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

SEC FILE NUMBER
8- 30097

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 July 1, 2007 AND ENDING June 30, 2008
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
Portsmouth Financial Services
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
625 Market Street, 7th Floor

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

San Francisco, California 94105

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Dennis P. Collins (415) 543-8500
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

K. H. Wm. Krueger, Certified Public Accountant

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

591 Redwood Highway, Suite 5295, Mill Valley, California 94941

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

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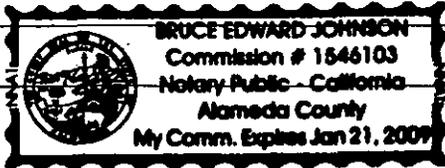
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

9/15

OATH OR AFFIRMATION

I, Dennis P. Collins, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Portsmouth Financial Services, as of June 30, 20 08, 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:



[Signature]
Signature
President & C.E.O.
Title

[Signature]
Notary Public

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 15c3-1 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).

August 15, 2008

Board of Directors
Portsmouth Financial Services
San Francisco, California

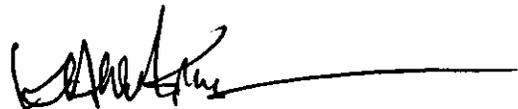
REPORT OF INDEPENDENT AUDITOR

I have audited the statement of financial condition of Portsmouth Financial Services, as of June 30, 2008, and related statements of operations, changes in shareholders' equity, and cash flow for year 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 Management of Portsmouth Financial Services. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Portsmouth Financial Services as of June 30, 2008, and the results of its operations, changes in shareholders equity, changes in liabilities subordinated to the claims of general creditors, and cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules appearing on pages 9 and 11 are 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 Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountant

PORTSMOUTH FINANCIAL SERVICES
STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2008

ASSETS

CASH	\$155 084
DEPOSIT - PERSHING & CO.	50 000
COMMISSIONS RECEIVABLE	349 202
PREPAID EXPENSES AND OTHER ASSETS	58 821
FURNITURE & EQUIPMENT, LESS ACCUMULATED DEPRECIATION OF \$135,723	<u>39 835</u>
	<u>\$652 942</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

SALARIES AND COMMISSIONS	\$250 174
INCOME TAXES	5 030
ACCRUED EXPENSES	<u>48 423</u>
TOTAL LIABILITIES	303 627
SHAREHOLDERS' EQUITY:	
Common stock - no par value:	
Authorized 100,000 shares - voting	
100,000 shares - non-voting	
Issued and outstanding 64,211 voting shares	\$67 369
Paid in capital	36 964
Retained earnings	<u>244 982</u>
	<u>\$652 942</u>

See notes to financial statements

PORTSMOUTH FINANCIAL SERVICES

STATEMENT OF OPERATIONS

YEAR ENDED JUNE 30, 2008

REVENUES:

Commissions and Fees		\$3 733 942
Investment Income		51 440
Other Income		<u>35 000</u>
		3 820 382

EXPENSES:

Commissions	\$1 512 643	
Officers salaries and commissions	757 345	
Employee compensation and benefits	452 868	
Operating expenses	511 129	
Trading Costs	312 357	
Rent	<u>198 595</u>	<u>3 744 937</u>

INCOME BEFORE INCOME TAXES		75 445
INCOME TAX		<u>20 000</u>
NET INCOME		<u>\$ 55 445</u>

See notes to financial statements

PORTSMOUTH FINANCIAL SERVICES

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED JUNE 30, 2008

	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
BALANCE AT JUNE 30, 2007	\$67 369	\$36 964	\$209 376	\$313 709
SHARES REDEEMED			(19 839)	(19 839)
NET INCOME			<u>55 445</u>	<u>55 445</u>
BALANCE AT JUNE 30, 2008	<u>\$67 369</u>	<u>\$36 964</u>	<u>\$244 982</u>	<u>\$349 315</u>

See notes to financial statements

PORTSMOUTH FINANCIAL SERVICES

STATEMENT OF CASH FLOW

YEAR ENDED JUNE 30, 2008

CASH FLOW FROM OPERATING ACTIVITIES:

Net income from operations \$ 55 445

Adjustments to reconcile net income to net cash
provided (used) by operating activities:

Depreciation expense 9 958

Changes in assets and liabilities:

Commissions receivable (146 453)

Prepaid expenses and other assets (46 038)

Federal and state income taxes (3 977)

Salaries and commissions 123 227

Accrued expenses 28 798

NET CASH PROVIDED BY OPERATING ACTIVITIES 20 960

CASH FLOW FROM INVESTMENT ACTIVITIES:

Purchase of furniture and equipment \$(49 793)

Basis of securities sold 123 655

CASH PROVIDED BY INVESTMENT ACTIVITIES 73 862

CASH FLOW FROM FINANCING ACTIVITIES:

Net cost of shares redeemed (19 839)

CASH USED BY FINANCING ACTIVITIES (19 839)

NET INCREASE IN CASH 74 983

CASH AND CASH EQUIVALENTS, beginning of year 80 101

CASH AND CASH EQUIVALENTS, end of year \$155 084

INCOME TAXES PAID \$ 18 400

See notes to financial statements

PORTSMOUTH FINANCIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Company is a licensed securities broker/dealer engaged in the sale of securities, and is a registered investment advisor. Substantially all revenue is generated from clients in Northern California.

Security Transactions and Commissions

In accordance with industry practice, securities transactions and related commission revenues and expense are recorded on a settlement date basis. The Company has entered into contracts with Pershing & Co., Inc. who agreed to act as clearing brokers on a fully disclosed basis for all the Company's dealings with customers' securities accounts. Accordingly, the Company has no direct receivables or payables to customers or brokers as a result of securities transactions.

