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3/29/2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

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365 SECTION

SEC FILE NUMBER
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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 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: GENCON FINANCIAL SERVICES, INC.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

12501 OLD COLUMBIA PIKE

(No. and Street)

SILVER SPRING

MARYLAND

20904

(City)

(State)

(Zip Code)

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

J VICTOR ELLIOTT

(301) 680-6808

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

JOHNSON LAMBERT & CO.

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

7500 OLD GEORGETOWN RD

BETHESDA

MD

20814-6133

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 01 2002

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THOMSON
FINANCIAL

*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)

SEC 1410 (05-01)

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AAJ
3/29/2002

OATH OR AFFIRMATION

I, J VICTOR ELLIOTT, swear (~~oath~~) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of GENCON FINANCIAL SERVICES, INC., as of FEBRUARY 27, 2002, are true and correct. I further swear (~~confirm~~) 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:

NONE

J Victor Elliott
J VICTOR ELLIOTT Signature
SECRETARY & TREASURER
Title

Patricia Arlene Jenkins
Notary Public

PATRICIA ARLENE JENKINS MY COMMISSION EXPIRES 5-1-2005

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).

Board of Directors
Gencon Financial Services, Inc.

In planning and performing our audit of the financial statements of Gencon Financial Services, Inc. (GFS) for the year ended December 31, 2001, we considered its internal control, including control activities 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 internal control.

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 GFS 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 GFS 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 GFS 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.

Management of GFS 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 GFS 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 preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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Because of inherent limitations in internal control or the practices and procedures referred to above, errors 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.

Our consideration of internal control would not necessarily disclose all matters in internal control 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 components 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 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 internal control, including 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 GFS's practices and procedures were adequate at December 31, 2001, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, 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 used and should not be used by anyone other than these specified parties.

Johnson Lambert + Co.

Bethesda, MD
January 29, 2002

Audit Committee
Gencon Financial Services, Inc.

We have audited the financial statements of Gencon Financial Services, Inc. (GFS) for the year ending December 31, 2001, and have issued our report thereon dated January 29, 2002. We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatements. As part of our audit, we made a study and evaluation of GFS's system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on GFS's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole.

The financial statements are the responsibility of GFS's management. In fulfilling this responsibility, estimates and judgments by management are required based on knowledge and experience about past and present events and expectations about future events. Our audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Significant Accounting Policies

For a summary of GFS's significant accounting policies, see Note 1 to the audited financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. There were, however, no material estimates made by management that are included in the audited financial statements as of December 31, 2001.

Significant Audit Adjustments

During the course of our audit, we proposed three journal entries (audit adjustments) that were recorded and are reflected in the December 31, 2001 financial statements. Audit adjustments, which are detailed in Attachment 1 to this letter, decreased the net loss for the year ended December 31, 2001 by \$3,272. There were no passed audit adjustments that arose during the audit.

Disagreements with Management

There were no disagreements with management regarding application of accounting principles, judgments or estimates, scope of the audit, financial statement disclosures or other

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Disagreements with Management (Continued)

matters that could individually or in the aggregate have a significant effect on the financial statements or the auditor's report.

Consultation with Other Accountants

To the best of our knowledge, management did not consult with other accountants about auditing and accounting matters.

Issues Discussed with Management Prior to Retention

There were no issues discussed with management in connection with our retention as auditors regarding the application of accounting principles, auditing standards, or other matters.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered in dealing with management or personnel in performing or completing our audit.

Independence

Johnson Lambert & Co. is independent with respect to GFS in accordance with the rules adopted by the Independence Standards Boards, the American Institute of Certified Public Accountants and the Securities Exchange Commission. The following items, which do not affect our independence, are disclosed to you for your information.

- We were not engaged to provide any other services to GFS during the year ended December 31, 2001.
- We provide audit services and occasional consulting services to affiliates of GFS.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, management, and is not intended to be and should not be used by anyone other than these specified parties.

Johnson Lambert & Co.

