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SECURITIES AND E.
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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 66481

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 01/01/10 AND ENDING 12/31/10
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Universal Financial Services, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

Mejico St. # 16

(No. and Street)

San Juan

Puerto Rico

00918

(City)

(State)

(Zip Code)

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

Jose Carlos Benitez

(787)706-7339

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

DELOITTE & TOUCHE LLP

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

Torre Chardon, 305 Chardon Ave.,
Suite 700

San Juan

Puerto Rico

00918-2140

(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

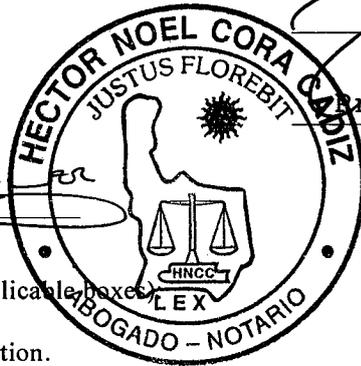
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

BB
3/19

AFFIDAVIT Num: 4074

OATH OR AFFIRMATION

I, Jose C. Benitez, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Universal Financial Services, Inc., as of December 31, 2010, 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

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).

UNIVERSAL FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of Universal Group, Inc.)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Universal Financial Services, Inc.:

We have audited the accompanying statement of financial condition of Universal Financial Services, Inc. (the "Company"), a wholly owned subsidiary of Universal Group, Inc., as of December 31, 2010, and the related statements of operations, changes in stockholder's equity, and cash flows for the 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of Universal Financial Services, Inc. at December 31, 2010, 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedule of Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 Under the Securities Exchange Act of 1934 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 under the Securities Exchange Act of 1934. This schedule is the responsibility of the Company's management. Such schedule 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 when considered in relation to the basic financial statements taken as a whole.



February 22, 2011

Stamp No. 2574781
affixed to original.

UNIVERSAL FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of Universal Group, Inc.)

STATEMENT OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2010

ASSETS

CASH	\$214,964
ACCOUNTS RECEIVABLE	3,904
DUE FROM AFFILIATES — Net	10,103
PREPAID EXPENSES AND OTHER ASSETS	3,879
DEFERRED INCOME TAX	<u>6,996</u>
TOTAL	<u>\$239,846</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:

Accounts payable and accrued liabilities	\$ 41,142
Due to affiliates	<u>170</u>
Total liabilities	<u>41,312</u>

COMMITMENTS AND CONTINGENCY (Note7)

STOCKHOLDER'S EQUITY:

Common stock, \$10 par value; authorized 100,000 shares; issued and outstanding 10,000 shares	100,000
Additional paid-in capital	110,000
Accumulated deficit	<u>(11,466)</u>
Total stockholder's equity	<u>198,534</u>

TOTAL	<u>\$239,846</u>
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See notes to financial statements.

UNIVERSAL FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of Universal Group, Inc.)

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010

REVENUES:

Commissions	\$ 80,922
Investment advisory fees	127,733
Interest	<u>238</u>

Total revenues 208,893

EXPENSES:

Commissions	28,363
Brokerage fees	9,151
Occupancy	2,050
Administrative service fees	42,000
Training	823
Professional services	25,815
Other	<u>32,072</u>

Total expenses 140,274

INCOME BEFORE BENEFIT FOR INCOME TAXES 68,619

BENEFIT FOR INCOME TAXES — Deferred (6,996)

NET INCOME \$ 75,615

See notes to financial statements.

UNIVERSAL FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of Universal Group, Inc.)

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE — December 31, 2009	\$ 100,000	\$ 110,000	\$ (87,081)	\$122,919
Net income	<u> </u>	<u> </u>	<u>75,615</u>	<u>75,615</u>
BALANCE — December 31, 2010	<u>\$ 100,000</u>	<u>\$ 110,000</u>	<u>\$ (11,466)</u>	<u>\$198,534</u>

See notes to financial statements.

UNIVERSAL FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of Universal Group, Inc.)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 75,615
Reconciliation of net income to net cash provided by operating activities:	
Benefit for income taxes — deferred	(6,996)
Changes in operating assets and liabilities:	
Decrease in accounts receivable	1,357
Decrease in due from affiliates	1,622
Decrease in prepaid expenses and other assets	1,713
Increase in accounts payable and accrued liabilities	18,499
Decrease in due to affiliates	<u>(11,408)</u>

Net cash provided by operating activities and net change in cash

80,402

CASH — Beginning of year	<u>134,562</u>
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CASH — End of year	<u>\$ 214,964</u>
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See notes to financial statements.

