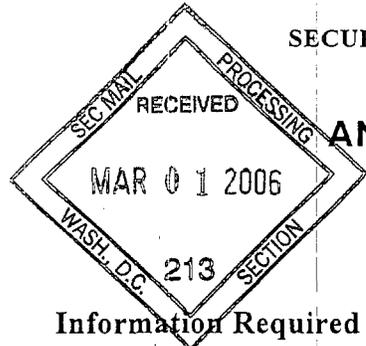


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AB 3/21/06



SECUR

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MISSION

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: October 31, 2004  
Estimated average burden  
hours per response..... 12.00

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

SEC FILE NUMBER  
8- 36382

## 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 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **PHILLIPS FINANCIAL SERVICES, INC.**

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

**385 HIGHLAND DRIVE**

(No. and Street)

**MOUNTVILLE**

**PA**

**17554**

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**EMORY E. PHILLIPS** **(717) 285-3232**  
(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

**RIDDER, NORMA JEANNE**

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

**125 MAIN STREET**

**LANDISVILLE**

**PA**

**17538**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED  
MAY 26 2006  
THOMSON FINANCIAL

**FOR OFFICIAL USE ONLY**

\*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)

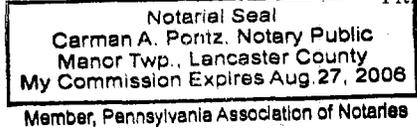
OATH OR AFFIRMATION

I, EMORY E. PHILLIPS, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PHILLIPS FINANCIAL 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:

Emory E. Phillips Signature

PRESIDENT

Carman A. Pontz 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~~ 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.

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

FINANCIAL STATEMENTS

OF

PHILLIPS FINANCIAL SERVICES, INC.

DECEMBER 31, 2005

PHILLIPS FINANCIAL SERVICES, INC.

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Norma J. Ridder  
*Certified Public Accountant*

125 Main Street  
Landisville, PA 17538  
Phone 717-898-7717 Fax 717-898-3164

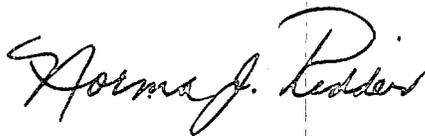
INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Phillips Financial Services, Inc.  
Mountville, Pennsylvania

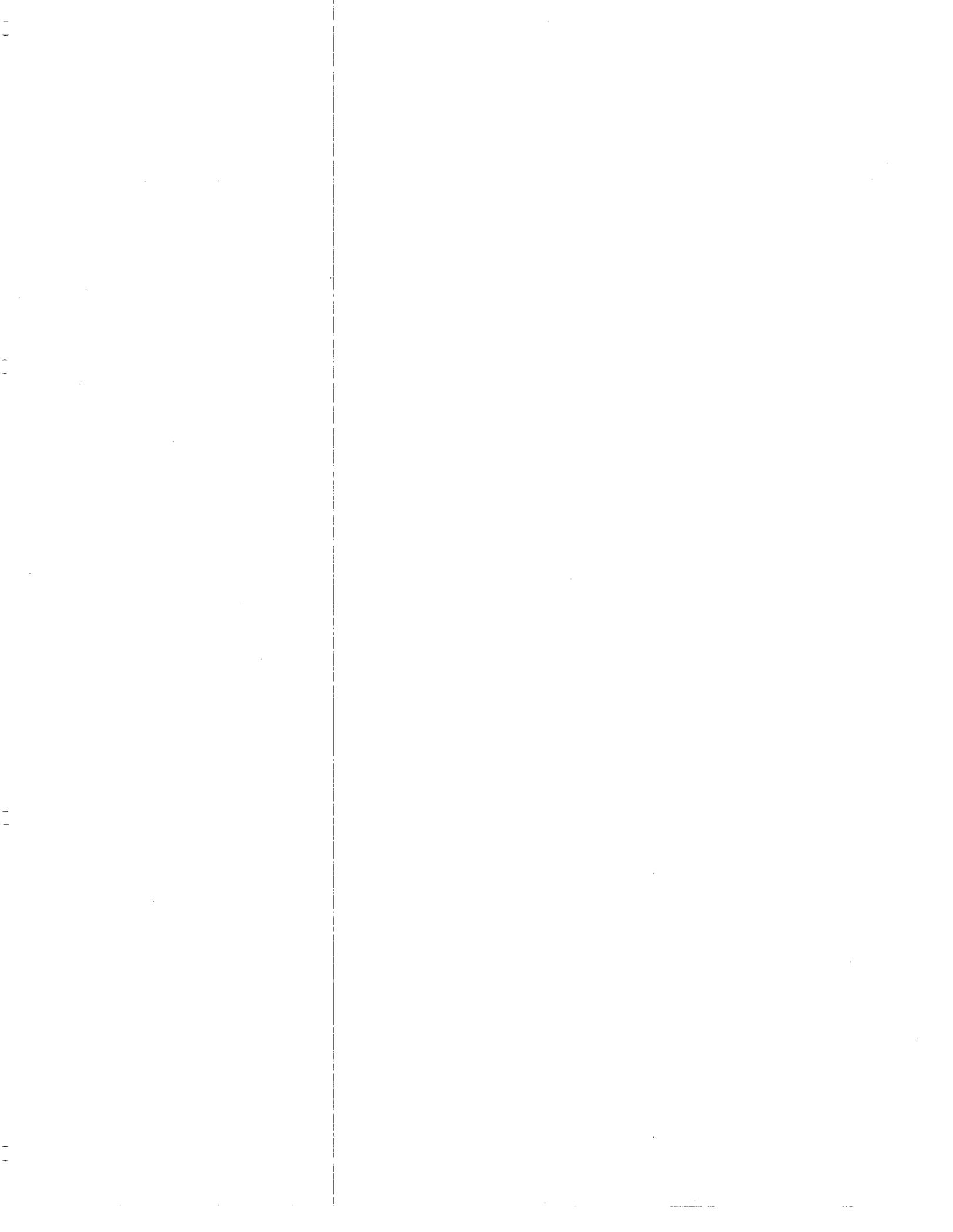
I have audited the accompanying statement of financial condition of Phillips Financial Services, Inc. as of December 31, 2005 and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. 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 Phillips Financial Services, Inc. as of December 31, 2005 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.