The Company does have receivables and payables from and to brokers and funds as a result of sales commissions earned on security and mutual fund transactions.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is computed on a straight-line basis over estimated useful lives of five years.

Valuation of Securities Not Readily Marketable

Securities not readily marketable include securities for which there is no market on a securities exchange or an independent publicly quoted market, and securities which cannot be offered or sold because of restriction on the transfer of the security are carried at estimated fair value as determined by the Board of Directors.

Marketable Securities

Marketable securities are valued at market value. The resulting difference between cost and market is included in income. Treasury bills and notes, with less than one year to maturity at time of purchase are carried at cost.

PORTSMOUTH FINANCIAL SERVICES

NOTES TO FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2008

Use of Estimates

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

NOTE B - DEPOSIT

The Company has deposited \$50,000 with Pershing and Co. as security for its transactions with them. Interest is paid monthly on the deposit at the average overnight repurchase agreement rate.

NOTE C - PENSION PLAN

The Company has established a 401(k) pension plan that covers all full time employees with over one year of service. The Company not made contributions to the Plan this year.

NOTE D - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and commissions receivables. The Company places their temporary cash investments with financial institutions and diversified mutual funds, thereby limiting the amount of credit exposure to any one financial institution. Concentrations of credit with respect to commissions receivables are limited due to the fact that most receivables are not payable to registered representatives until collected. As of June 30, 2008 the Company's only significant concentration of credit risk was with their checking accounts at a commercial bank. The Company balances on any day may exceed the insured amount by a material amount.

NOTE E - CAPITAL REQUIREMENTS

The Corporation is required to maintain minimum net capital as defined by the Securities and Exchange Commission equivalent to the greater of \$50,000 or one-fifteenth of "aggregate indebtedness" as defined. Net capital and the related net capital ratio fluctuate on a daily basis. At June 30, 2008 the Corporation had net capital of \$190,354 and aggregate indebtedness of approximately \$304,000, a ratio of 1.60 to 1.00.

PORTSMOUTH FINANCIAL SERVICES

NOTES TO FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2008

NOTE F - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK

The Company's transactions, as a securities broker, are executed with and on behalf of customers. The Company introduces these transactions for clearance to an Exchange member firm on a fully disclosed basis.

In the normal course of business, the Company's customer activities involve the execution of securities transactions and settlement by its clearing broker. The agreement between the Company and its clearing broker provides that the Company is obligated to assume any exposure related to nonperformance by its customers. Therefore, these activities may expose the Company to off-balance sheet credit risk in the event the customer is unable to fulfill its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations, which may result in a gain or a loss to the Company.

The Company seeks to control off-balance sheet credit risk by monitoring its customer transactions and reviewing information it receives from its clearing broker on a daily basis.

NOTE G - LEASES

The Corporation leases its offices under non-cancelable operating leases expiring in 2008 through 2009. Minimum rental payments for the next five years are as follows:

2009	186 000
2010	180 000
2011	185 000
2012	189 000
2013	194 000

SUPPLEMENTAL INFORMATION

PORTSMOUTH FINANCIAL SERVICES

COMPUTATION OF NET CAPITAL FOR BROKERS

AND DEALERS PURSUANT TO RULE 15c3-1

JUNE 30, 2008

COMPUTATION OF NET CAPITAL

Stockholders' equity \$349 315

NON ALLOWABLE ASSETS:

Receivables from non-broker dealers \$57 747

Prepaid expenses and other assets 58 821

Furniture and other equipment 39 835

Total non-allowable assets (156 403)

HAIRCUTS ON SECURITIES:

Money market account 2 558
(2 558)

NET CAPITAL \$190 354

COMPUTATION OF AGGREGATE INDEBTEDNESS

Total Aggregate Indebtedness - Liabilities
from Statement of Financial Condition \$303 627

Ratio of Aggregate Indebtedness to Net Capital 1.60 to 1

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum Net Capital Required (6-2/3% of
aggregate indebtedness) \$ 20 242

Minimum Dollar Net Capital Requirement \$ 50 000

Net Capital Requirement (greater of above two amounts) \$ 50 000

Excess Net Capital \$140 354

PORTSMOUTH FINANCIAL SERVICES

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS

FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3

JUNE 30, 2008

The difference between net capital on the respondent's June 30, 2008 focus report as compared to these net capital financial statements is as follows:

Net capital per focus report		\$155 415
Add:		
Reclassification of income tax deposits to accrued income tax liability	\$33 136	
Decrease in non allowable assets	17 363	
Income tax expense adjustment	<u>3 401</u>	53 900
Deduct:		
Depreciation expense	9 958	
Other net income adjustments	<u>9 003</u>	<u>(18 961)</u>
Net capital per this report		<u>\$190 354</u>

PORTSMOUTH FINANCIAL SERVICES

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS

FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3

JUNE 30, 2008

The Company is exempt from provisions of Rule 15c3-3 under the Securities and Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule.

All customary transactions are cleared through Pershing & Co. on a fully disclosed basis.

August 15, 2008

Board of Directors
Portsmouth Financial Services
San Francisco, California

In planning and performing my audit of the financial statements of Portsmouth Financial Services for the year ended June 30, 2008 on which I issued my report dated August 15, 2008, I considered its internal control structure, including procedures for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

I also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c-3-3. I did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 or in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

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 Security and Exchange Commission'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 of 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 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.

My 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 fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, I noted no matters involving the internal control structure, including procedures for safeguarding securities, which I consider to be material weaknesses as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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 my study, I believe that the Company's practices and procedures were adequate at June 30, 2008, to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, 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 those specified parties.



Certified Public Accountant

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