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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

SEC FILE NUMBER
8-8707

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 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Dorn & Company, Incorporated
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

216 E Washington
(No. and Street)
Fergus Falls MN 56537
(City) (State) (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

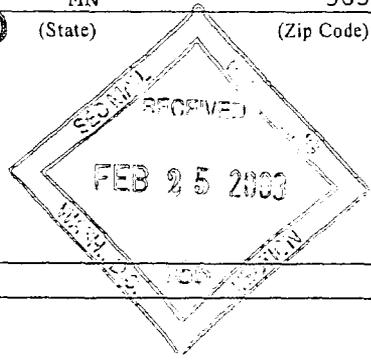
INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Ness, Waller, Pearson & Co., Ltd.
(Name - if individual, state last, first, middle name)

510 22nd Avenue East Suite 501 Alexandria MN 56308
(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 13 2003
THOMSON
FINANCIAL



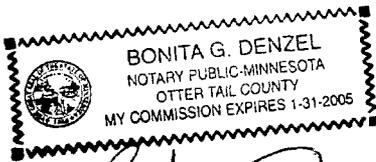
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

DB 3-12

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, 2002, 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]
Notary Public

[Signature]
Signature
[Title]
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, 2002 and 2001

Ness, Waller, Pearson & Co., Ltd.

Alexandria, Minnesota

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NESS WALLER PEARSON
&
CO., LTD.

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510 22ND AVE E • SUITE 501
ALEXANDRIA, MINNESOTA 56308

TELEPHONE: (320) 763-6568
FAX: (320) 763-6297

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.
DONNA R. ALLISON, C.P.A.

INDEPENDENT AUDITORS' REPORT

Board of Directors
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, 2002 and 2001, and the related statements of income, changes in retained earnings and cash flows for the years then ended that you are filing pursuant to 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 Dorn & Co., Inc. at 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in pages 11 through 14 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. 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.

Ness, Waller, Pearson & Co., Ltd

January 10, 2003

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DORN & CO., INC.
STATEMENTS OF FINANCIAL CONDITION

	December 31,	
ASSETS	2002	2001
CURRENT ASSETS		
Cash		
Operating account	\$ 2,050	\$ 45,006
Savings accounts	17,157	1,308
Accounts receivable		
Commissions receivable		3,691
Brokers and dealers - open transactions	78,736	27,958
Trading and investment securities, at market	860,812	532,207
Prepaid expenses	4,315	3,077
Income tax receivable	2,776	
Total Current Assets	\$ 965,846	\$ 613,247
PROPERTY AND EQUIPMENT, at cost		
Office equipment	\$ 199,367	\$ 191,426
Leasehold improvements	325,523	303,366
	\$ 524,890	\$ 494,792
Less accumulated depreciation	313,615	261,636
Total Property and Equipment	\$ 211,275	\$ 233,156
OTHER ASSETS		
Investment in antique personal property	\$ 31,607	\$ 31,607
Clearing deposit	25,000	25,000
Total Other Assets	\$ 56,607	\$ 56,607
	\$1,233,728	\$ 903,010

See accompanying Notes to Financial Statements.

DORN & CO., INC.
STATEMENTS OF FINANCIAL CONDITION

December 31,
2002 2001

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Accounts payable		
Dain trading payable	\$ 553,359	\$ 230,991
Vendors - trade obligations	1,110	1,820
Accrued income taxes		3,000
Accrued expenses	14,697	8,887
Due to officer	<u>3,696</u>	<u> </u>
 Total Current Liabilities	 <u>\$ 572,862</u>	 <u>\$ 244,698</u>

STOCKHOLDER'S EQUITY

Common stock		
Par value \$10		
Authorized - 25,000 shares		
Issued and Outstanding - 6,000 shares	\$ 60,000	\$ 60,000
Retained earnings	<u>600,866</u>	<u>598,312</u>
 Total Stockholder's Equity	 <u>\$ 660,866</u>	 <u>\$ 658,312</u>
	 <u>\$1,233,728</u>	 <u>\$ 903,010</u>

See accompanying Notes to Financial Statements.

