



SECUR



MISSION

07004473

ANNU

RT

FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 2007
Estimated average burden hours per response....	12.00

AB  
3/15

SEC FILE NUMBER
8-65857

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 1/1/2006 AND ENDING 12/31/2006  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

AQUARIUS FUND DISTRIBUTORS, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

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

4020 S. 147<sup>TH</sup> STREET

(No. and Street)

OMAHA NE 68137  
(City) (State) (Zip Code)

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

VICKIE JACKSON 402-895-1600  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

SEIM, JOHNSON, SESTAK & QUIST, LLP

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

8807 INDIAN HILLS DRIVE OMAHA NE 68114  
(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 16 2007

THOMSON FINANCIAL

FOR OFFICIAL USE ONLY
<i>[Handwritten Signature]</i>

\* 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)

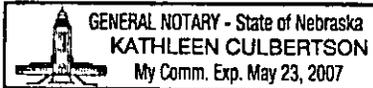
OATH OR AFFIRMATION

I, VICKIE JACKSON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AQUARIUS FUND DISTRIBUTORS, LLC, as of DECEMBER 31, 2006, 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: **NONE.**

*Vickie Jackson*  
Signature

*Dr. Acct.*  
Title

*Kathleen Culbertson*  
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 Proprietor's 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 15c3-1 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).

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A WHOLLY-OWNED SUBSIDIARY OF**  
**NORTHSTAR FINANCIAL SERVICES GROUP, LLC)**

**Financial Statements**  
**December 31, 2006**

**Together with Independent Auditor's Report**

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A WHOLLY-OWNED SUBSIDIARY OF**  
**NORTHSTAR FINANCIAL SERVICES GROUP, LLC)**

**Table of Contents**

**December 31, 2006**

	<u>Page No.</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Condition December 31, 2006	2
Statement of Income For the Year Ended December 31, 2006	3
Statement of Changes in Member's Equity For the Year Ended December 31, 2006	4
Statement of Changes in Financial Condition For the Year Ended December 31, 2006	5
Notes to Financial Statements December 31, 2006	6 – 8
Additional Information:	
Computation of Aggregate Indebtedness and Net Capital in Accordance with Rule 15c3-1 Under the Securities Exchange Act of 1934 December 31, 2006	9
Reconciliation of Net Capital and Aggregate Indebtedness Per Audit Report to Client's FOCUS Report December 31, 2006	10
Information Relating to Possession or Control Requirements December 31, 2006	11
Computation of Reserve Requirement December 31, 2006	12
Independent Auditor's Report on Internal Control	13 – 14



8807 INDIAN HILLS DR.  
Suite 300  
OMAHA, NEBRASKA  
68114-4123  
TEL: (402) 330.2660  
FAX: (402) 330.5108  
mail@sjsq.com  
www.sjsq.com

Harvey D. Johnson, CPA  
Wendell L. Quist, CPA  
Clifford C. Huntington, CPA  
Roger E. Howard, CPA  
Roger E. Thompson, CPA  
Tom H. Schnack, CPA  
Daniel L. Hassel, CPA  
Dennis K. Grindle, CPA  
Dennis R. Hein, CPA  
Brent T. Frieauf, CPA  
Barbara J. Fajen, CPA  
Brian D. Green, CPA  
Marty Dubas, CPA  
Jerry O'Doherty, CPA

## Independent Auditor's Report

Board of Managers and Member  
Aquarius Fund Distributors, LLC  
Omaha, Nebraska:

We have audited the accompanying statement of financial condition of Aquarius Fund Distributors, LLC (a wholly-owned subsidiary of NorthStar Financial Services Group, LLC) as of December 31, 2006, and the related statements of income, changes in member's equity and changes in financial condition 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 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 Aquarius Fund Distributors, LLC as of December 31, 2006, and the results of its operations and changes in financial condition for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our 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 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 under the Securities Exchange Act of 1934. 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.

*Seim, Johnson, Sestak & Quist, LLP*

Omaha, Nebraska,  
February 26, 2007.