Bethesda, MD
January 29, 2002

Gencon Financial Services, Inc

Attachment 1

Income Affect

Adjusting journal entry No. 1

Current income taxes recoverable	256	
Current income tax benefit		(256)
		256

To record 2001 combined federal and state income tax benefit

Adjusting journal entry No. 2

Deferred income tax asset	199	
Deferred income tax benefit		(199)
		199

To record 2001 deferred federal and state income tax benefit

Adjusting journal entry No. 3

Accounts receivable	2,817	
Commission income		(2,817)
		2,817

To record commission income for the fourth quarter of 2001

Gencon Financial Services, Inc.

Financial Statements

*Years ended December 31, 2001 and 2000
with Report of Independent Auditors*

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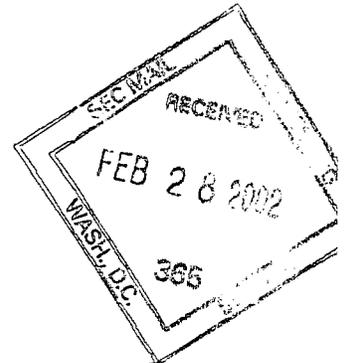
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Gencon Financial Services, Inc.

Financial Statements

December 31, 2001

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Report of Independent Auditors

Board of Directors
Gencon Financial Services, Inc.

We have audited the accompanying statements of financial condition of Gencon Financial Services, Inc. as of December 31, 2001 and 2000, and the related statements of income, changes in stockholder's equity, and cash flows for the years ended December 31, 2001, 2000 and 1999. 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. 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 Gencon Financial Services, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years ended December 31, 2001, 2000, and 1999 in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV 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 the 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.

Johnson Lambert & Co.

Bethesda, Maryland
January 29, 2002

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Gencon Financial Services, Inc.

Statements of Financial Condition

	December 31,	
	<u>2001</u>	<u>2000</u>
Assets		
Cash	\$ 17,200	\$ 4,618
Investments	33,100	33,100
Accounts receivable	2,817	249
Income taxes recoverable	256	-
Deferred income tax asset	199	-
Certificate of deposit	<u>-</u>	<u>20,311</u>
Total assets	<u><u>\$ 53,572</u></u>	<u><u>\$ 58,278</u></u>
Liabilities		
Accounts payable	\$ -	\$ 2,898
Income taxes payable	<u>-</u>	<u>213</u>
Total liabilities	<u>-</u>	<u>3,111</u>
Stockholder's equity		
Capital stock (\$100 par value; 1,000 shares authorized, 100 shares issued and outstanding)	10,000	10,000
Additional paid-in capital	34,882	34,882
Retained earnings	<u>8,690</u>	<u>10,285</u>
Total stockholder's equity	<u>53,572</u>	<u>55,167</u>
Total liabilities and stockholder's equity	<u><u>\$ 53,572</u></u>	<u><u>\$ 58,278</u></u>

See accompanying notes.

Gencon Financial Services, Inc.

Statements of Income

	Years Ended December 31,		
	2001	2000	1999
Revenues			
Commission income	\$ 11,281	\$ 13,838	\$ 20,731
Interest income	809	1,126	819
Total revenues	<u>12,090</u>	<u>14,964</u>	<u>21,550</u>
Expenses			
Service fees - Adventist Risk Management	10,000	10,000	15,600
Audit and consulting fees	3,000	2,898	2,910
NASD fees	1,011	1,205	2,400
Licensing and filing fees	-	-	65
Miscellaneous	129	100	140
Total expenses	<u>14,140</u>	<u>14,203</u>	<u>21,115</u>
(Loss)/income before taxes	(2,050)	761	435
Current income tax (benefit)/expense	(256)	213	96
Deferred income tax (benefit)	(199)	-	-
Total income tax (benefit)/expense	<u>(455)</u>	<u>213</u>	<u>96</u>
Net (loss)/income	<u>\$ (1,595)</u>	<u>\$ 548</u>	<u>\$ 339</u>

See accompanying notes.

Gencon Financial Services, Inc.

