

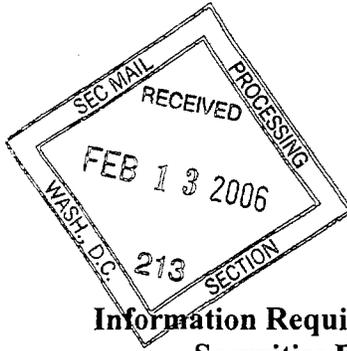


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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 53678

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 January 1, 2005 AND ENDING December 31, 2005
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

MACATAWA INVESTMENT SERVICES, INC

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

10753 Macatawa Drive

(No. and Street)

Holland

(City)

Michigan

(State)

49424

(Zip Code)

OFFICIAL USE ONLY

FIRM I.D. NO.

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

Dave Bushen

(616) 396-7383

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Plante & Moran, PLLC

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

333 Bridge Street NW

(Address)

Grand Rapids

(City)

Michigan

(State)

49504

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

PROCESSED

MF MAR 13 2006

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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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

BB KGH 2/11/06

OATH OR AFFIRMATION

I, Dave Bushen, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MACATAWA INVESTMENT SERVICES, INC, as of DECEMBER 31, 2005, 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:

Dave Bushen
Signature
AVP Fin Op Officer
Title

Angela Riksen
Notary Public

ANGELA RIKSEN
Notary Public, State of Michigan
County of Ottawa
My Commission Expires Oct. 21, 2011
Acting in the County of OTTAWA

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.
- (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
- (o) Independent Auditors' Report on Internal Control Required by Rule 17a-5

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

Macatawa Investment Services, Inc.

Contents

Report Letter	1
Financial Statements	
Balance Sheet	2
Statement of Operations	3
Statement of Stockholder's Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6-8
Additional Information	9
Independent Auditors' Report on Internal Control Required by Rule 17a-5 of the Securities and Exchange Commission	10-11
Schedule of the Computation of Net Capital Pursuant to Rule 15c3-1 of the Securities and Exchange Commission	12
Schedule of the Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities and Exchange Commission	13

Independent Auditor's Report

To the Board of Directors and Stockholder
Macatawa Investment Services, Inc.

We have audited the accompanying balance sheet of Macatawa Investment Services, Inc. as of December 31, 2005 and the related statements of operations, stockholder's equity, and cash flows for the year then ended. 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 Macatawa Investment Services, Inc. at December 31, 2005 and the results of its operations, changes in stockholder's equity, 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as of December 31, 2005, consisting of the schedule of computation of net capital pursuant to Rule 15c3-1 of the Securities and Exchange Commission and the schedule of the computation for determination of reserve requirements pursuant to Rule 15c3-3, is presented for the purpose 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.

Plante & Moran, PLLC

Grand Rapids, Michigan
January 6, 2006

Macatawa Investment Services, Inc.

Balance Sheet December 31, 2005

Assets

Deposits with clearing organization	\$	445,576
Cash and due from banks		<u>35,270</u>
Total cash and cash equivalents		480,846
Office furnishings and equipment - At cost - Less accumulated depreciation of \$47,848		29,285
Prepaid expenses and other assets		<u>13,214</u>
Total assets	\$	<u><u>523,345</u></u>

Liabilities and Stockholder's Equity

Liabilities - Accrued expenses and other liabilities	\$	37,836
Stockholder's Equity		<u>485,509</u>
Total liabilities and stockholder's equity	\$	<u><u>523,345</u></u>

Macatawa Investment Services, Inc.

Statement of Operations Year Ended December 31, 2005

Revenue	
Commissions	\$ 320,725
Mutual fund other income	58,830
Annuity income	45,908
Interest	10,310
	<hr/>
Total revenue	435,773
Expenses	
Employee compensation and benefits	503,539
Professional fees	14,415
Advertising/Marketing	25,136
Communication	39,781
Occupancy	36,683
Other	78,260
	<hr/>
Total operating expenses	697,814
Loss - Before taxes	(262,041)
Federal Income Tax Benefit	91,600
	<hr/>
Net Loss	<u>\$ (170,441)</u>

Macatawa Investment Services, Inc.