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A Wholly-Owned Subsidiary of NorthStar Financial Services Group, LLC)**

**Statement of Financial Condition**  
**December 31, 2006**

<b>ASSETS</b>	<b>2006</b>
Cash	\$ 177,744
Receivables from non-customers	259,722
Investment in and receivable from affiliates, subsidiaries and associated partnerships	58,524
Property and equipment at cost - net of accumulated depreciation of \$3,644	6,418
Other assets	<u>65,637</u>
	<u>\$ 568,045</u>
<b>LIABILITIES AND MEMBER'S EQUITY</b>	
Liabilities:	
Accounts payable, accrued liabilities, expenses and other	\$ 82,806
Commissions payable	<u>102,345</u>
	<u>185,151</u>
Member's equity	<u>1,070,566</u>
Receivable from affiliate	<u>(687,672)</u>
	<u>382,894</u>
	<u>\$ 568,045</u>

*See notes to financial statements*

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A Wholly-Owned Subsidiary of NorthStar Financial Services Group, LLC)**

**Statement of Income**  
**For the Year Ended December 31, 2006**

<b>REVENUE:</b>	<b>2006</b>
Commissions on all other securities	\$ 1,287,796
Revenue from sale of investment company shares	1,032,710
Other income	<u>72,927</u>
	<u>2,393,433</u>
<b>EXPENSES:</b>	
Other fees	833,641
Commissions	848,957
Employee compensation and benefits	163,804
General and administrative expenses	92,153
Management fees	<u>63,672</u>
	<u>2,002,227</u>
Total expenses	<u>2,002,227</u>
Net income	<u>\$ 391,206</u>

*See notes to financial statements*

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A Wholly-Owned Subsidiary of NorthStar Financial Services Group, LLC)**

**Statement of Changes in Member's Equity**  
**For the Year Ended December 31, 2006**

	Member's <u>Equity</u>	Receivable from <u>Affiliate</u>	<u>Total</u>
Balance, beginning of year	\$ 1,179,360	(756,748)	422,612
Net distributions and change in receivable from affiliate	(500,000)	69,076	(430,924)
Net income	391,206	--	391,206
Balance, end of year	<u>\$ 1,070,566</u>	<u>(687,672)</u>	<u>382,894</u>

*See notes to financial statements*

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A Wholly-Owned Subsidiary of NorthStar Financial Services Group, LLC)**

**Statement of Changes in Financial Condition**  
**For the Year Ended December 31, 2006**

	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 391,206
Adjustment to reconcile net income to net cash provided by operating activities:	
Depreciation	2,375
(Increase) decrease in operating assets:	
Receivables from non-customers	(37,471)
Other assets	(46,777)
Increase (decrease) in operating liabilities:	
Accounts payable, accrued liabilities, expenses and other	(12,226)
Commissions payable	51,469
	<u>348,577</u>
Net cash provided by operating activities	<u>348,577</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment in and receivable from affiliates, subsidiaries and associated partnerships	19,297
Purchase of property and equipment	<u>(5,690)</u>
	<u>13,607</u>
Net cash provided by investing activities	<u>13,607</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Net distributions to parent company	(500,000)
Net decrease in receivable from affiliate	<u>69,076</u>
	<u>(430,924)</u>
Net cash used in financing activities	<u>(430,924)</u>
Net decrease in cash	(68,740)
Cash, beginning of year	<u>246,484</u>
Cash, end of year	<u>\$ 177,744</u>

*See notes to financial statements*

**AQUARIUS FUND DISTRIBUTORS, LLC**  
(A Wholly-Owned Subsidiary of NorthStar Financial Services Group, LLC)

**Notes to Financial Statements**  
**December 31, 2006**

(1) **Organization and Summary of Significant Accounting Policies**

Aquarius Fund Distributors, LLC ("Aquarius" or the "Company") is a Nebraska limited liability company providing mutual fund distribution services to investment companies and mutual funds and annuity products to the general public. Aquarius' primary source of revenue is commission revenue on mutual funds and annuity contracts sold to individual investors. Aquarius is registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). This summary of significant accounting policies of Aquarius is presented to assist in understanding Aquarius' financial statements. The financial statements and notes are representations of Aquarius' management, who are responsible for their integrity and objectivity.

