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

SEC FILE NUMBER
8-65603

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 01/01/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Tahoe Fixed Income, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

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

12730 Buckthorn Lane

**PROCESSED**  
FEB 22 2005

Reno NV 89511  
(City) (State) (Zip Code)

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

Barry Schoening (425) 888-5532  
(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

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

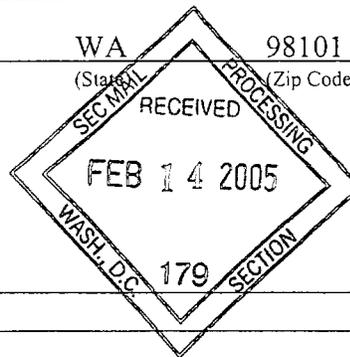
Peterson Sullivan, PLLC

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

601 Union St, Ste 2300 Seattle WA 98101  
(Address) (City) (State) (Zip Code)

### CHECK ONE:

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



### 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 240.17 a-5(e)(2)

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SEC 1410 (06.02)

**TAHOE FIXED INCOME, LLC**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2004

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OATH OR AFFIRMATION

I, Barry Schoening, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Tahoe Fixed Income, LLC, as of December 31, 2004, 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:



Barry Schoening  
Signature

PARTNER  
Title

Tricia L. Olson  
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. (Cash Flows)
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors. (Not Applicable)
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3. (Not Applicable)
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3. (Not Applicable)
- (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. (Not Applicable)
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report. (Not Applicable)
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit. (Not Applicable)

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17 a-5(e)(3).

X (O) INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5 FOR A BROKER-DEALER CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3.

\* RESERVE REQUIREMENT IS NOT APPLICABLE



CERTIFIED PUBLIC ACCOUNTANTS

601 UNION STREET, SUITE 2300

SEATTLE, WASHINGTON 98101

## INDEPENDENT AUDITORS' REPORT

To the Members  
Tahoe Fixed Income, LLC  
Reno, Nevada

We have audited the accompanying statement of financial condition of Tahoe Fixed Income, LLC as of December 31, 2004, and the related statements of operations, members' equity, and cash flows for the year 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 auditing standards generally accepted in the United States. 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 Tahoe Fixed Income, LLC as of December 31, 2004, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in Schedules I and II 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 Commission. 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.

*Peterson Sullivan PLLC*

January 11, 2005

TAHOE FIXED INCOME, LLC

STATEMENT OF FINANCIAL CONDITION

December 31, 2004

ASSETS

Cash	\$	5,515
Deposits with clearing organization		1,027,900
Receivable from clearing organization		159,239
Securities owned, at market value		6,114,297
Prepaid expense and other assets		18,169
		<hr/>
	\$	7,325,120
		<hr/> <hr/>

LIABILITIES AND MEMBERS' EQUITY

Liabilities		
Payable to clearing organization	\$	5,984,170
Accrued expenses and other liabilities		1,625
		<hr/>
Total liabilities		5,985,795
Members' Equity		1,339,325
		<hr/>
	\$	7,325,120
		<hr/> <hr/>

See Notes to Financial Statements

**TAHOE FIXED INCOME, LLC**  
**STATEMENT OF OPERATIONS**  
For the Year Ended December 31, 2004

Revenue	
Net gains on sale of securities	\$ 1,736,011
Interest and other income	274,733
	<hr/>
	2,010,744
Expenses	
Salaries, benefits and payroll taxes	61,286
Guaranteed payments	80,000
Ticket charges	159,978
Interest	138,710
Data subscriptions	88,160
Professional fees	16,337
Communications	15,832
Licenses, registrations and taxes	12,382
Travel	7,485
Office expense	3,639
Other	9,626
	<hr/>
	593,435
	<hr/>
<b>Net income</b>	<b>\$ 1,417,309</b>

See Notes to Financial Statements

**TAHOE FIXED INCOME, LLC**  
**STATEMENT OF MEMBERS' EQUITY**  
Year Ended December 31, 2004

Balance, December 31, 2003	\$ 1,053,016
Capital withdraws	(1,131,000)
Net income	<u>1,417,309</u>
Balance, December 31, 2004	<u><u>\$ 1,339,325</u></u>

