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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

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

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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 07/01/06 AND ENDING 06/30/07 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

SMITH HAYES Financial Services Corporation

OFFICIAL USE ONLY FIRM I.D. NO.

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

200 Centre Terrace, 1225 L Street

(No. and Street)

Lincoln

(City)

Nebraska

(State)

68508

(Zip Code)

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

Mr. Allen J. Moore, President

(402) 476-3000

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Deloitte & Touche LLP

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

1248 O Street, Suite 716

(Address)

Lincoln

(City)

Nebraska

(State)

68508

(Zip Code)

CHECK ONE:

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

PROCESSED

B SEP 04 2007 THOMSON 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 240.17a5(e)(2).

SEC 1410 (6-02)

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10/8/31

***SMITH HAYES Financial
Services Corporation***

*Statement of Financial Condition as of June 30,
2007, Independent Auditors' Report, and
Independent Auditors' Report on Internal Control
Required by Securities and Exchange
Commission Rule 17a-5*

*Filed in Accordance With Rule 17a-5(e)(3) Under
the Securities Exchange Act of 1934 as a **PUBLIC
DOCUMENT***

INDEPENDENT AUDITORS' REPORT

Board of Directors
SMITH HAYES Financial Services Corporation
Lincoln, Nebraska

We have audited the accompanying statement of financial condition of SMITH HAYES Financial Services Corporation (the Company), a wholly-owned subsidiary of SMITH HAYES Companies, as of June 30, 2007, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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, such statement of financial condition presents fairly, in all material respects, the financial position of SMITH HAYES Financial Services Corporation at June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Lincoln, Nebraska
August 23, 2007

SMITH HAYES FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2007

ASSETS

Cash and cash equivalents	\$3,290,746
Securities owned, at fair value	980,039
Commissions receivable	870,862
Notes receivable from employees	112,652
Due from clearing broker	9,866
Due from affiliate	255,109
Deferred income taxes	252,025
Goodwill	86,884
Prepaid expenses and other assets	<u>154,883</u>
Total assets	<u>\$6,013,066</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Accounts payable	\$ 250,103
Accrued salary and related expenses	1,517,504
Accrued deferred compensation	213,128
Income taxes payable	179,795
Due to affiliates	<u>272,364</u>
Total liabilities	<u>2,432,894</u>
Commitments and contingencies	
Stockholder's equity:	
Common stock, par value \$1 per share; authorized, 10,000 shares; issued and outstanding, 1,000 shares	1,000
Paid-in capital	2,210,234
Retained earnings	<u>1,368,938</u>
Total stockholder's equity	<u>3,580,172</u>
	<u>\$6,013,066</u>

See notes to statement of financial condition.

SMITH HAYES FINANCIAL SERVICES CORPORATION

NOTES TO STATEMENT OF FINANCIAL CONDITION YEAR ENDED JUNE 30, 2007

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business – SMITH HAYES Financial Services Corporation (the Company) was incorporated on September 16, 1985, and is a wholly-owned subsidiary of SMITH HAYES Companies. The Company operates as a broker/dealer on a “fully disclosed basis” under agreements with unaffiliated clearing brokers. Accordingly, the Company is exempt from provisions of Securities and Exchange Commission Rule 15c3-3 under paragraphs (k)(2)(i) and (k)(2)(ii) of the Rule.

Use of Estimates – In preparing this financial statement in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statement. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents – The Company considers investments with a maturity of three months or less when purchased to be cash equivalents.

Securities Transactions – All transactions with and for customers are made with a clearing broker, dealer or investment company which carries the accounts of such customers on a settlement date basis. Proprietary purchases and sales of securities and related commission revenues and expenses are recorded on a trade date basis. For securities sold not yet purchased, the Company is obligated to purchase the securities at a future date at the then current market value.

Securities Owned – Securities owned consists primarily of municipal warrants and marketable securities. Municipal warrants of \$979,529 are carried at estimated fair value. Other marketable securities of \$510 are carried at fair value.

Notes Receivable From Employees – Notes receivable from employees consists primarily of forgivable notes receivable from employees which are amortized over the period of related service, generally four to five years.

Goodwill – Goodwill is tested for impairment at least annually by comparing fair value to carrying value.

Income Taxes – The Company files a consolidated return for income tax purposes with its parent. Under the terms of the group’s tax-sharing agreement, the Company computes its tax as if it were filing a separate tax return. Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using the current enacted tax rates.

New Accounting Pronouncements – In February 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items as fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value

option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable, and is applied only to an entire instrument and not only to specific risks, cash flows, or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its financial statement.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 157 on its financial statement.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes," and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a return. Guidance is also provided on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the impact of adopting FIN 48 on its financial statement.

B. NET CAPITAL REQUIREMENT

The Company, as a registered broker and dealer in securities, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). Under Rule 15c3-1, as amended, the Company must maintain "net capital" of at least \$250,000, and not allow the ratio of "aggregate indebtedness" to "net capital", as those terms are defined in the Rule, to exceed 15 to 1 ("net capital" of at least 6-2/3% of "aggregate indebtedness"). At June 30, 2007, the Company had aggregate indebtedness of \$2,432,894, net capital of \$2,021,908, excess net capital of \$1,771,908 and a ratio of "aggregate indebtedness" to "net capital" of 1.20 to 1.

