



04002521

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

RECEIVED  
FEB 27 2004  
WASH. D.C. SECTION 158

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

SEC FILE NUMBER  
8-27779

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 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Capital Management Securities, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

7900 Xerxes Avenue South, Suite 500

(No. and Street)

Minneapolis

MN

55431

(City)

(State)

(Zip Code)

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

Gregory A. Stroh

952-893-1200

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Eide, Bailly LLP

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

5601 Green Valley Dr. #700 Bloomington, MN 55437

(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 22 2004

FOR OFFICIAL USE ONLY

THOMSON  
FINANCIAL

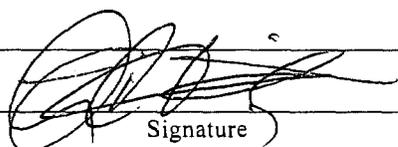
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SW

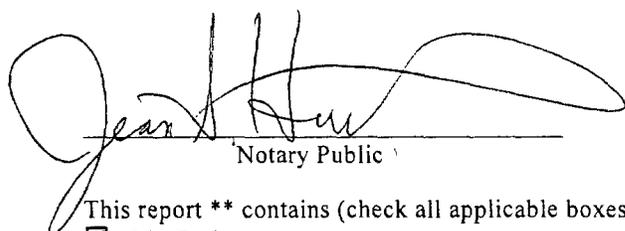
OATH OR AFFIRMATION

I, Thom Berkowitz, 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 Management Securities, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
Signature

Chief Financial Officer  
Title

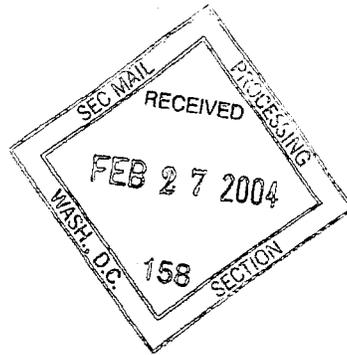
  
Notary Public



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).



**CAPITAL MANAGEMENT SECURITIES,  
INC.**

*FINANCIAL STATEMENTS  
DECEMBER 31, 2003*

# CAPITAL MANAGEMENT SECURITIES, INC.

## Table of Contents

---

|   | <u>Page</u> |
|---|-------------|
| <b>INDEPENDENT AUDITOR'S REPORT</b> .....   | 1           |
| <b>FINANCIAL STATEMENTS</b>   |             |
| Statement of Financial Position .....   | 2           |
| Statement of Operations .....   | 3           |
| Statement of Changes in Stockholders' Equity .....  | 4           |
| Statement of Cash Flows .....   | 5           |
| Notes to Financial Statements .....   | 6           |
| <b>SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS</b>  |             |
| Schedule I – Computation of Net Capital, Basic Net Capital<br>Requirement and Aggregate Indebtedness .....  | 9           |
| Schedule II: - Reconciliation of Net Capital Per Audit Report<br>To Net Capital Per FOCUS Report .....  | 10          |
| Schedule III – Reconciliation of Computation of Net Capital<br>And the Computation for Determination of the Reserve Requirements<br>Of the Securities and Exchange Commission ..... | 11          |
| Schedule IV – Information Relating to Possession or Control<br>Requirements Under Rule 15c3-3 of the Securities and<br>Exchange Commission .....                                    | 12          |
| Independent Auditor's Supplemental Report on Internal Control Required<br>By SEC Rule 17a-5 .....   | 13          |



Consultants • Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

---

The Stockholders and Board of Directors  
**Capital Management Securities, Inc.**  
Bloomington, Minnesota

We have audited the accompanying statement of financial position of **Capital Management Securities, Inc.** as of December 31, 2003 and the related statements of operations, stockholders' equity, and cash flows for the years 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 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 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 Management Securities, Inc.** as of December 31, 2003, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on Schedules I, II, III and IV 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 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.

