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

SEC FILE NUMBER  
8- 40178

**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 01/01/02 AND ENDING 12/31/02 MAR 10 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: AI Securities, Inc.

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

33 Union Street

(No. and Street)

Boston  
(City)

MA  
(State)

02108  
(Zip Code)

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

David M. Ennis

(617) 367-4300

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Brown & Brown

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

90 Canal Street

Boston

MA

02114

(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

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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  
MAR 8 2003

OATH OR AFFIRMATION

I, David M. Ennis, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of A.I. Securities, Inc., as of February 24, 2003, 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:

\_\_\_\_\_  
\_\_\_\_\_

David Ennis  
Signature

President  
Title

Christine Henning  
Notary Public My Commission Expires: 2/27/09

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).

**AI SECURITIES, INC.**  
**(A Wholly-Owned Subsidiary of Affirmative Investments, Inc.)**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2002 AND 2001**

AI SECURITIES, INC.

(A Wholly Owned Subsidiary of Affirmative Investments, Inc.)

Years Ended December 31, 2002 and 2001

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## BROWN & BROWN

Brown & Brown, LLP | Boston | Portland | Worcester  
Certified Public Accountants | Business and Financial Advisors

To the Board of Directors and Shareholder  
AI Securities, Inc.  
(A wholly-owned subsidiary of Affirmative Investments, Inc.)  
Boston, Massachusetts

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of financial condition of AI Securities, Inc. (a wholly owned subsidiary of Affirmative Investments, Inc. - The "Company") as of December 31, 2002 and 2001 and the related statements of operations and retained earnings and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 AI Securities, Inc. as of December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules I and II contained in the financial statements, presented for purposes of complying with the Securities and Exchange Commission's rules, is the responsibility of the Company's management and is not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Boston, Massachusetts  
February 13, 2003

**AI SECURITIES, INC.**  
**(A Wholly Owned Subsidiary of Affirmative Investments, Inc.)**  
**Statements of Financial Condition**  
**December 31, 2002 and 2001**

	2002	2001
<b>Assets</b>		
Current assets:		
Cash	\$ 7,494	\$ 7,217
Accounts receivable	307,459	10,000
Deferred tax asset	-	2,243
<b>Total current assets</b>	<b>\$ 314,953</b>	<b>\$ 19,460</b>
<b>Liabilities and Shareholder's Equity</b>		
Liabilities:		
Accrued management fee, related party	\$ 287,000	\$ -
Shareholder's equity:		
Common stock, no par value, 15,000 shares authorized, 1,000 shares issued and outstanding	10	10
Retained earnings	27,943	19,450
	27,953	19,460
<b>Total liabilities and shareholder's equity</b>	<b>\$ 314,953</b>	<b>\$ 19,460</b>

The accompanying notes are an integral part of these financial statements.

**AI SECURITIES, INC.**  
**(A Wholly Owned Subsidiary of Affirmative Investments, Inc.)**  
**Statements of Operations and Retained Earnings**  
**Years Ended December 31, 2002 and 2001**

	2002	2001
Income:		
Consulting fees	\$ 723,194	\$ 312,782
Monitoring fees	21,870	27,220
Mutual fund fees	824	1,386
Interest income	157	180
	746,045	341,568
Expenses:		
Management fee, related party	681,915	337,300
Legal	45,000	-
Accounting	6,500	6,000
Miscellaneous	1,894	1,923
Donated services	-	5,100
	735,309	350,323
Income (loss) before income taxes	10,736	(8,755)
Income taxes, deferred	(2,243)	-
	8,493	(8,755)
Net income (loss)	8,493	(8,755)
Retained earnings, beginning of year	19,450	28,205
Retained earnings, end of year	\$ 27,943	\$ 19,450

The accompanying notes are an integral part of these financial statements.

**AI SECURITIES, INC.**  
**(A Wholly Owned Subsidiary of Affirmative Investments, Inc.)**  
**Statements of Cash Flows**  
**Years Ended December 31, 2002 and 2001**

	2002	2001
Cash flows from operating activities:		
Net income (loss)	\$ 8,493	\$ (8,755)
Changes in operating assets and liabilities:		
Accounts receivable	(297,459)	5,434
Accrued expenses	287,000	
Deferred tax asset	2,243	-
Net increase (decrease) in cash	277	(3,321)
Cash, beginning of year	7,217	10,538
Cash, end of year	\$ 7,494	\$ 7,217

The accompanying notes are an itegral part of these financial statements.

AI SECURITIES, INC.  
(A Wholly Owned Subsidiary of Affirmative Investments, Inc.)  
Notes to Financial Statements  
Years Ended December 31, 2002 and 2001

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

AI Securities, Inc. (the Company), a Massachusetts corporation, is a registered broker-dealer under the provisions of the Securities Exchange Act of 1934. The Company engages in consulting and brokering the sale of private placements and limited partnership interests in real estate tax shelter credits for low-income housing, as well as socially responsible investment advisory services for clients primarily within Massachusetts. The Company is a wholly-owned subsidiary of Affirmative Investments, Inc (the "Parent").

