



OKOBOJI FINANCIAL  
SERVICES, INC.

OKOBOJI, IOWA

FINANCIAL STATEMENTS

DECEMBER 31, 2004

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# MARTENS

*c.p.a.*

## Independent Auditors' Report

To the Board of Directors  
Okoboji Financial Services, Inc.  
Okoboji, Iowa

I have audited the accompanying statement of financial condition of Okoboji Financial Services, Inc. (a corporation) as of December 31, 2004, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of Okoboji Financial Services, Inc. as of December 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

My audit was conducted 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 audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Donn G. Martens  
Certified Public Accountant

February 19, 2005

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OKOBOJI FINANCIAL SERVICES, INC.  
BALANCE SHEET  
DECEMBER 31, 2004

ASSETS

Current Assets:

Cash and cash equivalents (Note A)	\$146,041
Accounts receivable	36,945
Investment in securities	3,350
Prepaid income tax	<u>424</u>
Total Current Assets	186,760

Property and Equipment: (Note A)

Electronic equipment	47,516
Furniture and fixtures	<u>23,677</u>
	71,193
Less: Accumulated depreciation	<u>(61,302)</u>
Net Property and Equipment	9,891

Other Assets:

Customer files	<u>110</u>
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Total Assets	<u>\$196,761</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$ 2,288
Commissions payable	68,315
Accrued payroll payable	<u>1,138</u>
Total Current Liabilities	71,741

Stockholders' Equity:

Common stock, 100,000 shares authorized, 57,000 shares issued and outstanding	57,000
Retained earnings	<u>68,020</u>
Total Stockholders' Equity	<u>125,020</u>

Total Liabilities and Stockholders' Equity	<u>\$196,761</u>
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See Notes to Financial Statements  
(2)

OKOBOJI FINANCIAL SERVICES, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2004

Revenues:	
Commissions	\$1,329,419
Cost of transactions	<u>67,550</u>
Net Commissions	1,261,869
Operating Expenses:	
Commissions (Note B)	1,167,687
Insurance	22,215
Licenses	12,665
Advertising	10,934
Data Feed Expense	8,109
Rent (Note D)	7,789
Telephone	5,469
Office Supplies and Postage	4,898
Depreciation (Note A)	4,212
Salaries	4,000
Utilities	2,121
Errors & Omissions	1,662
Dues and subscriptions	1,577
Repairs and Maintenance	1,498
Legal and Accounting	1,424
Travel	1,356
Payroll Taxes	338
Donations	67
Miscellaneous	<u>1,044</u>
Total Operating Expenses	<u>1,259,065</u>
Operating (Loss)	2,804
Other Income	
Interest Income	<u>882</u>
Total Other Income	882
Net (Loss) Before Income Taxes	3,686
Provision for Income Taxes	<u>96</u>
Net (Loss)	<u>\$ 3,590</u>

See Notes to Financial Statements

OKOBOJI FINANCIAL SERVICES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>CAPITAL STOCK COMMON</u>	<u>RETAINED EARNINGS</u>
Balances at January 1, 2003	\$ 57,000	\$ 64,430
Net Income	<u>-</u>	<u>3,590</u>
Balances at December 31, 2004	<u>\$ 57,000</u>	<u>\$ 68,020</u>

See Notes to Financial Statements  
(4)

OKOBOJI FINANCIAL SERVICES, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Cash Flows From Operating Activities:	
Net (Loss)	\$ 3,590
Adjustments to Reconcile Net Income to Net	
Cash Provided by Operating Activities:	
Depreciation	4,212
(Increase) Decrease in:	
Accounts Receivable	57
Prepaid income tax	(424)
Investment in securities	-
Increase (Decrease) in:	
Accounts Payable	(801)
Accrued Income taxes payable	(281)
Accrued payroll taxes payable	1,138
Commissions Payable	<u>(23,310)</u>
Net Cash Provided by Operating Activities	(15,819)
Cash Flows From Investing Activities:	
Purchase of Equipment	<u>(6,627)</u>
Net Cash Used by Investing Activities	(6,627)
Cash Flows From Financing Activities:	
Net Cash Used by Financing Activities	<u>-</u>
Net Increase in Cash	(22,446)
Cash and Cash Equivalents - Beginning of Year	<u>168,487</u>
Cash and Cash Equivalents - End of Year	<u>\$ 146,041</u>

See Notes to Financial Statements  
(5)

OKOBOJI FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Note A - Summary of Significant Accounting Policies

Organizational Background

Okoboji Financial Services, Inc. was incorporated on September 7, 1988, in the state of Iowa. The Corporation operates as a broker and dealer registered with the Securities and Exchange Commission, and is in the business of providing securities and investment services to their customers.

On October 10, 1997, the Corporation entered into an agreement with LIT Division of First Options of Chicago, Inc. (known as the Non-Guaranteed Introducing Broker Agreement) for the purpose of executing and clearing their customer trades in commodities. On July 31, 1999 LIT Division of First Options of Chicago, Inc. was purchased by ED & F Man of Chicago. As part of the purchase agreement, this Non-Guaranteed Introducing Broker Agreement was assigned to ED & F Man.

