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

SEC FILE NUMBER  
8-48782

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 01/01/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: MCDUFFIE/MORRIS FINANCIAL GROUP, INC. OFFICIAL USE ONLY  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
4630 HARBOUR VILLAGE BLVD., STE 1502  
(No. and Street)  
PONCE INLET FL 32170  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
CUFTON MORRIS, JR 386 756 0595  
(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
R.J. CLINE + CO.  
(Name - if individual, state last, first, middle name)  
8375 JUMPERS HOLE RD., MILLERSVILLE, MD 21108  
(Address) (City) (State) (Zip Code)

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

PROCESSED  
B MAR 31 2005  
THOMSON FINANCIAL

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)

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McDUFFIE / MORRIS FINANCIAL GROUP, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2004

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
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DECEMBER 31, 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and  
Stockholders of McDuffie / Morris Financial Group, Inc.

We have audited the accompanying balance sheet of McDuffie / Morris Financial Group, Inc. (a Delaware Corporation) as of December 31, 2004 and the related statements of income, retained earnings, 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 generally accepted auditing standards. 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 McDuffie / Morris Financial 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 generally accepted accounting principles.

*R. J. Cline & Co., P.A.*

R.J. Cline & Co., P.A.  
Baltimore, MD

February 25, 2005

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
BALANCE SHEET  
DECEMBER 31, 2004

ASSETS:

Current Assets

Cash	\$ 7,983
Accounts Receivable	2,099
Due from Employees	<u>3,245</u>

Total Current Assets \$ 13,327

Fixed Assets

Office Equipment	\$ 8,000
Accumulated Depreciation	<u>(6,400)</u>

Total Fixed Assets \$ 1,600

TOTAL ASSETS \$ 14,927

LIABILITIES:

Current Liabilities

Payroll Taxes Payable	\$ 360
Accounts Payable	<u>484</u>

Total Current Liabilities \$ 844

STOCKHOLDERS' EQUITY:

Paid in Capital	\$ 8,995
Retained Earnings	<u>5,088</u>

Total Stockholders' Equity \$ 14,083

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY \$ 14,927

See accompanying notes to financial statements

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
INCOME STATEMENT  
FOR THE 12 MONTHS ENDED DECEMBER 31, 2004

REVENUE:

Commissions		
Variable Life	\$ 23,992	
Mutual Funds	41,776	
Trail Administration	<u>48,387</u>	
 TOTAL REVENUE		\$114,155

EXPENSES:

Advertising	\$ 1,283	
Bank Service Charges	143	
Contributions	358	
Professional Fees	5,920	
Client Gifts	267	
Depreciation	1,600	
Dues and Subscriptions	59	
Insurance	1,212	
Interest	195	
Licenses & Permits	1,983	
Office Supplies	3,273	
Contract Labor	22,034	
Health Insurance	15,088	
Salaries	49,140	
Payroll Taxes	3,921	
Repairs & Maintenance	1,201	
Reference Materials	613	
Vehicle	676	
Travel and Entertainment	<u>3,474</u>	
Total Expenses		\$ <u>112,440</u>

NET INCOME \$ 1,715

See accompanying notes to financial statements

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
STATEMENT OF RETAINED EARNINGS  
FOR THE 12 MONTHS ENDED DECEMBER 31, 2004

Retained Earnings, January 1, 2004	\$ 3,373
Net Income	<u>1,715</u>
Retained Earnings, December 31, 2004	<u>\$ 5,088</u>

See accompanying notes to financial statements

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
STATEMENT OF CASH FLOWS  
FOR THE 12 MONTHS ENDED DECEMBER 31, 2004

Cash Flows from Operating Activities:

Cash Received from Commercial Customers	\$ 101,088
Cash Paid to Suppliers & Contractors	99,707
Taxes Paid	<u>0</u>
Cash Provided by Operating Activities	\$ 1,381

Cash Flows from Investing Activities: \$ 0

Cash Flows from Financing Activities:

Interest Received	\$ 0
Capital Contributions	<u>( 2,766)</u>
Net Cash Used by Financing Activities	\$ <u>( 2,766)</u>

Net Decrease in Cash \$ ( 1,385)

Beginning Cash, January 1, 2004 \$ 9,368

Ending Cash, December 31, 2004 7,983

Net Decrease in Cash \$ (1,385)

See accompanying notes to financial statements

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of McDuffie / Morris Financial Group, Inc. (the Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The Company operates as a securities distributor for various investment companies and maintains offices in Maryland and Florida. The Company is paid directly from the investment company as its customers investments are received by the investment company. Consequently, the Company's accounts receivables are maintained at a reasonably low level.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. As of December 31, 2004, the Company's cash accounts included -0- short-term debt securities.

