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

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

SEC FILE NUMBER  
8-53386

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: MSF Securities, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

Two Park Square, Suite 611, 6565 America's Parkway NE  
(No. and Street)

Albuquerque New Mexico 87110  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
John J. Oestreicher 505-883-3131  
(Area Code - Telephone Number)

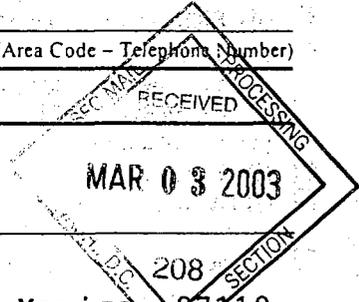
**B. ACCOUNTANT IDENTIFICATION**

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

Phillippi Wright & Co. LLC

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

4101 Indian School Road NE, Suite 310, Albuquerque, New Mexico 87110  
(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 21 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)

083-22

OATH OR AFFIRMATION

I, John J. Oestreicher, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MSF Securities, 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:



OFFICIAL SEAL  
**BRENDA BOWMAN**  
NOTARY PUBLIC-STATE OF NEW MEXICO  
My commission expires: 9-8-04

*[Handwritten Signature]*  
Signature

President  
Title

*[Handwritten Signature]*  
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).

**MSF SECURITIES, INC.**

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PHILLIPPI WRIGHT & CO. LLC

Certified Public Accountants and Business Advisors

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
MSF Securities, Inc.

We have audited the accompanying statement of financial condition of MSF Securities, Inc. (the Company) as of December 31, 2002, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities and 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 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 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 MSF Securities, Inc. at December 31, 2002, and the results of their operations and their cash flows for the year 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 the schedule of computation of net capital 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.

*Phillippi Wright & Co. LLC*  
PHILLIPPI, WRIGHT & CO., LLC

February 7, 2003

 MGI

Member Firm: American Institute of Certified Public Accountants • Midsnell Group International  
4101 Indian School Road NE, Suite 310 Albuquerque, New Mexico 87110  
Phone 505-255-1040 Fax 505-255-1065 E-mail pwc@pwc-cpa.com

**INDEPENDENT AUDITORS' REPORT OF INTERNAL CONTROL  
REQUIRED BY SEC RULE 17a-5**

Board of Directors  
MSF Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedule of MSF Securities, 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 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 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 the 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 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.

**PHILLIPPI, WRIGHT & CO., LLC**

February 7, 2003

**MSF SECURITIES, INC.**  
**Statement of Financial Condition**

December 31, 2002

**Assets**

**Current Assets:**

Cash and cash equivalents	\$ 44,924
Accounts receivable	2,865
Prepaid expenses	141
	<u>47,930</u>

**Other Assets:**

Organizational fees, net of amortization of \$683	<u>1,879</u>
	<u>\$ 49,809</u>

**Liabilities and Stockholder's Equity**

**Current Liabilities:**

Accrued liabilities	<u>\$ 1,215</u>
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**Stockholder's Equity:**

Common Stock, no par value:	
Authorized - 100,000 shares	
Issued and outstanding - 1,000 shares	5,000
Additional paid-in capital	13,397
Retained earnings	30,197
	<u>48,594</u>
	<u>\$ 49,809</u>

The Accompanying Notes Are An Integral Part of These Financial Statements

**MSF SECURITIES, INC.**  
**Statement of Income**

Year Ended December 31, 2002

Sales commissions	\$ 51,034
Operating expenses:	
Amortization	512
Consulting	2,000
Contract service	2,885
Contributions	500
Dues and permits	1,575
Insurance	371
Office expense	4,145
Sales tax	2,662
	<hr/>
Total operating expense	14,650
	<hr/>
Net Income	\$ 36,384
	<hr/> <hr/>