Statements of Changes in Stockholder's Equity

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at January 1, 1999	\$ 10,000	\$ 18,082	\$ 9,398	\$ 37,480
Net income	-	-	339	339
Balance at December 31, 1999	10,000	18,082	9,737	37,819
Capital Contributions	-	16,800	-	16,800
Net income	-	-	548	548
Balance at December 31, 2000	10,000	34,882	10,285	55,167
Net (loss)	-	-	(1,595)	(1,595)
Balance at December 31, 2001	<u>\$ 10,000</u>	<u>\$ 34,882</u>	<u>\$ 8,690</u>	<u>\$ 53,572</u>

See accompanying notes.

Gencon Financial Services, Inc.

Statements of Cash Flows

	Years Ended December 31,		
	2001	2000	1999
Cash flows from operating activities			
Net (loss)/income	\$ (1,595)	\$ 548	\$ 339
Change in accounts receivable	(2,568)	(249)	-
Change in income tax refund receivable	(256)	-	-
Change in deferred income tax asset	(199)	-	-
Change in accounts payable	(2,898)	2,898	-
Change in income taxes payable	(213)	117	(705)
Cash (used in)/provided by operating activities	<u>(7,729)</u>	<u>3,314</u>	<u>(366)</u>
Cash flows from investing activities			
Purchase of investments	-	(53,411)	-
Sale of investments	20,311	-	-
Cash provided by/(used in) investing activities	<u>20,311</u>	<u>(53,411)</u>	<u>-</u>
Cash flows from financing activities			
Capital contribution	-	16,800	-
Amounts due to/from affiliate	-	-	(3,900)
Cash provided by/(used in) financing activities	<u>-</u>	<u>16,800</u>	<u>(3,900)</u>
Net increase/(decrease) in cash	12,582	(33,297)	(4,266)
Cash, beginning of year	<u>4,618</u>	<u>37,915</u>	<u>42,181</u>
Cash, end of year	<u>\$ 17,200</u>	<u>\$ 4,618</u>	<u>\$ 37,915</u>

See accompanying notes.

Gencon Financial Services, Inc.

Notes to the Financial Statements

December 31, 2001

1. Organization and Significant Accounting Policies

Organization

Gencon Financial Services, Inc. (GFS) was incorporated in 1991 under the laws of the State of Maryland. GFS is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and the National Association of Securities Dealers, Inc. (NASD). GFS commenced operations as a broker-dealer and received its first commissions during 1996.

GFS's common stock is owned by the General Conference Corporation of Seventh-day Adventists (General Conference). GFS was formed to provide brokerage services for retirement planning and investment alternatives (products) to General Conference and affiliated employees. GFS is organized as a fully-disclosed or introducing broker-dealer and does not hold customer cash or securities. During 2000, GFS received a capital contribution of \$16,800 from the General Conference. During 1999, GFS made charitable contributions totaling \$25 to the General Conference.

GFS has an expense agreement with Adventist Risk Management, Inc. (ARM), a wholly-owned subsidiary of the General Conference, whereby ARM has agreed to pay all overhead expenses incurred by GFS. During 2000, the Board of Directors approved decreasing the fixed annual service fee from \$15,600 to \$10,000. The agreement allows such payment to ARM provided that it does not reduce GFS's net capital below 120% of the minimum requirements pursuant to SEC Rule 15c3-1. Officers of GFS are also ARM employees. The Chairman of the GFS Board of Directors is also the President of ARM and Secretary of ARM's Board of Directors.

Basis of Reporting

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). Preparation of financial statements in accordance 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.

Commission Income

GFS receives 3% commission income on products secured by underwriters pursuant to selling agreements. Premiums or payments for these products are withheld by employers and remitted directly to the underwriter. Commission income is recorded by GFS in the period that it is earned; all commission revenue was received from one underwriter.

Gencon Financial Services, Inc.

Notes to the Financial Statements (Continued)

1. Organization and Significant Accounting Policies (Continued)

Service Fees – ARM

As described above, annual service fee payments to ARM decreased to \$10,000 in 2000 and 2001, from \$15,600 for 1999. There are no unreimbursed expenses subject to future reimbursement at December 31, 2001 and 2000.

