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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FINANCIAL

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

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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:

Carolina Financial Securities, LLC

OFFICIAL USE ONLY  
FIRM ID. NO.

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

9 Park Place, Suite 201

(No. and Street)

Brevard

NC

28712

(City)

(State)

(Zip Code)

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

Bruce Roberts (828)883-4400

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Gabler Molis & Company, PA

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

PO Box 1094

Brevard

NC

28712

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

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).

077.C.A.

OATH OR AFFIRMATION

I, Bruce Roberts, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Carolina Financial Securities, LLC, as of December 31, 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:

N/A

[Signature]  
Signature  
Roberts  
Title

[Signature]  
Notary Public

*My Commission Expires Feb. 4, 2006*

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.

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

**CAROLINA FINANCIAL SECURITIES, LLC**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2003**



**GablerMolis & COMPANY, PA**  
Certified Public Accountants

138 Charlotte Street  
Suite 201  
Asheville, NC 28801  
tel. 828.281.3161  
fax 828.281.3164

190 S. Caldwell Street  
P.O. Box 1094  
Brevard, NC 28712  
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fax 828.883.4692

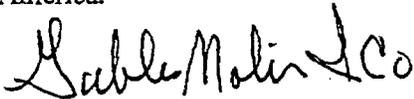
INDEPENDENT AUDITOR'S REPORT

Manager and Members of  
Carolina Financial Securities, LLC  
9 Park Place, Suite 201  
Brevard, NC 28712

We have audited the accompanying balance sheet of Carolina Financial Securities, LLC, (a limited liability company), as of December 31, 2003, and the related statements of income, members' equity, cash flows, and net capital for the year then ended. These financial statements are the responsibility of the Company's management. <sup>1</sup>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 amount 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 Carolina Financial Securities, LLC as of December 31, 2003, and the results of its operations and its cash flows and net capital for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Gabler Molis & Company, PA

February 21, 2004

**CAROLINA FINANCIAL SECURITIES, LLC**

Balance Sheet  
At December 31, 2003

<u>Assets</u>	
Current assets:	
Cash	\$ 93,696
Accounts receivable-net	19,136
Total current assets	<u>112,832</u>
Other assets:	
Property improvements and equipment-net	121,575
Investments-at cost	20,191
Deposits	8,430
Due from members	11,806
Total other assets	<u>162,002</u>
 Total assets	 <u>\$ 274,834</u>
 <u>Liabilities and Members' Equity</u>	
Current liabilities:	
Accounts payable	\$ 52,038
Total current liabilities	<u>52,038</u>
Members' equity	<u>222,796</u>
 Total liabilities and members' equity	 <u>\$ 274,834</u>

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

CAROLINA FINANCIAL SECURITIES, LLC

Statements of Income and Members' Equity  
For the Year Ended December 31, 2003

Income from fees	\$ 728,681
Less: direct cost of fees	<u>589,538</u>
Gross profit	<u>139,143</u>
Less operating expenses:	
Rents and leases	120,572
Depreciation	32,235
Telephone	25,930
Insurance	19,750
Professional services	8,692
Employee retirement	7,532
Repairs and maintenance	6,195
Auto expense	5,388
Office expenses and supplies	5,223
Utilities	4,585
Educational expense	4,344
Postage	3,449
Computer supplies	1,555
Property taxes	1,369
Dues and subscriptions	928
Bank charges	499
Printing and reproduction	285
Miscellaneous	83
Total operating expenses	<u>248,614</u>
Loss from operations	(109,471)
Other income:	
Interest income	260
Miscellaneous income	<u>3,765</u>
Total other income	<u>4,025</u>
Net loss	(105,446)
Members' equity beginning of year	308,242
Members' investment	<u>20,000</u>
Members' equity end of year	<u>\$ 222,796</u>

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

CAROLINA FINANCIAL SECURITIES, LLC

Statement of Cash Flows  
For the Year Ended December 31, 2003

Cash flows from operating activities:	
Cash received from customers	\$ 775,660
Less cash paid for direct cost and operating expenses	796,310
Interest received	260
Miscellaneous income	3,765
	<u>3,765</u>
Net cash from operating activities	<u>(16,625)</u>
Cash flows used in financing activities:	
Capital contributions from member	<u>20,000</u>
Net cash from financing activities	<u>20,000</u>
Net increase in cash	3,375
Cash at December 31, 2002	90,321
Cash at December 31, 2003	<u>\$ 93,696</u>
Reconciliation of net income to net cash provided from operating activities:	
Net Loss	\$ (105,446)
Adjustments:	
Depreciation	32,235
Decrease in accounts receivable	46,979
Increase in accounts payable	17,016
Decrease in other liabilities	(7,409)
Net cash provided by operations	<u>\$ (16,625)</u>