On November 2, 1999, the Corporation entered into an agreement with BNY Clearing Services LLC, (known as the Fully Disclosed Clearing Agreement) for the purpose of executing and clearing their customer transactions in securities. On September 1, 2003 BNY Clearing Services LLC was purchased by Pershing, L.L.C. As part of the purchase agreement, this Fully Disclosed Clearing Agreement was assigned to Pershing, L.L.C.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line and accelerated methods based on the estimated useful lives of assets. Repairs and maintenance are charged to operations as incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Investment in Securities

Investment in securities consists of stock and is carried at cost. Cost was \$ 3,350 as of December 31, 2004.

OKOBOJI FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Note B - Related Party Transactions

The Corporation pays commissions to the officers and directors of the Corporation. For the year ended December 31, 2004, commission expense includes \$ 152,250 of commissions paid to the officers and directors.

Note C - Contingent Liability

Pursuant to regulations established by the National Futures Association and the Securities and Exchange Commission, the Corporation is required to meet certain minimum capital requirements and comply with various operating rules. As of December 31, 2004, and as of the date of this report, the Corporation is not aware of any violations, which have not been disclosed, of the regulations of the National Futures Association or the Securities and Exchange Commission.

Note D - Leases

The Corporation is committed to a lease on its office space. The operating lease provides that the Corporation pay a monthly rent of \$634. Rent paid on this lease for the year ended December 31, 2004, was \$ 7,789.

Note E - Liabilities Subordinated to Claims and General Creditors

The Corporation had no transactions involving subordinated liabilities during the year or outstanding at December 31, 2004.

Note F - Exemption to Rule 15c3-3

The Company is exempt from the provisions of Rule 15c3-3 under section k(2)(ii) where as an introducing broker the Company clears all transactions on a fully disclosed basis with a clearing broker and promptly transmits all customer funds and securities to the clearing broker. The clearing broker carries and maintains all of the accounts of the customers.

Note G - NASD Conduct Rule 3011(c), Anti-Money Laundering Program (AML)

The Corporation has an Anti-Money Laundering Program (AML) as required by NASD Conduct Rule 3011(c). Tests were conducted to determine compliance with the Anti-Money Laundering Program (AML). Based on the results of these tests, the policies and procedures as set forth in the Corporation's Anti-Money Laundering (AML) Program accomplish the objectives of the Anti-Money Laundering Compliance Program in accordance with NASD Conduct Rule 3011(c).

OKOBOJI FINANCIAL SERVICES, INC.  
 COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
 OF THE SECURITIES AND EXCHANGE COMMISSION  
 AS OF DECEMBER 31, 2004

SCHEDULE (1)

Net Capital:	
Stockholders' Equity at December 31, 2004	\$125,020
Deductions and/or Charges:	
Property and Equipment	9,891
Stocks and Warrants	3,350
Prepaid income tax	424
Other Assets	<u>110</u>
Total Deductions and/or Charges	13,775
Haircuts on Securities	<u>627</u>
Net Capital	<u>\$110,618</u>

Computation of Basic Net Capital Requirement  
 Minimum Net Capital Required is the Greater of:

- (a) \$25,000 as required by CFTC Regulation 1.10(j), or
- (b) \$50,000 as required by Rule 15c3-(1)a of the Securities and Exchange Commission

Minimum Net Capital Required	\$ 50,000
Excess Net Capital	<u>60,618</u>
Net Capital	<u>\$110,618</u>

Reconciliation With Company's Computation  
 Net Capital, as reported in Company's Part IIA  
 (Unaudited) FOCUS Report

Net Capital Per Above	<u>\$110,618</u>
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See Notes to Financial Statements.

# MARTENS

*c.p.a.*

## Independent Auditors' Report on Internal Control Structure

To the Board of Directors  
Okoboji Financial Services, Inc.  
Okoboji, Iowa

In planning and performing my audit of the financial statements of Okoboji Financial Services, Inc., for the year ended December 31, 2004, I considered its internal control structure, including procedures for safeguarding customer and firm assets, in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Regulation 1.16 of the commodity Futures Trading Commission and Regulation 240.15c3-1 of the Securities and Exchange Commission, I have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Corporation that I considered relevant to the objectives in making the periodic computations of minimum financial requirements pursuant to Regulation 1.17 of the commodity Futures Trading Commission and Rule 15c3-1(a) of the Securities and Exchange Commission.

The management of the corporation 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 internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Corporation 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 conformity with generally accepted accounting principles. Regulation 1.16 and Regulation 240.15c3-1 list additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities 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.

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My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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, I noted no matters involving the internal control structure, including procedures for safeguarding customer and firm assets, that I consider to be material weaknesses as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Commodity Exchange Act 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 my study, I believe that the Corporation's practices and procedures were adequate at December 31, 2004, to meet the Commissions objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the Commodity Futures Trading commission, and other regulatory agencies that rely on Regulation 1.16 of the Commodity Futures Trading Commission and Regulation 240.15c3-1 of the Securities and Exchange Commission, and should not be used for any other purpose.



Donn G. Martens  
Certified Public Accountant

February 19, 2005