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

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

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:

Royal Securities Company

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

4095 Chicago Drive, S.W.

(No. and Street)

Grandville

(City)

MI

(State)

49418

(Zip Code)

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

Mrs. Ruth Newenhouse

(616) 538-2550

Chief Financial Officer

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Kiekover, Scholma & Shumaker, PC

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

205 East Main Street

(Address)

Zeeland

(City)

MI

(State)

49464

(Zip Code)

CHECK ONE:

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

PROCESSED

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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)

SEC 1410 (06-02)

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.

OATH OR AFFIRMATION

I, Ruth Newenhouse, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Royal Securities Company, 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:

Ruth Newenhouse
Signature
Chief Financial Officer
Title

Raylyn Russo
Notary Public
Text CO MI 8/15/2011

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 15c3-3 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).

ROYAL SECURITIES COMPANY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

KIEKOVER, SCHOLMA & SHUMAKER, PC
Certified Public Accountants
Zeeland, Michigan

ROYAL SECURITIES COMPANY

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INDEPENDENT AUDITOR'S REPORT

February 2, 2006

Stockholders and Board of Directors
Royal Securities Company
Grandville, Michigan

We have audited the accompanying statement of financial condition of Royal Securities Company as of December 31, 2005, and the related statements of income, changes in stockholders' equity, changes in subordinated borrowings, and cash flows 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 Royal Securities Company 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary schedule on pages 11 and 12 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 our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kiekover, Scholma & Shumaker, PC

Kiekover, Scholma & Shumaker, PC
Certified Public Accountants

ROYAL SECURITIES COMPANY
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2005

ASSETS

Cash and cash equivalents	\$ 505,467
Commissions receivable	205,905
Employee and other receivables	39,516
Securities owned, at market value	261,354
Net furniture, equipment, and other improvements	162,054
Deposits	25,000
Refundable income taxes	9,436
Prepaid expenses	<u>56,565</u>
Total Assets	<u>\$1,265,297</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Accrued sales commissions	\$ 235,793
Accounts payable	5,169
Accrued expenses	49,922
Deferred income taxes	<u>13,100</u>
	303,984
Note payable - subordinated	<u>400,000</u>
Total Liabilities	<u>703,984</u>

Stockholders' Equity

Common stock (Class B), \$1 par value; 100,000 shares authorized, 11,550 shares issued and outstanding	11,550
Additional paid-in capital	356,809
Retained earnings	<u>192,954</u>
Total Stockholders' Equity	<u>561,313</u>
Total Liabilities and Stockholders' Equity	<u>\$1,265,297</u>

See notes to financial statements.

ROYAL SECURITIES COMPANY
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2005

REVENUES

Commissions	\$3,215,470
Net dealer inventory and investment gains	659,815
Interest	8,898
Other	<u>70,920</u>

Total revenues	<u>3,955,103</u>
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EXPENSES

Broker commissions	2,092,956
Administrative salaries	633,150
Payroll related taxes	171,490
401(k) contribution	89,166
Group insurance	127,626
Other employee benefits	8,944
Clearing fees	215,171
Data communications	146,456
Advertising	35,334
Occupancy	140,119
Depreciation and amortization	44,015
Dues and subscriptions	13,306
Maintenance	17,621
Utilities	14,525
Taxes and licenses	14,525
Regulatory fees	19,182
Legal and professional	17,746
Outside services	13,414
Single business tax	35,379
Postage	22,165
Office supplies	29,907
Interest	24,381
Other	70,336
Loss on disposal of equipment	<u>151</u>

Total expenses	<u>3,997,065</u>
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Income (loss) before income taxes	(41,962)
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Federal income tax expense (benefit)	<u>(6,336)</u>
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NET INCOME (LOSS)	<u><u>\$ (35,626)</u></u>
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See notes to financial statements.

ROYAL SECURITIES COMPANY
STATEMENT OF STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2005

	<u>Common stock</u>		<u>Additional</u>	<u>Retained</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Total</u>
			<u>Capital</u>		
Balances, January 1, 2005	11,850	\$ 11,850	\$ 347,000	\$ 254,204	\$ 613,054
Net income (loss)	-	-	-	(35,626)	(35,626)
Common stock repurchased and retired	(500)	(500)	-	(25,624)	(26,124)
Issuance of common stock	<u>200</u>	<u>200</u>	<u>9,809</u>	<u>-</u>	<u>10,009</u>
BALANCES, December 31, 2005	<u>11,550</u>	<u>\$ 11,550</u>	<u>\$ 356,809</u>	<u>\$ 192,954</u>	<u>\$ 561,313</u>

See notes to financial statements.

