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

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

SEC FILE NUMBER
8-53591

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: PASSCO CAPITAL INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

801 N. Parkcenter Dr., #235

(No. and Street)

Santa Ana CA

(City)

(State)

92705

(Zip Code)

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

Thomas B. Jahncke

(714) 836-5503

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Balsler Horowitz Frank & Wakeling

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

(Address)

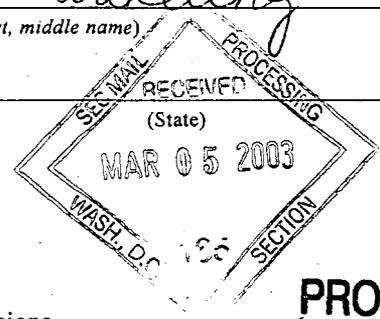
(City)

(State)

(Zip Code)

CHECK ONE:

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



**PROCESSED**

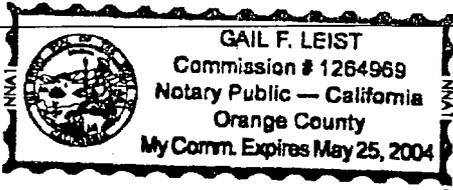
<b>FOR OFFICIAL USE ONLY</b>	<b>MAR 24 2003</b>
	<b>THOMSON FINANCIAL</b>

\*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)

1 2003

OATH OR AFFIRMATION

I, Thomas B. Jahricke, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PASSCO CAPITAL INC., as of 12/31/02, 20    , 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:



Thomas B. Jahricke  
Signature  
President  
Title

Gail F Leist  
Notary Public

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).

**PASSCO CAPITAL, INC.**

**INDEPENDENT AUDITORS' REPORT**

**December 31, 2002**

**PASSCO CAPITAL, INC.**

**December 31, 2002**

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# BALSER, HOROWITZ, FRANK & WAKELING

AN ACCOUNTANCY CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Passco Capital, Inc.  
Santa Ana, California

We have audited the accompanying statement of financial condition of Passco Capital, Inc. as of December 31, 2002, and the related statements of income, changes in stockholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Passco Capital, Inc. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 8 through 12 is presented for the purpose 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 requirements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Balsler, Horowitz, Frank & Wakeling*

BALSER, HOROWITZ, FRANK & WAKELING  
An Accountancy Corporation

Santa Ana, California  
February 14, 2003

**PASSCO CAPITAL, INC.**

**STATEMENT OF FINANCIAL CONDITION**

December 31, 2002

**ASSETS**

**Assets**

Cash in bank \$ 23,860

Total assets \$ 23,860

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Liabilities**

Income taxes payable \$ 1,323

Total liabilities 1,323

**Stockholder's Equity**

Common stock, no par value, 10,000 shares  
authorized, 1,000 shares issued and outstanding 10,000

Additional paid in capital 8,000

Retained earnings 4,537

Total stockholder's equity 22,537

Total liabilities and stockholder's equity \$ 23,860

See accompanying notes and independent auditors' report.

**PASSCO CAPITAL, INC.**

**STATEMENT OF INCOME**

For the Year Ended December 31, 2002

<b>Revenue</b>	
Sales commissions	\$1,965,159
Due diligence fees	<u>3,870</u>
Total revenue	<u>1,969,029</u>
<b>Operating Expenses</b>	
Commissions	1,830,423
Broker dealer expenses	5,942
Consulting fees	65,000
Due diligence expense	30,918
Office expenses	16,545
Outside services	4,958
Taxes	<u>1,166</u>
Total operating expenses	<u>1,954,952</u>
Income before provision for income taxes	14,077
Provision for income taxes	<u>1,323</u>
Net income	<u>\$ 12,754</u>

See accompanying notes and independent auditors' report.

PASSCO CAPITAL, INC.

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

For the Year Ended December 31, 2002

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Earnings (Deficit)</u>	<u>Total</u>
Balances, January 31, 2000	\$ 10,000	\$ 0	\$ 0	\$ 10,000
Additional paid-in capital	0	8,000	0	8,000
Net income	<u>0</u>	<u>0</u>	<u>(8,217)</u>	<u>(8,217)</u>
Balances, January 31, 2001	10,000	8,000	(8,217)	9,783
Net income	<u>0</u>	<u>0</u>	<u>12,754</u>	<u>12,754</u>
Balances, January 31, 2002	<u>\$ 10,000</u>	<u>\$ 8,000</u>	<u>\$ 4,537</u>	<u>\$ 22,537</u>

See accompanying notes and independent auditors' report.

**PASSCO CAPITAL, INC.**

**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2002

**Cash Flows From Operating Activities**

Net income	\$ 12,754
Changes in operating assets and liabilities:	
Increase in income taxes payable	<u>1,323</u>
Net cash provided by operating activities	<u>14,077</u>
Net increase in cash	14,077
Cash at beginning of year	<u>9,783</u>
Cash at end of year	<u>\$ 23,860</u>

There were no investing or financing activities for the year ended December 31, 2002.

**Supplemental Disclosures Of Cash Flow Information**

Cash paid for:	
Interest	\$ <u>0</u>
Income taxes	\$ <u>800</u>

See accompanying notes and independent auditors' report.

