

SE 02006568 S COMMISSION  
Washington, D.C. 20549

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

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

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Dorn & Company, Inc.

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

216 E. Washington

(No. and Street)

Fergus Falls

(City)

MN

(State)

56538-0748

(Zip Code)

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

Larry Dorn

218 - 739 - 5236

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

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

Ness, Waller, Pearson & Co., Ltd.

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

Alexandria

(Address)

(City)

MN

(State)

56308

(Zip Code)

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THOMSON  
FINANCIAL

CHECK ONE:

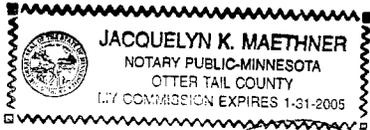
- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

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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)

OATH OR AFFIRMATION

I, Larry (Russell) Dorn, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Dorn & Company, Incorporated, as of December 31, 2001, 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:



Jacquelyn K. Maethner  
Notary Public

[Signature]  
Signature  
President  
Title

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 15c3-3 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).

DORN & CO., INC.  
Fergus Falls, Minnesota  
Report on Audit  
Years Ended December 31, 2001 and 2000

Ness, Waller, Pearson & Co., Ltd.  
Alexandria, Minnesota

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CERTIFIED PUBLIC ACCOUNTANTS

H. DAN NESS, C.P.A. RETIRED  
STEPHEN I. WALLER, C.P.A. RETIRED

LAWRENCE F. PEARSON, C.P.A.  
JAMES J. MEGEL, C.P.A.  
DENNIS L. SCHMIDT, C.P.A.

RICHARD A. VOLKER, C.P.A.  
CAROL L. THALMAN, C.P.A.  
NICOLE L. KLIMEK, C.P.A.

**INDEPENDENT AUDITORS' REPORT**

Mr. Larry Dorn, President  
Dorn & Co., Inc.  
Fergus Falls, Minnesota

We have audited the accompanying statements of financial condition of Dorn & Co., Inc., (a Minnesota corporation) as of December 31, 2001 and 2000, and the related statements of income and retained earnings and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 Dorn & Co., Inc. at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit has been made primarily for the purpose of formulating an opinion on the basic financial statements taken as a whole. The information contained in pages 11 through 14, although not considered necessary for a fair presentation of the financial position and results of operations in conformity with generally accepted accounting principles, is presented for supplementary analysis purposes. This information has been subjected to the same audit procedures applied in the examination of the basic financial statements and is, in our opinion, fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Ness, Waller, Pearson & Co., Ltd*

January 10, 2002

**DORN & CO., INC.**  
**STATEMENTS OF FINANCIAL CONDITION**

	December 31,	
	2001	2000
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash		
Operating account	\$ 45,006	\$ 6,250
Savings accounts	1,308	162,798
Accounts receivable		
Commissions receivable	3,691	1,089
Brokers and dealers - open transactions	27,958	40,001
Trading and investment securities, at market	532,207	268,550
Prepaid expenses	3,077	3,550
Income tax receivables		<u>2,540</u>
Total Current Assets	<u>\$ 613,247</u>	<u>484,778</u>
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Office equipment	\$ 191,426	\$ 175,699
Leasehold improvements	<u>303,366</u>	<u>303,365</u>
	\$ 494,792	\$ 479,064
Less accumulated depreciation	<u>261,636</u>	<u>235,059</u>
Total Property and Equipment	<u>\$ 233,156</u>	<u>\$ 244,005</u>
<b>OTHER ASSETS</b>		
Investment in antique personal property	\$ 31,607	\$ 28,407
Clearing deposit	<u>25,000</u>	<u>25,000</u>
Total Other Assets	<u>\$ 56,607</u>	<u>\$ 53,407</u>
	<u>\$ 903,010</u>	<u>\$ 782,190</u>

See accompanying Notes to Financial Statements.

**DORN & CO., INC.**  
**STATEMENTS OF FINANCIAL CONDITION**

December 31,	
2001	2000

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**CURRENT LIABILITIES**

Accounts payable			
Dain trading payable	\$ 230,991	\$	114,516
Vendors - trade obligations	1,820		2,124
Accrued income taxes	3,000		
Accrued expenses	8,887		12,639
 Total Current Liabilities	 \$ 244,698	 \$	 129,279

**STOCKHOLDER'S EQUITY**

Common stock			
Par value \$10			
Authorized - 25,000 shares			
Issued and Outstanding - 6,000 shares	\$ 60,000	\$	60,000
Retained earnings	598,312		592,911
 Total Stockholder's Equity	 \$ 658,312	 \$	 652,911
	 \$ 903,010	 \$	 782,190

See accompanying Notes to Financial Statements.

