

3/11/03



03014069

ES  
SECURITIES COMMISSION  
20549

CM

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**

RECEIVED  
MAR - 3 2003  
181  
SECTION

SEC FILE NUMBER
8-37152

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: FIRST ILLINOIS SECURITIES INC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
22 HERITAGE

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

BOURBONNAIS IL 60914  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
JAMES KRESL (815)932-4646  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

BURKE MONTAGUE & ASSOCIATES LLC  
(Name - if individual, state last, first, middle name)

183 NORTH SCHUYLER AVE KANKAKEE IL 60901  
(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 24 2003**

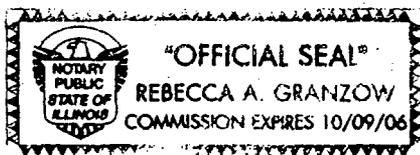
FOR OFFICIAL USE ONLY	THOMSON FINANCIAL

\*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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, CHARLES BURKE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FIRST ILLINOIS 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:



[Handwritten Signature]
Signature

MEMBER
Title

[Handwritten Signature: Rebecca A. Granzow]
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).

First Illinois Securities, Inc.  
(An Illinois Corporation)  
Focus Report  
For the Year Ended December 31, 2002

First Illinois Securities, Inc.  
(An Illinois Corporation)  
Focus Report  
Year Ended December 31, 2002

Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statement of Financial Condition	3
Statement of Income	6
Statement of Changes in Ownership Equity	7
Statement of Changes in Liabilities Subordinated to Claims of General Creditors	N/A
Statement of Cash Flows	8
Notes to the Financial Statements	9-10
Accompanying Information:	
Computation of Net Capital	4
Computation of Basic Net Capital Requirements	5
Computation of Aggregate Indebtedness	5
Exemptive Provision under Rule 15c3-3	5
Letter on Internal Control	11-12

# Burke, Montague & Associates L.L.C.

*Certified Public Accountants, Advisors & Auditors*

*Members*

Charles R. Burke, CPA  
Jodi K. Bruer, CPA  
Raymond J. Raymond, CPA  
Kathleen C. Wilson, CPA

*Consultant*

Robert J. Montague, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
First Illinois Securities, Inc.  
Bourbonnais IL 60914

We have audited the accompanying financial statements, of First Illinois Securities, Inc. (An Illinois Corporation) as of December 31, 2002, as listed in the table of contents. 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 the financial position of First Illinois Securities, 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 purposes of forming an opinion on the financial statements taken as a whole. The computation of net capital, computation of basic net capital requirement, computation of aggregate indebtedness, and exemptive provision under Rule 15c3-3 are presented for purposes of additional analysis and are not a required part of the financial statements, but are supplemental information required by Rule 17a-5 of the Securities and Exchange Commission. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

*Burke, Montague & Associates L.L.C.*

Burke, Montague & Associates L.L.C.  
Kankakee, Illinois

February 21, 2003

First Illinois Securities, Inc.  
 (An Illinois Corporation)  
 Statement of Financial Condition  
 As of December 31, 2002

Assets

Current Assets

Cash & Cash Equivalents	\$	235,864	
Investments		47,668	
Accounts Receivable		6,032	
Marketable Securities		3,000	
Prepaid Income Taxes		4,527	
Total Current Assets			\$ 297,091

Other Assets

Due from Affiliate	\$	40,000	
Total Other Assets			\$ 40,000

Total Assets			\$ 337,091
--------------	--	--	------------

Liabilities and Stockholder's Equity

Current Liabilities

Accounts Payable	\$	100	
Total Current Liabilities			\$ 100

Stockholder's Equity

Common Stock, \$.01 Par Value, 1,000 Shares Authorized, Issued & Outstanding	\$	10	
Additional Paid in Capital		7,490	
Retained Earnings		329,491	
Total Shareholder's Equity			\$ 336,991

Total Liabilities & Stockholder's Equity			\$ 337,091
--	--	--	------------

## FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT PART IIA

BROKER OR DEALER

First Illinois Securities, Inc.