**PASSCO CAPITAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2002

**Note 1 - Summary Of Significant Accounting Policies**

Organization and Nature of Business

The Company, a California corporation, was incorporated on March 16, 1998 and adopted a fiscal year of December 31. It maintains its principal and only active office in Santa Ana, California.

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). Operations are pursuant to the (K)(2)(i) exemptive provision of SEC Rule 15c3-3 and does not hold customer funds or securities. The business consists of the offering and sale of undivided tenant in common interests.

Method of Accounting

The Company maintains its books and records on the cash basis of accounting.

Cash and cash equivalents

For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

Concentrations of credit risk

The Company maintains one bank account, the balance of which may, at times, be in excess of Federal Deposit Insurance Corporation (FDIC) limits. The Company has not experienced any losses in such account. Management does not believe that the Company is exposed to any significant credit risk in connection with cash and cash equivalents.

Income Taxes

The provision for taxes and related asset or liability includes Federal and State of California income taxes.

Financial statement estimates and assumptions

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**PASSCO CAPITAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2002

**Note 2 - Net Capital Requirements**

The Company is subject to a \$5,000 minimum capital requirement under SEC Rule 15c3-1, which requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. Net capital and related capital ratio fluctuate on a daily basis; however, at December 31, 2002, the Company had net capital of \$22,537, which was \$17,537 in excess of its required net capital of \$5,000. The net capital ratio was not in excess of its 15 to 1 ratio to aggregate indebtedness at that date.

**Note 3 - Related Parties**

The Company is wholly owned by the majority stockholder of Passco Real Estate Enterprises, Inc., a California Corporation.

The Company received commissions from Passco Real Estate Enterprises, Inc. totaling \$1,936,709 from the sale of undivided tenant in common interests for the year ended December 31, 2002.

The Company's sole stockholder receives commissions on the direct retail sales by the owner of the investment programs which the Company sponsors. For the year ended December 31, 2002 commissions of \$144,245 were paid to the sole stockholder.

The Company has entered into an expense sharing agreement with Passco Real Estate Enterprises, Inc., under which Passco Real Estate Enterprises, Inc. will be responsible for the rent and occupancy costs of the Company. Passco Capital, Inc. will contribute to the rent and occupancy costs as the Company is able. For the year ended December 31, 2002 the Company paid Passco Real Estate Enterprises, Inc. \$80,269 for services provided to the Company, including the use of personnel, utilities, and supplies.

**PASSCO CAPITAL, INC.**  
**STATEMENT OF CHANGES IN LIABILITIES**  
**SUBORDINATED TO CLAIMS OF CREDITORS**  
December 31, 2002

As of the audited year ended December 31, 2002, no subordinated liabilities or agreements exist in the financial statements of Passco Capital, Inc.

**PASSCO CAPITAL, INC.**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**December 31, 2002**

**Computation of Net Capital**

Total stockholder's equity	\$ <u>22,537</u>
Net capital	\$ <u>22,537</u>

**Computation of Basic Net Capital Requirement**

Minimum net capital requirement or 6 2/3% of aggregate indebtedness	\$ <u>5,000</u>
Net capital from above	\$ <u>22,537</u>
Net capital in excess of minimum	\$ <u>17,537</u>

**Computation of Ratio of Aggregate Indebtedness**

Total aggregate indebtedness	\$ <u>1,323</u>
Percentage of aggregate indebtedness to net capital	<u>6%</u>
Percentage of debt to debt-equity total computed in accordance with Rule 15c 3-1 (d)	<u>0%</u>
Excess net capital at 100%	\$ <u>17,537</u>

**PASSCO CAPITAL, INC.**  
**STATEMENT UNDER RULE 17a-5(d)(4) OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**December 31, 2002**

The audit disclosed no violation of the net capital requirements, financial and/or record-keeping problems. There were no material variations in the financial data reported on the unaudited Form X-17A-5 Part IIA dated December 31, 2002, with the final audit report attached.

**PASSCO CAPITAL, INC.**  
**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS**  
**PURSUANT TO RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION**  
**December 31, 2002**

The Company is exempt from the provisions of Rule 15c3-3 of the Securities Exchange Act under Section k1 (C), since it promptly transmits all funds and delivers all securities received in connection with its activities as a broker or dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers.

**PASSCO CAPITAL, INC.**  
**INFORMATION RELATING TO THE POSSESSION OR CONTROL**  
**REQUIREMENTS UNDER RULE 15c3-3 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**December 31, 2002**

Not applicable

# BALSER, HOROWITZ, FRANK & WAKELING

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

February 14, 2003

Board of Directors  
Passco Capital, Inc.  
Santa Ana, California

In planning and performing our audit of the financial statements and supplemental information of Passco Capital, 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 the internal control structure.

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

- 13 -

1551 N. TUSTIN AVENUE., SUITE 1010, SANTA ANA, CA 92705

TELEPHONE (714) 543-1035 • FAX (714) 543-1567

Passco Capital, Inc.

Page two

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 structure elements 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 use of management, the SEC, the New York Stock Exchange and other regulatory agencies which 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.

*Balser, Horowitz, Frank & Wakeling*

BALSER, HOROWITZ, FRANK & WAKELING

An Accountancy Corporation

Santa Ana, California

February 14, 2003