The Accompanying Notes Are An Integral Part of These Financial Statements

**MSF SECURITIES, INC.**  
**Statement of Changes in Stockholder's Equity**

Year Ended December 31, 2002

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at January 1, 2002	\$ 5,000	\$ 13,397	\$ (6,187)	\$ 12,210
Net income for the year ended December 31, 2002	<u>-</u>	<u>-</u>	<u>36,384</u>	<u>36,384</u>
Balance at December 31, 2002	<u>\$ 5,000</u>	<u>\$ 13,397</u>	<u>\$ 30,197</u>	<u>\$ 48,594</u>

The Accompanying Notes Are An Integral Part of These Financial Statements

**MSF SECURITIES, INC.**  
**Statement of Cash Flows**

Year Ended December 31, 2002

**Increase (Decrease) in Cash and Cash Equivalents**

Cash flows from operating activities

Cash received from customers

\$ 48,169

Cash paid to suppliers

(13,532)

Net cash provided (used) by operating activities

34,637

**Net Increase (Decrease) in Cash and Cash Equivalents**

34,637

Cash and cash equivalents, beginning of year

10,287

Cash and cash equivalents, end of year

\$ 44,924

The Accompanying Notes Are An Integral Part of These Financial Statements

**MSF SECURITIES, INC.**  
**Statement of Cash Flows**

Year Ended December 31, 2002

**Reconciliation of Net Income to Net Cash  
Provided by Operating Activities**

Net income	\$ 36,384
Adjustments to reconcile net income to net net cash provided (used) by operating activities	
Amortization	512
Change in assets and liabilities	
(Increase) decrease in receivables	(2,865)
(Increase) decrease in prepaid expenses	(141)
Increase (decrease) in accrued liabilities	747
Total adjustments	(1,747)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 34,637</u></u>

The Accompanying Notes Are An Integral Part of These Financial Statements

**MSF SECURITIES, INC**  
**Notes to Financial Statements**

December 31, 2002

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Nature of Business

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 New Mexico "S" Corporation that is a wholly-owned subsidiary of Market Space Financial, Inc. (Parent) with all of its customers located in New Mexico.

2. Use of Estimates

Management uses estimates and assumptions, such as amortization, in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results may differ from those estimates.

3. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments to be cash equivalents.

4. Accounts Receivable

The Company considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

5. Organizational Fees

The Company incurred organization fees upon incorporation of \$2,562. This cost is being amortized over 60 months.

6. Sales Commissions

The Company transacts all of its securities business through a member of a national securities exchange that acts as an agent for the Company. The commissions earned by the Company are as provided in the prospectus or in the schedule of concessions issued by the agent.

**MSF SECURITIES, INC**  
**Notes to Financial Statements**

December 31, 2002

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**7. S Corporation-Income Tax Status**

The Company, with the consent of its stockholder, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the stockholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements.

**NOTE B - RELATED PARTY TRANSACTIONS**

The Company entered into an agreement with the parent company to utilize common office space, office equipment and personnel. In addition the Company's president, a stockholder of the parent, provides consulting services to the Company. The following transactions resulted with the parent and president of the Company:

Office expense	<u>\$ 3,654</u>
Consulting	<u>\$ 2,000</u>

**NOTE C - NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (8 to 1 for 12 months after commencing business as a broker dealer) and maintain net capital of not less than \$5,000. At December 31, 2002, the Company had net capital of \$43,709 which was \$38,709 in excess of its required net capital of \$5,000. The Company's net capital ratio was 0.3 to 1.

**MSF SECURITIES, INC.**  
**Schedule of Computation of Net Capital**

December 31, 2002

Total stockholder's equity	<u>\$ 48,594</u>
Deductions/charges:	
Nonallowable assets:	
Unsecured accounts receivable	2,865
Prepaid expenses	141
Other assets	<u>1,879</u>
Total deductions	<u>4,885</u>
Net Capital	43,709
Minimum net capital required	<u>5,000</u>
Excess net capital	<u>\$ 38,709</u>
Aggregate Indebtedness	<u>\$ 1,215</u>
Ratio of aggregate indebtedness to net capital	<u>0.3 to 1</u>