UNIVERSAL FINANCIAL SERVICES, INC.
(A Wholly Owned Subsidiary of Universal Insurance Group, Inc.)

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

1. REPORTING ENTITY

Universal Financial Services, Inc. (the “Company”) is a wholly owned subsidiary of Universal Group, Inc. (the “Parent Company”). The Company was created to assist Universal Life Insurance Company (“Universal Life”), an affiliated entity, in its efforts to issue variable annuities, which the Company offers through the Company or other broker-dealer firms. The Company is a member of the Financial Industry Regulation Authority, Inc. (FINRA), formerly known as the National Association of Securities Dealers, Inc. (NASD). The Company was incorporated on October 28, 2004, and operates principally in the Commonwealth of Puerto Rico. The distribution of the variable annuities began on March 1, 2007.

The Company is a registered Broker-Dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934 and claims exemption under Section (k)(1) of the reserve requirement under Securities and Exchange Commission (SEC) Rule 15c3-3. In addition, the Company is licensed by the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico as a broker-dealer and as an eligible similar institution under Regulation 5105.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles — The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recognition of Revenue and Expenses — Investment advisory fees are earned as services are provided and are determined on the basis of the average daily net asset value of the underlying investments. Commission income and expense are recorded on a trade date basis as customers’ securities transactions occur. Administrative and other expenses are recognized as incurred.

Allowance for Bad Debts — An allowance for bad debts is established to provide for probable losses inherent in receivables. The allowance for bad debts is established upon management’s assessment of probabilities of collection of receivables. Increases in the allowance are charged to operations. Management has concluded that an allowance for bad debts was not necessary at December 31, 2010 as the risk of loss is not significant.

Income Taxes — The Company accounts for income taxes under the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*, which requires the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the future tax consequences of temporary differences by applying enacted statutory tax rates applicable to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

The Company recognizes and measures its tax positions taken or expected to be taken in a tax return based on a more-likely-than-not threshold. Interest and penalties related to income tax exposures are recognized as a component of the provision for income taxes.

Subsequent Events — Management has evaluated subsequent events up to February 22, 2011, the date the financial statements were available to be issued.

3. NET CAPITAL REQUIREMENTS

The Company, as a registered broker-dealer of securities, is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1 (the "Rule"). Accordingly, the Company is required to maintain "net capital", as defined, equal to the greater of \$25,000 or 6 2/3% of "aggregate indebtedness," as those terms are defined in the Rule. At December 31, 2010, the Company's net capital, as defined, of \$174,607 was \$149,607 in excess of the required net capital of \$25,000. The Company's ratio of aggregate indebtedness to net capital was .24 to 1.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2010, consist of the following:

Commissions	\$ 955
Other	<u>2,949</u>
Total	<u>\$ 3,904</u>

5. RELATED-PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with affiliated companies. The statement of financial condition as of December 31, 2010 includes a receivable from Universal Life of \$10,103. In addition, during the year ended December 31, 2010, the Company was allocated expenses from affiliates for rent amounting to \$2,050 and administrative services amounting to \$42,000.

The Company entered into an agreement on March 1, 2007 with Universal Life to provide investment advisory services. Investment advisory fees for the year ended December 31, 2010 amounted to \$127,734. Investment advisory fees due from Universal Life are included as part of the amount due from affiliates in the accompanying statement of financial condition.

The Company also entered into an agreement on March 1, 2007 with Universal Life to sell Universal Life's variable annuity products. Commission income earned from the sale of Universal Life's variable annuity products during the year ended December 31, 2010 amounted to \$70,642.

6. INCOME TAXES

The Company is only subject to Puerto Rico income taxes at rates ranging from 20% to 39%. On March 9, 2009, the Puerto Rico government approved Act No.7 (the "Act") to stimulate Puerto Rico's economy and to reduce the Puerto Rico government's fiscal deficit. The Act imposes a series of temporary and permanent measures, including the imposition of a 5% surtax over the total income tax determined, which is applicable to corporations, among others, whose combined income exceeds \$100,000, effectively resulting in an increase in the maximum statutory tax rate from 39% to 41%. This temporary measure is effective for tax years that commenced after December 31, 2009, and before January 1, 2012.

For the year ended December 31, 2010, there was no current provision for income taxes as a result of the tax benefit obtained from the use of net operating loss carryforwards to offset taxable income. For the year ended December 31, 2010, there is a deferred income tax benefit as a result of the reduction in the valuation allowance on the deferred income tax asset related to the remaining net operating loss carryforward benefit.

