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

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

SEC FILE NUMBER
8- 28044

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## Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

FEB 27 2004

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

187 SECTION

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Investors Brokerage of Texas, Ltd.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

3701 West Waco Drive

(No. and Street)

Waco

TX

76710

(City)

(State)

(Zip Code)

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

Tim Kohn

(254) 759-3718

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

Jaynes, Reitmeier, Boyd & Therrell, P.C.

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

P.O. Box 7616

Waco

TX

76714-7616

(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 17 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)

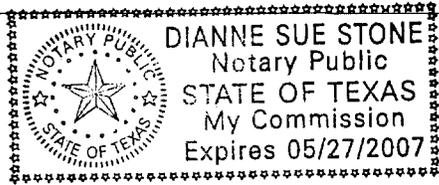
SEC 1410 (06-02)

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SW

OATH OR AFFIRMATION

I, Tim Kohn, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Investors Brokerage of Texas, Ltd., 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:



Timothy R. Kohn  
Signature  
Managing Principal  
Title

Dianne Sue Stone  
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).

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)  
Financial Statements and  
Supplemental Information  
December 31, 2003 and 2002  
(With Independent Auditors' Report Thereon)

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

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Independent Auditors' Report

The Board of Directors  
Investors Brokerage of Texas, Ltd.:

We have audited the accompanying statements of financial condition of Investors Brokerage of Texas, Ltd. (the Partnership), a subsidiary of Chase Financial Corp., as of December 31, 2003 and 2002 and the related statements of loss, changes in partners' equity, cash flows and changes in liabilities subordinated to claims of general creditors for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Investors Brokerage of Texas, Ltd., a subsidiary of Chase Financial Corp., at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included on pages 11 through 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplemental 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 audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Jaynes, Reitmeier, Boyd & Therrell, P.C.*

January 30, 2004

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Statements of Financial Condition

December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 46,000	40,947
Deposit with clearing organization	150,000	150,000
Accounts receivable:		
Commissions from clearing organization	31,908	15,238
Affiliate	16,376	-
Furniture and equipment, net	-	16,376
Income tax receivable from affiliate	343	10,826
Other assets	<u>14,940</u>	<u>17,061</u>
	<u>\$ 259,567</u>	<u>250,448</u>
 <u>Liabilities and Equity</u>		
Payable to affiliates	\$ <u>46,082</u>	<u>26,136</u>
Total liabilities	<u>46,082</u>	<u>26,136</u>
Equity:		
Partners' equity	<u>213,485</u>	<u>224,312</u>
Total equity	<u>213,485</u>	<u>224,312</u>
	<u>\$ 259,567</u>	<u>250,448</u>

See accompanying notes to financial statements.

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Statements of Loss

Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenue:		
Commissions	\$ 512,791	794,369
Interest	34,706	39,089
Trading discount	4,217	7,153
Other	<u>928</u>	<u>9,661</u>
Total revenue	<u>552,642</u>	<u>850,272</u>
Expenses:		
Employee compensation, commissions and benefits	369,467	525,551
Communications	30,032	52,202
Occupancy and equipment	68,000	146,109
Professional fees	6,184	14,593
Clearance fees	36,698	68,226
Other operating expenses	<u>57,604</u>	<u>68,801</u>
Total expenses	<u>567,985</u>	<u>875,482</u>
Loss before income taxes	<u>(15,343)</u>	<u>(25,210)</u>
Current income taxes (benefit)	<u>(4,516)</u>	<u>(10,826)</u>
Net loss	<u>\$ (10,827)</u>	<u>(14,384)</u>

See accompanying notes to financial statements.

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Statements of Changes in Partners' Equity

Years Ended December 31, 2003 and 2002

Balance, January 1, 2002	\$ 238,696
Net loss	<u>(14,384)</u>
Balance, December 31, 2002	224,312
Net loss	<u>(10,827)</u>
Balance, December 31, 2003	\$ <u>213,485</u>

See accompanying notes to financial statements.