Statement of Stockholder's Equity Year Ended December 31, 2005

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance - January 1, 2005	\$ 60,000	\$ 1,240,000	\$ (844,050)	\$ 455,950
Net loss	-	-	(170,441)	(170,441)
Capital contribution	-	200,000	-	200,000
Balance - December 31, 2005	<u>\$ 60,000</u>	<u>\$ 1,440,000</u>	<u>\$ (1,014,491)</u>	<u>\$ 485,509</u>

Macatawa Investment Services, Inc.

Statement of Cash Flows Year Ended December 31, 2005

Cash Flows from Operating Activities

Net loss	\$ (170,441)
Adjustments to reconcile net loss to net cash from operating activities:	
Depreciation	8,866
Changes in operating assets and liabilities which provided (used) cash:	
Prepaid expenses and other assets	(5,354)
Accrued expenses and other liabilities	11,109
Net cash used in operating activities	<u>(155,820)</u>

Cash Flows from Investing Activities - Purchase of office furnishings and equipment	(6,484)
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Cash Flows from Financing Activities - Capital contributions	<u>200,000</u>
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Net Increase in Cash and Cash Equivalents	37,696
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Cash and Cash Equivalents - Beginning of year	<u>443,150</u>
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Cash and Cash Equivalents - End of year	<u>\$ 480,846</u>
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Supplemental Cash Flow Information - Cash received from parent for income tax benefit	<u>\$ 91,600</u>
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Macatawa Investment Services, Inc.

Notes to Financial Statements December 31, 2005

Note 1 - Nature of Business

Macatawa Investment Services, Inc. (the "Company") was formed on October 15, 2001 as a Michigan corporation. On June 11, 2002, the Company became a broker-dealer registered with the Securities and Exchange Commission (SEC) and became a member of the National Association of Securities Dealers (NASD). The company is a wholly owned subsidiary of Macatawa Bank Corporation. The Company offers securities transaction services to its customers. As the Company is not a member of a stock exchange, the Company clears its securities transactions on a fully disclosed basis through Pershing, LLC, a subsidiary of BNY Securities Group (Pershing). The Company operates a branch in Michigan and an Internet site, and is authorized to sell securities in Arizona, Florida, Illinois, Michigan, and New York.

Note 2 - Summary of Significant Accounting Policies

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Company considers cash on hand and cash deposits at the clearing organization as cash and cash equivalents for the purpose of the statement of cash flows.

Securities Transactions and Financial Instruments with Off-balance-sheet Risk - Securities transactions are recorded on the settlement date basis, generally the third business day following the transaction date. Recording these transactions on the trade date would not have a material effect on the accompanying financial statements. The Company, under the correspondent agreement with its clearing broker, has agreed to indemnify the clearing broker from damages or losses resulting from customer transactions. The Company is, therefore, exposed to off-balance-sheet risk of loss in the event that customers are unable to fulfill contractual obligations including their obligations under margin accounts. Such accounts totaled \$5,098 as of December 31, 2005.

Office Furnishings and Equipment - Office furnishings and equipment are stated at cost, less accumulated depreciation, which is computed using the straight-line method. The assets are depreciated over their useful lives, which range from three to seven years.

Macatawa Investment Services, Inc.

Notes to Financial Statements December 31, 2005

Note 2 - Summary of Significant Accounting Policies (Continued)

Loss Contingencies - Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are now such matters that will have a material effect on the financial statements.

Income Taxes - The Company files a consolidated federal income tax return with Macatawa Bank Corporation. The federal income tax benefit is computed under an intercompany tax-sharing arrangement that is determined on a separate company return basis. The Company receives from (remits to) Macatawa Bank Corporation its estimated current tax benefit (liability) resulting from this arrangement. Under the arrangement, the Company receives a current benefit from its operating losses if pre-tax losses are realized in the consolidated income tax return. Deferred tax assets and liabilities represent the expected future tax effects of temporary differences between items recognized differently in financial statements and tax returns. Income tax expense or benefit equals the tax on the income tax return plus the change in deferred tax assets and liabilities.