DORN & CO., INC.
STATEMENTS OF INCOME

	For the Years Ended December 31,	
	2002	2001
INCOME		
Gain on sale and holding of trading account securities	\$ 394,344	\$ 209,085
Commissions on security sales	30,097	30,583
Commissions and concessions on mutual funds	563,718	550,083
Annuity fees	151	14,342
Dividends and interest earned	25,690	19,921
Other income	5,033	747
Total Income	<u>\$1,019,033</u>	<u>\$ 824,761</u>
EXPENSES		
Salaries and commissions		
Executive	\$ 275,000	\$ 205,000
Registered representative	114,171	103,042
Office and clerical	158,683	152,632
Payroll taxes	30,278	27,141
Advertising	25,264	23,685
Bank service and clearing charges	46,765	34,103
Depreciation	51,979	26,577
Client expense/Expos	20,278	5,196
Utilities and building occupancy	18,902	19,188
Licenses, bonds and insurance	7,039	8,786
Memberships, books, dues and subscriptions	11,028	15,487
Office supplies and expense	18,303	12,457
Postage	6,649	11,091
Professional services	36,294	7,287
Rents	72,000	60,000
Travel and entertainment	10,014	13,754
Telephone	10,595	11,463
Employee benefits	15,418	17,905
Profit sharing trust contributions	87,819	60,799
Total Expenses	<u>\$1,016,479</u>	<u>\$ 815,593</u>
INCOME BEFORE PROVISIONS FOR INCOME TAXES	<u>\$ 2,554</u>	<u>\$ 9,168</u>
PROVISIONS FOR INCOME TAXES	<u>\$ 0</u>	<u>\$ 3,767</u>
NET INCOME FOR YEAR	<u>\$ 2,554</u>	<u>\$ 5,401</u>

See accompanying Notes to Financial Statements.

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

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
RETAINED EARNINGS, BEGINNING OF YEAR	\$598,312	\$592,911
NET INCOME	<u>2,554</u>	<u>5,401</u>
RETAINED EARNINGS, END OF YEAR	<u>\$600,866</u>	<u>\$598,312</u>

See accompanying Notes to Financial Statements.

DORN & CO., INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31,	
	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and clients	\$ 4,972,809	\$ 3,821,500
Cash payments to brokers, vendors and employees	(5,003,667)	(3,945,941)
Interest and dividends received	30,723	20,668
Income taxes paid	3,200	
Interest paid	<u>(74)</u>	<u>(33)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,991</u>	<u>\$ (103,806)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	\$ (30,098)	\$ (15,728)
Purchase of other assets	<u> </u>	<u>(3,200)</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ (30,098)</u>	<u>\$ (18,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Cash Provided (Used) by Financing Activities	<u>\$ 0</u>	<u>\$ 0</u>
NET INCREASE IN CASH	\$ (27,107)	\$ (122,734)
CASH - beginning of year	<u>46,314</u>	<u>169,048</u>
CASH - end of year	<u>\$ 19,207</u>	<u>\$ 46,314</u>

See accompanying Notes to Financial Statements.

DORN & CO., INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31,	
	<u>2002</u>	<u>2001</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net income	\$ <u>2,554</u>	\$ <u>5,401</u>
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	\$ 51,979	\$ 26,577
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(47,087)	9,441
(Increase) decrease in trading account	(328,605)	(263,657)
(Increase) decrease in prepaid expenses	(1,238)	473
(Increase) decrease in other assets	(5,776)	2,540
Increase (decrease) in accounts payable	(710)	(304)
Increase (decrease) in other liabilities	331,874	112,723
Increase (decrease) in accrued income taxes	<u> </u>	<u>3,000</u>
Total Adjustments	\$ <u>437</u>	\$ <u>(109,207)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 2,991</u>	<u>\$ (103,806)</u>
 CASH AND CASH EQUIVALENTS		
Operating Account	\$ 2,050	\$ 45,006
Savings accounts	<u>17,157</u>	<u>1,308</u>
Total Cash and Cash Equivalents	<u>\$ 19,207</u>	<u>\$ 46,314</u>

See accompanying Notes to Financial Statements.