See Notes to Financial Statements

**TAHOE FIXED INCOME, LLC**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2004

Cash Flows from Operating Activities	
Net income	\$ 1,417,309
Adjustments to reconcile net income to net cash flows from operating activities	
Change in operating assets and liabilities	
Deposits with clearing organization	(327,544)
Receivable from clearing organization	(8,287)
Securities owned, net	(802,826)
Payable to clearing organization	844,641
Other	<u>(1,611)</u>
Net cash flows from operating activities	1,121,682
Cash Flows from Financing Activity	
Contributions withdrawn by members	<u>(1,131,000)</u>
<b>Decrease in cash</b>	<b>(9,318)</b>
Cash, beginning of year	<u>14,833</u>
Cash, end of year	<u><u>\$ 5,515</u></u>
Supplemental Cash Flow Information	
Cash paid during the year for interest	<u><u>\$ 138,710</u></u>

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Organization and Significant Accounting Policies

#### Organization

Tahoe Fixed Income, LLC ("the Company") is a securities broker and dealer as approved by the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. The Company's activities are primarily comprised of purchasing and selling government and private label mortgage-backed securities, and holding these types of securities for the Company's own account.

As a limited liability company (or LLC), a member's liability is generally limited to contributions made to the LLC. The Company has a finite life and is scheduled to terminate in 2070.

The Company uses facilities and equipment provided by its owners (without charge).

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

#### Cash

Cash consists of cash in banks. The Company occasionally has deposits in excess of federally insured limits. The recorded value of cash (and any other financial instruments) approximates fair value at December 31, 2004.

#### Clearing Organizations

The Company has an agreement with other securities brokers and dealers (primarily one organization) to act as clearing organizations for the Company. The clearing organizations clear all security transactions and maintain customer accounts.

The Company is required to maintain certain deposit levels with clearing organizations. The amount of the deposit depends on the agreement with the clearing organization and the exchange market requirements. As of December 31, 2004, the Company had deposit levels with clearing organizations exceeding the requirements.

## Revenue Recognition

Revenue associated with securities transactions is recognized on a trade date basis. Securities owned and contracts to purchase securities in the future are recorded at market value and, accordingly, any changes in market value are recognized in the statement of operations. Market value is determined based on active exchanges (established exchanges and "over-the-counter" exchanges) in the United States.

## Income Taxes

The Company is taxed as a partnership and, with limited exceptions, is not taxed at the Company level. Instead, its items of income, loss, deduction, and credit are passed through to its member owners in computing their individual tax liabilities.

## **Note 2. Securities Owned**

Securities owned consist of trading and investment securities, and include accrued interest of \$50,148. Securities owned are composed of:

Federal National Mortgage Association	\$ 2,468,026
Federal Home Loan Mortgage Company	1,898,445
Federal Home Loan Bank	1,313,616
Financing Corporation (FICO)	223,187
Federal Farm Credit	108,235
Government National Mortgage Association	67,749
Resolution Funding Corporation	14,327
Private label mortgage-backed securities	20,712
	<hr/>
	\$ 6,114,297

## **Note 3. Trading Activities and Related Risks**

The Company actively trades government and private label mortgage-backed securities. Positions in these securities are subject to varying degrees of market and credit risk.

Market prices are subject to fluctuation and, as such, the Company is exposed to market risk. The fair value of the Company's investments will fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments. Additionally, fair values of interest rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument, and other general market conditions. Market risk is directly impacted by the volatility and liquidity in the markets in which financial instruments are traded. The Company monitors its exposure to

market risk, or its market risk profile, on a daily basis through a variety of financial, security position, and control procedures.

Credit risk is the possibility of debt securities being downgraded by the rating agencies or going into default due to non-performance by issuers. The Company minimizes inventory credit risk by trading either governmental agency securities or securities that are AAA rated by two or more debt security rating services. The Company's counterparty risk is minimized by trading only with institutional parties and by clearing trades via the Federal Wire and the Deposit Trust Company ("DTC"), which ensure settlements occur simultaneously for both sides of the trade.