Note 3 - Fully Disclosed Clearing Agreement

In May 2002, the Company entered into a fully disclosed clearing agreement with the Pershing Division of BNY Securities Group (Pershing), whereby customer accounts are cleared and carried by Pershing. The agreement calls for the Company to maintain a deposit balance in an account maintained by Pershing. The deposit amount according to the original agreement was \$100,000, subject to increase based upon volume or nature of transactions. The Company would be responsible to deposit additional cash in an amount agreed upon by the Company and Pershing. At December 31, 2005, the Company had \$445,576 cash on deposit with Pershing.

Note 4 - Related Parties

The Company leases its corporate office facilities from Macatawa Bank (a wholly owned subsidiary of Macatawa Bank Corporation). The Company recorded an expense of \$27,816 during the year ended December 31, 2005 under the corporate office facilities lease agreement.

Macatawa Bank allocates costs for various corporate services to the Company, such as bookkeeping, marketing assistance, and employee benefits support. During the year ended December 31, 2005, the Company was billed for and expensed \$10,560 for services and costs incurred on the Company's behalf.

At December 31, 2005, the Company had deposits of \$35,270 in bank accounts at Macatawa Bank.

Macatawa Investment Services, Inc.

Notes to Financial Statements December 31, 2005

Note 5 - Net Capital Requirements

The Company 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. At December 31, 2005, the Company's net capital as defined by Rule 15c3-1 totaled \$428,223, which was \$178,223 in excess of its minimum net capital requirement of \$250,000. At December 31, 2005, the Company's ratio of aggregate indebtedness to net capital was 0.0884 to 1.

Note 6 - Common Stock

The Company has authorized 60,000 shares no par common stock. At December 31, 2005, there are 60,000 shares issued and outstanding.

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

Independent Auditors' Report on Internal Control
Required by Rule 17a-5 of the Securities and Exchange Commission

To the Board of Directors and Stockholder
Macatawa Investment Services, Inc.
Holland, MI

In planning and performing our audit of the financial statements and supplemental schedule of Macatawa Investment Services Inc. (the "Company") for the year ended December 31, 2005, 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 objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(1) and for determining 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 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 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 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.

To the Board of Directors and Stockholder
Macatawa Investment Services, Inc.

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, 2005 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 NASD, 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.

Plante & Moran, PLLC

Grand Rapids, MI
January 6, 2006

Macatawa Investment Services, Inc.

Schedule of the Computation of Net Capital Pursuant to Rule 15c3-1 of the Securities and Exchange Commission Year Ended December 31, 2005

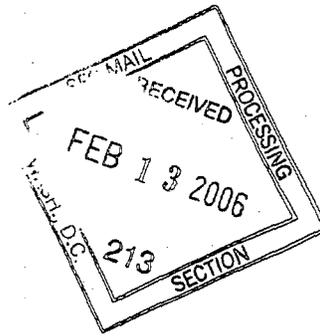
Total Stockholder's Equity	\$ 485,509
Deductions and/or Charges	
Furniture, equipment, and leasehold improvements - Net	29,285
Haircuts on securities	4,246
Other nonallowable assets	<u>23,755</u>
Total nonallowable assets from statement of financial condition	<u>57,286</u>
Net Capital	<u><u>\$ 428,223</u></u>
Aggregate Indebtedness	
Items included in statement of financial condition - Accounts payable and accrued expenses	<u><u>\$ 37,836</u></u>
Ratio - Aggregate indebtedness to net capital	<u><u>8.84 %</u></u>
Computation of Basic Net Capital Requirement	
Minimum net capital required (the greater of 6 2/3% of aggregate indebtedness or \$250,000)	<u><u>\$ 250,000</u></u>
Excess net capital	<u><u>\$ 178,223</u></u>
Excess net capital at 1000%	<u><u>\$ 424,439</u></u>

There are no material differences between the amounts presented above and the amounts reported in the Company's unaudited FOCUS report as of December 31, 2005. Therefore, a reconciliation is not necessary.

Macatawa Investment Services, Inc.

Schedule of the Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities and Exchange Commission Year Ended December 31, 2005

Macatawa Investment Services, Inc. (the "Company") is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 (the "Rule"), in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (K)(2)(ii) of the Rule.



Macatawa Investment Services, Inc.

**(a wholly owned subsidiary of
Macatawa Bank Corporation)
Holland, Michigan**

**Financial Report
with Additional Information
December 31, 2005**

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moran