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

CAROLINA FINANCIAL SECURITIES, LLC

Computation of Net Capital  
As of December 31, 2003

Total assets	\$ 274,834
Total liabilities	<u>52,038</u>
Net worth	222,796
Less non allowable assets:	
Petty cash	(200)
Accounts receivable	(19,136)
Due from members	(11,806)
Furniture, equipment, and leasehold improvements	(121,575)
Investments	(20,191)
Prepaid expenses and deposits	<u>(8,430)</u>
	<u>(181,338)</u>
Net capital	41,458
Minimum net capital requirement	<u>5,000</u>
Excess net capital	<u>\$ 36,458</u>
Net capital previously reported by broker-dealer, December 31, 2003	92,988
Less: Increase for audited accounts payable	(52,066)
Add: Decrease for audited other liabilities	<u>536</u>
Net adjustment	<u>(51,530)</u>
Audited net capital	<u>\$ 41,458</u>

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

**CAROLINA FINANCIAL SECURITIES, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the year ended December 31, 2003**

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**Note A - Summary of Significant Accounting Policies**

**Nature of Business and Trade Name**

The Company was formed and operates principally as a registered broker-dealer. The Company provides studies and analyses of customers' operations, prepares materials for distribution to prospective buyers or sellers in search of mergers or acquisitions, contacts and coordinates discussions with prospective candidates and assists in the reaching of financial closure. The Company operates under the trade name of Carolina Financial Securities, LLC, a North Carolina limited liability company. There are multiple offices with the principal office being located in Brevard, North Carolina. A second location is located in Charlotte, NC which is anticipated to be closed in the second quarter of 2004. The Company's registered agent is Bruce V. Roberts, located at 9 Park Place, Suite 201, Brevard, NC.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid investments available for current use to be cash equivalents. Investments purchased with an original maturity of three months or less are considered to be cash equivalents.

**Property, Improvements and Equipment**

Property and equipment is recorded at cost. Costs associated with major acquisitions are capitalized and depreciated. Depreciation is provided over the estimated lives of the depreciable assets. Assets are generally depreciated on the straight line method.

**Revenue and Expense Recognition**

Revenue is recognized upon agreement with the customer for services and upon billing for services. Expenses are recognized when incurred.

**Income Taxes**

The Company with consent of its members, has elected under the Internal Revenue Code to be treated as a limited liability company. In lieu of corporate income taxes, the members of an LLC are taxed on their proportionate shares of the Company's taxable income. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

**Use of Estimates**

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 of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Accordingly, actual results could differ from those estimates.

**CAROLINA FINANCIAL SECURITIES, LLC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2003.**

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Advertising Expense

Costs associated with advertising are charged to expense as incurred. Advertising expenses were \$65 for 2003.

Note B - Accounts Receivable

Following is a summary of receivables at December 31, 2003:

Trade receivables	\$ 233,496
Less allowance for doubtful accounts	<u>&lt;214,360&gt;</u>
	<u>\$ 19,136</u>

Note C - Investments

The Company owns non-traded warrants that have been awarded upon the completion of engagements with several customers as part of its compensation. The warrants give Carolina Financial Securities, LLC the option to purchase a set number of shares at a set stock price. Due to the lack of a readily ascertainable value the warrants have not been valued and are not recognized in the financial statements.

As of December 31, 2003 the company held 2,400 options that have a reported cost of \$20,100. The terms of the options are as follows: 1,200 options expire in June of 2004 with a strike price of \$15. The remaining 1,200 options expire in June, 2005 with a strike prices of \$16. The value of these options as of December 31, 2003 was \$9.05.

