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

SEC FILE NUMBER
8- 44065

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: AMERICAN FINANCIAL ASSOCIATES, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1706 NORTHAMPTON STREET, PO BOX 1659

(No. and Street)

EASTON

PA

18044-1659

(City)

(State)

(Zip Code)

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

MR. HENRY D'ALBERTO

610-559-1600

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

KIRK, SUMMA & CO., LLP

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

1405 N. CEDAR CREST BLVD

ALLENTOWN

PA

18104

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**PROCESSED**

**JUN 13 2006** E

**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 240.17a-5(e)(2)

SEC 1410 (06-02)

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ML  
7/12

OATH OR AFFIRMATION

I, HENRY D'ALBERTO, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AMERICAN FINANCIAL ASSOCIATES, 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:

NO EXCEPTIONS

COMMONWEALTH OF PENNSYLVANIA Notarial Seal Notary Public My Commission Expires June 10, 2008

Signature Title PRESIDENT

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 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.

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

**AMERICAN FINANCIAL ASSOCIATES, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005 AND 2004**

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# KIRK, SUMMA & CO., LLP

CERTIFIED PUBLIC ACCOUNTANTS

1405 NORTH CEDAR CREST BOULEVARD  
SUITE 102  
ALLENTOWN, PENNSYLVANIA 18104  
610-770-9889  
FAX # 610-770-0177

OTHER OFFICES

BRODHEADSVILLE, PA  
570-992-5876

EAST STROUDSBURG, PA  
570-421-0753

DALE E. KIRK, C.P.A.

KEVIN D. SUMMA, C.P.A.

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
American Financial Associates, Inc.

We have audited the accompanying statements of financial condition of American Financial Associates, Inc. as of December 31, 2005 and 2004, and the related income statements and cash flows for the years 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 misstatements. 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 American Financial Associates, Inc. at December 31, 2005 and 2004, and the results of its operations and 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 information contained on pages 11 through 14 are presented for purposes of additional analysis and are 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.

*Kirk, Summa & Co., LLP*

February 20, 2006  
Allentown, PA

**AMERICAN FINANCIAL ASSOCIATES, INC.  
STATEMENTS OF FINANCIAL CONDITION  
DECEMBER 31, 2005 AND 2004**

	2005	2004
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,628	\$ 11,226
Certificate of deposit	31,164	30,414
Commissions receivable	23,083	14,763
<b>TOTAL CURRENT ASSETS</b>	58,875	56,403
<b>FIXED ASSETS</b>		
Office Equipment	53,359	53,359
Furniture & Fixtures	1,780	531
Less: Accumulated depreciation	(53,148)	(52,341)
<b>TOTAL FIXED ASSETS</b>	1,991	1,549
<b>OTHER ASSETS</b>		
Deposits with clearing organizations and others	5,000	5,000
<b>TOTAL ASSETS</b>	\$ 65,866	\$ 62,952
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,462	\$ 2,584
Bank overdrafts	2,007	2,062
Commissions payable	15,051	11,072
Loan payable - officer	6,000	6,000
<b>TOTAL CURRENT LIABILITIES</b>	25,520	21,718
<b>STOCKHOLDERS EQUITY</b>		
Common stock \$10 par value, 10,000 shares authorized, 8,165 shares issued and outstanding	81,650	81,650
Retained (deficit)	(41,304)	(40,416)
<b>TOTAL STOCKHOLDER'S EQUITY</b>	40,346	41,234
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	\$ 65,866	\$ 62,952

The accompanying notes are an integral part of these financial statements.

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**INCOME STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
REVENUES		
Commissions	\$ 700,105	\$ 634,237
Interest income	765	422
Miscellaneous income	11,169	9,596
TOTAL REVENUES	<u>712,039</u>	<u>644,255</u>
SELLING EXPENSES	583,862	525,941
GENERAL AND ADMINISTRATIVE EXPENSES	<u>129,065</u>	<u>131,883</u>
TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>712,927</u>	<u>657,824</u>
NET INCOME (LOSS) BEFORE INCOME TAXES	(888)	(13,569)
PROVISION FOR INCOME TAXES	<u>-</u>	<u>(355)</u>
NET INCOME (LOSS)	(888)	(13,924)
RETAINED DEFICIT - BEGINNING OF YEAR	<u>(40,416)</u>	<u>(26,492)</u>
RETAINED DEFICIT - END OF YEAR	<u>\$ (41,304)</u>	<u>\$ (40,416)</u>

The accompanying notes are an integral part of these financial statements.

