

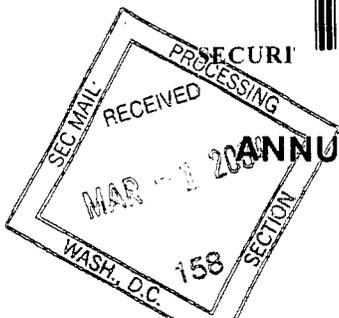


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# ANNUAL AUDITED REPORT FORM X-17A-5 PART III

|                 |
|-----------------|
| SEC FILE NUMBER |
| 8- 44065        |

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 JANUARY 1, 2003 AND ENDING DECEMBER 31, 2003  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: AMERICAN FINANCIAL ASSOCIATES, INC.

|                   |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO.     |

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

1706 NORTHAMPTON STREET P.O. BOX 1659

(No. and Street)

EASTON

PENNSYLVANIA

18044-1659

(City)

(State)

(Zip Code)

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

HENRY D'ALBERTO

610-559-1600

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

KIRK, SUMMA & CO., LLP

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

1405 N. CEDAR CREST BLVD., SUITE 102 ALLENTOWN, PA 18104

(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 23 2004

|                       |  |
|-----------------------|--|
| 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)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, HENRY D'ALBERTO, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AMERICAN FINANCIAL ASSOCIATES, INC. of DECEMBER 31, 20 03, 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:

NO EXCEPTIONS

Notarial Seal
Roseanne V. Prasse, Notary Public
East Stroudsburg Boro, Monroe County
My Commission Expires June 10, 2004

Member, Pennsylvania Association of Notaries

[Signature]
Notary Public

[Signature]
Signature

PRESIDENT
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 240.7a-5(e)(3)

**AMERICAN FINANCIAL ASSOCIATES, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2003 AND 2002**

**KIRK, SUMMA & Co., LLP  
CERTIFIED PUBLIC ACCOUNTANTS**

**AMERICAN FINANCIAL ASSOCIATES, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2003 AND 2002**

**KIRK, SUMMA & Co., LLP  
CERTIFIED PUBLIC ACCOUNTANTS**

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**KIRK, SUMMA & CO., LLP**

CERTIFIED PUBLIC ACCOUNTANTS  
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570-421-0753

DALE E. KIRK, C.P.A.

KEVIN D. SUMMA, C.P.A.

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
American Financial Associates, Inc.

We have audited the accompanying statements of financial condition of American Financial Associates, Inc. as of December 31, 2003 and 2002, and the related statements of income, changes in stockholders' equity, and cash flows for the years 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 misstatements. 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 American Financial Associates, Inc. at December 31, 2003 and 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 pages 11 through 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under 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.

*Kirk, Summa & Co., LLP*

Allentown, PA  
February 19, 2004

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**STATEMENTS OF FINANCIAL CONDITION**  
**DECEMBER 31, 2003 AND 2002**

|   | <u>2003</u>      | <u>2002</u>      |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| <b>CURRENT ASSETS</b>   |                  |                  |
| Cash and cash equivalents   | \$ 25,564        | \$ 8,917         |
| Certificate of deposit  | 30,035           | -                |
| Commissions receivable  | 20,163           | 24,108           |
| <b>TOTAL CURRENT ASSETS</b>   | <u>75,762</u>    | <u>33,025</u>    |
| <b>FIXED ASSETS</b>   |                  |                  |
| Office Equipment  | 51,817           | 51,817           |
| Furniture & Fixtures  | 531              | 531              |
| Less: Accumulated depreciation  | (50,882)         | (48,760)         |
| <b>TOTAL FIXED ASSETS</b>   | <u>1,466</u>     | <u>3,588</u>     |
| <b>OTHER ASSETS</b>   |                  |                  |
| Deposits with clearing organizations and others   | 5,000            | 30,000           |
| <b>TOTAL ASSETS</b>   | <u>\$ 82,228</u> | <u>\$ 66,613</u> |
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>   |                  |                  |
| <b>CURRENT LIABILITIES</b>  |                  |                  |
| Accounts payable  | \$ 4,548         | \$ 3,366         |
| Commissions payable   | 15,122           | 18,080           |
| Loan payable - officer  | 6,000            | 6,000            |
| Other accrued liabilities   | 1,400            | -                |
| <b>TOTAL CURRENT LIABILITIES</b>  | <u>27,070</u>    | <u>27,446</u>    |
| <b>STOCKHOLDERS EQUITY</b>  |                  |                  |
| Common stock \$10 par value, 10,000 shares<br>authorized, 8,165 shares issued and outstanding | 81,650           | 81,650           |
| Retained (deficit)  | (26,492)         | (42,483)         |
| <b>TOTAL STOCKHOLDER'S EQUITY</b>   | <u>55,158</u>    | <u>39,167</u>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>   | <u>\$ 82,228</u> | <u>\$ 66,613</u> |