**DORN & CO., INC.**  
**STATEMENTS OF FINANCIAL CONDITION**

	For the Years Ended	
	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
<b>INCOME</b>		
Gain on sale and holding of trading account securities	\$ 209,085	\$ 253,594
Commissions on security sales	30,583	52,417
Commissions and concessions on mutual funds	550,083	624,688
Annuity fees	14,342	14,023
Dividends and interest earned	19,921	22,298
Other income	<u>747</u>	<u>90</u>
 Total Income	 <u>\$ 824,761</u>	 <u>\$ 967,110</u>
<b>EXPENSES</b>		
Salaries and commissions		
Executive	\$ 205,000	\$ 275,000
Registered representative	103,042	138,976
Office and clerical	152,632	168,495
Payroll taxes	27,141	29,663
Advertising	23,685	24,811
Bank service and clearing charges	34,103	34,353
Depreciation	26,577	24,754
Client expense/Expos	5,196	6,244
Utilities and building occupancy	19,188	17,937
Licenses, bonds and insurance	8,786	8,735
Memberships, books, dues and subscriptions	15,487	9,105
Office supplies and expense	12,457	23,148
Postage	11,091	8,373
Professional services	7,287	13,448
Rents	60,000	60,000
Travel and entertainment	13,754	14,231
Telephone	11,463	14,995
Employee benefits	17,905	22,408
Profit sharing trust contributions	<u>60,799</u>	<u>70,753</u>
 Total Expenses	 <u>\$ 815,593</u>	 <u>\$ 965,429</u>
 INCOME BEFORE PROVISIONS FOR INCOME TAXES	 <u>\$ 9,168</u>	 <u>\$ 1,681</u>
 PROVISIONS FOR INCOME TAXES	 <u>\$ 3,767</u>	 <u>\$ 824</u>
 NET INCOME FOR YEAR	 <u>\$ 5,401</u>	 <u>\$ 857</u>

See accompanying Notes to Financial Statements.

**DORN & CO., INC.**  
**STATEMENTS OF CHANGES IN RETAINED EARNINGS**

	<u>December 31,</u>	
	<u>2001</u>	<u>2000</u>
RETAINED EARNINGS, BEGINNING OF YEAR	\$592,911	\$592,054
NET INCOME	<u>5,401</u>	<u>857</u>
RETAINED EARNINGS, END OF YEAR	<u>\$598,312</u>	<u>\$592,911</u>

See accompanying Notes to Financial Statements.

**DORN & CO., INC.**  
**STATEMENTS OF CASH FLOWS**

	December 31,	
	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and clients	\$ 3,821,500	\$ 5,260,043
Cash payments to brokers, vendors and employees	(3,945,941)	(5,390,073)
Interest and dividends received	20,668	22,298
Income taxes paid		(2,694)
Interest paid	(33)	(51)
Net Cash Provided (Used) by Operating Activities	<u>\$ (103,806)</u>	<u>\$ (110,477)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	\$ (15,728)	\$ (28,354)
Purchase of other assets	(3,200)	
Proceeds from sale of other assets	_____	80
Net Cash Provided (Used) by Investing Activities	<u>\$ (18,928)</u>	<u>\$ (28,274)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on short term debt		\$ (25,000)
Proceeds from issuance of short-term debt	_____	25,000
Net Cash Provided (Used) by Financing Activities	<u>\$ 0</u>	<u>\$ 0</u>
<b>NET INCREASE IN CASH</b>	<b>\$ (122,734)</b>	<b>\$ (138,751)</b>
CASH - beginning of year	169,048	307,799
CASH - end of year	<u>\$ 46,314</u>	<u>\$ 169,048</u>

See accompanying Notes to Financial Statements.



**DORN & CO., INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business - The Company's business activities consists primarily of the purchase and sale of stocks, bonds and mutual funds, on its own behalf and as broker or agent for others, and the underwriting of certain securities issues. The Company has a Principal's license to operate in the states of Minnesota, North Dakota, and South Dakota. The Company is a registered insurance agent in the State of Minnesota. Records are maintained on the accrual basis whereby revenues are recognized as they are earned and expenses are reported as they are incurred. Security-related transactions are recorded on the basis of trade dates.