ROYAL SECURITIES COMPANY
STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS
YEAR ENDED DECEMBER 31, 2005

Subordinated borrowings at January 1, 2005	\$ 600,000
Increases	-
Decreases	<u>(200,000)</u>
Subordinated borrowings at December 31, 2005	<u>\$ 400,000</u>

See notes to financial statements.

**ROYAL SECURITIES COMPANY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)		\$ (35,626)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	\$ 44,015	
Loss on disposal of equipment	151	
Change in assets and liabilities:		
(Increase) decrease in commissions receivable	34,147	
(Increase) decrease in receivables from non-customers	(20,296)	
(Increase) decrease in other assets	(4,772)	
(Increase) decrease in securities inventory	100,123	
Increase (decrease) in accounts payable and accruals	<u>(40,922)</u>	
Total Adjustments		<u>112,446</u>
Net Cash Provided By Operating Activities		<u>76,820</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of equipment	<u>(26,600)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Payments on note payable - subordinated	(200,000)
Common stock repurchased and retired	(26,124)
Proceeds from issuance of common stock	<u>10,009</u>
Net Cash Provided (Used) By Financing Activities	<u>(216,115)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	(165,895)
Cash and Cash Equivalents, January 1, 2005	<u>671,362</u>
CASH AND CASH EQUIVALENTS, December 31, 2005	<u>\$ 505,467</u>

See notes to financial statements.

**ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity - Royal Securities Company (the "Company") is a securities broker/dealer that introduces transactions and accounts on a fully disclosed basis. Because the company does not carry customer accounts it operates under certain exemptive regulatory provisions. The Company is registered with the Securities and Exchange Commission and the State of Michigan. It is a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation. Its customers are predominately individuals residing in Western Michigan.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents consist of demand deposits in banks, money market funds, and cash on hand. The Company, at certain times, maintains deposits that exceed insured limits. Management does not consider this a significant risk.

Security Transactions - Security transactions and related commission revenue and expense are recorded on a settlement date basis, generally the third business day following the transaction date.

Securities Owned - Securities owned consists of state, municipal, and corporate obligations which are reported at quoted market values. Unrealized gains and losses are recognized currently and are included in net dealer inventory and investment gains on the statement of income.

Income taxes - Deferred income tax assets and liabilities are determined by applying the currently enacted tax laws and rates to the cumulative temporary differences between the carrying value of assets and liabilities for financial statements and income tax purposes. Deferred income tax expense or credit is measured by the change in the deferred income tax asset and liability accounts during the year.

Property, Equipment and Depreciation - Property and equipment are stated at cost. Depreciation is computed using straight-line or declining balance methods over the estimated life of the assets.

Advertising Costs - The Company incurred and expensed advertising costs of \$35,334 for the year ended December 31, 2005.

NOTE B: NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital of \$100,000 at December 31, 2005 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 had net capital of \$681,202, which was \$581,202 in excess of the required amount of net capital. The Company's net capital ratio was .45 to 1.

ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS

NOTE C: FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements are as follows at December 31, 2005:

Leasehold improvements	\$ 68,473
Office furniture and equipment	302,326
Computer equipment	<u>64,378</u>
Total	435,177
Less accumulated depreciation	<u>(273,123)</u>
Net furniture, equipment and leasehold improvements	<u>\$ 162,054</u>

NOTE D: SUBORDINATED BORROWINGS

At December 31, 2005, the Company had a subordinated note to a shareholder for \$400,000 issued in connection with the purchase of Kent King Securities Co., Inc. The note bears interest at an annual rate of 6% and requires interest only payments. Interest payments are due monthly and totaled \$24,000 for the year ended December 31, 2005. The note matures on or before October 31, 2006.

NOTE E: LEASES

The Company occupies office space under an month-to-month operating lease agreement with a limited liability company whose owners are shareholders of Royal Securities Company. Monthly rent is approximately \$10,000 (\$8,000 for 2005), which is increased annually by the Consumer Price Index. Rental payments under this agreement totaled \$64,000 for the year ended December 31, 2005.

The Company rents office space from a limited liability company whose owner is a relative of a shareholder of Royal Securities Company under an operating lease agreement expiring January 31, 2006, at a current monthly rental rate of \$4,035. The lease contains renewal options for 3 consecutive 18 month periods at the current rate increased by the Consumer Price Index. Rent payments under this operating lease totaled \$48,414 for the year ended December 31, 2005.

The Company rents two other office spaces under month-to-month operating lease agreements, at current monthly rental rates of \$260 and \$450. Rent payments under these operating leases totaled \$5,230 for the year ended December 31, 2005.