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**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Statements of Cash Flows

Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Net loss	\$ (10,827)	(14,384)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation	-	1,242
Changes in assets and liabilities:		
(Increase) decrease in commissions receivable	(16,670)	20,987
Decrease (increase) in other assets	2,121	(1,224)
Decrease in income taxes receivable from affiliate	10,483	12,236
Increase (decrease) in payable to affiliate	<u>19,946</u>	<u>(10,817)</u>
Net cash provided by operating activities	<u>5,053</u>	<u>8,040</u>
Net increase in cash and cash equivalents	5,053	8,040
Cash and cash equivalents at beginning of year	<u>40,947</u>	<u>32,907</u>
Cash and cash equivalents at end of year	<u>\$ 46,000</u>	<u>40,947</u>

See accompanying notes to financial statements.

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Statement of Changes in Liabilities Subordinated to  
Claims of General Creditors

Years Ended December 31, 2003 and 2002

Subordinated liabilities, January 1, 2002	\$ -
Changes	<u>-</u>
Subordinated liabilities December 31, 2002	-
Changes	<u>-</u>
Subordinated liabilities December 31, 2003	\$ <u><u>-</u></u>

See accompanying notes to financial statements.

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Notes to Financial Statements

December 31, 2003 and 2002

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

The accompanying financial statements include only the accounts of Investors Brokerage of Texas, Ltd. (the Partnership). The general partner (.1%) is Insurors General Partner, LLC, which is a wholly-owned subsidiary of the limited partner (99.9%), Insurors.Com, Inc. Insurors.Com, Inc. is wholly owned by Chase Financial Corp. The Partnership serves as an investment broker-dealer, with the majority of its customers located in the central and south Texas areas.

The Partnership carries no customer cash accounts, margin accounts or credit balances and promptly transmits all customer funds and delivers all securities received in connection with its activities to its clearing broker, Southwest Securities in Dallas, Texas.

(b) Commission Income and Related Expenses

Commission income and related expenses are recorded on a settlement date basis, which is not materially different from a trade date basis.

(c) Income Taxes

The Partnership and its affiliates are included in the consolidated federal income tax return filed by the parent company. Federal income taxes are calculated as if the companies filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from its affiliates. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years. The Partnership is not subject to state franchise taxes.

Deferred income taxes are accounted for under the asset and liability method. 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, principally depreciation on furniture and equipment, and

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Notes to Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(c) Income Taxes (continued)

their respective tax bases. Deferred tax assets 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 on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(d) Furniture and Equipment

Furniture and equipment is carried at cost. Depreciation is calculated using the double-declining balance and straight-line methods of depreciation over the estimated useful lives of the assets.

(e) Cash Equivalents

For purposes of the statements of cash flows, the Partnership considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(f) Advertising Expense

The Partnership expenses the costs of advertising as incurred. Advertising expense for 2003 and 2002 totaled \$3,331 and \$6,837, respectively.

(g) Use of Estimates

Management of the Partnership has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(h) Reclassifications

Certain reclassifications have been made to the 2002 financial statements to make them comparable to the 2003 financial statements.

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**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Notes to Financial Statements  
(Continued)

(2) Furniture and Equipment

Furniture and equipment as of December 31, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	\$ -	64,102	5 to 10 years
Improvements	-	17,961	39 years
Accumulated depreciation	<u>-</u>	<u>(65,687)</u>	-
	\$ <u>-</u>	<u>16,376</u>	

The Partnership sold all of its furniture and equipment as of January 1, 2003 to Insurors of Texas General Agency, Ltd, an affiliated company, for the net book value of \$16,376. The Partnership recorded a receivable from affiliate for this amount as of December 31, 2003.

(3) Retirement Plan

The Partnership participates in the retirement plan (the Plan) of a related company which covers substantially all employees. The Plan has a 401(k) provision which allows employees with at least one year and 1,000 hours of service to make contributions. Employee contributions can be matched up to 5% at the discretion of the Partnership. For the years ended December 31, 2003 and 2002, the Partnership made discretionary contributions of \$14,076 and \$21,906, respectively.

