

* AA 3/7/2003



03012826

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

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

UF 3-6 03

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2004
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8- 53604

**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: Integrity Brokerage Services, Inc.

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

2424 Vista Way #316

(No. and Street)

Oceanside

(City)

CA

(State)

92056

(Zip Code)

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

Joshua Helme 760-450-1000

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Mary Louise De Meo, Leone, De Meo & Associates

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

5790 Fleet Street, Ste.120 Carlsbad, CA 92008

(Address)

(City)

(State)

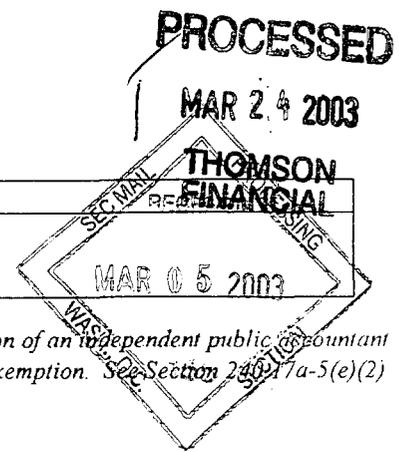
(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

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, Joshua Helmle, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Integrity Brokerage Services, Inc., 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:



Angela F. Helmle
Notary Public 2/27/03

Joshua Helmle
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).

Integrity Brokerage Services, Inc.
Financial Statements and
Supplemental Information
December 31, 2002

Integrity Brokerage Services, Inc.
December 31, 2002

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Balance Sheet	2
Statement of Income	3
Statement of Cash Flows	4
Statement of Changes in Equity	5
Notes to the Financial Statements	6 - 8
Supplemental Schedules	S-1 - S-2
Independent Auditor's Report on Internal Accounting Controls	9 - 10

Leone, De Meo & Associates, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

5790 Fleet St., Ste 120
Carlsbad, California 92008

(760) 931-9973 Office
(760) 931-9913 Fax

43521 Ridge Park Dr., Ste 102
Temecula, California 92590

(909) 695-4733 Office
(909) 695-4737 Fax

Joshua Helmle
President
Integrity Brokerage Services, Inc.
Oceanside, CA

Independent Auditor's Report

We have audited the accompanying balance sheet of Integrity Brokerage Services, Inc. as of December 31, 2002, and the related statements of income, changes in equity and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 audit provides 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 Integrity Brokerage Services, Inc. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the related schedules 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. 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.

Mary De Meo for Leone De Meo & Associates

Leone, De Meo & Associates
Carlsbad, California
February 25, 2003

Integrity Brokerage Services, Inc.
Balance Sheet
December 31, 2002

Assets			
Current assets			
Cash and cash equivalents	\$	118,292	
Deposits with clearing organizations (cash)		11,793	
Receivable from clearing organizations		54,374	
Prepaid expenses		654	
Total current assets		185,113	\$ 185,113
Fixed assets			
Furniture, computer equipment & software, at cost, less accumulated depreciation of \$1,523		8,664	
Total assets		193,777	\$ 193,777
		Liabilities and Stockholders' Equity	
Current liabilities			
Accounts Payable	\$	947	
Commissions payable		109,350	
Corporate tax payable		371	
Total current liabilities		110,668	\$ 110,668
Stockholders' equity			
Common stock-100,000 shares authorized, issued and outstanding		79,854	
Retained earnings		3,255	
Total stockholders' equity		83,109	
Total liabilities and stockholders' equity		193,777	\$ 193,777

The accompanying notes are an integral part of these financial statements.

Integrity Brokerage Services , Inc.
Statement of Income

	<u>Sole Proprietorship</u>	<u>Corporation</u>	<u>Total</u>
	From Inception (January 1, 2002) through September 30, 2002	From Inception (October 1, 2002) through December 31, 2002	For the Year Ended December 31, 2002
Revenue - Schedule 1	\$ 338,029	\$ 270,417	\$ 608,446
General and administrative expenses - Schedule 2	<u>316,552</u>	<u>245,410</u>	<u>561,962</u>
Net income before provision for taxes	21,477	25,007	46,484
Provision for income taxes	<u> </u>	<u>358</u>	<u>358</u>
Net income	<u>\$ 21,477</u>	<u>\$ 24,649</u>	<u>\$ 46,126</u>

The accompanying notes are an integral part of these financial statements.