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

**AMERICAN FINANCIAL ASSOCIATES, INC.  
STATEMENTS OF INCOME AND RETAINED DEFICITS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

|  | <u>2003</u>            | <u>2002</u>            |
|--|------------------------|------------------------|
| REVENUES   |                        |                        |
| Commissions  | \$ 524,320             | \$ 498,699             |
| Interest income                                    | 424                    | 82                     |
| Miscellaneous income                               | 3,643                  | 3,083                  |
| TOTAL REVENUES                                     | <u>528,387</u>         | <u>501,864</u>         |
| <br>SELLING EXPENSES                               | <br>361,748            | <br>390,285            |
| <br>GENERAL AND ADMINISTRATIVE EXPENSES            | <br><u>149,248</u>     | <br><u>125,674</u>     |
| TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | <u>510,996</u>         | <u>515,959</u>         |
| <br>NET INCOME (LOSS) BEFORE INCOME TAXES          | <br>17,391             | <br>(14,095)           |
| <br>PROVISION FOR INCOME TAXES                     | <br><u>1,400</u>       | <br><u>-</u>           |
| <br>NET INCOME (LOSS)                              | <br>15,991             | <br>(14,095)           |
| <br>RETAINED DEFICIT - BEGINNING OF YEAR           | <br><u>(42,483)</u>    | <br><u>(28,388)</u>    |
| <br>RETAINED DEFICIT - END OF YEAR                 | <br><u>\$ (26,492)</u> | <br><u>\$ (42,483)</u> |

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

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

|   | <u>2003</u>             | <u>2002</u>            |
|---|-------------------------|------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                         |                        |
| Net income  | <u>\$ 15,991</u>        | <u>\$ (14,095)</u>     |
| <b>ADJUSTMENTS TO RECONCILE NET INCOME TO<br/>NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |                         |                        |
| Items in net income not affecting cash:   |                         |                        |
| Depreciation  | 2,122                   | 2,444                  |
| (Increase) decrease in current assets:  |                         |                        |
| Commissions receivable  | 3,944                   | (5,681)                |
| Certificate of deposit  | (30,034)                | -                      |
| Increase (decrease) in current liabilities:   |                         |                        |
| Accounts payable  | 1,182                   | 236                    |
| Commissions payable   | (2,958)                 | 3,433                  |
| Accrued income taxes  | 1,400                   | -                      |
| Other accrued liabilities   | -                       | (40)                   |
| <b>TOTAL ADJUSTMENTS</b>  | <u>(24,344)</u>         | <u>392</u>             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <u>(8,353)</u>          | <u>(13,703)</u>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                         |                        |
| Proceeds from deposits with clearing organizations  | <u>25,000</u>           | <u>-</u>               |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <u>25,000</u>           | <u>-</u>               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                         |                        |
| Proceeds from short-term loan   | <u>-</u>                | <u>6,000</u>           |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>  | <u>-</u>                | <u>6,000</u>           |
| <b>NET INCREASE IN CASH</b>   | 16,647                  | (7,703)                |
| <b>CASH AT BEGINNING OF YEAR</b>  | <u>8,917</u>            | <u>16,620</u>          |
| <b>CASH AT END OF YEAR</b>  | <u><u>\$ 25,564</u></u> | <u><u>\$ 8,917</u></u> |
| <b>SUPPLEMENTARY DISCLOSURES:</b>   |                         |                        |
| Interest paid   | <u>\$ 120</u>           | <u>\$ 321</u>          |
| Income taxes paid   | <u><u>\$ 790</u></u>    | <u><u>\$ 2,967</u></u> |

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

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

Business and Organization

American Financial Associates, Inc. (the Company) was organized on July 25, 1991 for the purpose of selling mutual funds and life insurance. In 1994 the Company also began acting as a discount broker. The Company has brokers in the states of Pennsylvania, New Jersey and Oregon. Approximately sixty percent of the Company's business is conducted in Pennsylvania, and the major source of revenue comes from selling mutual funds. Approximately thirty percent of all sales are with one mutual fund company.

Cash Equivalents

Cash equivalents are highly liquid debt instruments purchased with a maturity of three months or less. There were no cash equivalents at December 31, 2003 or 2002.

