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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. 17A-5 RECEIVED  
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WASH. D.C.  
SEC FILE NUMBER  
8-25203

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 JANUARY 1, 2003 AND ENDING DECEMBER 31, 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: CAPITAL FINANCIAL SERVICES INC.

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

1 NORTH MAIN STREET

(No. and Street)

MINOT

(City)

ND

(State)

58703-3189

(Zip Code)

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

ROBERT WALSTAD

(701) 852-5292

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

BRADY, MARTZ & ASSOCIATES, P. C.

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

24 WEST CENTRAL

(Address)

P.O. BOX 848

(City)

MINOT

ND

(State)

58701

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

**PROCESSED**

**MAR 16 2004**

**THOMSON  
FINANCIAL**

**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)

SEC 1410 (06-02)

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.

*SW*

OATH OR AFFIRMATION

I, ROBERT WALSTAD, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITAL FINANCIAL SERVICES INC., as of DECEMBER 31,, 2003, 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:

CARLA BROWN  
Notary Public - North Dakota  
Ward County

My Commission Expires February 28, 2004

Carla Brown 2/24/04  
Notary Public

Robert Walstad  
Signature  
pres 2/24/04  
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).

**CAPITAL FINANCIAL SERVICES, INC.**

(A WHOLLY-OWNED SUBSIDIARY OF  
INTEGRITY MUTUAL FUNDS, INC.)

*FINANCIAL STATEMENTS*

AS OF

DECEMBER 31, 2003

WITH

*INDEPENDENT AUDITOR'S REPORT*

**CAPITAL FINANCIAL SERVICES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY  
OF INTEGRITY MUTUAL FUNDS, INC.)

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Operation	3
Statement of Stockholder's Equity	4
Statement of Cash Flows	5
Note to Financial Statements	6-8
SUPPLEMENTARY INFORMATION	
Schedule I - Computation of Net Capital Under Rule 15c3-1 of the Securities Exchange Act of 1934	9
CLAIM OF EXEMPTION FROM RULE 15c3-3	10
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL REQUIRED BY RULE 17a-5 FOR A BROKER - DEALER CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3	11-12



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Capital Financial Services, Inc.  
Minot, North Dakota 58701

We have audited the accompanying balance sheet of Capital Financial Services, Inc. (a wholly-owned subsidiary of Integrity Mutual Funds, Inc.) as of December 31, 2003 and the related statements of operation, stockholders' equity and cash flows for the year then ended, that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statement 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 Capital Financial Services, Inc., as of December 31, 2003 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 as conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on page 9 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. This 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.

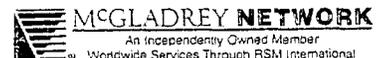
*Brady, Martz & Associates*

BRADY, MARTZ & ASSOCIATES, P.C.

February 17, 2004

BRADY, MARTZ & ASSOCIATES, P.C.  
24 West Central P.O. Box 848  
Minot, ND 58702-0848 (701) 852-0196 • Fax (701) 839-5452

OTHER OFFICES: Grand Forks, ND Bismarck, ND Thief River Falls, MN



**CAPITAL FINANCIAL SERVICES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)  
BALANCE SHEET  
DECEMBER 31, 2003

**ASSETS**

<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 294,906
Accounts/commissions receivable	642,657
Prepaid assets	<u>21,525</u>
Total current assets	<u>\$ 959,088</u>
<b>PROPERTY AND EQUIPMENT</b>	
Less accumulated depreciation	\$ 1,772
Net property and equipment	<u>80</u>
	<u>\$ 1,692</u>
<b>OTHER ASSETS</b>	
Clearing deposit	\$ 75,148
Investments in -NASD warrants	<u>3,300</u>
Total other assets	<u>\$ 78,448</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,039,228</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>CURRENT LIABILITIES</b>	
Commissions and fees payable	\$ 531,208
Accrued expenses and payroll liabilities	<u>17,656</u>
Total current liabilities	<u>\$ 548,864</u>
<b>STOCKHOLDERS' EQUITY</b>	
Common stock - 2,800 shares authorized, no par value; 500 shares issued and outstanding	\$ 5,000
Retained earnings	<u>485,364</u>
Total stockholders' equity	<u>\$ 490,364</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 1,039,228</u>

SEE NOTES TO FINANCIAL STATEMENTS

**CAPITAL FINANCIAL SERVICES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)  
**STATEMENTS OF OPERATION**  
FOR YEAR ENDED DECEMBER 31, 2003

