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

SEC FILE NUMBER
8- 40112

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: Pashley Financial Services, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

(No. and Street)  
Spencer, IN 47460

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Eugene W. Pashley, Jr. (812) 829-3722

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Tracey Heun Brennan & Co.

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

Central Professional Plaza, 327 Central Avenue, Linwood, NJ 08221

(Address)

(City)

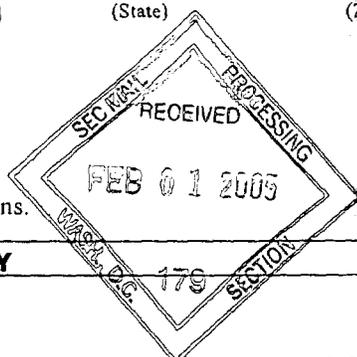
(State)

(Zip Code)

CHECK ONE:

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

**PROCESSED**  
FEB 09 2005  
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)

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OATH OR AFFIRMATION

I, Eugene W. Pashley, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Pashley Financial Services, Inc., 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:

*Eugene W. Pashley, Jr.*  
Signature

Eugene W. Pashley, Jr. President  
Title

*Tami Snodgrass*  
Tami Snodgrass, Public Expires 11/05/08

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 and the Computation for Determination of the Reserve Requirements Under Exhibit A of 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).

**PASHLEY FINANCIAL SERVICES, INC.**

**FINANCIAL STATEMENT**

**DECEMBER 31, 2004**

PASHLEY FINANCIAL SERVICES, INC.

FINANCIAL STATEMENTS and SUPPLEMENTARY INFORMATION  
YEARS ENDED DECEMBER 31, 2004 and 2003

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To The Board of Directors and Stockholders  
Pashley Financial Services, Inc.  
Marmora, New Jersey 08223

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

We have audited the statements of financial condition of Pashley Financial Services, Inc. (a New Jersey corporation) as of December 31, 2004 and 2003 and the related statements of income, changes in stockholder's equity and cash flows 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 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 Pashley Financial Services, Inc. and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our examination was made for the purpose of forming an opinion on the basic financial statements, taken as a whole. The information contained in Schedule I 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 examination 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.

  
TRACEY HEUN BRENNAN & COMPANY  
Certified Public Accountants, PA

Cape May Court House, New Jersey  
January 14, 2005

PASHLEY FINANCIAL SERVICES, INC.  
 STATEMENTS OF FINANCIAL CONDITION  
 DECEMBER 31, 2004 AND 2003

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		<u>ASSETS</u>	
		<u>2004</u>	<u>2003</u>
Cash	\$	84,792	\$ 117,193
Commissions Receivable		14,673	10,960
Prepaid Expenses		9,013	9,729
Clearing Broker Deposit		<u>30,061</u>	<u>5,000</u>
 TOTAL ASSETS	 \$	 <u>138,539</u>	 \$ <u>142,882</u>

LIABILITIES & STOCKHOLDERS' EQUITY

Liabilities

Accounts Payable	\$	6,589	\$ 5,451
Commission Payable		203	805
Income Taxes Payable (Note 3)		<u>300</u>	<u>300</u>
 Total Liabilities		 <u>7,092</u>	 <u>6,556</u>

Stockholders' Equity

Common Stock (2400 Shares Authorized --150 Issued and Outstanding in 2004)		75,000	75,000
Retained Earnings		<u>56,447</u>	<u>61,326</u>
 Total Stockholders' Equity		 <u>131,447</u>	 <u>136,326</u>
 TOTAL LIABILITIES & STOCKHOLDER'S EQUITY	 \$	 <u>138,539</u>	 \$ <u>142,882</u>