DORN & CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

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 (\$11,107) and (\$17,343) at December 31, 2002 and 2001. The decreases of \$11,107 and \$17,343 have been reflected in operations of the years ended December 31, 2002 and 2001, respectively.

Property and Equipment - Property and equipment is recorded at cost less accumulated depreciation to date. Depreciation is computed on the straight-line method using estimated useful lives of 5 to 30 years.

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.

DORN & CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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 liabilities or assets between years. Deferred tax assets are reduced by a valuation allowance when in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized.

NOTE 2 - INCOME TAX

An income tax receivable of \$2,766 resulted from operations during the year ending December 31, 2002.

A deferred tax asset consisting of the following exists:

	<u>December 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Current		
Federal	\$ 4,564	\$ 259
State	<u> </u>	<u> </u>
	\$ 4,564	\$ 259
Valuation allowance	<u>(4,564)</u>	<u>(259)</u>
Net Deferred Taxes	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

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, 2002 and 2001. 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, 2002 or 2001.

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 \$87,819 and \$60,799 for 2002 and 2001.

DORN & CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

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, 2002, aggregated indebtedness and net capital were \$572,862 and \$360,456, respectively, a ratio of 1.59 to 1. At December 31, 2001, aggregate indebtedness and net capital were \$244,698 and \$353,306, respectively, a ratio of 0.69 to 1.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Company maintains its offices in a building owned by its sole shareholder, and paid amounts of \$72,000 and \$60,000 for rent in 2002 and 2001, respectively. 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, 2002 and 2001, the Company had accounts receivable from customer open transactions of \$0 and \$0, respectively.

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, 2002 and 2001. 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, 2002

TOTAL STOCKHOLDERS' EQUITY - per statement of financial condition	<u>\$664,560</u>
DEDUCTIONS	
Unallowable Assets	
Prepaid expenses	\$ 4,315
Property and equipment - net of accumulated depreciation	211,275
Investment in antique personal property	31,607
Haircuts on Trading Account Securities	
Municipal bonds	<u>56,907</u>
Total Deductions	<u>\$304,104</u>
NET CAPITAL	<u>\$360,456</u>
TOTAL LIABILITIES - per statement of financial condition	<u>\$572,862</u>
DEDUCTIONS	<u>\$ 0</u>
AGGREGATE INDEBTEDNESS	<u>\$572,862</u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	1.59 to 1

1

¹The 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, 2002

	<u>Market Value</u>	<u>Cost</u>
CORPORATE STOCKS		
None held		
MUNICIPAL BONDS		
Golden Valley MN Revenue Bonds, 5.5%, \$680,000 par value	\$ 630,578	\$ 645,300
Minneapolis MN Revenue Bonds, 5.1%, \$40,000 par value	40,168	38,800
CORPORATE BONDS		
Federal Home Loan Mortgage Corporation (FHLMC) Bonds, 6.0%, \$4,000 par value	4,066	4,033
Federal Home Loan Mortgage Corporation (FHLMC) Bonds, 6.0%, \$107,000 par value	107,000	106,198
Government National Mortgage Association (GNMA) Bonds, 5.5%, \$72,000 par value	72,000	70,740
Government National Mortgage Association (GNMA) Bonds, 5.5%, \$7,000 par value	<u>7,000</u>	<u>6,878</u>
	<u>\$ 860,812</u>	<u>\$ 871,949</u>

See Independent Auditors' Report.

DORN & CO., INC.
INSURANCE IN FORCE
DECEMBER 31, 2002

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

See Independent Auditors' Report.