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

SEC FILE NUMBER
8-00071

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: Richards, Merrill & Peterson, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

One Skywalk, U.S. Bank Building

(No. and Street)

Spokane, WA 99201

(City)

(State)

(Zip Code)

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

Tom McDonald

509-624-3174

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Moss Adams LLP

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

601 West Riverside, Suite 1800

Spokane,

WA

99201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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



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MORISON FINANCIAL

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\*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)

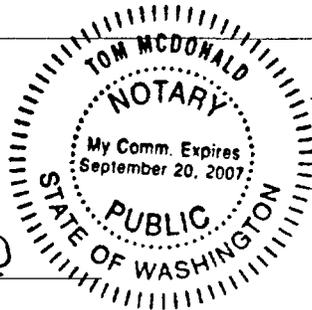
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Handwritten signature

OATH OR AFFIRMATION

I, Steve Larson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Richards, Merrill & Peterson, Inc., as of December 31, 20 04, 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]  
Signature

President  
Title

Tom McDonald  
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 ~~XXXXXX~~ 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.
- (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.
- (O) Independent Auditor's Report on Internal Control

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

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## INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Directors  
Richards, Merrill & Peterson, Inc.  
Spokane, Washington

We have audited the accompanying statements of financial condition of Richards, Merrill & Peterson, Inc. as of December 31, 2004, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year 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 Richards, Merrill & Peterson, Inc.'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 Richards, Merrill & Peterson, Inc. 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 of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 11 through 14 contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is information required by Rule 17a-5 of the Securities and Exchange Commission (SEC). Such information has been subjected to the auditing procedures applied in the audits 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.

*Moss Adams LLP*

Spokane, Washington  
January 13, 2005

**RICHARDS, MERRILL & PETERSON, INC.**  
**STATEMENT OF FINANCIAL CONDITION**

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**ASSETS**

	December 31, 2004
Cash	\$ 694,821
Cash segregated under federal regulations	167,981
Receivable from customers	182,803
Federal income tax receivable	2,059
Furniture and equipment, at cost, less accumulated depreciation of \$237,122	44,244
Other assets	<u>19,765</u>
 TOTAL ASSETS	 <u>\$ 1,111,673</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**LIABILITIES**

Payable to customers	\$ 37,812
Accounts payable and accrued liabilities	16,000
Dividends and interest payable	1,696
Due to brokers	43,297
Federal income tax, deferred	<u>6,500</u>
 TOTAL LIABILITIES	 <u>105,305</u>

**STOCKHOLDERS' EQUITY**

Common stock \$1 par value; 50,000 shares authorized; 1,155 shares issued and outstanding	1,155
Additional paid-in capital	136,133
Accumulated retained earnings	<u>869,080</u>
 TOTAL EQUITY	 <u>1,006,368</u>
 TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	  <u>\$ 1,111,673</u>

**RICHARDS, MERRILL & PETERSON, INC.**  
**STATEMENT OF INCOME**

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	Year Ended December 31, 2004
REVENUES	
Fee income	\$ 263,075
Commission income	1,970,688
Trading gains	<u>28,189</u>
	<u>2,261,952</u>
EXPENSES	
Commissions	1,196,082
Employee compensation	486,637
Occupancy	84,702
Taxes other than income taxes	35,592
Communications	60,602
Interest	792
Other operating expenses	<u>366,962</u>
	<u>2,231,369</u>
Income from operations	<u>30,583</u>
OTHER INCOME	
Interest and dividends earned	5,964
Other	<u>17,326</u>
	<u>23,290</u>
Income before income tax	<u>53,873</u>
Income tax expense	
Current	8,633
Deferred	<u>1,400</u>
	<u>10,033</u>
NET INCOME	<u>\$ 43,840</u>

*See accompanying notes.*

**RICHARDS, MERRILL & PETERSON, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

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	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, beginning of year	\$ 1,155	\$ 136,133	\$ 825,240	\$ 962,528
Net income	<u>-</u>	<u>-</u>	<u>43,840</u>	<u>43,840</u>
Balance, end of year	<u>\$ 1,155</u>	<u>\$ 136,133</u>	<u>\$ 869,080</u>	<u>\$ 1,006,368</u>

**RICHARDS, MERRILL & PETERSON, INC.**  
**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS**  
**OF GENERAL CREDITORS**

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Subordinated liabilities, January 1, 2004	\$ 50,000
Amounts repaid pursuant to subordination agreements	<u>50,000</u>
Subordinated liabilities, December 31, 2004	<u>\$ -</u>