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (888)	\$ (13,924)
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Items in net income not affecting cash:		
Depreciation	807	1,459
(Increase) decrease in current assets:		
Commissions receivable	(8,320)	5,400
Certificate of deposit	(750)	(379)
Increase (decrease) in current liabilities:		
Accounts payable	(122)	(1,964)
Bank overdrafts	(54)	2,062
Commissions payable	3,979	(4,050)
Accrued income taxes	-	(1,400)
<b>TOTAL ADJUSTMENTS</b>	<u>(4,460)</u>	<u>1,128</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	(5,348)	(12,796)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from deposits with clearing organizations	-	-
Acquisition of fixed assets	(1,250)	(1,542)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(1,250)</u>	<u>(1,542)</u>
<b>NET INCREASE IN CASH</b>	(6,598)	(14,338)
<b>CASH AT BEGINNING OF YEAR</b>	<u>11,226</u>	<u>25,564</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 4,628</u>	<u>\$ 11,226</u>
<b>SUPPLEMENTARY DISCLOSURES:</b>		
Interest paid	<u>\$ -</u>	<u>\$ 52</u>
Income taxes paid	<u>\$ -</u>	<u>\$ 1,400</u>

The accompanying notes are an integral part of these financial statements.

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

Business and Organization

American Financial Associates, Inc. (the Company) was organized on July 25, 1991 for the purpose of selling mutual funds and life insurance. In 1994 the Company also began acting as a discount broker. The Company has brokers in the states of Pennsylvania, New Jersey and Oregon. Approximately sixty percent of the Company's business is conducted in Pennsylvania, and the major source of revenue comes from selling mutual funds. Approximately twenty-five percent of all sales are with one mutual fund company.

Cash Equivalents

Cash equivalents are highly liquid debt instruments purchased with maturities of three months or less. There were no cash equivalents at December 31, 2005 or 2004.

Bad Debts

The Company uses the direct write-off method of accounting for losses arising from uncollectible accounts receivable. Under this method, accounts receivable are written-off to bad debt expense in the period they are deemed uncollectible. There were no bad debt expenses for the years ended December 31, 2005 or 2004.

Use of Estimates

Generally accepted accounting principles requires management to make estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Depreciation

Equipment and furniture are stated at cost and are depreciated under accelerated cost recovery systems permitted for federal income tax purposes over estimated useful lives of five to seven years. Depreciation was \$807 and \$1,459 respectively for 2005 and 2004.

Maintenance and Repairs

Improvements, additions and major renewals that extend the life of assets are capitalized; maintenance and repairs are expensed as incurred.

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

Rent Expense

The Company has a month-to-month rental with no signed lease. Rent is \$900 per month for the last two years and is expensed when paid. Rent expense was \$10,800 for 2005 and 2004.

Commissions Receivable

Commissions' receivable consists of fees earned primarily on the selling of mutual funds. The Company receives payment within a short time of the transactions. No allowance for doubtful accounts has been provided for as the continuing relationships over many years has assured collection.

**NOTE B – OTHER ASSETS**

Other assets consisted of the following at:

	<u>2005</u>	<u>2004</u>
Fidelity Destiny Reserve Account	<u>\$ 5,000</u>	<u>\$ 5,000</u>
Total	<u>\$ 5,000</u>	<u>\$ 5,000</u>

**NOTE C – COMPUTATION OF NET CAPITAL**

	<u>2005</u>	<u>2004</u>
Gross capital	\$ 40,346	\$ 41,234
Add – Non-allowable Liabilities - loan from shareholder	6,000	6,000
Deduct Non-allowable Assets - Property, and Equipment, and Prepaid Expenses	<u>(6,992)</u>	<u>(7,354)</u>
Net capital	<u>\$ 39,354</u>	<u>\$ 39,880</u>
Excess net capital	<u>\$ 30,886</u>	<u>\$ 30,455</u>
Allowable aggregate indebtedness (12 times net capital)	<u>\$ 472,248</u>	<u>\$ 478,560</u>
Actual aggregate indebtedness	<u>\$ 19,775</u>	<u>\$ 16,156</u>

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE D – CERTIFICATE OF DEPOSIT**

A certificate of deposit was purchased from Sovereign Bank on November 19, 2003 in the amount of \$30,000. The term is nine months and bears interest at 1 percent annually. The certificate of deposit was renewed on November 20, 2005 for six additional months. The value of the certificate of deposit was \$31,164 for at December 31, 2005.

**NOTE E - ADVERTISING COST**

Advertising costs of \$2,559 and \$2,419 were incurred for the years ended December 31, 2005 and 2004, respectively. All advertising costs are expensed as incurred.

**NOTE F – EXEMPTIVE PROVISIONS**

An exemption is claimed from SEC Rule 15c-3-3 under c(k) (2) (ii) – All customer transactions cleared through another broker-dealer on a fully disclosed basis.