C. NOTES RECEIVABLE FROM EMPLOYEES

Notes receivable from employees consists of non-interest bearing unsecured forgivable notes (forgivable notes) issued to certain employee brokers. As of June 30, 2007 the remaining balance on the forgivable notes is \$112,652.

D. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At June 30, 2007, the Company's deferred income taxes relate primarily to amortization of goodwill for tax purposes, non-compete agreements, note compensation expense, the deferred compensation plan and

other accrued expenses deductible when paid. Realization of deferred income taxes is dependent upon generating sufficient taxable income prior to their expiration. Management believes it is more likely than not that these deferred income taxes will be realized through future taxable earnings or alternative tax strategies.

E. LEASE OBLIGATIONS

The Company shares office facilities with the Company's parent and other affiliates. The cost of office space is allocated to the Company under a month-to-month lease arrangement based on square footage. Certain office space is leased from a partnership, in which the Company's chairman is a partner.

F. RELATED PARTY TRANSACTIONS

The Company is charged a fee by SMITH HAYES Companies for use of the furniture and fixtures owned by SMITH HAYES Companies.

The Company received a fee for administrative and other expenses provided to SMITH HAYES Advisers, Inc. (SHAI), a company related through common ownership, and fees for advisory services provided by the Company, of which a portion is ultimately paid to the Company's brokers. As of June 30, 2007, \$255,109 was due from SHAI. As of June 30, 2007, \$272,364 was due to SMITH HAYES Companies.

G. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) profit-sharing plan covering substantially all employees. Employees may contribute up to 22% of their compensation to the plan, subject to certain limitations. The Company's parent also has an employee stock ownership plan (ESOP). The Company's contributions are discretionary and are allocated among participants eligible to share in the contribution for the plan year. The Company makes a yearly 3% profit sharing contribution to the ESOP and no Company contributions are made to the 401(k) Plan. These contributions are made annually after the fiscal year-end.

The Company also has a nonqualified deferred bonus compensation plan which is provided to certain employees. Bonuses are principally based upon sales production. Amounts earned are paid on an annual basis following the calendar year earned. Monthly accruals are made so that the bonuses are fully accrued when they become payable.

H. LINE OF CREDIT

The Company has a \$2,700,000 line of credit with a commercial bank. The line is secured by the Company's municipal warrants of \$979,529 at June 30, 2007. The line matures January 10, 2008 and bears interest at prime rate less .5% (6.75% at June 30, 2007). At June 30, 2007, no amounts were outstanding on the line of credit.

I. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such underwriting commitments existing at June 30, 2007, were subsequently settled and had no material effect on the financial statement as of that date.

The Company is involved in various legal matters from time to time. Management is of the opinion that none of these other legal actions will result in losses material to the financial position of the Company.

The Company has certain unresolved matters from its routine regulatory examinations. Management believes the outcome of any actions relating to these examinations will not be material to the financial position of the Company. However, the Company is unable to predict the ultimate outcome of these matters.

J. FINANCIAL INSTRUMENTS WITH MARKET RISK AND CONCENTRATION OF CREDIT RISK

As a broker-dealer, the Company is engaged in various trading and brokerage activities serving a diverse group of corporate, institutional and individual investors. A significant portion of the Company's transactions are on a principal basis, which are subject to the risk of counterparty nonperformance. The Company's exposure to credit risk associated with the contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the counterparties' ability to satisfy their obligations to the Company. The Company's liability under these arrangements is not quantifiable. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried on the statement of financial condition for these transactions.

Securities owned include municipal warrants. These warrants are issued by municipalities in the State of Nebraska to obtain funding for economic development projects. In the event these development projects are not ultimately successfully completed, the Company is at risk that these securities will not be marketable. As the warrants are purchased with the intent to resell, the Company's risk is limited to its holding period of the warrants.

The Company believes it has effective procedures for evaluating and limiting the credit and market risks to which it is subject.

The Company has provided a guarantee to its clearing broker. Under the agreement, the Company has agreed to indemnify the clearing broker for customers introduced by the Company that are unable to satisfy the terms of their contracts. The Company's liability under these arrangements is not quantifiable. However, management believes the potential for the Company to be required to make payments under this agreement is remote. Accordingly, no amounts are recorded on the statement of financial condition for these contingent liabilities.

August 23, 2007

Board of Directors
SMITH HAYES Financial Services Corporation
Lincoln, Nebraska

In planning and performing our audit of the financial statements of SMITH HAYES Financial Services Corporation (the Company) as of and for the year ended June 30, 2007 (on which we issued our report dated August 23, 2007), in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with 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. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in 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, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

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 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 conformity with generally accepted accounting principles. 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.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and 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, as described in the second paragraph of this report, are adequate at June 30, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the board of directors, management, the Financial Industry Regulatory Authority, 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 broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Nelotte & Touche LLP

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