Securities Clearing - During 1999, Dorn & Co., Inc., completed the conversion from a self-clearing broker to becoming fully-disclosed through RBC Dain Correspondent Services (DCS), a division of RBC Dain Rauscher Incorporated, a Minnesota corporation. Prior to the conversion on October 6, 1999, the Company used Pershing (A Division of Donaldson, Lufkin, and Jenrette Securities Corporation) as a clearing house for securities and investment transactions of customers.

Securities Insurance - Securities held in custody by DCS (The Company's Clearing Firm) are protected up to a total of \$25,000,000 per account. Of this total, Securities Investor Protection Corporation (SIPC) provides \$500,000, of which \$100,000 may be in cash. The remaining \$24,500,000 of coverage on securities only is provided by DCS through a commercial insurer. Investment Access and RBC Dain Rauscher Retirement accounts are protected up to a total of \$35,000,000. The account protection applies when a SIPC member firm fails financially and is unable to meet obligations to securities customers, but it does not protect against losses from the rise and fall in market value of investments.

Investment Securities - Trading and investment securities are valued at quoted market values. Unrealized gains and losses are included in operations. Unrealized gains (losses) on trading account securities total (\$17,343) and (\$100) at December 31, 2001 and 2000. The decreases of \$17,343 and \$100 have been reflected in operations of the year ended December 31, 2001 and 2000, respectively.

Property and Equipment - Property and equipment is recorded at cost less accumulated depreciation to date. Depreciation is computed on the straight-line method.

The Company's investment in antique personal property is valued at cost. Market value is not available for these assets. No depreciation is provided since they are deemed to have retained their value.

Cash and Cash Equivalents - For purposes of the statement of cash flows the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash flows from purchase and sales of debt and equity securities carried in the trading account are classified as operating activities. Customer and broker accounts and short-term borrowings having original maturities of three months or less are reported net.

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.

Income Taxes - These financial statements, prepared in accordance with generally accepted accounting principles, required the use of management estimates in many reporting areas.

**DORN & CO., INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**NOTE 2 - INCOME TAX**

An income tax payable of \$3,000 resulted from operations during year ending December 31, 2001.

A deferred tax asset consisting of the following exists:

	December 31, 2001
Current	
Federal	\$ 259
State	0
	\$ 259
Valuation allowance	(259)
Net Deferred Taxes	\$ 0

The Company's deferred tax asset represents the tax effects of a current net operating loss carry forward. The net operating loss carry forward expires in 2020.

**NOTE 3 - NOTES PAYABLE**

A line of credit was in effect in the amount of \$1,000,000 at December 31, 2001 and 2000. Amounts owed are due on demand, and interest is payable at rates tied to a predetermined base rate. There was no outstanding balance as of December 31, 2001 or 2000.

**NOTE 4 - PROFIT SHARING TRUST FUND**

The Company has adopted a non-contributory profit sharing plan covering all full-time employees with one or more years of service, to which it has been paying a cash amount approximating 15 percent of the eligible salaries of those employees who have fulfilled the length of service requirement. Contributions to the plan are discretionary and totaled \$60,799 and \$70,753 for 2001 and 2000.

**NOTE 5 - NET CAPITAL REQUIREMENTS**

As a registered Broker-Dealer, Dorn & Co., Inc. is subject to the requirements of Rule 15(c)3-1 of the Securities Exchange Act of 1934. The basic concept of the rule is liquidity, its object being to require a Broker-Dealer to have at all times sufficient liquid assets to cover its current indebtedness. Specifically, the rule requires a self-clearing broker to maintain a minimum of \$250,000 in net capital, and prohibits a Broker-Dealer from permitting its aggregate indebtedness to exceed fifteen times its net capital as those terms are defined. Although Dorn & Co., Inc. is no longer self-clearing, it still has chosen to maintain a minimum net capital of \$250,000 in order to act as a principal. At December 31, 2001, aggregated indebtedness and net capital were \$244,698 and \$353,306, respectively, a ratio of 0.69 to 1. At December 31, 2000, aggregate indebtedness and net capital were \$129,280 and \$356,953, respectively, a ratio of 0.36 to 1.