Total rent expense under all leases (including short-term rentals) was \$140,119 for the year ended December 31, 2005.

Future minimum lease payments under the non-cancelable operating leases are as follows:

Year ended December 31	<u>Amount</u>
2006	<u>\$ 4,035</u>

**ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS**

NOTE F: PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

Current	\$ (1,936)
Deferred	<u>(4,400)</u>
	<u>\$ (6,336)</u>

Significant components of the Company's deferred tax liabilities at December 31, 2005 are as follows:

Tax over book depreciation	\$ 5,946
Book over tax prepaid expenses	8,485
Other	<u>(1,331)</u>
	<u>\$ 13,100</u>

NOTE G: RETIREMENT PLAN

The Company has a 401(k) and profit sharing plan (a "safe-harbor" plan) under which the Company contributes 100% of the first 3% of employee contributions and 50% of the next 2% of employee contributions, not to exceed 4% of any employee's wages. The plan covers all full-time employees with at least one year of service. Company matching contributions totaled \$89,166 for the year ended December 31, 2005. Profit sharing contributions are at the discretion of the Company and were \$-0- for the year ended December 31, 2005.

NOTE H: STOCK REPURCHASE AGREEMENT

The Company and its stockholders are parties to an agreement under which the Company has the option to repurchase shares from the stockholders upon the stockholder's death, disability, termination of employment, or offer to sell. The purchase price is the net book value of the stock except for termination of employment, whereby, the purchase price is reduced by 20% for each year that the stockholder's employment is less than 5 years. During the year, certain stockholders tendered all or a portion of their shares to the Company. The excess of the redemption price over the par value of the common stock was charged to retained earnings.

NOTE I: RELATED PARTY TRANSACTIONS

The Company has a note payable to a shareholder as described in Note D.

The Company has accounts receivable from shareholders of \$33,732 as of December 31, 2005.

The Company rents office space from a limited liability company whose owners are shareholders of Royal Securities Company, as described in Note E.

The Company rents office space from a limited liability company whose owner is a relative of a shareholder of Royal Securities Company, as described in Note E.

**ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS**

NOTE J: CASH FLOW INFORMATION

Cash paid for interest was \$24,381 in the year ended December 31, 2005.

Cash paid for income taxes was \$8,545 in the year ended December 31, 2005.

SUPPLEMENTARY SCHEDULE

ROYAL SECURITIES COMPANY
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2005

Total Stockholders' Equity	\$ 561,313
Add	
Liabilities subordinated to claims of general creditors allowable in computation of net capital	<u>400,000</u>
Total capital and allowable subordinated liabilities	<u>961,313</u>
Deductions	
Non-allowable assets	
Non-customer receivables	38,996
Furniture, equipment and leasehold improvements	162,054
Prepaid expenses and other	<u>56,690</u>
Total Deductions	<u>257,740</u>
Net capital before haircuts on securities positions	<u>703,573</u>
Haircuts on securities positions	
Trading and investment securities	
Money market account	563
State and municipal obligations	5,426
Corporate obligations	<u>16,382</u>
Total haircuts on securities positions	<u>22,371</u>
NET CAPITAL	<u><u>\$ 681,202</u></u>

ROYAL SECURITIES COMPANY
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION (CONTINUED)
DECEMBER 31, 2005

Aggregate indebtedness	
Accounts payable and other liabilities	<u>\$ 303,984</u>

Computation of basic net capital requirement

Minimum net capital required	<u>\$ 100,000</u>
Excess net capital	<u>\$ 581,202</u>
Excess net capital at 1500%	<u>\$ 660,936</u>
Excess net capital at 1000%	<u>\$ 650,804</u>
Ratio: Aggregate indebtedness to net capital	<u>.45 to 1</u>

Reconciliation with company's computation (included in Part II of Form X-17A-5 as of December 31, 2005).

Net capital as reported in company's Part II (unaudited) FOCUS report	\$ 647,008
Audit adjustments to adjust payables and accruals	15,159
Audit adjustments to record additional revenues	77,793
Audit adjustments to record additional compensation	(58,026)
Other audit adjustments - net	<u>(731)</u>
Net capital per previous page	<u>\$ 681,202</u>

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL**



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY SEC RULE 17a-5**

February 2, 2006

Stockholders and Board of Directors
Royal Securities Company
Grandville, Michigan

In planning and performing our audit of the financial statements of Royal Securities Company (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 and net capital under rule 17a-3(a)(11) 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 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 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 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, errors 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, which 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 use of the Board of Directors, management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which 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.

Kiekoover, Scholma & Shumaker, PC
Kiekoover, Scholma & Shumaker, PC
Certified Public Accountants