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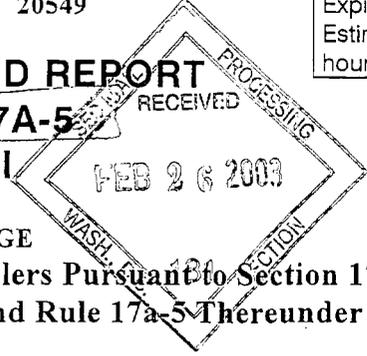


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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ANNUAL UNAUDITED REPORT
FORM X-17A-5
PART III



SEC FILE NUMBER
8- 40329

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 JANUARY 1, 2002 AND ENDING DECEMBER 31, 2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: ND CAPITAL, INC.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
1 NORTH MAIN STREET
(No. and Street)

OFFICIAL USE ONLY
FIRM I.D. NO.

MINOT ND 58703-3189
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
ROBERT WALSTAD (701) 852-5292
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BRADY, MARTZ & ASSOCIATES, P.C.
(Name - if individual, state last, first, middle name)

24 WEST CENTARL P.O. BOX 848 MINOT ND 58701
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

MAR 18 2003

THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

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

OATH OR AFFIRMATION

I, ROBERT WALSTAD, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ND CAPITAL, INC., as of DECEMBER 31, 20 02, 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:

DEBBIE WOOLUM
Notary Public, State of North Dakota
My Commission Expires Oct. 4, 2006

Signature: [Handwritten Signature]
Title: [Handwritten Title]

Debbie Woolum
Notary Public

- This report ** contains (check all applicable boxes):
(a) Facing Page.
(b) Statement of Financial Condition. (BALANCE SHEET)
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition. (CASH FLOWS)
(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).

ND CAPITAL, INC.

(A WHOLLY-OWNED SUBSIDIARY OF
INTEGRITY MUTUAL FUNDS, INC.)

FINANCIAL STATEMENTS

AS OF

DECEMBER 31, 2002 AND 2001

WITH

INDEPENDENT AUDITOR'S REPORT

ND CAPITAL, INC.
(A WHOLLY-OWNED SUBSIDIARY
OF INTEGRITY MUTUAL FUNDS, INC.)

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	2
Statements of Operations	3
Statements of Stockholder's Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6-8
SUPPLEMENTARY INFORMATION	
Schedule I - Computation of Net Capital Under Rule 15c3-1 of the Securities Exchange Act of 1934	9
CLAIM OF EXEMPTION FROM RULE 15c3-3	10
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL REQUIRED BY RULE 17a-5 FOR A BROKER - DEALER CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3	11-12



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
ND Capital, Inc.
Minot, North Dakota 58701

We have audited the accompanying balance sheets of ND Capital, Inc. (a wholly-owned subsidiary of Integrity Mutual Funds, Inc.) as of December 31, 2002 and 2001 and the related statements of operations, stockholders' equity and cash flows for the years then ended, that are filed 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 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 ND Capital, Inc. as of December 31, 2002 and 2001 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on page 9 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 Act of 1934. This 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.

BRADY, MARTZ & ASSOCIATES, P.C.

February 21, 2003

BRADY, MARTZ & ASSOCIATES, P.C.
24 West Central P.O. Box 848
Minot, ND 58702-0848 (701) 852-0196 • Fax (701) 839-5452

OTHER OFFICES: Grand Forks, ND Bismarck, ND Thief River Falls, MN



ND CAPITAL, INC.
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)
BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

ASSETS

	<u>2002</u>	<u>2001</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 122,427	\$ 57,935
Accounts/commissions receivable	43,821	43,724
Securities available-for-sale	81,224	106,333
Total current assets	<u>\$ 247,472</u>	<u>\$ 207,992</u>
OTHER ASSETS		
Clearing deposit	\$ 24,492	\$ 22,752
Deferred sales commissions	1,159,165	1,460,436
Deferred tax asset	0	448,544
Total other assets	<u>\$ 1,183,657</u>	<u>\$ 1,931,732</u>
TOTAL ASSETS	<u>\$ 1,431,129</u>	<u>\$ 2,139,724</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Commissions and fees payable	<u>\$ 19,089</u>	<u>\$ 24,893</u>
STOCKHOLDERS' EQUITY		
Common stock - 50,000,000 shares authorized, .001 par value; 4,004,981 shares issued and outstanding	\$ 4,005	\$ 4,005
Additional paid-in capital	4,154,241	4,154,241
Accumulated deficit	(2,721,094)	(2,043,415)
Accumulated other comprehensive loss	(25,109)	0
Total stockholders' equity	<u>\$ 1,412,043</u>	<u>\$ 2,114,831</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,431,129</u>	<u>\$ 2,139,724</u>