as of December 31, 2002

### COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition	\$	336,991	3480
2. Deduct ownership equity not allowed for Net Capital			3490
3. Total ownership equity qualified for Net Capital		336,991	3500
4. Add:			
A. Liabilities subordinated to the claims of general creditors allowable in computation of net capital			3520
B. Other (deduction) or allowable credits (List)			3525
5. Total capital and allowable subordinated liabilities	\$	336,991	3530
6. Deductions and/or charges:			
A. Total nonallowable assets from Statement of Financial Condition	40,000	3540	
B. Secured demand note deficiency		3590	
C. Commodity futures contracts and spot commodities-proprietary capital charges			
D. Other deductions or charges		3600	
7. Other additions and/or allowable credits (List)		3610	(40,000) 3620
8. Net capital before haircuts on securities positions			3630
9. Haircuts on securities (computed where applicable pursuant to 15c3-1(f)):		\$	296,991 3640
A. Contractual securities commitments		3660	
B. Subordinated securities borrowings		3670	
C. Trading and investment securities			
1. Exempted securities		3735	
2. Debt securities	4,258	3733	
3. Options		3730	
4. Other securities - Money Market Mutual Fund	259	3734	
D. Undue Concentration		3650	
E. Other (List)		3736	(4,517) 3740
10. Net Capital	\$	292,474	3750

### Reconciliation between unaudited and audited Net Capital Computation

Net Capital per unaudited FOCUS Report Part IIA	\$	364,141
Adjustment to interest income		187
Adjustment for accrual of income taxes		1,910
Adjustment for bond markdown		300
Adjustment to interest expense		(51)
Adjustment to clearing charges expense		(100)
Adjustment for miscellaneous expense		2
Adjustment to management fee expense		(29,398)
Net Capital per audited financial statements	\$	336,991

# FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT PART IIA

**BROKER OR DEALER**

First Illinois Securities, Inc.

as of December 31, 2002

## COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6-2/3% of line 19)	\$	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	5,000 3758
13. Net capital requirement (greater of line 11 or 12)	\$	5,000 3760
14. Excess net capital (line 10 less 13)	\$	287,474 3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$	292,474 3780

## COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.i. Liabilities from Statement of Financial Condition	\$	0	3790
17. Add:		3800	
A. Drafts for immediate credit			
B. Market Value of securities borrowed for which no equivalent value is paid or credited		3810	
C. Other unrecorded amounts		3820	0 3830
19. Total Aggregate indebtedness	\$	0	3840
20. Percentage of aggregate indebtedness to net capital (line 19/line 10)	%	0.00%	3850
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	%	0.00%	3860

**The Company does not carry customer accounts as defined by Rule 15c3-3 of the Securities Exchange Act of 1934. Therefore, the Company is exempt from the provisions of that Rule.**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

First Illinois Securities, Inc.  
(An Illinois Corporation)  
Statement of Income  
For the Year Ended December 31, 2002

Revenue	\$	175,223
Cost of Sales		<u>202,191</u>
Gross Profit	\$	(26,968)
Operating Expenses		<u>80</u>
Operating Income	\$	(27,048)
Other Income (Expense)		10,456
Provision for Income Taxes		<u>(4,175)</u>
Net Income (Loss)	\$	<u><u>(12,417)</u></u>

First Illinois Securities, Inc.  
(An Illinois Corporation)  
Statement of Changes in Ownership Equity  
As of December 31, 2002

	<u>Dec. 31, 2002</u>
Ownership Equity, Beginning	\$ 349,408
Net Income	<u>(12,417)</u>
Ownership Equity, Ending	<u>\$ 336,991</u>

First Illinois Securities, Inc.  
 (An Illinois Corporation)  
 Statement of Cash Flows  
 For The Year Ended December 31, 2002