**RICHARDS, MERRILL & PETERSON, INC.**  
**STATEMENT OF CASH FLOWS**

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	Year Ended December 31, 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net income	\$ 43,840
Adjustments to reconcile net income to net cash used by operating activities:	
Cash segregated under federal regulations	(121,309)
Depreciation	18,245
Change in assets and liabilities	
Receivable from customers	(175,731)
Federal income tax receivable	2,196
Other assets	(1,971)
Payable to customers	(78,158)
Accounts payable and accrued liabilities	(3,036)
Due to brokers	36,007
Dividends and interest payable	627
Federal income tax, deferred	1,400
	<u>          </u>
Net cash used by operating activities	<u>(277,890)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of equipment	<u>(24,593)</u>
Net cash used by investing activities	<u>(24,593)</u>
NET CHANGE IN CASH	(302,483)
Cash, beginning of year	<u>997,304</u>
Cash, end of year	<u>\$ 694,821</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>	
Cash paid during the year for:	
Interest	<u>\$ 792</u>
Income taxes	<u>\$ 10,692</u>
<b>NONCASH FINANCING ACTIVITIES</b>	
Reduction in secured demand note and subordinated debt	<u>\$ 50,000</u>

**Note 1 - Operations and Summary of Significant Accounting Policies**

***Organization:***

Richards, Merrill & Peterson, Inc. (the Company) is a registered broker/dealer engaged primarily in providing brokerage and investment advisory services to clients in Spokane, Washington, and the surrounding area.

The Company is incorporated in the state of Washington and is registered with the Securities and Exchange Commission (SEC). The Company is also a member of the National Association of Securities Dealers, Inc. (NASD).

***Summary of significant accounting policies:***

- Customers' securities transactions are recorded on a settlement-date basis, generally three business days after trade date for municipal and equity securities and one business day after trade date for U.S. government securities. Related commission income and expenses are recorded on a settlement date basis. As of December 31, 2004, and for the year then ended, the Company's financial condition and results of operations using the settlement date basis are not materially different from recording transactions on a trade date basis.
- Furniture and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by straight-line and accelerated methods over estimated useful lives of 5 to 7 years. Depreciation expense for the year ended December 31, 2004, was \$18,245.
- Employees are entitled to paid vacation, sick, and personal days off depending on job classification, length of service, and other factors. These benefits do not carry over and must be used by year end. Accordingly, no provision for such benefits is appropriate in the accompanying financial statements.
- 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.
- The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax return. In estimating future tax consequences, SFAS No. 109 generally considers all expected future events other than enactments of changes in the tax law or rates.

**RICHARDS, MERRILL & PETERSON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 - Net Capital Requirement**

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital of \$250,000. The SEC also requires that the ratio of aggregate indebtedness to net capital shall not exceed 1,500% (15 to 1). At December 31, 2004, the Company had net capital of \$940,760, which was \$690,760 in excess of its total Rule 15c3-1 required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was 0.105 to 1.

The Company is also subject to the Depository Trust Company and the National Securities Clearing Corporation \$500,000 capital requirement. At December 31, 2004, the Company exceeded this requirement by \$440,760.

**Note 3 - Cash Segregated Under Federal Regulations**

Under Rule 15c3-3 of the Securities and Exchange Commission, cash of \$167,981 has been segregated in a special reserve bank account for the benefit of customers.

**Note 4 - Securities Owned**

The Company did not own any securities at December 31, 2004.

**Note 5 - Line of Credit**

The Company has available a \$ 1,000,000 unsecured line of credit from a bank. Borrowings bear interest at the bank's prime rate which averaged 4.34% for 2004. The agreement expires March 31, 2005. No borrowings were outstanding at December 31, 2004.

**Note 6 - Defined Contribution 401(k) Plan**

The Company sponsors a defined contribution 401(k) plan that covers all employees who regularly work 1,000 hours or more per year. Employees may contribute up to 100% of eligible compensation up to a federally mandated maximum. Employer contributions are discretionary with a minimum contribution of 4% of participants' compensation. For the year ended December 31, 2004, the Company contributed \$47,913.

**Note 7 - Concentration of Credit Risk**

In the normal course of business the Company engages in activities involving the execution and settlement of various securities transactions for the benefit of customers. These activities may expose the Company to credit risk, including off-balance sheet and market risks, in the event a client or counterparty is unable to fulfill its contractual obligation. Volatile or illiquid trading markets may increase such risks. Risk is minimized by Regulation T of the NASD, Rules of Fair Practice.