SEE NOTES TO FINANCIAL STATEMENTS

ND CAPITAL, INC.
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
INCOME		
Interest and dividends	\$ 1,094	\$ 11,012
Fees	321,161	388,859
Commissions and underwriting fees	<u>390,387</u>	<u>290,979</u>
Total income	<u>\$ 712,642</u>	<u>\$ 690,850</u>
EXPENSES		
Commissions and fees	\$ 390,501	\$ 337,768
Professional fees	4,950	4,900
Advertising and promotion	22,446	19,926
Printing and postage	13,618	12,307
Dues, fees, registration	8,689	7,011
Salaries	138,305	122,808
Payroll taxes	16,025	12,734
Travel	24,696	38,572
Other expenses	43,445	72,436
Amortization of deferred sales commissions	490,205	612,838
Less expenses absorbed by parent company	<u>(272,174)</u>	<u>(290,694)</u>
Total expenses	<u>\$ 880,706</u>	<u>\$ 950,606</u>
LOSS BEFORE INCOME TAX BENEFIT	\$ (168,064)	\$ (259,756)
INCOME TAX BENEFIT	<u>66,000</u>	<u>104,544</u>
NET LOSS	<u><u>\$ (102,064)</u></u>	<u><u>\$ (155,212)</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

ND CAPITAL, INC.
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, January 1, 2001	\$ 4,005	\$ 4,154,241	\$(1,607,170)	\$ 0	\$ 2,551,076
Net Loss	0	0	(155,212)	0	(155,212)
Dividends paid	<u>0</u>	<u>0</u>	<u>(281,033)</u>	<u>0</u>	<u>(281,033)</u>
Balance, December 31, 2001	\$ 4,005	\$ 4,154,241	\$(2,043,415)	0	\$ 2,114,831
Comprehensive income:					
Net loss	0	0	(102,064)	0	(102,064)
Adjustments to unrealized loss on securities available-for-sale	<u>0</u>	<u>0</u>	<u>0</u>	<u>(25,109)</u>	<u>(25,109)</u>
Total comprehensive loss					<u>(127,173)</u>
Dividends paid	<u>0</u>	<u>0</u>	<u>(575,615)</u>	<u>0</u>	<u>(575,615)</u>
Balance, December 31, 2002	<u>\$ 4,005</u>	<u>\$ 4,154,241</u>	<u>\$(2,721,094)</u>	<u>\$ (25,109)</u>	<u>\$ 1,412,043</u>

SEE NOTES TO FINANCIAL STATEMENTS

ND CAPITAL, INC.
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (102,064)	\$ (155,212)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization	490,205	612,838
Reinvested Dividends	0	(6,332)
Effects on operating cash flows due to changes in:		
Deferred tax benefit	448,544	(104,544)
Accounts/commissions receivable	(97)	(1,831)
Clearing deposit	(1,739)	2,806
Commissions and fees payable	(5,805)	(3,266)
Sales commissions capitalized	(188,937)	(185,590)
Net cash provided by operating activities	<u>\$ 640,107</u>	<u>\$ 158,869</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	<u>\$ (575,615)</u>	<u>\$ (281,033)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 64,492	\$ (122,164)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>57,935</u>	<u>180,099</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 122,427</u></u>	<u><u>\$ 57,935</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

ND CAPITAL, INC.
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The nature of operations and significant accounting policies of ND Capital, Inc. are presented to assist in understanding the Company's financial statements.

Nature of operations - ND Capital, Inc. is a wholly-owned subsidiary of Integrity Mutual Funds, Inc. (Parent). The Company's primary operations are as broker/dealer for distribution of shares of Integrity Mutual Funds. Integrity Mutual Funds are marketed throughout the Midwestern states. Integrity Mutual Funds consist of ND Tax Free Fund, Inc., Montana Tax Free Fund, Inc., South Dakota Tax Free Fund, Inc., Integrity Fund of Funds, Inc. and Integrity Small-Cap Fund of Funds, Inc. The company receives fees from the funds as underwriter as well as commission income for investments sold in other securities.