*Eide Bailly LLP*

Minneapolis, Minnesota  
February 11, 2004

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2003**

---

**ASSETS**

**CURRENT ASSETS**

|                           |                |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 65,600      |
| Accounts receivable       | 52,035         |
| Prepaid expenses          | 22,156         |
| Income taxes receivable   | <u>408</u>     |
| Total current assets      | <u>140,199</u> |

**PROPERTY AND EQUIPMENT**

|  |                  |
|--|------------------|
| Furniture and fixtures                         | 130,518          |
| Software                                       | <u>9,214</u>     |
|  | 139,732          |
| Less accumulated depreciation and amortization | <u>(110,862)</u> |
|  | <u>28,870</u>    |

**NON-CURRENT ASSETS**

|                           |                   |
|---------------------------|-------------------|
| Deferred income tax asset | <u>10,600</u>     |
|                           | <u>\$ 179,669</u> |

---

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

|                               |              |
|-------------------------------|--------------|
| Commissions payable           | \$ 39,547    |
| Accounts payable              | 5,549        |
| Accrued payroll taxes         | 86           |
| Deferred income tax liability | <u>8,900</u> |

Total current liabilities 54,082

**STOCKHOLDERS' EQUITY**

|  |               |
|--|---------------|
| Common stock, \$0.01 per share, 1,000,000 shares authorized,<br>12,214 shares issued and outstanding | 122           |
| Additional paid in capital   | 57,252        |
| Retained earnings  | <u>68,213</u> |

125,587

\$ 179,669

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2003**

|                               |                    |
|-------------------------------|--------------------|
| REVENUE                       |                    |
| Commissions                   | \$ 1,077,211       |
| Office rent income            | 29,696             |
| Interest                      | 150                |
| Other                         | 24,613             |
|                               | <u>1,131,669</u>   |
| OPERATING EXPENSES            |                    |
| Commissions                   | 857,281            |
| Salaries and wages            | 101,246            |
| Payroll taxes                 | 8,113              |
| Employee benefits             | 3,927              |
| Advertising                   | 1,928              |
| Depreciation and amortization | 5,305              |
| Dues and subscriptions        | 33,310             |
| Equipment and rental          | 12,384             |
| Insurance                     | 4,209              |
| Miscellaneous                 | 3,532              |
| Office supplies and printing  | 9,520              |
| Postage                       | 6,542              |
| Professional services         | 4,061              |
| Regulatory expenses           | 8,678              |
| Rent                          | 71,375             |
| Repairs and maintenance       | 3,146              |
| Telephone                     | 11,365             |
| Travel and entertainment      | 3,477              |
|                               | <u>1,149,397</u>   |
| Loss before income taxes      | (17,729)           |
| Income tax benefit            | <u>3,300</u>       |
| Net loss                      | <u>\$ (14,429)</u> |

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**STATEMENT OF STOCKHOLDERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2003**

|                                   | Common Stock        |               | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Total             |
|-----------------------------------|---------------------|---------------|----------------------------------|----------------------|-------------------|
|                                   | Number of<br>Shares | Amount        |                                  |                      |                   |
| Balance December 31, 2002         | 12,214              | \$ 122        | \$ 57,252                        | \$ 82,642            | \$ 140,016        |
| Net loss                          |                     |               |                                  | (14,429)             | (14,429)          |
| <b>Balance, December 31, 2003</b> | <b>12,214</b>       | <b>\$ 122</b> | <b>\$ 57,252</b>                 | <b>\$ 68,213</b>     | <b>\$ 125,587</b> |

See Notes to Financial Statements

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2003**

|   |                         |
|---|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                         |
| Net loss  | \$ (14,429)             |
| Adjustments to reconcile net loss to net cash and cash equivalents used by operating activities |                         |
| Depreciation and amortization   | 5,306                   |
| Deferred income taxes   | (3,600)                 |
| (Increase) decrease in assets   |                         |
| Accounts receivable   | 11,855                  |
| Prepaid expenses  | 155                     |
| Increase (decrease) in liabilities  |                         |
| Commissions payable   | 13,857                  |
| Accounts payable  | 20                      |
| Accrued liabilities   | (14,478)                |
| Net cash used by operating activities   | <u>(1,314)</u>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                         |
| Equipment purchased   | <u>(2,732)</u>          |
| Net cash used by investing activities   | <u>(2,732)</u>          |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>(4,046)</b>          |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>   | <u>69,646</u>           |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | <u><u>\$ 65,600</u></u> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>  |                         |
| Cash paid during the year for   |                         |
| Income taxes  | <u><u>\$ 558</u></u>    |

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2003**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

Capital Management Securities, Inc. (the Company) is a wholly owned subsidiary of CMA Financial Inc. The Company is a licensed broker-dealer under the jurisdiction of the National Association of Security Dealers (NASD). The Company buys and sells listed and unlisted securities; municipal, corporate and government bonds; mutual fund shares; and provides other financial services. The Company, as an introducing broker-dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker-dealer and promptly transmits all customer funds and securities to the clearing broker-dealer which carries all the accounts of such customers.

