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

RECEIVED  
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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, 2004 AND ENDING December 31, 2004  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Capital Hill Group, Inc.

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

5 Westchester Plaza

(No. and Street)

Elmsford

New York

10523

(City)

(State)

(Zip Code)

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

Gary Spier

914-703-6770

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Halpern & Associates

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

143 Weston Road

Weston

CT

06883

(Address)

(City)

(State)

(Zip Code)

PROCESSED

MAR 11 2005

THOMSON FINANCIAL

**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)

OATH OR AFFIRMATION

I, Gary Spirer, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Capital Hill Group, Inc.

as of December 31, 2004, 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:

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

*Gary Spirer*  
\_\_\_\_\_  
Signature  
President  
\_\_\_\_\_  
Title

*Joanne C. Bartmess*  
\_\_\_\_\_  
Notary Public

JOANNE C. BARTMESS  
NOTARY PUBLIC  
MY COMMISSION EXPIRES 2/28/05

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.
- (j) 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).

CAPITAL HILL GROUP, INC.

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# **Halpern & Associates, LLC**

Certified Public Accountants and Consultants

143 Weston Road • Weston, CT 06883 • (203)227-0313 • FAX (203)226-6909 • Info@Halpernassoc.com

## INDEPENDENT AUDITOR'S REPORT

To the President of  
Capital Hill Group, Inc.

We have audited the accompanying statement of financial condition of Capital Hill Group, Inc. (the "Company") as of December 31, 2004 and the related statements of operations, changes in shareholder's equity and cash flows for the year 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 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.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Capital Hill Group, Inc. as of December 31, 2004, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 9 to 10 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 and Exchange Commission. Such information has been subjected to the auditing procedures applied in our 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 of the Securities and Exchange Commission.

*Halpern & Associates, LLC*

Weston, Connecticut  
January 28, 2005

CAPITAL HILL GROUP, INC.

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2004

ASSETS

Cash and cash equivalents	\$ 11,540
Receivable from affiliate	<u>266,670</u>
 TOTAL ASSETS	 <u><u>\$ 278,210</u></u>

LIABILITIES AND SHAREHOLDER'S EQUITY

LIABILITIES	
Accrued expenses and other liabilities	\$ 950
 SHAREHOLDER'S EQUITY	
Common stock, par value \$10, authorized 1000 shares; issued and outstanding 100 shares	1,000
Additional paid in capital	278,976
Retained earnings	<u>(2,716)</u>
 TOTAL SHAREHOLDER'S EQUITY	 <u>277,260</u>
 TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	 <u><u>\$ 278,210</u></u>

The accompanying notes are an integral part of this statement.

CAPITAL HILL GROUP, INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2004

REVENUE		
Interest and other income		<u>\$ 107</u>
TOTAL REVENUE		107
OPERATING EXPENSES		
Professional fees	<u>\$ 2,750</u>	
TOTAL OPERATING EXPENSES		<u>2,750</u>
NET LOSS		<u><u>\$ (2,643)</u></u>

The accompanying notes are an integral part of this statement.

CAPITAL HILL GROUP, INC.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>TOTAL</u>	<u>COMMON STOCK</u>	<u>PAID IN CAPITAL</u>	<u>RETAINED EARNINGS</u>
SHAREHOLDER'S EQUITY - January 1, 2004	\$ 282,778	\$ 1,000	\$ 278,976	\$ (73)
Net loss	(2,643)			(2,643)
	_____	_____	_____	_____
SHAREHOLDER'S EQUITY- December 31, 2004.	<u>\$ 277,260</u>	<u>\$ 1,000</u>	<u>\$ 278,976</u>	<u>\$ (2,716)</u>

The accompanying notes are an integral part of this statement.

CAPITAL HILL GROUP, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2004

CASH FLOWS USED BY OPERATING ACTIVITIES

Net loss	\$ (2,643)
Adjustments to reconcile net loss to net cash used by operating activities:	
Increase (decrease) in operating assets and liabilities:	
Receivable from affiliate	<u>\$ 3,150</u>
Total Adjustments	<u>3,150</u>
NET CASH USED BY OPERATING ACTIVITIES	507
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>11,033</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>\$ 11,540</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW  
INFORMATION:

Interest received	\$ 107
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The accompanying notes are an integral part of this statement.