Note D - Operating Leases

The Company leases office space and equipment under agreements expiring in various years through minimum future rental payments under non-cancelable operating leases having remaining terms in excess of 1 year as of December 31, 2003 for each of the next 5 years and in the aggregate are:

2005	\$107,176
2006	41,781
2007	34,200
2008	34,200
2009	<u>34,200</u>
Total minimum future rentals	<u>\$251,557</u>

**CAROLINA FINANCIAL SECURITIES, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2003**

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The minimum lease payments in this schedule exclude sales tax and rentals under renewal options, which, as of December 31, 2003, are not reasonably assured of being exercised. Rental expense for the year ended December 31, 2003 was \$62,107.

**Note E - Retirement Plan**

Effective in 1998 the Company adopted a 401 (k) Profit Sharing Plan. The Plan is funded by pre-tax employee voluntary contributions made through salary reduction, and employer makes discretionary contributions for the benefit of the employee. The Company's contribution expense for the year ended December 2003 was 7,532.

**Note F - Related Party Transactions**

The company advanced funds during prior years to the following related parties:

Bruce V. Roberts, member-	prior years	\$ 11,806
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These advances have been classified as long-term assets with no specific terms of repayment.

The company leases from a related party furniture and leasehold improvements. The lease expense to this related party for the year ended December 31, 2003 was \$34,200. The lease is for a term of ten years expiring April 30, 2010 with monthly payments of \$ 2,850 and has been included in Note D.

**Note G - Property, Improvements and Equipment**

The following is a summary of improvements and equipment - at cost, less accumulated depreciation:

Office equipment	\$ 29,324
Computer equipment	146,183
Office furniture	56,392
Improvements	<u>62,456</u>
	294,355
Less accumulated depreciation	<u>172,780</u>
Total	<u>\$121,575</u>

Depreciation charged to operations was \$32,235 in 2003.



**GablerMolis & COMPANY, PA**  
Certified Public Accountants

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fax 828.883.4692

To the Management and Members  
Carolina Financial Securities, LLC  
9 Park Place, Suite 201  
Brevard, NC 28712

In planning and performing our audit of the financial statements of Carolina Financial Securities, LLC for the year ended December 31, 2003 we considered the Company's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the 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 one or more of the internal control components does not reduce, to a relatively low level, the risk that material misstatements caused by error or fraud may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

#### Reportable Condition

##### Absence of appropriate segregation of duties consistent with appropriate control objectives:

It was noted that the accounting function is centered upon one employee who collects the mail, receives and deposits cash, records accounting transactions, and is in total control of accounting processing. An adequate internal control design allows for different personnel to perform the certain functions noted herein. We recommend that management review the above cash and recording functions to determine if it is feasible to implement an internal control policy in which such duties are performed by other personnel in order to segregate the job functions.

#### Segregation of Duties

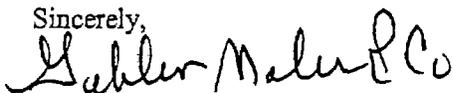
Segregation of duties is normally difficult to accomplish within a small organization, but management or the members should be ever mindful of areas that can easily be improved. Internal controls are designed to safeguard assets and help detect losses from employee dishonesty or error. A fundamental concept in a good system of internal

control is the segregation of duties. Although the small size of the Company's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no single employee should have access to both physical assets and the related accounting records or to all phases of a transaction. This ultimately reduces the risk of the misappropriation of assets. We believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Mail should be opened by an employee not responsible for accounting, such as another broker or an assistant. Cash receipts could be recorded and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advices, could then be forwarded to the accounting staff for posting to the general ledger and detail customer accounts.
- Cash receipts should be deposited daily. Holding receipts longer than one day exposes the Company to potential loss.
- Bank statements, canceled checks, and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly.
- Signed checks should be mailed without allowing them to be returned to the employee responsible for accounts payable.
- Non-accounting personnel should review supporting documents for normal recurring disbursements (not usually reviewed) on a spot-check basis. Non-routine testing would aid in ensuring compliance with Company policy for all disbursements.
- Written journal entries should be approved by an employee other than the one who prepared the entry.
- Management should review and approve all invoices to be paid and have the responsibility of signing checks.

We thank you and the staff of Carolina Financial Securities, LLC for the cooperation, assistance and courtesy extended during the course of our audit, and appreciate the opportunity to continue to provide the Company with excellence in accounting service.

Sincerely,



Gabler Molis & Company, PA  
February 21, 2004