A. *Basis of Accounting*

Aquarius prepares its financial statements on the accrual basis using accounting principles generally accepted in the United States of America.

B. *Estimates*

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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

C. *Cash*

Cash is defined as all highly liquid debt instruments with an original maturity of three months or less.

D. *Receivables from Non-Customers*

The Company considers the receivables from non-customers to be fully collectible and, accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

E. *Commissions*

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur. Commissions from two entities accounted for approximately 27% of the Company's revenues for the year ended December 31, 2006.

F. *Depreciation*

Depreciation is provided on a straight-line basis using estimated useful lives of three years. Depreciation expense for the year ended December 31, 2006 was \$2,372.

G. *Income Taxes*

The Company, as a wholly-owned subsidiary of NorthStar Financial Services Group, LLC (NorthStar or Parent), is a disregarded entity for income tax purposes under the provisions of the Internal Revenue Code. Accordingly, income from the Company is reported and respective income taxes are paid by the members of the Parent and, as a result, no provision for federal income taxes is provided as it relates to the LLC taxable income.

Also, no provision has been made for any amounts which may be advanced or paid as draws to the members of the Parent to assist them in paying their income taxes on income of the Company.

**(2) Net Capital Requirements**

Aquarius is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 in subsequent years. At December 31, 2006, the Company had net capital of \$200,635, which was \$175,635 in excess of its required net capital of \$25,000. The Company's net capital to required net capital ratio was 8.03 to 1 and the Company's aggregate indebtedness to net capital was .92 to 1.

**(3) Related Parties**

Aquarius' parent company, NorthStar, provides management services for a number of subsidiaries. NorthStar allocates direct expenses to the subsidiaries, and then allocates any remaining expenses to each subsidiary based primarily on the number of employees of each subsidiary. The amount of expenses allocated to Aquarius in 2006 was \$63,659.

Aquarius receives marketing and shareholder servicing fees for certain accounts for which an affiliate, CLS Investment Firm, LLC ("CLS") (also a wholly-owned subsidiary of NorthStar) acts as investment advisor. In addition, Aquarius has advanced funds to CLS in the amount of \$687,672 as of December 31, 2006. Management intends to distribute this receivable to NorthStar in 2007. As such, this receivable has been characterized as a reduction in member's equity.

In the ordinary course of business, Aquarius may advance funds or carry balances for services rendered to NorthStar and NorthStar's wholly owned subsidiaries, Gemini Fund Services, LLC ("GFS") and Orion Advisor Services, LLC ("OAS"). At December 31, 2006, the amount receivable from these affiliates and NorthStar was \$58,524 which is included in the investment in and receivable from affiliates, subsidiaries and associated partnerships on the statement of financial condition.

During 2006, Aquarius paid commissions to a member of NorthStar. The total amount of commissions earned by this member during 2006 was \$9,836, of which \$323.43 was still owed to him at December 31, 2006, and is included in accounts payable, accrued liabilities, expenses and other on the statement of financial condition.

During 2005, Aquarius entered into a cost sharing agreement for office space with a company owned by a member of NorthStar. The agreement was terminated effective in March 2006. Aquarius incurred expenses in the amount of \$15,478, which was fully paid at December 31, 2006.

Aquarius charged NorthStar, CLS, GFS and OAS a total of \$64,684 for services such as advertising, fees, etc., during 2006 and these fees are included in other income on the statement of income.