Integrity Brokerage Services, Inc.
Statement of Cash Flows

	<u>Sole Proprietorship</u>	<u>Corporation</u>	<u>Total</u>
	From Inception (January 1, 2002) through September 30, 2002	From Inception (October 1, 2002) through December 31, 2002	For the Year Ended December 31, 2002
Cash flows from operating activities:			
Net income	\$ 21,477	\$ 24,649	\$ 46,126
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,082	441	1,523
(Increase) decrease in receivable from clearing organizations	(29,725)	(24,649)	(54,374)
(Increase) decrease in prepaid expenses	(15)	(639)	(654)
Increase (decrease) in accounts payable		947	947
Increase (decrease) in commissions payable	40,523	68,827	109,350
Increase (decrease) in corporate tax payable		371	371
Total adjustments	11,865	45,298	57,163
Net cash provided (used) by operating activities	33,342	69,947	103,289
Cash flows from investing activities:			
Purchase of equipment	0	(1,600)	(1,600)
Net cash provided (used) by investing activities	0	(1,600)	(1,600)
Cash flow from financing activities:			
Owner's capital contributions	49,790		49,790
Distributions to stockholders		(21,394)	(21,394)
Net cash provided (used) by financing activities	49,790	(21,394)	28,396
Net increase in cash	83,132	46,953	130,085
Cash and cash equivalents at beginning of period		83,132	
Cash and cash equivalents at end of period	\$ 83,132	\$ 130,085	\$ 130,085

Supplemental schedule of non-cash investing and financing activities:

During the period from inception (January 1, 2002) through September 30, 2002, the owner contributed equipment costing \$8,587 to the Company.

Integrity Brokerage Services, Inc.
Statement of Changes in Equity
For the Year Ended December 31, 2002

	<u>Owner's Equity</u>	<u>Common Stock</u>		<u>Retained Earnings</u>
		<u>Shares</u>	<u>Amount</u>	
Balance at January 1, 2002	\$ 0	0	\$ 0	\$ 0
Contributions to capital	58,377			
Net Income for the period	21,477			24,649
Exchange of owner's equity for common stock	(79,854)	100,000	79,854	
Distributions to stockholders				<u>(21,394)</u>
Balance at December 31, 2002	<u>\$ 0</u>	<u>100,000</u>	<u>\$ 79,854</u>	<u>\$ 3,255</u>

The accompanying notes are an integral part of these financial statements.

Integrity Brokerage Services, Inc.
Notes to Financial Statements
December 31, 2002

NOTE 1: Summary of Significant Accounting Policies

Organization and Nature of Business

Integrity Brokerage Services, Inc. (the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD.) The Company is a California corporation.

Effective October 1, 2002, the Company was incorporated by issuing 100,000 shares of no par common stock in exchange for all the assets and liabilities of Integrity Brokerage Services Proprietorship. Those assets and liabilities were recorded in the accompanying financial statements at the proprietorship's historical cost basis as summarized below:

Cash	\$ 83,133
Accounts receivable	29,740
Furniture and equipment	7,504
Commissions payable	<u>(40,523)</u>
	<u>\$ 79,854</u>

Common stock of \$79,854 was recorded.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Revenue Recognition

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

Fixed Assets

Property and equipment are stated at cost. Depreciation on furniture and equipment is computed using the double declining balance method and estimated useful lives ranging from three to seven years.

Integrity Brokerage Services, Inc.
Notes to Financial Statements
December 31, 2002

Income Taxes

Prior to incorporation, no provision was made for income taxes because earnings were included in the personal tax return of the proprietor. Effective with the incorporation, the Company became a taxable entity in California. After incorporation, the Company, with the consent of its shareholders, elected under the Internal Revenue Code to be an S Corporation. In lieu of federal corporation income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision for federal income taxes has been included in these financial statements.