The Company has available at December 31, 2010 a net operating loss carryforward of approximately \$17,000, which may be used to offset future taxable income and expires in 2015. The Company has a deferred tax asset of approximately \$7,000 at December 31, 2010 representing the tax benefit of the net operating loss carryforward. As of December 31, 2010, no valuation allowance has been recorded for this deferred tax asset since management believes, based on available evidence, it is more likely than not that the deferred tax asset will be fully realized.

As of December 31, 2010, the Company concluded that there are no uncertain tax positions as such term is defined in FASB ASC 740 and has no accrued income tax related interest and/or penalties in the accompanying statement of financial condition.

The Company is potentially subject to income tax audits in the Commonwealth of Puerto Rico for taxable years 2006 to 2010, until the applicable statutes of limitations expire. Tax audits by their nature are complex and can require several years to complete.

7. COMMITMENTS AND CONTINGENCY

At December 31, 2010, the Company has an obligation under a noncancelable office space lease with the Parent Company, which expires on October 31, 2011. The lease agreement may be automatically renewed for additional one-year periods. Future lease payments under the lease agreement amount to approximately \$1,700 for 2011. The lease expense for the year ended December 31, 2010 was \$2,050.

The Company is named as defendant in a legal claim incidental to its normal business activities. In February 2011, the Company reached an agreement to settle the claim for approximately \$16,000, which amount has been accrued as of December 31, 2010 and is included as part of accounts payable and accrued liabilities in the accompanying statement of financial condition.

SUPPLEMENTAL SCHEDULE

**SUPPLEMENTAL SCHEDULE OF COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS
PURSUANT TO RULE 15c3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934
AS OF DECEMBER 31, 2010**

Computation of Net Capital

Total stockholder's equity from statement of financial condition		\$	198,534
Deduct: Stockholder's equity not allowable for net capital			-
Total stockholder's equity qualified for net capital			<u>198,534</u>
Add: Allowable subordinated liabilities			-
Other (deductions) or allowable credits			-
Total capital and allowable subordinated liabilities			<u>198,534</u>
Deductions and/or charges:			
Total nonallowable assets	\$	23,927	
Capital charges for spot and commodity futures		-	
Other deductions and/or charges		-	23,927
Other additions and/or allowable credits			-
Net capital before haircuts on securities positions			<u>174,607</u>
Haircuts on securities			-
Net capital		\$	<u>174,607</u>

Computation of Basic Net Capital Requirement

Minimum net capital required (based on aggregate indebtedness) (15 to 1 ratio)	\$	2,754
Minimum dollar requirement	\$	25,000
Net capital requirement (greater of two amounts above)	\$	25,000
Net capital	\$	174,607
Excess net capital	\$	149,607
Excess net capital at 1,000% (net capital less 10% of aggregate indebtedness)	\$	170,476

Computation of Aggregate Indebtedness

Aggregate indebtedness from Statement of Financial Condition	\$	41,312
Add: Drafts for immediate credit		-
Market value of securities borrowed where no equivalent is paid or credited		-
Other		-
Total aggregate indebtedness	\$	<u>41,312</u>

Ratio: Aggregate indebtedness to net capital 24 to 1

Note: No material difference exists between the Computation of Net Capital above and the corresponding schedules in the Company's unaudited December 31, 2010, Form X-17A-5, Part II-A filing, as amended on February 22, 2011.

Schedule of Nonallowable Assets

Accounts receivable from affiliates	\$	10,103
Other unsecured receivables		2,949
Deferred income tax		6,996
Prepaid expenses and other assets		3,879
Total nonallowable assets	\$	<u>23,927</u>



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USA

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www.deloitte.com

February 22, 2011

Universal Financial Services, Inc.
PO Box 71338
San Juan, PR 00936-8438

In planning and performing our audit of the financial statements of Universal Financial Services, Inc. (the "Company"), a wholly owned subsidiary of Universal Group, Inc., as of and for the year ended December 31, 2010 (on which we issued our report dated February 22, 2011, and such report expressed an unqualified opinion on those financial statements), in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with 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 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 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 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 internal control 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 controls 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 internal control 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 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 internal control and the practices and procedures referred to above, error or fraud 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.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

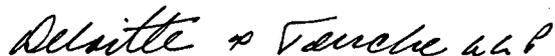
A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities 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, as described in the second paragraph of this report, were adequate at December 31, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,



Stamp No. 2574783
affixed to original.

Universal Financial Services, Inc.

(A Wholly Owned Subsidiary of Universal Group, Inc.)

Financial Statements and Supplemental Schedule for the
Year Ended December 31, 2010, Independent Auditors'
Report, and Supplemental Report on Internal Control

* * * * *

Filed pursuant to Rule 17a-5(e)(3) under the Securities and
Exchange Act of 1934