CAPITAL HILL GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2004

1. NOTES ON SIGNIFICANT BUSINESS ACTIVITIES

Capital Hill Group, Inc. (the "Company") is registered as a broker-dealer with the Securities and Exchange Commission. In this capacity, it executes both principal and agency transactions for itself and its customers. No transactions were entered into on either basis during the year ended December 31, 2004.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include \$10,712 deposited in a money market fund.

3. PROVISION FOR INCOME TAXES

The Company is recognized as an S-Corporation by the Internal Revenue Service. As an S-Corporation, the Company is subject to a New York State surcharge, while the shareholder is liable for federal and state income taxes on the Company's taxable income.

4. TRANSACTIONS WITH RELATED PARTIES

The receivable from affiliate represents amounts owed to the Company by G.S. Equities, Inc., a corporation wholly owned by the shareholder of the Company.

5. NET CAPITAL REQUIREMENTS

Capital 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, 2004, the Company had net capital of \$10,590, which exceeded the minimum requirement of \$5,000 by \$5,590. The Company's net capital ratio was .08 to 1.

6. RULE 15C3-3

The Company is exempt from the provisions of Rule 15c3-3 under paragraph (k)(2)(ii) in that the Company carries no customer accounts.

CAPITAL HILL GROUP, INC.

COMPUTATION OF NET CAPITAL PURSUANT TO  
UNIFORM NET CAPITAL RULE 15C3-1

December 31, 2004

CREDITS	
Shareholder's equity	\$ 277,260
DEBITS	
Receivable from affiliates	<u>266,670</u>
NET CAPITAL	10,590
Minimum net capital requirement	<u>5,000</u>
EXCESS NET CAPITAL	<u><u>\$ 5,590</u></u>
<u>AGGREGATE INDEBTEDNESS</u>	
Accrued expenses and other liabilities	<u><u>\$ 950</u></u>

Ratio of aggregate indebtedness to net capital .08 to 1

STATEMENT PURSUANT TO PARAGRAPH (d)(4) of RULE 17a-5

There are no other material differences between the above computation and the computation included in the Company's corresponding unaudited Focus 17(a)-5 Part IIA filing.

See the accompanying Independent Auditors' report.

CAPITAL HILL GROUP, INC.

COMPUTATION FOR DETERMINATION OF THE RESERVE REQUIREMENTS  
AND INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS  
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3

FOR THE YEAR ENDED DECEMBER 31, 2004

The Company does not effect transactions for anyone defined as a customer under Rule 15c3-3. Accordingly, there are no items to report under the requirements of this Rule.

See the accompanying Independent Auditors' Report

# **Halpern & Associates, LLC**

Certified Public Accountants and Consultants

143 Weston Road • Weston, CT 06883 • [203]227-0313 • FAX [203]226-6909 • Info@Halpernassoc.com

## ACCOUNTANT'S SUPPLEMENTARY REPORT ON INTERNAL ACCOUNTING CONTROL

To the President of  
Capital Hill Group, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Capital Hill Group, Inc. (the "Company"), for the year ended December 31, 2004, we considered its internal control structure, including procedures 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 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.
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 an 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 internal control structure policies and procedures 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 an internal control structure 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 accordance with accounting principles generally accepted in the United States of America. 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 structure or the practices and procedures referred to above, errors or irregularities 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, including procedures 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, 2004 to meet the SEC's objectives.

This report recognizes that it is not practicable in an organization the size of Capital Hill Group, Inc. to achieve all the divisions and duties and cross-checks generally included in a system of internal accounting control and that alternatively greater reliance must be placed on surveillance by management.

This report is intended solely for the use of Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., 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 should not be used for any other purpose.

*Halperin & Associates, LLC*

Weston, Connecticut  
January 28, 2005