Norma J. Ridder, C.P.A.  
February 9, 2006



PHILLIPS FINANCIAL SERVICES, INC.  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2005

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accrued and Withheld Payroll Taxes \$251

STOCKHOLDERS' EQUITY

Common Stock, no par value; Authorized  
10,000 shares; Issued 1,000 shares 12,025  
Retained Earnings 344,048

Total Stockholders' Equity 356,073

TOTAL LIABILITIES AND  
STOCKHOLDERS' EQUITY \$356,324

PHILLIPS FINANCIAL SERVICES, INC.  
STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 2005

REVENUE

Commissions - Fixed Annuities	\$46,581
Commissions - Variable Annuities and Life	114,274
Commissions - Mutual Funds	<u>290,575</u>
Total Revenue	<u>451,430</u>

OPERATING EXPENSES

Advertising	874
Bank Service Charges	11
Computer Expenses	5,337
Contributions	850
Depreciation	8,271
Dues and Subscriptions	1,991
Fees	446
Insurance	12,071
Legal and Professional	930
Licenses and Permits	222
Office Supplies	3,290
Postage	804
Regulatory Commission Expense	1,836
Rent	24,000
Repairs and Maintenance	2,977
Retirement Benefit	10,107
Salaries	
Officers	214,404
Office	132,394
Taxes	28,184
Telephone	5,726
Utilities	<u>3,091</u>
Total Operating Expenses	<u>457,816</u>
Operating Income	<u>(6,386)</u>

OTHER INCOME

Dividends and Interest	6,558
Gains from Investments - Unrealized	<u>1,579</u>
Total Other Income	<u>8,137</u>
NET INCOME	<u><u>\$1,751</u></u>

PHILLIPS FINANCIAL SERVICES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2005

	<u>COMMON STOCK</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
Balance - January 1, 2005	\$12,025	\$342,297	\$354,322
Net Income (Page 4)		<u>1,751</u>	<u>1,751</u>
Balance - December 31, 2005	<u>\$12,025</u>	<u>\$344,048</u>	<u>\$356,073</u>

See accompanying notes and accountant's audit report.

PHILLIPS FINANCIAL SERVICES, INC.  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income (Page 4)	\$1,751
Adjustments to Derive Cash Effect	
Depreciation	8,271
Gains on Investments-Unrealized	(1,579)
Decrease in Receivables	2,161
Decrease in Prepaid Expenses	848
Increase in Accrued and Withheld Expenses	<u>110</u>
Net Cash Provided by Operating Activities	<u>11,562</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds From Sale of Investments	20,000
Purchase of Investments	(24,862)
Purchase of Fixed Assets	<u>(472)</u>
Net Cash Used by Investing Activities	<u>(5,334)</u>
Increase in Cash	6,228
Cash at Beginning of Year	<u>126,326</u>
Cash at End of Year	<u><u>\$132,554</u></u>

See accompanying notes and accountant's audit report.

PHILLIPS FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

NOTE 1 - ORGANIZATION AND OPERATIONS

Phillips Financial Services, Inc. is a Pennsylvania Corporation. The registration of the Company as a broker-dealer was approved by the Commonwealth of Pennsylvania on August 20, 1986 and by the National Association of Securities Dealers on October 1, 1986.