	Dec. 31, 2002
<b>Cash Flows From Operating Activities</b>	
Net Income	\$ (12,417)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Decrease (Increase) in	
Operating Assets	
Accounts Receivable	9,849
Prepaid Assets	(2,047)
Investments	(10,148)
Increase (Decrease) in	
Operating Liabilities	
Accounts Payable	100
Total Adjustments	\$ (2,246)
Net Cash Provided by (Used in) Operating Activities	\$ (14,663)
<b>Cash Flows From Financing Activities</b>	
Notes Payable Borrowings	\$ (52,602)
Net Cash Provided by (Used in) Financing Activities	\$ (52,602)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (74,651)
Cash & Cash Equivalents, January 1	310,515
Cash & Cash Equivalents, December 31	\$ 235,864
<u>Supplemental Cash Flow Disclosure:</u>	
Income Taxes Paid	\$ 0
Interest Paid	\$ 51

**First Illinois Securities, Inc.**  
**(An Illinois Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2002**

Note 1 - Nature of Business & Summary of Significant Accounting Policies

This summary of significant accounting policies of First Illinois Securities, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Business Activity

The Company was organized on November 19, 1986 as an Illinois Corporation for purposes of operating as a broker/dealer. In 1994, the Company changed its name from Dearborn Securities, Inc. to First Illinois Securities, Inc. On August 6, 1987, the Company was approved as a National Association of Securities Dealers, Inc. (NASD) member established to sell Direct Participating Programs Limited Partnerships and not to hold customer funds or safekeep customer securities.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, wherein expenses are recognized as incurred and revenues are recognized at the time of sale.

Cash & Cash Equivalents

The Company considers cash deposits and marketable investments due within three months as cash and cash equivalents.

The Company invests excess funds in interest bearing money market accounts and certificates of deposit. The Company has no requirements for compensating balances. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Other Accounting Policies

Other significant accounting policies are set forth in the financial statements and other notes thereto.

**First Illinois Securities, Inc.**  
**(An Illinois Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2002**  
**Page 2**

Note 2 - Related Party Transactions

The Company has entered into a variety of transactions with its shareholder and an entity controlled by its shareholder. Certain expenses of the Company are paid by a related company. The aggregate amount of these expenses for the year ended December 31, 2002 was less than \$ 2,500. The Company also paid management fees and insurance of \$ 162,398 to or on behalf of a related entity. At December 31, 2002, the Company was owed \$ 40,000 from this same affiliate.

Note 3 - Income Taxes

The Company accounts for income taxes on the liability method. At December 31, 2002, the Company had no apparent unrecorded tax attributes. The income tax provision is computed as follows:

		<u>2002</u>
Net Book Income Before Taxes	\$	(16,593)
Statutory Illinois Tax Rate		<u>38.73%</u>
Statutory Taxes	\$	(6,426)
Surtax Exemptions		<u>(2,251)</u>
Current Expense	\$	(4,175)
Less: Estimated Payments & Overpayments		<u>352</u>
Current Payable (Receivable)	\$	<u>(4,527)</u>

# Burke, Montague & Associates L.L.C.

Certified Public Accountants, Advisors & Auditors

*Members*

Charles R. Burke, CPA  
Jodi K. Bruer, CPA  
Raymond J. Raymond, CPA  
Kathleen C. Wilson, CPA

*Consultant*

Robert J. Montague, CPA

Board of Directors  
First Illinois Securities, Inc.  
Bourbonnais IL 60914

In planning and performing our audit of the financial statements of First Illinois Securities, Inc. for the year ended December 31, 2002, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) of the Securities and Exchange Commission and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company (i) in making the quarterly securities examinations, counts, verifications and comparisons, and the recording of differences required by Rule 17a-13, or (ii) in complying with the requirement for prompt payment for securities of Section 4(c) of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure 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 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 any internal control structure of the practices and procedures referred to above, errors or irregularities 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 the changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 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 the internal control structure, including procedures for safeguarding securities, that we would 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 Commission 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 at December 31, 2002, meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.

*Burke, Montague & Associates L.L.C.*  
Burke, Montague & Associates L.L.C.  
Kankakee, Illinois

February 21, 2003