*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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

*Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable represents amounts due from affiliated brokers. Items over 30 days old are considered past due. The balance of accounts receivable past 30 days as of December 31, 2003 was \$2,597. The Company does not charge service charges for past-due balances.

An allowance for doubtful accounts has not been established as of December 31, 2003. Based upon management's analysis of outstanding accounts receivable as of December 31, 2003 and the Company's past collection experience, an allowance is not considered necessary by management.

*Property and Equipment*

Property and equipment is carried at cost. Depreciation of property and equipment is computed by the straight-line method based on useful lives of three to ten years.

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations.

The Company reviews its property and equipment for impairment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. The amount of the loss is determined by comparing the fair market values of the asset to the carrying amount of the asset.

## NOTES TO FINANCIAL STATEMENTS

---

### *Recognition of Revenue*

Commission income from sales of securities is recorded on the trade date.

### *Income Taxes*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in operations in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities, which consist of net operating loss carryforwards, book depreciation over tax depreciation differences, and differences associated with cash basis reporting versus accrual basis reporting, are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

## NOTE 2 - COMMITMENTS AND CONTINGENCIES

### *Operating Leases*

The Company has a lease agreement for office space expiring June 30, 2008. Monthly base rent ranges from \$5,654 to \$6,492 over the term of the lease. Terms of the lease also require the Company to pay its share of taxes and operating expenses. Facility rent expense for the year ended December 31, 2003 was \$71,364.

The Company has also entered into various operating leases for equipment that expire through 2007. Equipment rent expense for the year ended December 31, 2003 was \$11,545. The equipment lease commitment includes a related party phone lease with a shareholder of the Company with monthly payments of \$361 through November 2005. Rent expense to the related party was \$2,411 for the year ended December 31, 2003.

Minimum future lease payments as of December 31, 2003 under non-cancelable operating leases are:

| <u>Years Ending December 31,</u> | <u>Office Facility</u> | <u>Equipment</u> | <u>Total</u>      |
|----------------------------------|------------------------|------------------|-------------------|
| 2004                             | \$ 68,060              | \$ 10,754        | \$ 78,815         |
| 2005                             | 70,577                 | 8,668            | 79,245            |
| 2006                             | 73,086                 | 5,059            | 78,145            |
| 2007                             | 75,605                 | 1,265            | 76,870            |
| 2008                             | 38,952                 | -                | 38,952            |
|                                  | <u>\$ 326,280</u>      | <u>\$ 25,746</u> | <u>\$ 352,027</u> |

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3 - RELATED PARTY TRANSACTIONS

The Company shares its facilities and expenses with a sister company. Expenses are allocated between the two entities based on gross revenues. During 2003 approximately \$240,484 or one-half of common expenses were allocated to the Company's sister company. The majority of the expenses are paid by the Company, and the sister entity reimburses the Company for its share of the expenses monthly. Amounts due from related parties totaled \$8,097 as of December 31, 2003.

### NOTE 4 - INCOME TAXES

The Company's net deferred tax asset and liability at December 31, 2003 consist of:

|                               | <u>Federal</u>  | <u>State</u>   | <u>Total</u>    |
|-------------------------------|-----------------|----------------|-----------------|
| Deferred income tax asset     | \$ 7,700        | \$ 2,900       | \$ 10,600       |
| Deferred income tax liability | <u>(6,500)</u>  | <u>(2,400)</u> | <u>(8,900)</u>  |
|                               | <u>\$ 1,200</u> | <u>\$ 500</u>  | <u>\$ 1,700</u> |

The components of the provision for income taxes for the year ended December 31, 2003 are as follows:

|                             | <u>Federal</u> | <u>State</u> | <u>Total</u> |
|-----------------------------|----------------|--------------|--------------|
| Current income tax expense  | \$ -           | \$ (300)     | \$ (300)     |
| Deferred income tax benefit | <u>2,600</u>   | <u>1,000</u> | <u>3,600</u> |
| Income tax benefit          | <u>2,600</u>   | <u>700</u>   | <u>3,300</u> |

The amount of federal income tax expense attributable to continuing operations differs from the amount of expense that would result from applying domestic federal statutory rates to pre-tax income from continuing operations primarily due to permanent differences of non-deductible expenses and the effect of state minimum fees.