Cash and cash equivalents are distinguished based on liquidity. Cash and cash equivalents consist of money market and active asset accounts.

Securities available-for-sale - The Company has implemented FASB No. 115 on accounting for certain investments in equity securities. As a result of this accounting policy, investments in marketable securities are recorded at fair value. Fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. For purposes of calculating realized gains on losses, cost is determined using the specific identification method. At December 31, 2002 and 2001, all investments are classified as available for sale. The unrealized gain (loss) on securities available for sale is reflected in the stockholders' equity section of the balance sheet.

Other comprehensive income (loss) - Consist of unrealized gains or losses on securities available-for-sale.

Accounts/commission receivable - The company's receivables consist primarily of underwriting charges and distribution fees from the sale/distribution of shares of Integrity Mutual Funds. Because of the Company's affiliation with Integrity Mutual Funds, management believes that all receivables are collectable. No allowance for doubtful accounts has been recorded. The company does not charge interest on its receivables.

Commissions Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Investment Advisory Income Investment advisory fees are received monthly and are recognized as revenue in the month earned.

NOTE 1 - (CONTINUED)

Deferred sales commissions - Sales commission paid to brokers and dealers in connection with the sale of shares of Integrity Mutual Funds sold without a front-end sales charge (B Shares), are capitalized and amortized on a straight line basis over a period not exceeding eight years, which approximates the period of time during which deferred sales commissions are expected to be recovered from distribution plan payments received from various Integrity Mutual Funds and potential contingent deferred sales charges received from shareholders of the Integrity Mutual Funds. Contingent deferred sales charges received by the Company are recorded as a reduction of unamortized deferred sales commissions. In accordance with Statement of Position 98-5, the commissions paid for the sale of Integrity Fund of Funds, Inc.'s shares are expensed as incurred. The contingent deferred sales charges from early redemptions from the Integrity Fund of Funds, Inc. are recorded as revenue.

Income taxes - The Company is included in the consolidation income tax returns filed by the Parent. The income tax provision (benefit) consists of 39.2% of the Company's pre tax book earnings (loss).

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - **RULE 15c3-3**

The Company operates under the provision of Paragraph (k)(2)(ii) of Rule 15c3-3 of the Securities and Exchange Commission and, accordingly, is exempt from the remaining provisions of that rule.

NOTE 3 - **CONCENTRATIONS**

The Company receives a majority of its revenues from the Integrity Mutual Funds. Therefore, the Company is economically dependent upon the operating results of these funds. In addition, three of the funds are state specific municipal bond funds.

NOTE 4 - **SECURITIES AVAILABLE FOR SALE**

Details of the cost and fair value for securities available-for-sale as of December 31, 2002 and 2001 are as follows:

Equity securities	2002	2001
Cost	\$ 106,332	\$ 106,332
Gross unrealized losses	(25,109)	0
Fair Value	<u>\$ 81,224</u>	<u>\$ 106,332</u>

NOTE 5 - INCOME TAXES

The company's income tax (expense) benefit included in the statements of operations is as follows:

	<u>2002</u>	<u>2001</u>
Federal	\$ 57,120	\$ 90,250
State	8,880	14,294
Total Benefit	<u>\$ 66,000</u>	<u>\$ 104,544</u>

A reconciliation of the difference between the expected income tax expense as computed at the U.S. Statutory income tax rate and the Company's income tax expense is shown in the following table:

	<u>2002</u>	<u>2001</u>
Expected income tax (expense) benefit at the U.S. Statutory rate	\$ 57,120	\$ 90,250
The affect of:		
Increase due to state taxes, net of U.S. Federal income tax effects	<u>8,880</u>	<u>14,294</u>
Income tax (expense) benefit	<u>\$ 66,000</u>	<u>\$ 104,544</u>

NOTE 6 - RELATED PARTY TRANSACTIONS

As underwriter for Integrity Mutual Funds, the transactions between ND Capital, Inc. and Integrity Mutual Funds are summarized below:

	<u>2002</u>	<u>2001</u>
Commission and other fee income from funds	\$ 685,881	\$ 634,947
Year end receivables	\$ 42,808	\$ 41,208

The Parent Company (INTEGRITY MUTUAL FUNDS, Inc.) has absorbed expenses of \$272,174 in 2002 and \$290,694 in 2001 on behalf of ND Capital, Inc.