(4) Regulatory Requirements

The Partnership, an investment broker, is subject to the Securities and Exchange Commission, Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net regulatory capital and a certain ratio of aggregate indebtedness to net regulatory capital. The Partnership carries all accounts on a fully disclosed basis and is required to maintain net capital of at least \$50,000 under Rule 15c3-1(a)(2). At December 31, 2003, the Partnership had net regulatory capital of \$198,545.

(5) Related Party Transactions

A related entity, Insurors Opportunity, Ltd., provides various office space, accounting services, payroll processing and other miscellaneous services for the Partnership. Following is a summary of the major expenses related to services performed by Insurors Opportunity, Ltd.:

**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Notes to Financial Statements  
(Continued)

(5) Related Party Transactions (continued)

	<u>2003</u>	<u>2002</u>
Rent expense	\$ 68,000	144,000
Payroll, commissions and related expenses	369,467	525,551

(6) Supplemental Cash Flow Information

The Partnership received \$15,000 from one of its affiliates for income taxes in 2003.

During 2003, the Partnership sold all of its furniture and equipment to an affiliated company for \$16,376, recording a receivable from affiliate as of December 31, 2003, as more fully described in Note 2.

(7) Income Taxes

The Partnership's effective income tax rate is lower than what would be expected if the federal statutory rate were applied to income (loss) from continuing operations, because of a difference of \$2,897 resulting from the prior year's tax accrual for the year ended December 31, 2002.

**Supplemental Information**

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**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Information Relating to the Possession or Control  
Requirements Under Rule 15c3-3 of the  
Securities and Exchange Commission

December 31, 2003

The Partnership claims exemption under Rule 15c3-3(k)(2)(ii) relating to the possession or control filing requirements of Rule 15c3-3.

See accompanying independent auditors' report.

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**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Computation for Determination of Reserve Requirements  
Under Rule 15c3-3 of the  
Securities and Exchange Commission

December 31, 2003

The Company claims exemption under Rule 15c3-3(k)(2)(ii) relating to the reserve requirements of Rule 15c3-3.

See accompanying independent auditors' report.

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**Investors Brokerage of Texas, Ltd.**  
(A Subsidiary of Chase Financial Corp.)

Computation and Reconciliation of Net Capital and Computation  
of Basic Net Capital Requirements Under Rule 15c3-1 of the  
Securities and Exchange Commission

December 31, 2003

Net capital:	
Equity, as reported on Form X-17A-5, Part II	\$ 214,169
Audit adjustments:	
Adjust Federal income tax expenses to actual	<u>(684)</u>
Equity, as reported on the accompanying financial statements	213,485
Deductions:	
Non-allowable assets - other assets	<u>(14,940)</u>
Net capital	<u>\$ 198,545</u>
Aggregate indebtedness, as reported on the accompanying financial statements	<u>\$ 46,082</u>
Minimum net capital required	\$ 50,000
Net capital in excess of requirements	<u>148,545</u>
Net capital	<u>\$ 198,545</u>
Ratio aggregate indebtedness to net capital	.23:1

See accompanying independent auditors' report.

**Investors Brokerage of Texas, Ltd.**  
Letter on Internal Control Required by  
SEC Rule 17a-5  
December 31, 2003



The Board of Directors  
Investors Brokerage of Texas, Ltd.:

In planning and performing our audit of the financial statements and supplemental information of Investors Brokerage of Texas, Ltd. 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 and Exchange Commission, we have made a study of the practices and procedures followed by Investors Brokerage of Texas, Ltd. 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 Investors Brokerage of Texas, Ltd. does not carry securities accounts for customers or perform custodial functions to customer securities, we did not review the practices and procedures followed by the Partnership 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

Management of the Partnership has asserted that it was in compliance with the conditions of the exemption under Rule 15c3-3 and no facts came to our attention that such conditions had not been complied with during the period.

The management of the Partnership 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 Partnership 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 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 Partnership'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 management, the Securities and Exchange Commission and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be used and should not be used for any other purpose.

*Jaynes, Reitzner, Boyd & Henell, P.C.*

January 30, 2004

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