<b>INCOME</b>	
Interest and other income	\$ 43,015
Fees	131,591
Commissions and underwriting fees	<u>8,255,936</u>
Total income	<u>\$ 8,430,542</u>
<b>EXPENSES</b>	
Commissions and fees	\$ 7,424,311
Professional fees	61,241
Advertising and promotion	5,129
Printing and postage	22,554
Dues, fees, registration	34,005
Salaries	216,665
Rent	57,760
Payroll taxes	16,929
Travel	21,100
Depreciation	80
Other expenses	<u>38,246</u>
Total expenses	<u>\$ 7,898,020</u>
<b>EARNINGS BEFORE INCOME TAX EXPENSE</b>	<b>\$ 532,522</b>
<b>INCOME TAX EXPENSE</b>	<u>(209,000)</u>
<b>NET EARNINGS</b>	<u><u>\$ 323,522</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

**CAPITAL FINANCIAL SERVICES, INC.**  
 (A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)  
 STATEMENT OF STOCKHOLDERS' EQUITY  
 FOR YEAR ENDED DECEMBER 31, 2003

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, January 1, 2003	\$ 5,000	\$ 302,842	\$ 307,842
Net earnings	0	323,522	323,522
Dividends	<u>0</u>	<u>(141,000)</u>	<u>(141,000)</u>
Balance, December 31, 2003	<u>\$ 5,000</u>	<u>\$ 485,364</u>	<u>\$ 490,364</u>

SEE NOTES TO FINANCIAL STATEMENTS

**CAPITAL FINANCIAL SERVICES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)  
**STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED DECEMBER 31, 2003

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net earnings	\$ 323,522
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation	80
Effects on operating cash flows due to changes in:	
Prepaid assets	(5,755)
Accounts/commissions receivable	(232,959)
Clearing deposit	(40,148)
Other liabilities	17,656
Commissions and fees payable	<u>153,113</u>
Net cash provided by operating activities	<u>\$ 215,509</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	<u>\$ (1,772)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Dividends	<u>\$ (141,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 72,737</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>222,169</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 294,906</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

**CAPITAL FINANCIAL SERVICES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES**

The nature of operations and significant accounting policies of Capital Financial Services, Inc. are presented to assist in understanding the Company's financial statements.

**Nature of operations** - Capital Financial Services, Inc. is a wholly-owned subsidiary of Integrity Mutual Funds, Inc. (Parent). The Company's primary operations are as broker/dealer for distribution of shares of various unaffiliated mutual funds, variable annuities and other marketable securities.

**Cash and cash equivalents** are distinguished based on liquidity. Cash and cash equivalents consist of money market and active asset accounts.

**Accounts/commissions receivable** - Management believes all of its receivables are collectible. The Company has not recorded an allowance for doubtful accounts. The Company does not charge interest on its receivables.

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

**12b-1 Revenue** - 12b-1 revenue is recognized in the period earned.

**Property and equipment** - consists of various computers and office equipment. These assets are depreciated over their estimated useful lives (5 to 7 years) using straightline depreciation methods.

**Income taxes** - The Company is included in the consolidation income tax returns filed by the Parent. Income taxes are calculated at 39.2% of the Company pre tax book earnings.

**Use of estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

**Investments** - The Company's investments consist of stock warrants. This investment has no readily determinable market and is therefore accounted for under the cost method of accounting.

**NOTE 2 - RULE 15c3-3**

The Company operates under the provision of Paragraph (k)(2)(ii) of Rule 15c3-3 of the Securities and Exchange Commission and, accordingly, is exempt from the remaining provisions of that rule.

### NOTE 3 - INVESTMENTS

The Company purchased 300 NASD warrants on June 28, 2000 for \$3,300. These warrants can be exercised into a total of 1,200 shares. The options can be exercised in the time line stated below. As of December 31, 2003 the warrants and/or NASD stock were not actively traded, and this investment is carried at the Company's original cost.

Maximum number of shares that can be exercised at one time	Exercise start Date	Exercise End Date	Exercise Price
300	June 30, 2003	June 25, 2004	\$14
300	June 28, 2004	June 27, 2005	\$15
300	June 28, 2005	June 27, 2006	\$16

### NOTE 4 - INCOME TAXES

The Company is included in the consolidated income tax return of its parent. The tax provision consist of the following:

Federal	\$ 181,000
State	<u>28,000</u>
Total	<u>\$ 209,000</u>

A reconciliation of the difference between the expected income tax expense as computed at the U.S. Statutory income tax rate and the Company's income tax expense is shown in the following table:

Expected income tax expense at the U.S. Statutory rate	\$ 181,000
The affect of:	
Increase due to state taxes, net of U.S. Federal income tax effects	<u>28,000</u>
Income tax expense	<u>\$ 209,000</u>

### NOTE 5 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2003 the Company had net capital of \$334,062 which was \$297,462 in excess of its minimum required net capital of \$36,600. The Company's net capital ratio was to 1.64 to 1.