NOTE 7 - ADVERTISING COSTS

Advertising costs are expensed as incurred. Total advertising expense was \$22,446 and \$19,926 for the years ended December 31, 2002 and 2001, respectively. These costs were absorbed by the Company's parent company.

NOTE 8 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2002 the Company had net capital of \$211,416 which was \$186,416 in excess of its minimum required net capital of \$25,000. The Company's net capital ratio was .09 to 1.

SUPPLEMENTARY INFORMATION

ND CAPITAL, INC.
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)
SCHEDULE I
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
AS OF DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
NET CAPITAL		
Total stockholders' equity	\$ 1,412,043	\$ 2,114,831
Less non-allowable assets:		
Deferred tax asset	0	(448,544)
Deferred sales commissions	(1,159,166)	(1,460,436)
Haircuts on securities	(14,632)	(22,439)
Accounts/Commission receivables	(26,829)	(20,831)
Net capital	<u>\$ 211,416</u>	<u>\$ 162,581</u>
 AGGREGATE INDEBTEDNESS		
Commissions and fees payable	<u>\$ 19,089</u>	<u>\$ 24,893</u>
 COMPUTATION OF BASIC NET CAPITAL REQUIREMENT		
Minimum net capital requirements ₁	<u>\$ 25,000</u>	<u>\$ 25,000</u>
Excess net capital at 1500% ₂	<u>\$ 210,144</u>	<u>\$ 160,922</u>
Excess net capital at 1000% ₂	<u>\$ 209,507</u>	<u>\$ 160,092</u>
Ratio: Aggregate indebtedness to net capital	<u>.09 to 1</u>	<u>.15 to 1</u>
 RECONCILIATION WITH COMPANY'S COMPUTATION		
Net capital, as reported in Company's Part II (Unaudited)		
FOCUS report	\$ 211,416	\$ 162,581
Net audit adjustments to allowable assets	0	0
Net capital per above	<u>\$ 211,416</u>	<u>\$ 162,581</u>

1. Minimum net capital requirements for the Company are the greater of 6 2/3% of aggregate indebtedness or \$25,000.
2. Excess net capital figures at 1500% and 1000% are based on calculated minimum net capital requirements of:

	<u>2002</u>	<u>2001</u>
1500%	<u>\$ 1,272</u>	<u>\$ 1,659</u>
1000%	<u>\$ 1,909</u>	<u>\$ 2,489</u>

ND CAPITAL, INC.
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)
CLAIM OF EXEMPTION FROM RULE 15c3-3

The Company claims exemption from Rule 15c3-3 under Section 15c3-3(k)(2)(ii) which states that all customer transactions are cleared through another broker-dealer on a fully disclosed basis. Therefore a schedule showing the Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission and the Schedule of Information Relating to Possession or Control Requirements Under Rule 15c3-3 of the Securities and Exchange Commission are not required.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL REQUIRED
BY RULE 17a-5 FOR A BROKER - DEALER
CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3

Board of Directors
ND Capital, Inc.
Minot, North Dakota

In planning and performing our audits of the financial statements and supplemental schedule of ND Capital, Inc. (the Company) for the years ended December 31, 2002 and 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 the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company 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 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 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.

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 internal 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 accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

BRADY, MARTZ & ASSOCIATES, P.C.
24 West Central P.O. Box 848
Minot, ND 58702-0848 (701) 852-0196 • Fax (701) 839-5452

OTHER OFFICES: Grand Forks, ND Bismarck, ND Thief River Falls, MN



INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL REQUIRED
BY RULE 17a-5 FOR A BROKER - DEALER
CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3 (CONTINUED)

Because of inherent limitations in internal control or 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.

Our consideration of internal control would not necessarily disclose all matters in the 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 irregularities 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 the Company's practices and procedures were adequate at December 31, 2002 and 2001 to meet the SEC's objectives.

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



BRADY, MARTZ & ASSOCIATES, P.C.

February 21, 2003