Income taxes - state only - are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

A certificate of deposit in the amount of \$2,084 is included in cash in the accompanying financial statements. The certificate bears interest at 4.5% and matured on January 25, 2003.

Cash in clearing accounts totaling \$11,793 is included in cash in the accompanying financial statements. The Company has an agreement with Penson Financial Services, Inc. (Penson) to clear and maintain customer accounts for the Company. At December 31, 2002, Penson required the amount of \$25,000 to be on deposit.

NOTE 2: Disclosures About the Fair Value of Financial Instruments

The carrying amounts of cash and deposits with clearing organizations approximate fair value because of the short maturity of the instruments.

NOTE 3: Operating Lease Commitments

On December 12, 2002, the Company signed a lease agreement for office space. The lease expires on April 30, 2006.

Integrity Brokerage Services, Inc.
Notes to Financial Statements
December 31, 2002

Minimum future rental payments under this lease are:

Year Ending December 31,	
2003	\$ 13,580
2004	16,296
2005	16,296
2006	5,432
	<u>\$ 51,604</u>

NOTE 4: Concentrations of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

Integrity Brokerage Services, Inc.
Supplemental Schedules

	<u>Sole Proprietorship</u>	<u>Corporation</u>	<u>Total</u>
	From Inception (January 1, 2002) through September 30, 2002	From Inception (October 1, 2002) through December 31, 2002	For the Year Ended December 31, 2002
Schedule 1: Revenue			
Commissions	\$ 336,884	\$ 267,709	\$ 604,593
Rebates	59	2,274	2,333
Interest	1,086	434	1,520
Total revenue	<u>\$ 338,029</u>	<u>\$ 270,417</u>	<u>\$ 608,446</u>

Schedule 2: General & administrative expenses

Automobile	\$ 281	\$ 80	\$ 361
Bank charges	109	10	119
Commissions	296,314	228,402	524,716
Utilities and telephone	4,874	901	5,775
Insurance	919		919
Printing and reproduction	521	69	590
Miscellaneous	76		76
Officers' salaries and benefits		5,038	5,038
Penalties		13	13
Clearing charges	2,861	5,287	8,148
Professional fees	2,440	1,510	3,950
Registration fees	6,538	3,589	10,127
Research	247		247
Depreciation	1,082	441	1,523
Travel and meals	290	70	360
Total general & administrative expenses	<u>\$ 316,552</u>	<u>\$ 245,410</u>	<u>\$ 561,962</u>

The accompanying notes are an integral part of these financial statements

Integrity Brokerage Services, Inc.
Supplemental Schedules
December 31, 2002

Schedule 3: Computation of Net Capital

Total stockholders' equity	\$	83,109
Deduct stockholders' equity not allowable for net capital		9,318
Total stockholders' equity qualified for net capital		<u>73,791</u>
Nonallowable assets		
Furniture, computer equipment & software, at cost, net of accumulated depreciation		8,664
Prepaid expenses		654
		<u>9,318</u>
Net capital		73,791
Required net capital		50,000
Excess net capital	\$	<u><u>23,791</u></u>

The accompanying notes are an integral part of these financial statements.

Leone, De Meo & Associates, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

5790 Fleet St., Ste 120
Carlsbad, California 92008

(760) 931-9973 Office
(760) 931-9913 Fax

43521 Ridge Park Dr., Ste 102
Temecula, California 92590

(909) 695-4733 Office
(909) 695-4737 Fax

Joshua Helmle
President
Integrity Brokerage Services, Inc.
Oceanside, CA

In planning and performing our audit of the financial statements and supplemental schedules of Integrity Brokerage Services, Inc. (the Company), for the year ended December 31, 2002, 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 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 (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 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 Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles.

Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control 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 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 error 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 the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and 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 to be and should not be used by anyone other than these specified parties.

Mary De Meo for Leone De Meo & Associates

Leone, De Meo and Associates
Carlsbad, California
February 25, 2003