**RICHARDS, MERRILL & PETERSON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 7 - Concentration of Credit Risk (Continued)**

The Company places its cash with high credit quality institutions. The amount on deposit fluctuates, and frequently exceeds the insured limit by the U.S. Federal Deposit Insurance Corporation, which potentially subjects the Company to credit risk.

**Note 8 - Lease Agreement**

The Company is leasing office space on a month-to-month basis. Monthly rental expense was \$5,655 until June 30, 2004, and \$5,795 thereafter.

**Note 9 - Income Taxes**

Federal income tax was computed at statutory rates after giving effect to nondeductible items and general business tax credits and contribution carryovers.

The components of income tax expense consist of the following:

Current tax expense	\$ 8,633
Deferred tax expense	<u>1,400</u>
 INCOME TAX EXPENSE	 <u>\$ 10,033</u>

The deferred tax liability at December 31, 2004, relates to differences between book and tax depreciation. The components of the net deferred income tax liability in the statement of financial condition are as follows:

Deferred tax liability:	
Depreciation	<u>\$ 6,500</u>

The effective tax rate differs from the statutory federal rate for the years presented as follows:

Federal income tax at statutory rates	\$ 18,194
Effect of permanent differences	2,693
Effect of lower tax bracket	(9,816)
Other	<u>(1,038)</u>
 INCOME TAX EXPENSE	 <u>\$ 10,033</u>

**SUPPLEMENTAL INFORMATION**

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**RICHARDS, MERRILL & PETERSON, INC.**  
**SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER SEC RULE 15c3-1**

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	December 31, 2004
NET CAPITAL	
Total stockholders' equity	\$ 1,006,368
Deduct nonallowable assets	<u>65,608</u>
NET CAPITAL	<u>\$ 940,760</u>
AGGREGATE INDEBTEDNESS	
Total liabilities	\$ 105,305
Deduct deferred federal income tax	6,500
Deduct adjustments based upon deposits in Special Reserve Bank Account	<u>-</u>
TOTAL AGGREGATE INDEBTEDNESS	<u>\$ 98,805</u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT	
Net capital	\$ 940,760
Minimum net capital required	<u>250,000</u>
CAPITAL IN EXCESS OF MINIMUM REQUIREMENT	<u>\$ 690,760</u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	<u>10.5%</u>

The computation of net capital pursuant to SEC Rule 15c3-1 as of December 31, 2004, computed by the Company in its Form X-17A-5, Part IIA, does not differ materially from the above computation, which is based on the audited financial statements.

**RICHARDS, MERRILL & PETERSON, INC.**  
**SCHEDULE II - COMPUTATION OF RESERVE REQUIREMENTS UNDER**  
**SEC RULE 15c3-3**

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CREDIT BALANCES

Free credit balances and other credit balances in customers' security accounts	\$ 37,812
Dividend and interest payable	1,696
Customers' securities failed to receive	<u>43,297</u>

TOTAL CREDITS \$ 82,805

DEBIT BALANCES

Debit balances in customers' cash accounts excluding unsecured accounts and accounts doubtful of collection	<u>\$ 180,763</u>
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RESERVE COMPUTATION

Excess of total debits over total credits	<u>\$ 97,958</u>
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Required deposit None

The computation of reserve requirements pursuant to SEC Rule 15c3-3 as of December 31, 2004, computed by the Company in its Form X-17A-5, Part IIA, does not differ materially from the above computation, which is based on the audited financial statements.

**RICHARDS, MERRILL & PETERSON, INC.**  
**SCHEDULE III - INFORMATION RELATING TO THE POSSESSION OR**  
**CONTROL REQUIREMENTS UNDER RULE 15c3-3**

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1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by the respondent within the time frames specified under Rule 15c3-3.

Amount None

Number of items None

2. Customers fully paid securities and excess margin securities for which instruction to reduce to possession or control had not been issued as of the report date, excluding items arising from temporary lags which result from normal business operations as permitted under Rule 15c3-3.

Amount None

Number of items None

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

To the Stockholders and Board of Directors  
Richards, Merrill & Peterson, Inc.  
Spokane, Washington

In planning and performing our audit of the financial statements of Richards, Merrill & Peterson, 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 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; and
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 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 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, 2004, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., 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.

*Moss Adams LLP*

Spokane, Washington  
January 13, 2005