The following is the clearing firm:

SEC # - 801-13059

Name – Dain Rauscher

**KIRK, SUMMA & CO., LLP**

CERTIFIED PUBLIC ACCOUNTANTS

1405 NORTH CEDAR CREST BOULEVARD  
SUITE 102  
ALLENTOWN, PENNSYLVANIA 18104  
610-770-9889  
FAX # 610-770-0177

OTHER OFFICES

BRODHEADSVILLE, PA  
570-992-5876

EAST STROUDSBURG, PA  
570-421-0753

DALE E. KIRK, C.P.A.

KEVIN D. SUMMA, C.P.A.

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION  
REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION**

Board of Directors  
American Financial Associates, Inc.

We have audited the accompanying financial statements of American Financial Associates, Inc. as of and for the year ended December 31, 2005 and 2004, and have issued our report thereon dated February 20, 2006. Our audit was conducted for the purposes of forming an opinion on the basic financial statements taken as a whole. The information contained in the following statements are presented for purposes of additional analysis and are 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.

*Kirk, Summa & Co., LLP*

February 20, 2006  
Allentown, PA

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**STATEMENTS OF SELLING, GENERAL**  
**AND ADMINISTRATIVE EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>SELLING EXPENSES</b>		
Advertising	\$ 2,559	\$ 2,419
Auto lease and expense	5,180	2,023
Commissions	564,389	514,055
Entertainment	1,253	2,235
Meetings	217	1,158
Public relations	422	61
Regulatory fees	8,910	6,399
Training programs	39	1,384
Travel	893	2,606
<b>TOTAL SELLING EXPENSES</b>	<u>583,862</u>	<u>532,340</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Bank and other charges	698	1,042
Bookkeeping	652	641
Computer expenses	5,885	4,045
Contributions	120	70
Depreciation	807	1,459
Dues and subscriptions	615	356
Employee benefits	11,282	7,211
Insurance	2,145	2,923
Interest	-	52
Licenses and permits	876	786
Miscellaneous	42	425
Office supplies	4,716	6,120
Outside services	450	1,472
Payroll taxes	6,051	6,760
Postage	2,719	2,163
Professional fees	5,470	2,346
Rent	10,800	10,800
Repairs and maintenance	398	264
Salaries	66,135	66,237
Sales expenses	502	392
Taxes - other	1,040	162
Telephone	5,710	8,040
Utilities	1,952	2,074
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>129,065</u>	<u>125,840</u>
<b>TOTAL SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 712,927</u>	<u>\$ 658,180</u>

**AMERICAN FINANCIAL ASSOCIATES, INC.**  
**STATEMENTS OF NET CAPITAL RECONCILIATION**  
**AUDITED REPORT VS. UNAUDITED FOCUS REPORT**  
**DECEMBER 31, 2005 AND 2004**

	Per Focus Report Form X-17A-5		Adjustments		Per Audited Financial Report	
	2005	2004	2005	2004	2005	2004
	A) Gross Capital	\$ 36,878	\$ 36,809	\$ 3,468	\$ 4,425	\$ 40,346
B) Add:						
Officer loan	6,000	6,000	-	-	6,000	6,000
C) Deduct:						
Non-allowable receivables	(6,992)	(7,354)	-	-	(6,992)	(7,354)
Net capital	<u>\$ 35,886</u>	<u>\$ 35,455</u>	<u>\$ 3,468</u>	<u>\$ 4,425</u>	<u>\$ 39,354</u>	<u>\$ 39,880</u>

	<u>2005</u>	<u>2004</u>
A) Reconciliation of Adjustments:		
Adjustments to Gross Capital:		
Adjustment to payables	\$ 2,261	\$ 2,500
Adjustment for voided checks	458	1,737
Adjustment to Certificate of Deposit	749	188
Total Adjustments	<u>\$ 3,468</u>	<u>\$ 4,425</u>

**AMERICAN FINANCIAL ASSOCIATES, INC.  
STATEMENTS OF CHANGES IN LIABILITIES SUBORDINATED  
TO GENERAL CREDITORS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Beginning Liability - January 1	\$ 6,000	\$ 6,000
Additions:	<u>-</u>	<u>-</u>
Subtractions:	<u>-</u>	<u>-</u>
Ending Balance - December 31	<u>\$ 6,000</u>	<u>\$ 6,000</u>

**AMERICAN FINANCIAL ASSOCIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

There were no findings of material inadequacies found to exist or found to have existed since the date of the previous audit.

**AMERICAN FINANCIAL ASSOCIATES, INC.  
FINANCIAL STATEMENT DISTRIBUTION LIST  
DECEMBER 31, 2005**

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Securities and Exchange Commission 450 Fifth Street, N.W. Washington, DC 20549 .....	1
Securities and Exchange Commission Mellon Independence Center 701 Market Street Suite 2000 Philadelphia, PA 19106 .....	1
Securities and Exchange Commission 233 Broadway New York, NY 10279 .....	1