**AQUARIUS FUND DISTRIBUTORS, INC.**  
**(A WHOLLY-OWNED SUBSIDIARY OF NORTHSTAR FINANCIAL SERVICES GROUP, LLC)**

**Computation of Aggregate Indebtedness and Net Capital in  
 Accordance with Rule 15c3-1 Under the Securities Exchange Act of 1934  
 December 31, 2006**

Aggregate indebtedness:	
Accounts payable, accrued liabilities, expenses and other	\$ 82,806
Commissions payable	<u>102,345</u>
Total Aggregate Indebtedness	<u><u>\$ 185,151</u></u>
Net Capital:	
Credit Items:	
Member's equity	\$ 1,070,566
Receivable from affiliate	(687,672)
Deduct Non-Allowable Assets:	
Receivables from non-customers - over 30 days	\$ 51,680
Other Assets	65,637
Property and equipment, net	6,418
Receivables from parent and affiliates	<u>58,524</u> \$ 182,259
Net Capital	<u><u>\$ 200,635</u></u>
Capital Requirements:	
Minimum dollar requirement	\$ 25,000
Net capital exceeding requirement	<u>175,635</u>
Net Capital	<u><u>\$ 200,635</u></u>
Percentage of Net Capital to Required Capital	<u>803%</u>
Percentage of Aggregate Indebtedness to Net Capital	<u>.92 to 1</u>

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A WHOLLY-OWNED SUBSIDIARY OF NORTHSTAR FINANCIAL SERVICES GROUP, LLC)**

**Reconciliation of Net Capital and Aggregate Indebtedness**  
**Per Audit Report to Client's FOCUS Report**  
**December 31, 2006**

Net capital, as reported in Company's Part II (unaudited) FOCUS report, as originally filed.	<u>\$ 200,635</u>
Net capital per audit report	<u><u>\$ 200,635</u></u>
Aggregate indebtedness as reported in Company's Part II (unaudited) FOCUS report, as originally filed.	<u>\$ 185,151</u>
Aggregate indebtedness per audit report	<u><u>\$ 185,151</u></u>

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A WHOLLY-OWNED SUBSIDIARY OF NORTHSTAR FINANCIAL SERVICES GROUP, LLC)**

**Information Relating to Possession or Control Requirements**  
**December 31, 2006**

This firm claims exemption to SEC Rule 15c3-3 pursuant to Paragraph (k) (2)(ii).

**AQUARIUS FUND DISTRIBUTORS, LLC**  
**(A WHOLLY-OWNED SUBSIDIARY OF NORTHSTAR FINANCIAL SERVICES GROUP, LLC)**

**Computation of Reserve Requirement**  
**December 31, 2006**

This firm claims exemption to SEC Rule 15c3-3 pursuant to Paragraph (k)(2)(i).



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

8807 INDIAN HILLS DR.  
Suite 300  
OMAHA, NEBRASKA  
68114-4123  
TEL: (402) 330.2660  
FAX: (402) 330.5108  
mail@sjsq.com  
www.sjsq.com

Board of Managers and Member  
Aquarius Fund Distributors, LLC  
Omaha, Nebraska:

Harvey D. Johnson, CPA  
Wendell L. Quist, CPA  
Clifford C. Huntington, CPA  
Roger E. Howard, CPA  
Roger E. Thompson, CPA  
Tom H. Schnack, CPA  
Daniel L. Hassel, CPA  
Dennis K. Grindle, CPA  
Dennis R. Hein, CPA  
Brent T. Frieauf, CPA  
Barbara J. Fajen, CPA  
Brian D. Green, CPA  
Marty Dubas, CPA  
Jerry O'Doherty, CPA

In planning and performing our audit of the financial statements and additional information of Aquarius Fund Distributors, LLC (a wholly-owned subsidiary of NorthStar Financial Services Group, LLC) for the year ended December 31, 2006, 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 (SEC), 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 objective stated in Rule 17a-5(g) in making periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining the 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 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 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 losses 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 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.

Due to the limited size of the Company and number of personnel involved in the accounting function, conditions exist that do not permit the proper segregation of duties or certain other controls and procedures for reliance or implementation of a detailed system of internal controls. 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, 2006 to meet the SEC's objectives.

This report is intended solely for the use of the Board of Managers and Member, management, the SEC 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.

*Seir, Johnson, Sattler & Co. Inc., LLP*

Omaha, Nebraska,  
February 26, 2007

END