**NOTE 6 - ADVERTISING COSTS**

Advertising costs are expensed as incurred. Total advertising expense was \$5,129 for the year ended December 31, 2003.

**NOTE 7 - SIGNIFICANT ESTIMATES**

The Company's receivables as of December 31, 2003 included 12b-1 receivables of \$447,061. The receivable balances have been estimated by management based on its past experience and its consideration of the Company's current sales/volume activity. Because of the inherent uncertainties in estimating the 12b-1 revenues due to the company, it is at least reasonably possible that the estimate used could change in the near term.

SUPPLEMENTARY INFORMATION

**CAPITAL FINANCIAL SERVICES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)  
SCHEDULE I  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
AS OF DECEMBER 31, 2003

NET CAPITAL	
Total stockholders' equity	\$ 490,364
Less non-allowable assets:	
Investment in NASD warrant	(3,300)
Prepaid assets	(21,525)
Property and equipment	(1,692)
Haircuts on securities	(5,889)
Other deductions	(5,000)
Accounts/Commission receivables	<u>(118,896)</u>
Net capital	<u>\$ 334,062</u>

AGGREGATE INDEBTEDNESS	
Commissions and fees payable	<u>\$ 548,864</u>

COMPUTATION OF BASIC NET CAPITAL  
REQUIREMENT

Minimum net capital requirements <sub>1</sub>	<u>\$ 36,600</u>
Excess net capital at 1500% <sub>2</sub>	<u>\$ 297,471</u>
Excess net capital at 1000% <sub>2</sub>	<u>\$ 279,176</u>
Ratio: Aggregate indebtedness to net capital	<u>1.64 to 1</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

Net capital, as reported in Company's Part II (Unaudited) FOCUS report	\$ 334,062
Net audit adjustments to allowable assets	<u>0</u>
Net capital per above	<u>\$ 334,062</u>

1. Minimum net capital requirements for the Company are the greater of 6 2/3% of aggregate indebtedness or \$25,000.
2. Excess net capital figures at 1500% and 1000% are based on calculated minimum net capital requirements of:

1500%	<u>\$ 36,591</u>
1000%	<u>\$ 54,886</u>

**CAPITAL FINANCIAL SERVICES, INC.**  
(A WHOLLY-OWNED SUBSIDIARY OF INTEGRITY MUTUAL FUNDS, INC.)  
CLAIM OF EXEMPTION FROM RULE 15c3-3

The Company claims exemption from Rule 15c3-3 under Section 15c3-3(k)(2)(ii) which states that all customer transactions are cleared through another broker-dealer on a fully disclosed basis. Therefore a schedule showing the Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission and the Schedule of Information Relating to Possession or Control Requirements Under Rule 15c3-3 of the Securities and Exchange Commission are not required.



CERTIFIED PUBLIC ACCOUNTANTS  
INDEPENDENT AUDITOR'S REPORT ON  
AND CONSULTANTS INTERNAL CONTROL REQUIRED  
BY RULE 17a-5 FOR A BROKER - DEALER  
CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3

Board of Directors  
Capital Financial Services, Inc.  
Minot, North Dakota

In planning and performing our audit of the financial statements and supplemental schedule of Capital Financial Services, Inc. (the Company) for the year ended December 31, 2003, 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.

Also, as required by Rule 17a-5(g)(1) of the Securities 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 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:

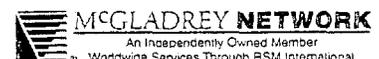
1. Making quarterly securities examinations, counts, verifications and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve 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 internal 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 accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

BRADY, MARTZ & ASSOCIATES, P.C.  
24 West Central P.O. Box 848  
Minot, ND 58702-0848 (701) 852-0196 • Fax (701) 839-5452

-11-

OTHER OFFICES: Grand Forks, ND Bismarck, ND Thief River Falls, MN



INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL REQUIRED  
BY RULE 17a-5 FOR A BROKER - DEALER  
CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3 (CONTINUED)

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 the 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 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 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, 2003 to meet the SEC's objectives.

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

*Brady, Martz + Associates*

BRADY, MARTZ & ASSOCIATES, P.C.

February 17, 2004