The Company engages in selling of contracts to deliver at a future date or to repurchase at a future date (futures contracts). These contracts are used to hedge the risk associated with owning debt securities. At December 31, 2004, there were thirty futures contracts that had not been settled (notional amount of \$3,000,000). These contracts relate to United States 10-Year Treasury Notes deliverable in March 2005. Net realized and unrealized gains and losses from futures contracts are included in the principal transactions revenues in the accompanying statement of operations. For the year ending December 31, 2004, net realized and unrealized losses on futures contracts were \$176,421 and \$22,500, respectively.

#### **Note 4. Guaranteed Payments**

During 2004, the Company's members agreed to make guaranteed payments to one of the Company's members, totaling \$80,000. The amount of the monthly guaranteed payment was increased to \$20,000 subsequent to the year end.

#### **Note 5. Subsequent Event**

On January 7, 2005, the Company's members withdrew \$165,000 from the Company. The members expect to make an additional withdrawal prior to April 15, 2005, but the amount of the withdrawal is undetermined.

#### **Note 6. Net Capital Requirements**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1). Accordingly, the Company is required to maintain a minimum level of net capital (as defined) of \$100,000. At December 31, 2004, the Company had computed net capital of \$918,953, which was in excess of the required net capital level by \$818,953. In addition, the Company is not allowed to have a ratio of aggregate indebtedness to net capital (as defined) in excess of 15 to 1. At December 31, 2004, the Company's ratio of aggregate indebtedness to net capital was 0.002 to 1.

S U P P L E M E N T A R Y   I N F O R M A T I O N

**TAHOE FIXED INCOME, LLC**

**SCHEDULE I**

**COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1**

December 31, 2004

**COMPUTATION OF NET CAPITAL**

Members' equity		\$ 1,339,325
Deductions		
Unsecured receivables from noncustomers	\$ 102,130	
Other assets	<u>18,169</u>	120,299
Haircuts on security positions		
United States Agency obligations and obligations of organizations established by the United States		298,511
Private label mortgage-backed securities		<u>1,562</u>
Net capital		918,953
Minimum net capital		<u>100,000</u>
Excess net capital		<u>\$ 818,953</u>

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

Accrued expenses and other liabilities	\$ <u>1,625</u>
Total aggregate indebtedness	<u>\$ 1,625</u>

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of total aggregate indebtedness or \$100,000, whichever is greater)	<u>\$ 100,000</u>
Percentage of aggregate indebtedness to net capital	0.2%
Ratio of aggregate indebtedness to net capital	0.002 to 1

Tahoe Fixed Income, LLC is exempt from the computation of reserve requirements pursuant to Rule 15c3-3 under paragraph K(2)(ii).

TAHOE FIXED INCOME, LLC

SCHEDULE II

RECONCILIATION BETWEEN THE COMPUTATION OF NET CAPITAL PER  
THE BROKER'S UNAUDITED FOCUS REPORT, PART IIA, AND THE  
AUDITED COMPUTATION OF NET CAPITAL

December 31, 2004

Net capital per the broker's unaudited Focus Report, Part IIA, and net capital as recalculated	<u>\$ 918,953</u>
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No adjustments were proposed to net capital per the broker's unaudited Focus Report, Part IIA, as a result of our audit.

CERTIFIED PUBLIC ACCOUNTANTS  
601 UNION STREET, SUITE 2300  
SEATTLE, WASHINGTON 98101

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL**  
**REQUIRED BY SEC RULE 17a-5 FOR A BROKER-DEALER**  
**CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3**

To the Members  
Tahoe Fixed Income, LLC  
Reno, Nevada

In planning and performing our audit of the financial statements and supplemental schedules of Tahoe Fixed Income, LLC ("the Company") for the year ended December 31, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, 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 220.8 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 Securities and Exchange Commission'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 preparation of financial statements in accordance with accounting principles generally accepted in the United States. 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, which 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 Securities and Exchange 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 were adequate at December 31, 2004, to meet the Securities and Exchange 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 in their regulation of registered brokers and dealers, and should not be used by anyone other than these specific parties.

*Peterson S.M. PLLC*

January 11, 2005