The Accompanying Notes are an Integral Part  
of these Financial Statements

PASHLEY FINANCIAL SERVICES, INC.  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Revenues		
Commissions - Insurance Products	\$ 112,757	\$ 115,983
Commissions - Securities & Mutual Funds	234,488	174,859
Consulting Fees	22,800	271,800
Interest	1,529	1,992
Other Income		1,100
Total Revenues	371,574	565,734
Operating Expenses		
Broker Commission	127,093	293,217
Salaries	66,430	63,748
Trade Charges	9,579	9,247
Telephone	12,385	11,400
Office Expense	11,206	11,022
Licenses	3,672	4,000
Professional Services	7,982	9,728
Office Supplies	5,434	4,122
Advertising	447	2,007
Publications		663
Postage	3,518	3,238
Travel	2,259	1,835
Payroll Taxes	15,404	20,707
Insurance	46,702	42,323
Property and Use Taxes	68	97
Rent	27,536	18,000
Retirement Plan Expense (Note 6)	27,585	52,193
Other	8,653	9,095
Total Operating Expenses	375,953	556,642
Income Before Provision for Income Taxes	(4,379)	9,092
Provision for Income Taxes (Note 3)	500	500
Net Income (Loss) for the year	\$ (4,879)	\$ 8,592
Earnings Per Share	\$ (32.53)	\$ 57.28

The Accompanying Notes are an Integral Part  
of these Financial Statements

PASHLEY FINANCIAL SERVICES, INC.  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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	<u>Common Stock</u>	<u>Retained Earnings</u>
BALANCE, December 31, 2002	\$ 75,000	\$ 52,734
Net Income	<u>                    </u>	<u>8,592</u>
BALANCE , December 31, 2003	75,000	61,326
Net Income (Loss)	<u>                    </u>	<u>(4,879)</u>
BALANCE , December 31, 2004	<u>\$ 75,000</u>	<u>\$ 56,447</u>

The Accompanying Notes are an Integral Part  
of these Financial Statements

PASHLEY FINANCIAL SERVICES, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
<u>Cash Flows From Operating Activities:</u>		
Net Income (Loss)	\$ (4,879)	\$ 8,592
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
(Increase) Decrease in:		
Commissions Receivable	(3,713)	700
Interest Receivable		269
Prepaid Expense	716	(2,555)
Increase (Decrease) in:		
Accounts Payables	1,138	3,568
Commissions Payable	(602)	226
Income Taxes Payable		100
Net Cash Provided (Used) in Operating Activities	(7,340)	10,900
<u>Cash Flows From Investing Activities:</u>		
Sale of Investments		38,514
(Increase) in Clearing Brokers Deposit	(25,061)	
Net Cash Provided (Used) in Investing Activities	(25,061)	38,514
Net Increase (Decrease) In Cash and Equivalents	(32,401)	49,414
Cash and Equivalents, Beginning of Year	117,193	67,779
Cash and Equivalents, End of Year	\$ 84,792	\$ 117,193

SUPPLEMENTAL SCHEDULE OF DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid during the Year for:

Income Taxes	\$	500	\$	600
Interest	\$	0	\$	0

The Accompanying Notes are an Integral Part  
of these Financial Statements

PASHLEY FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2004 & 2003

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The company was formed April 15, 1988 as a New Jersey Corporation, and is a wholly owned subsidiary of Pashley Insurance Agency, Inc. (also a New Jersey Corporation). Registration with the Securities and Exchange Commission and National Association of Security Dealers was granted October 31, 1988 and November 22, 1988, respectively. The company's business activity includes the sale of securities and insurance. The company maintains offices in New Jersey and Indiana.

RECOGNITION OF REVENUE

The company recognizes revenue and expenses under the accrual method of accounting for financial reporting and income tax purposes.

Commission Revenue is recognized on a settlement date basis.

INVESTMENTS

Investments are recorded at market value. Any resulting difference between cost and market is reflected in income. Investments consist of certificates of deposit and money market accounts.

USE OF ESTIMATES

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, the company considers cash to be all highly liquid investments with a maturity of three months or less.

ADVERTISING

The company follows the policy of charging the cost of advertising to expense as incurred. Advertising expense for December 31, 2004 and 2003 was \$447 and \$2,007 respectively.

PASHLEY FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2004 & 2003

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2. NET CAPITAL REQUIREMENTS

The company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital being the greater of \$50,000 or 6 2/3% of the aggregate indebtedness. At December 31, 2004, the company had net capital of \$114,170, which was \$64,170 in excess of its required net capital of \$50,000.

3. INCOME TAXES

The company and its parent file a consolidated federal income tax return. Effective January 1, 1999, the shareholders of the parent company elected to have it taxed as an S-Corporation. The shareholders of that entity also elected to have the company treated as a qualifying Subchapter S subsidiary. The income tax liability and expense reflected on these financial statements are those of the company. State income taxes are filed separately and are calculated in accordance with revenue provisions of Indiana and New Jersey. For the years ended December 30, 2004 and 2003, income tax expense was \$500 and \$500 respectively.