Bad Debts

The Company uses the direct write-off method of accounting for losses arising from uncollectible accounts receivable. Under this method, accounts receivable are written-off to bad debt expense in the period they are deemed uncollectible. There were no bad debt expenses for the years ended December 31, 2003 or 2002.

Use of Estimates

Generally accepted accounting principles requires management to make estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Depreciation

Equipment and furniture are stated at cost and are depreciated under accelerated cost recovery systems permitted for federal income tax purposes over estimated useful lives of five to seven years. Depreciation was \$2,122 and \$2,444 respectively for 2003 and 2002.

Maintenance and Repairs

Improvements, additions and major renewals which extend the life of assets are capitalized; maintenance and repairs are expensed as incurred.

**AMERICAN FINANCIAL ASSOCIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

Rent Expense

The Company has a month to month rental with no signed lease. Rent is \$900 per month for the last two years and is expensed when paid. Rent expense was \$10,800 for 2003 and 2002.

Commissions Receivable

Commissions receivable consists of fees earned primarily on the selling of mutual funds. The Company receives payment within a short time of the transactions. No allowance for doubtful accounts has been provided for as the continuing relationships over many years has assured collection.

**NOTE B – OTHER ASSETS**

Other assets consisted of the following at:

|                                  | <u>2003</u>     | <u>2002</u>      |
|----------------------------------|-----------------|------------------|
| RPR Clearing Deposit             | \$ -            | \$ 25,000        |
| Fidelity Destiny Reserve Account | <u>5,000</u>    | <u>5,000</u>     |
| Total                            | <u>\$ 5,000</u> | <u>\$ 30,000</u> |

**NOTE C – COMPUTATION OF NET CAPITAL**

|   | <u>2003</u>       | <u>2002</u>       |
|---|-------------------|-------------------|
| Gross capital   | \$ 61,123         | \$ 43,627         |
| Deduct Non-allowable Assets - Property,<br>and Equipment, Due From<br>Officers / Shareholders and<br>Prepaid Expenses | <u>(6,466)</u>    | <u>(9,067)</u>    |
| Net capital   | <u>\$ 54,657</u>  | <u>\$ 34,560</u>  |
| Excess net capital  | <u>\$ 49,657</u>  | <u>\$ 29,560</u>  |
| Allowable aggregate indebtedness<br>(12 times net capital)  | <u>\$ 655,884</u> | <u>\$ 414,720</u> |
| Actual aggregate indebtedness   | <u>\$ 27,070</u>  | <u>\$ 22,829</u>  |

**AMERICAN FINANCIAL ASSOCIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

**NOTE D – CERTIFICATE OF DEPOSIT**

A certificate of deposit was purchased from Sovereign Bank on November 19, 2003 in the amount of \$30,000. The term is nine months and bears interest at 1 percent annually. The balance of the certificate of deposit was \$30,035 for 2003.

**NOTE E - ADVERTISING COST**

Advertising costs of \$151 and \$568 were incurred for the years ended December 31, 2003 and 2002, respectively. All advertising costs are expensed as incurred.

**NOTE F – INCOME TAXES**

The Company is taxed as a "C" Corporation. The provision of income tax liability for the year ended December 31, 2003 was \$1,400.

**NOTE G – EXEMPTIVE PROVISIONS**

An exemption is claimed from SEC Rule 15c-3-3 under c(k) (2) (ii) – All customer transactions cleared through another broker-dealer on a fully disclosed basis.

The following is the clearing firm:

SEC # - 801-13059

Name – Dain Rauscher

**KIRK, SUMMA & CO., LLP**

CERTIFIED PUBLIC ACCOUNTANTS

1405 NORTH CEDAR CREST BOULEVARD  
SUITE 102  
ALLENTOWN, PENNSYLVANIA 18104  
610-770-9889  
FAX # 610-770-0177

OTHER OFFICES

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570-992-5876

EAST STROUDSBURG, PA  
570-421-0753

DALE E. KIRK, C.P.A.

KEVIN D. SUMMA, C.P.A.

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION  
REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION**

Board of Directors  
American Financial Associates, Inc.

We have audited the accompanying financial statements of American Financial Associates, Inc. as of and for the year ended December 31, 2003 and 2002, and have issued our report thereon dated February 19, 2004. Our audit was conducted for the purposes of forming an opinion on the basic financial statements taken as a whole. The information contained in the following statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under 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.