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

*Income Taxes*

The Company is included in the consolidated federal and state income tax returns of its parent, Affirmative Investments, Inc. In the event that the Company has taxable income/loss, an income tax provision/benefit would be reflected as though the Company filed separate tax returns, using the combined group federal and state tax rates.

*Revenue recognition*

Consulting revenue and distribution fees on sales and assets are recognized when earned. Contracts terms vary, and are often dependent on certain events such as securing financing and closing on construction projects.

*Reclassifications*

Certain reclassifications have been made to the 2001 financial statements in order to conform to the 2002 presentation.

**NOTE 2 – CAPITAL REQUIREMENTS**

The Company, as a registered broker-dealer, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). Rule 15c3-1 requires the maintenance of minimum net capital of \$5,000, as defined, and requires that aggregate indebtedness, as defined, shall not exceed 15 times net capital. At December 31, 2002 and 2001, the Company had net capital, as defined, of \$7,494 and \$7,217 which exceeded the required net capital by \$2,494 and \$2,217, respectively.

At December 31, 2002 there were differences between the audited net capital computation and the computation prepared by AI Securities, Inc., however there was no effect to the net capital amount. See supplemental schedule I.

**AI SECURITIES, INC.**  
**(A Wholly Owned Subsidiary of Affirmative Investments, Inc.)**  
**Notes to Financial Statements**  
**Years Ended December 31, 2002 and 2001**

**NOTE 3 – RELATED PARTY TRANSACTIONS**

*Management Fee*

The Company pays management fees for the expenses incurred on its behalf to its Parent. This management fee includes allocations of office rent, personnel costs, and general office overhead, financial consulting for housing development and the costs associated with structuring, syndicating, and placement of limited partnerships. Management fees charged by Affirmative Investments, Inc. were \$681,915 and \$337,300 for the years ended December 31, 2002 and 2001, respectively.

The Company transfers money to Affirmative Investments, Inc. throughout the year towards its management fee. At December 31, 2002 and 2001, there was \$287,000 and \$0 due the Parent.

**NOTE 4 – INCOME TAXES**

Pursuant to Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, the Company accounts for income taxes using the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets and liabilities due to a change in tax rates is recognized in operations in the period that included the enactment date. The Company is included in the consolidated federal and state income tax returns of the Parent, pursuant to a tax sharing agreement. Management believes taxes allocated under the Parent's tax sharing agreements will be immaterial. The Company's total deferred tax asset is \$0 and \$2,243 at December 31 2002 and 2001.

**NOTE 5 - MAJOR CUSTOMERS**

The Company received approximately 87% of its revenue from three and two customers for the years ended December 31, 2002 and 2001, respectively.

**AI SECURITIES, INC.**  
**(A Wholly Owned Subsidiary of Affirmative Investments, Inc.)**  
**Computation of Net Capital Pursuant to Rule 15c3-1**  
**December 31, 2002 and 2001**

**Schedule I**

	Audited Net Capital 2002	As originally filed 2002
	<u>                    </u>	<u>                    </u>
Capital:		
Common stock	\$          10	\$          10
Retained earnings	27,943	267,443
	<u>                    </u>	<u>                    </u>
Total capital	27,953	267,433
	<u>                    </u>	<u>                    </u>
Unallowable assets and liabilities:		
Accounts receivable	307,459	259,959
Accrued management fee, related party	(287,000)	-
	<u>                    </u>	<u>                    </u>
Total unallowable assets	20,459	259,959
	<u>                    </u>	<u>                    </u>
Net capital	7,494	7,494
Minimum net capital required	5,000	5,000
	<u>                    </u>	<u>                    </u>
Excess net capital	\$          2,494	\$          2,494
	<u>                    </u>	<u>                    </u>

**AI SECURITIES, INC.**  
**(A Wholly Owned Subsidiary of Affirmative Investments, Inc.)**  
**Computation of Reserve Requirement Pursuant to SEC Rule 15c3-3**  
**December 31, 2002 and 2001**

**Schedule II**

AI Securities, Inc. is exempt from the reserve requirements pursuant to SEC Rule 15c3-3 under paragraph (k) (2) (ii).



## BROWN & BROWN

Brown & Brown, LLP | Boston | Portland | Worcester  
Certified Public Accountants | Business and Financial Advisors

To the Board of Directors and Shareholder  
AI Securities, Inc.  
(A wholly-owned subsidiary of Affirmative Investments, Inc.)  
Boston, Massachusetts

### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

In planning and performing our audit of the financial statements of AI Securities, Inc., a wholly owned subsidiary of Affirmative Investments, Inc., for the year ended December 31, 2002, we considered its internal control structure 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 (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; and
2. Recordation of differences required by rule 17a-13; and
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 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 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 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 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 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 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 our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives. In addition, the Company was in compliance with the exemptive provisions of Rule 15c3-3 at December 31, 2002 and further, no facts came to our attention indicating that the Company was not in compliance with such conditions during the year ended December 31, 2002. All customer transactions cleared through another broker-dealer (National Financial Services, LLC) on a fully disclosed basis.

This report is intended solely for the information and use of 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.

Boston, Massachusetts  
February 13, 2003

*Brown & Brown, LLP*