4. LEASING ARRANGEMENTS

The company leases office equipment under operating leases expiring on various dates through September 2006.

The following is a schedule of future minimum rental payments required under the above operating leases as of December 31, 2004.

Year Ending December 31:

2005	\$	155
2006		<u>60</u>
	\$	<u><u>215</u></u>

5. RELATED PARTY TRANSACTIONS

The company leases space for its New Jersey location from 1314 South Shore Road Associates, LLC an entity related through common control. Lease expense was \$21,536 and \$18,000 in 2004 and 2003, respectively. Space is also leased for the Indiana location from Hyden Shore, Inc., a related entity. Lease expense was \$6,000 per year for 2004 and 2003. Total rent paid under both leases was \$27,536 and \$18,000 for 2004 and 2003, respectively.

PASHLEY FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2004 & 2003

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5. RELATED PARTY (continued)

As indicated in Note 4 above the company leases equipment from a related party, Hyden Shore, Inc. which has common ownership with the company. Expenses incurred under this lease were \$1,121 and \$2,584 during 2004 and 2003, respectively.

During 2003 the company received consulting revenues from related parties Hyden Shore, Inc. and Pashley Insurance Agency, Inc. Consulting revenues for 2004 were \$22,800 and \$0 respectively and \$22,800 and \$249,000 respectively in 2003.

6. PENSION PLAN

The Company maintains a Simplified Employee Pension (SEP) Plan. Employees must be twenty-one years of age and have a minimum of one-year experience to be eligible to participate. Presently there are 4 active participants in the plan.

Contributions are funded by the company and are determined annually at the company's discretion. Pension plan assets are held by a trustee and are not owned by the company. Contributions made for the years ending December 31, 2004 and 2003 was \$27,585 and \$52,193 respectively.

SUPPLEMENTARY INFORMATION

Pursuant to Rule 17a-5 of the  
Securities Exchange Act of 1934

PASHLEY FINANCIAL SERVICES, INC.  
 SUPPLEMENTARY SCHEDULES TO FINANCIAL STATEMENTS  
 PURSUANT TO RULE 17A-5 OF THE SECURITIES EXCHANGE ACT OF 1934  
 AS OF DECEMBER 31, 2004

SCHEDULE I

COMPUTATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS UNDER  
 RULE 15C3-1 OF THE SECURITIES AND EXCHANGE COMMISSION  
 AS OF DECEMBER 31, 2004

	2004	2,003
Total Ownership Equity	\$ 131,447	\$ 136,326
Deduct - Nonallowable Assets	16,690	9,729
- Hair Cut Money Market	587	1,848
<b>NET CAPITAL</b>	<b>114,170</b>	<b>124,749</b>

Computation of Basic Capital Requirements

Minimum Net Capital Required  $6 \frac{2}{3}$  of Aggregate  
 Indebtedness or \$50,000 whichever is Greater

	50,000	50,000
<b>EXCESS NET CAPITAL</b>	<b>\$ 64,170</b>	<b>\$ 74,749</b>

Computation of Aggregate Indebtedness

Liabilities	\$ 7,092	\$ 6,556
Percentage of Aggregate Indebtedness to Net Capital	6.21%	5.26%

RECONCILIATION OF NET CAPITAL UNDER RULE 15C3-1 OF THE  
 SECURITIES AND EXCHANGE COMMISSION PER UNAUDITED FOCUS IIA AND  
 AUDITED COMPUTATION AS OF DECEMBER 31, 2004

Net Audit Difference	\$ 0	\$ 0
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ADDENDUMS

Independent Auditor's Report on  
Internal Accounting Control

Board of Directors  
Pashley Financial Services Inc.  
Marmora, New Jersey 08223

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

In planning and performing our audit of the financial statements of Pashley Financial Services, Inc. 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 the 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 compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the 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
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15c3-3

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and 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 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.

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 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, 2004, to meet the Commission's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission and the National Association of Securities Dealers, and other regulatory agencies that rely of rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used for any other purpose.

*Tracey Heun Brennan & Company*  
TRACEY HEUN BRENNAN & COMPANY  
Certified Public Accountants, PA

Cape May Court House, New Jersey  
January 14, 2005