Inventories

The Company provides financial services, therefore does not maintain inventories.

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment is provided using the straight line method for financial reporting purposes at rates based on a five year estimated useful life. Depreciation expense for the period ended December 31, 2004 is \$1,600.

For federal income tax purposes, depreciation is computed using the Modified Accelerated Cost Recovery System. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenses for maintenance and repairs are charged to expenses as incurred.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future federal income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INDEPENDENT AUDITOR'S REPORT  
ON ADDITIONAL INFORMATION

To the Board of Directors and Stockholders  
of McDuffie / Morris Financial Group, Inc.

Our report on our audit of the basic financial statements of McDuffie / Morris Financial Group, Inc. (a Delaware Corporation) for December 31, 2004 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Net Capital Computation, Reconciliation of Stockholders' Equity, and Additional Notes to Financial Statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

*R. J. Cline & Co., P.A.*

R.J. Cline & Co., P.A.  
Baltimore, MD  
February 25, 2005

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
RECONCILIATION OF STOCKHOLDERS' EQUITY  
DECEMBER 31, 2004

Stockholders' Equity - January 1, 2004	\$ 15,134
Capital Contributions	(2,766)
Net Income	<u>1,715</u>
Stockholders' Equity - December 31, 2004	<u>\$ 14,083</u>

Management Representations

Management has requested net capital exemption under Sec 15c3 KT II.

Management has represented that there are no material differences between the accompanying statements and its quarterly filings of Sec 17a(5) Focus IIA reports.

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
ADDITIONAL NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

SCHEDULE II - COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
UNDER SECURITIES AND EXCHANGE COMMISSION RULE 15c3-3

DECEMBER 31, 2004

The Company is not required to file Schedule II, Reserve Computation under Rule 15c3-3 and information relating to possession or control requirements as it is exempt from Rule 15c3-3 under Paragraph (K) (2) (i) of the rule.

SCHEDULE III - RECONCILIATION PURSUANT TO SECURITIES AND EXCHANGE  
COMMISSION RULE 17a-5(d)4

COMPUTATION OF NET CAPITAL UNDER SECURITIES AND EXCHANGE  
COMMISSION RULE 15c3-1

DECEMBER 31, 2004

There are no material differences between the computation of net capital included in the basic financial statements and the net capital computation included in the Company's December 31, 2004 unaudited FOCUS Report filing dated December 31, 2004.

RECONCILIATION:

December 31, 2004 Focus Report, Net Capital Computation	\$ 9,237
Depreciation Adjustment	4,800
Prior Period Adjustment	<u>46</u>
December 31, 2004 Balance Sheet, Net Capital	<u>\$ 14,083</u>

McDUFFIE / MORRIS FINANCIAL GROUP, INC.  
 ADDITIONAL INFORMATION  
 DECEMBER 31, 2004

NET CAPITAL COMPUTATION

1)	Ownership Equity	\$ 14,083	
	Deduct: Non-allowable Owner Equity	<u>0</u>	
	Net Owner Equity	\$ 14,083	
	Total Ownership Equity Qualified for Net Capital		\$ 14,083
2)	Income before Tax	<u>\$ 1,715</u>	
3)	Adjusted Net Worth		\$ 15,798
4)	Subordinated Loans	\$ 0	
5)	Total Available Capital		\$ 15,798
6)	Non-allowable Assets		
	a) Prepaid Expenses	\$ 0	
	b) Fixed Assets	1,600	
	c) Concession Adjustment	<u>0</u>	
	Total Non-allowable Assets	\$ 1,600	
	Tentative Net Capital Total:		\$ 14,198
	Haircuts:		
	Stocks/Bonds	\$ 0	
	Other	<u>0</u>	
	Total Haircut Adjustments	\$ 0	
	NET CAPITAL		\$ 14,198
	Aggregate Indebtedness:		
	a) Customer related indebtedness	\$ 0	
	b) Accounts Payable	484	
	c) Deferred Pension Plan	0	
	d) Taxes Payable	360	
	e) Unsecured bank loans	<u>0</u>	
	Total Aggregate Indebtedness	\$ 844	
	NET CAPITAL/AI RATIO TEST:		
	Maximum AI Permitted	\$ 440,298	
	Excess AI	0	
	Required Capital Contribution	0	
	AVAILABLE NET CAPITAL		<u>\$ 15,042</u>