The Company is licensed to deal in the distribution of shares of registered open-end investment trusts, the sale of variable and fixed annuities, the sale of mutual funds, and the sale of insurance; accordingly, the entity qualifies for exclusion from the Securities Investor Protection Corporation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

METHOD OF ACCOUNTING

Assets and liabilities, and revenues and expenditures, are recognized on the accrual basis of accounting. Specifically, income is recognized when earned, and expenses are recorded when incurred.

FIXED ASSETS AND DEPRECIATION

Fixed assets are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the prescribed useful life.

INCOME TAXES

The Company has elected to be taxed as a Small Business Corporation. Profits, losses and certain tax credits are passed through to the stockholders; therefore, no provision has been made for corporate income taxes.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

NOTE 3 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (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 (and the rule of "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2005, the Company had net capital of \$277,971 which was \$252,971 in excess of its required net capital of \$25,000. The Company's net capital ratio was .0009 to 1.

NOTE 4 - EXEMPTION FROM RULE 15c3-3

Phillips Financial Services, Inc. claims an exemption from Rule 15c3-3 by maintaining a "Special Account for Exclusive Benefit of Customers" according to Rule Section (K)(2)(i).

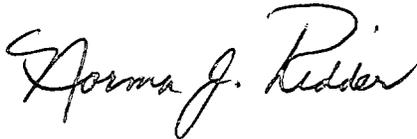
NOTE 5 - RENT

The Company pays rent to Emory E. Phillips, 100% shareholder of the Corporation. Rent for the year ended December 31, 2005 totaled \$24,000.

NORMA J. RIDDER  
CERTIFIED PUBLIC ACCOUNTANT  
125 MAIN STREET  
LANDISVILLE, PA 17538  
(717)898-7717

Board of Directors  
Phillips Financial Services, Inc.  
Mountville, Pennsylvania

My examination of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The supplementary information, contained on the following pages, is presented and prepared in accordance with the requirements of the Securities and Exchange Commission and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination 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.



Norma J. Ridder, C.P.A.  
February 9, 2006

PHILLIPS FINANCIAL SERVICES, INC.  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
YEAR ENDED DECEMBER 31, 2005

NET CAPITAL

Total Stockholders' Equity	\$356,073
Deduct: Non-Allowable Assets	68,376
Haircuts - Other Investment Securities	<u>9,726</u>
NET CAPITAL	<u><u>\$277,971</u></u>

PHILLIPS FINANCIAL SERVICES, INC.  
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT  
AS OF DECEMBER 31, 2005

Net Capital	\$277,971
Minimum Net Capital required	\$16
Minimum Dollar Net Capital Requirement of Reporting Broker or Dealer	\$25,000
Net Capital Requirement	\$25,000
Excess Net Capital	\$252,971
Excess Net Capital at 1000%	\$277,945

COMPUTATION OF AGGREGATE INDEBTEDNESS  
AS OF DECEMBER 31, 2005

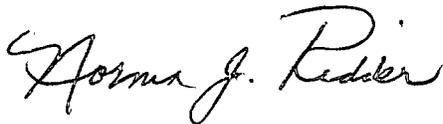
Total Liabilities	\$251
Total Aggregate Indebtedness	\$251
Percentage of Aggregate Indebtedness to to Net Capital	0.090%
Percentage of Debt to Debt-Equity Total	0.070%

NORMA J. RIDDER  
CERTIFIED PUBLIC ACCOUNTANT  
125 MAIN STREET  
LANDISVILLE, PA 17538  
(717)898-7717

Board of Directors  
Phillips Financial Services, Inc.  
Mountville, Pennsylvania

I have examined the financial statements of Phillips Financial Services, Inc. for the year ended December 31, 2005 and have issued my report thereon dated February 9, 2006. As part of my examination, I made certain inquiries, determined to be necessary under the existing circumstances, concerning the system of internal accounting control and the practices and procedures being used.

The type of operations and limited number of transactions processed by Phillips Financial Services, Inc. do not at this time require a formal system of internal accounting control, and I do not discern any material inadequacies.

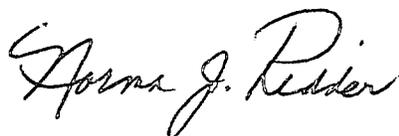
A handwritten signature in cursive script that reads "Norma J. Ridder". The signature is written in dark ink and is positioned above the typed name and date.

Norma J. Ridder, C.P.A.  
February 9, 2006

NORMA J. RIDDER  
CERTIFIED PUBLIC ACCOUNTANT  
125 MAIN STREET  
LANDISVILLE, PA 17538  
(717) 898-7717

Board of Directors  
Phillips Financial Services, Inc.  
Mountville, Pennsylvania

I have examined the financial statements of Phillips Financial Services, Inc. for the year ended December 31, 2005 and have issued my report thereon dated February 9, 2006. I have found that no material differences existed between the audited computation of net capital and computation of 15c3-3 reserve requirements and the broker/dealer's corresponding unaudited Part IIA.



Norma J. Ridder, C.P.A.  
February 9, 2006