At December 31, 2003 for income tax purposes, the Company has federal income tax loss carryforwards of approximately \$58,000 available to offset future taxable income, which expire through 2023.

**CAPITAL MANAGEMENT SECURITIES, INC.**

***SUPPLEMENTARY INFORMATION***

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**COMPUTATION OF NET CAPITAL, BASIC NET CAPITAL REQUIREMENT AND AGGREGATE**  
**INDEBTEDNESS – SCHEDULE I**  
**DECEMBER 31, 2003**

|   |                      |
|---|----------------------|
| <b>NET CAPITAL</b>                                      |                      |
| Total stockholders equity                               | 125,587              |
| Liabilities subordinated to claims of general creditors | <u>-</u>             |
| Total capital and allowable subordinated liabilities    | <u>125,587</u>       |
| Non-allowable assets                                    |                      |
| Non-allowable accounts receivable                       | 16,772               |
| Prepaid expenses  | 22,156               |
| Fixed assets - net                                      | 28,870               |
| Deferred tax assets - net                               | 1,700                |
| Haircut - 2%  | <u>287</u>           |
| Total non-allowable assets                              | <u>69,785</u>        |
| Net capital   | <u><u>55,802</u></u> |
| <b>BASIC NET CAPITAL REQUIREMENT</b>                    |                      |
| Liabilities   | 54,082               |
| Required percent  | <u>6.667%</u>        |
| Computed basic net capital requirement                  | <u><u>3,606</u></u>  |
| Minimum net capital required                            | 25,000               |
| Net capital (from above)                                | <u>55,802</u>        |
| Excess capital over minimum                             | <u><u>30,802</u></u> |
| <b>COMPUTATION OF AGGREGATE INDEBTEDNESS</b>            |                      |
| A. Indebtedness   | 45,182               |
| B. Net capital  | <u>55,802</u>        |
| Percent of debt to net capital (A divided by B)         | <u>81.0%</u>         |

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**RECONCILIATION OF NET CAPITAL PER AUDIT REPORT TO NET CAPITAL PER FOCUS**  
**REPORT - SCHEDULE II**  
**DECEMBER 31, 2003**

---

|                               |                  |
|-------------------------------|------------------|
| Net capital, per FOCUS report | \$ 58,108        |
| Audit adjustments             | <u>(2,306)</u>   |
| Net capital, as adjusted      | <u>\$ 55,802</u> |

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**RECONCILIATION OF COMPUTATION OF NET CAPITAL AND THE COMPUTATION FOR**  
**DETERMINATION OF THE RESERVE REQUIREMENTS OF THE SECURITIES AND EXCHANGE**  
**COMMISSION – SCHEDULE III**  
**DECEMBER 31, 2003**

---

The company operates on a fully disclosed basis under Rule 15c3-1 Subparagraph (a)(2) and does not hold client/customer funds or securities. Thus, no reconciliation is necessary.

**CAPITAL MANAGEMENT SECURITIES, INC.**  
**INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS UNDER RULE**  
**15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION - SCHEDULE IV**  
**DECEMBER 31, 2003**

---

The Company is exempt from Rule 15c3-3 under Subparagraph k(2)(ii) and does not possess, control or otherwise hold client/customer funds or securities.



Consultants • Certified Public Accountants

**INDEPENDENT AUDITOR'S SUPPLEMENTAL REPORT ON  
INTERNAL CONTROL REQUIRED BY SEC RULE 17A-5**

---

The Stockholders and Board of Directors  
**Capital Management Securities, Inc.**  
Bloomington, Minnesota

In planning and performing our audit of the financial statements and supplemental schedules of **Capital Management Securities, 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 consolidated 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 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 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.

*Eide Bailey LLP*

Minneapolis, Minnesota  
February 11, 2004