Investments

The investments held by GFS are privately offered securities that are not actively traded on exchanges or national securities markets. Securities not listed on an exchange or national securities market, or securities in which there were no reported transactions, are valued at the latest reliable quoted bid price. The investments held by GFS consist of equity securities that will be valued at their purchase price, cost.

Investments at December 31 were comprised of the following:

	<u>2001</u>	<u>2000</u>
The Nasdaq Stock Market, Inc. common stock	\$ 16,300	\$ 16,300
The Nasdaq Stock Market, Inc. stock warrants	<u>16,800</u>	<u>16,800</u>
Total investments	<u>\$ 33,100</u>	<u>\$ 33,100</u>

The Nasdaq Stock Market, Inc. stock warrants are comprised of 1,200 warrants, valued at cost of \$14 per warrant, with the option to purchase one share of common stock on the dates and prices listed below:

<u>Exercisable date</u>	<u>Expiration date</u>	<u>Exercise price per share</u>
June 28, 2002	June 27, 2003	\$13
June 30, 2003	June 25, 2004	\$14
June 28, 2004	June 27, 2005	\$15
June 28, 2005	June 28, 2005	\$16

2. Net Capital Requirements

GFS is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which establishes minimum capital requirements for broker-dealer entities. Broker-dealers that do not receive securities and that introduce customer accounts to other broker-dealers are required to maintain minimum net capital of \$5,000 as of December 31, 2001 and 2000. As of December 31, 2001 and 2000, GFS has net capital as calculated under Rule 15c3-1 of \$20,472 and \$22,067, respectively.

Gencon Financial Services, Inc.

Notes to the Financial Statements (Continued)

3. Income Taxes

The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax assets or liabilities between the years.

The deferred income tax asset of \$199 results from the net operating loss in 2001. GFS elected to carry its 2001 net operating loss back two years to offset prior net tax payments of \$256, with the remaining loss carried forward twenty years. Current federal and state income tax benefit for 2001 were \$172 and \$84, respectively. Federal and state income tax expenses for 2000 were \$160 and \$53, respectively. Federal and state income tax expenses for 1999 were \$65 and \$31, respectively.

Gencon Financial Services, Inc.

Schedule I: Computation of Net Capital
Under Rule 15c3-1 of the Securities and Exchange Commission

December 31, 2001

Net Capital	
Total stockholder's equity qualified for net capital	\$ 53,572
Additions	-
Deductions	<u>33,100</u>
Net Capital	<u>\$ 20,472</u>
Aggregate Indebtedness	
Items included in statement of financial condition	\$ -
Items not included in statement of financial condition	<u>-</u>
Aggregate indebtedness	<u>\$ -</u>
Computation of Basic Net Capital Requirement	
Minimum net capital required	<u>\$ 5,000</u>
Excess net capital at 1500%	<u>\$ 15,472</u>
Excess net capital at 1000%	<u>\$ 20,472</u>
Ratio Aggregate indebtedness to net capital	<u>-</u>
Reconciliation with Company's Computation (included in Part II of Form X-17A-5 as of December 31, 2001)	
Net capital per Part II of Form X-17A-5	\$ 17,341
Expense adjustments	3,272
Other adjustments	<u>(141)</u>
Net capital as presented above	<u>\$ 20,472</u>

Gencon Financial Services, Inc.

Schedule II: Computation for Determination of Reserve Requirements
Under Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2001

The Company is exempt from Rule 15c3-3 pursuant to provision (k)(1) and was in compliance with the conditions of exemption.

Gencon Financial Services, Inc.

Schedule III: Information Relating to Possession or Control Requirements
Under Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2001

Not Applicable

Gencon Financial Services, Inc.

Schedule IV: Schedule of Segregation Requirements
and Funds in Segregation for Customers' Regulated Commodity
Futures and Options Accounts

December 31, 2001

Not Applicable