statements

GRAND FINANCIAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)

4. CUSTOMER PROTECTIONS - RESERVES AND CUSTODY SECURITIES

The Company does not hold funds or securities for customers; accordingly, it is not subject to the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, which provides for the maintenance by broker-dealers of basic reserves to with respect to customers' cash and securities and enumerates standards relating the physical possession of the customers' securities, pursuant to paragraph (k) (2) (A) of such rule.

5. CONCENTRATIONS OF RISK

Funds deposited in banks are federally insured up to \$100,000. The Company has the majority of its cash in one bank, which, from time to time, may exceed the federally insured limit.

6. CASH FLOWS

The Company considers cash on hand and cash in bank accounts to be cash equivalents. During 2002, there were no cash payments for interest or income taxes.

SUPPLEMENTAL SCHEDULE

GRAND FINANCIAL, INC.  
STATEMENT OF CHANGES IN LIABILITIES  
SUBORDINATED TO CLAIMS OF GENERAL CREDITORS  
YEAR ENDED DECEMBER 31, 2002

LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL  
CREDITORS AS OF:

December 31, 2002

NONE

The accompanying notes are an integral part of these financial statements

SUPPLEMENTAL SCHEDULE

GRAND FINANCIAL, INC.  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
DECEMBER 31, 2002

TOTAL STOCKHOLDER'S EQUITY	\$ 56,343
LESS NONMARKETABLE WARRANTS	<u>3,300</u>
NET CAPITAL AS DEFINED BY RULE 15c3-1	53,043
MINIMUM NET CAPITAL REQUIRED UNDER RULE 15c3-1	<u>5,000</u>
NET CAPITAL IN EXCESS OF MINIMUM REQUIRED	<u><u>\$ 48,043</u></u>

The total stockholder's equity of \$56,343 agrees with the previously filed Form X-17A-5, page 4, line 23, "Total Ownership Equity", as of December 31, 2002. There were no adjustments made during the audit of Grand Financial, Inc., for the year ended December 31, 2002.

The accompanying notes are an integral part of these financial statements