**DORN & CO., INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**NOTE 6 - RELATED PARTY TRANSACTIONS**

The Company maintains its offices in a building owned by its sole shareholder, and paid an amount of \$60,000 for rent in 2001 and 2000. The building is leased on a month to month basis, and the Company pays all occupancy costs.

Corporate indebtedness at Community First National Bank of Fergus Falls, described in Note 3 above, has been personally guaranteed by the Company's sole shareholder.

**NOTE 7 - CREDIT RISK**

Amounts on deposit in the corporation bank account frequently exceeded the \$100,000 FDIC coverage for depositors. This results in a credit risk as defined by Financial Accounting Standards Board Opinion No. 105. Amounts on deposit with RBC Dain are covered by Securities Investor Protection Corporation (SIPC) as disclosed in Note 1, Securities Insurance.

Other financial instruments subject to off-balance-sheet credit risk include accounts receivable, and trading and investment securities. The Company does not require collateral or other security to support receivables. At December 31, 2001, the Company had accounts receivable from customer open transactions of \$0.

The value of trading and investment securities is based on market values of the specific issues and thus subject to market fluctuations.

**NOTE 8 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

For most financial instruments owned by the Company, including cash, accounts receivable and payable, and notes payable the fair value approximates their carrying value because of their short-term nature or because their interest rates are equal to current market rates. Trading and investment securities are valued on the financial statements at current market values as of December 31, 2001 and 2000. Such market values represent a fair value of these financial instruments. It was not practical to estimate the fair value of investment in antique personal property because a limited market exists for their sale or resale.

SUPPLEMENTAL INFORMATION

**DORN & CO., INC.**  
**COMPUTATION OF NET CAPITAL / RECONCILIATION**  
**DECEMBER 31, 2001**

TOTAL STOCKHOLDERS' EQUITY per statement of financial condition	<u>\$658,312</u>
DEDUCTIONS	
Unallowable Assets	
Prepaid expenses	\$ 3,077
Property and equipment - net of accumulated depreciation	233,155
Investment in antique personal property	31,607
Haircuts on Trading Account Securities	
Municipal bonds	<u>\$ 37,167</u>
Total Deductions	<u>\$305,006</u>
NET CAPITAL	<u>\$353,306</u>
TOTAL LIABILITIES - per statement of financial condition	\$244,698
DEDUCTIONS	<u>0</u>
AGGREGATE INDEBTEDNESS	<u>\$244,698</u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	0.69 to 1

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<sup>1</sup>The above computation of net capital was compared to the computation of net capital for the December 31, 2001 FOCUS filing and no material differences existed.

See Independent Auditor's Report

**DORN & CO., INC.**  
**TRADING AND INVESTMENT SECURITIES**  
**DECEMBER 31, 2001**

	<u>Market Value</u>	<u>Cost</u>
<b>CORPORATE STOCKS</b>		
None held		
<b>MUNICIPAL BONDS</b>		
Hennepin County MN GO Bonds 5.000% \$65,000 par value	\$ 62,288	\$ 63,700
Hennepin County MN Regl PR Bonds 5.000% \$205,000 par value	197,657	200,900
St. Cloud MN GO Bonds, 5.000% \$155,000 par value	148,058	150,350
St. Paul MN Housing and Redevelopment Bonds, 5.300%, \$130,000 par value	114,475	124,800
<b>CORPORATE BONDS</b>		
Federal Home Loans & Mortgage Corp., 6.750%, \$10,000 par value	<u>9,729</u>	<u>9,800</u>
	<u>\$532,207</u>	<u>\$549,550</u>

See Independent Auditors' Report.

**DORN & CO., INC.**  
**INSURANCE IN FORCE**  
**DECEMBER 31, 2001**

EMPLOYEES	Worker's compensation Profit Sharing Blanket bond	Statutory 100M
BUSINESS OWNER'S POLICY	Business liability Medical expense Tenant's fire, legal Hired/non-owned autos Building replacement Business personal property Valuable papers Business interruption Outdoor signs	1,000M 5M 50M 1,000M 302,700 100M 10M 12 months 5M
STOCKBROKERS	Blanket bond (10M deductible) Fidelity and deposit (5M deductible) Audit expense coverage Unauthorized signatures	300M 25M 25M 25M
SECURITY BOND	North Dakota blue sky Seaboard Security STAMP (5M deductible)	25M 100M
MAIL	First Class mail/Certified mail/Overnight Non-negotiable Negotiable	5,000M 5,000M

See Independent Auditors' Report.