*Kirk, Summa & Co., LLP*

Allentown, PA  
February 19, 2004

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**STATEMENTS OF SELLING, GENERAL**  
**AND ADMINISTRATIVE EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

|   | <u>2003</u>       | <u>2002</u>       |
|---|-------------------|-------------------|
| <b>SELLING EXPENSES</b>                                   |                   |                   |
| Advertising   | \$ 151            | \$ 568            |
| Auto lease and expense                                    | 2,292             | 3,311             |
| Commissions   | 351,004           | 380,804           |
| Contest and Awards  | 779               | 702               |
| Entertainment   | 2,296             | -                 |
| Meetings  | 302               | 1,168             |
| Public relations  | 102               | 177               |
| Training programs   | 1,487             | 214               |
| Travel  | 3,335             | 3,341             |
| <b>TOTAL SELLING EXPENSES</b>                             | <u>361,748</u>    | <u>390,285</u>    |
| <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>                |                   |                   |
| Bank charges  | 679               | 1,110             |
| Bookkeeping   | -                 | 1,551             |
| Contributions   | 85                | 151               |
| Depreciation  | 2,122             | 2,444             |
| Dues and subscriptions                                    | 611               | 454               |
| Employee benefits   | 7,706             | 9,912             |
| Insurance   | 3,815             | 1,364             |
| Interest  | 120               | 106               |
| Legal and accounting                                      | 8,133             | 5,419             |
| Licenses and permits                                      | 8,002             | -                 |
| Miscellaneous   | 10                | 317               |
| Office supplies   | 5,859             | 4,344             |
| Outside services  | 2,878             | 3,046             |
| Payroll taxes   | 7,423             | 6,787             |
| Postage   | 1,740             | 2,514             |
| Rent  | 10,800            | 10,800            |
| Repairs and maintenance                                   | 911               | 1,412             |
| Salaries  | 75,289            | 59,163            |
| Taxes - other   | 790               | 859               |
| Telephone   | 9,874             | 11,499            |
| Utilities   | 2,401             | 2,422             |
| <b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>          | <u>149,248</u>    | <u>125,674</u>    |
| <b>TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> | <u>\$ 510,996</u> | <u>\$ 515,959</u> |

See independent auditors' report on supplementary information.

**AMERICAN FINANCIAL ASSOCIATES, INC.  
STATEMENTS OF NET CAPITAL RECONCILIATION  
AUDITED REPORT VS. UNAUDITED FOCUS REPORT  
DECEMBER 31, 2003 AND 2002**

|                           | Per Focus<br>Report<br>Form X-17A-5 |                  | Adjustments  |                 | Per Audited<br>Financial<br>Report |                  |
|---------------------------|-------------------------------------|------------------|--------------|-----------------|------------------------------------|------------------|
|                           | 2003                                | 2002             | 2003         | 2002            | 2003                               | 2002             |
|                           | A) Gross Capital                    | \$ 55,123        | \$ 37,627    | \$ 35           | \$ 1,540                           | \$ 55,158        |
| B) Add:                   |                                     |                  |              |                 |                                    |                  |
| Officer loan              | 6,000                               | 6,000            | -            | -               | 6,000                              | 6,000            |
| C) Deduct:                |                                     |                  |              |                 |                                    |                  |
| Non-allowable receivables | (6,466)                             | (9,067)          | -            | -               | (6,466)                            | (9,067)          |
| Net capital               | <u>\$ 54,657</u>                    | <u>\$ 34,560</u> | <u>\$ 35</u> | <u>\$ 1,540</u> | <u>\$ 54,692</u>                   | <u>\$ 36,100</u> |

|                                   | <u>2003</u>  | <u>2002</u>     |
|-----------------------------------|--------------|-----------------|
| A) Reconciliation of Adjustments: |              |                 |
| Adjustments to Gross Capital:     |              |                 |
| Adjustment to receivables         | \$ -         | \$ 6,156        |
| Adjustment to payables            | -            | (4,616)         |
| Adjustment for fee                | 35           | -               |
| Adjustments to Net Capital:       |              |                 |
| Non-allowable receivables         | -            | -               |
| Total Adjustments                 | <u>\$ 35</u> | <u>\$ 1,540</u> |

See independent auditors' report on supplementary information.

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**STATEMENTS OF CHANGES IN LIABILITIES SUBORDINATED**  
**TO GENERAL CREDITORS**  
**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

|                                 | <u>2003</u> | <u>2002</u> |
|---------------------------------|-------------|-------------|
| Beginning Liability - January 1 | \$ 6,000    | \$ -        |
| Additions:                      |             |             |
| Loan from officer               | -           | 6,000       |
| Total additions                 | -           | 6,000       |
| Ending Balance - December 31    | \$ 6,000    | \$ 6,000    |

**AMERICAN FINANCIAL ASSOCIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

There were no findings of material inadequacies found to exist or found to have existed since the date of the previous audit.