

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

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

SEC FILE NUMBER

8-18428

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 07/01/05 AND ENDING 6/30/06  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

**JOHN M. CUNNINGHAM, INC.**

OFFICIAL USE ONLY

FIRM ID. NO.

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

760 Woodlea Road

(No. and Street)

Rosemont

(City)

Pennsylvania

(State)

19010

(Zip Code)

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

John Cunningham - PRESIDENT

(610) 527-8300

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Donald P. McGill, CPA

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

53 Darby Road

(Address)

Paoli

(City)

PA

(State)

19301

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

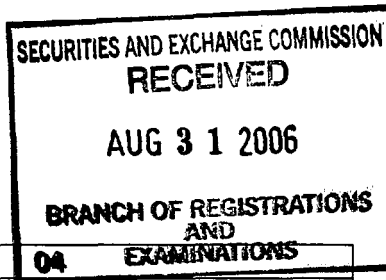
☐ Public Accountant

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

PROCESSED

SEP 29 2006

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 (3-91)

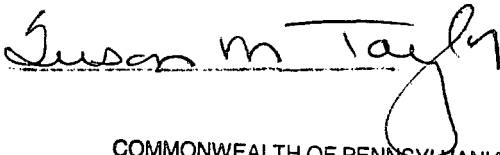
**JOHN M. CUNNINGHAM, INC**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**For the Year Ended June 30, 2006**

## AFFIRMATION

I, John Cunningham, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supplemental schedules pertaining to the firm of John M. Cunningham, Inc. (Company) at June 30, 2006 and for the year then ended are true and correct. I further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified as that of a customer.

  
John Cunningham, President

Sworn and subscribed to before me this 25 day of August, 2006.



COMMONWEALTH OF PENNSYLVANIA

Notarial Seal

Susan M. Taylor, Notary Public

Radnor Twp., Delaware County

My Commission Expires Oct. 7, 2009

Member, Pennsylvania Association of Notaries

**Donald P. McGill**  
**Certified Public Accountant**

53 Darby Road  
Paoli, PA 19301

Tel (610) 725-9290  
Fax (610) 725-9205

**INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS' REPORT**

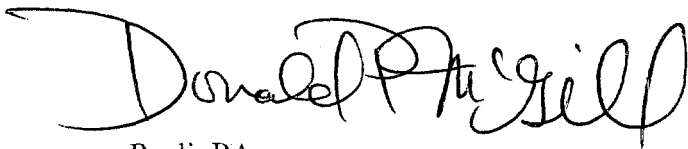
To the Board of Directors and Stockholder of  
John M. Cunningham, Inc.

We have audited the accompanying balance sheet of John M. Cunningham, Inc., at June 30, 2006, and the related statements of operations, changes in 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 U.S. generally accepted auditing standards. 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 John M. Cunningham, Inc. at June 30, 2006, and the results of its operations, changes in stockholder's equity and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purposes of forming an opinion on the basic financial statements taken as a whole. The supplementary information 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 17-a-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.



Paoli, PA  
July 14, 2006

**JOHN M. CUNNINGHAM, INC.**  
**BALANCE SHEET**  
**JUNE 30, 2006**

ASSETS

|                               |                             |
|-------------------------------|-----------------------------|
| Cash                          | \$ 15,603                   |
| Receivable from clearing firm | 29,458                      |
| Receivable from customers     | 15,469                      |
| Marketable securities         | <u>16,854</u>               |
| <br>Total Assets              | <br><u><u>\$ 77,384</u></u> |

LIABILITIES AND STOCKHOLDER'S EQUITY

|                                                                                                                |                             |
|----------------------------------------------------------------------------------------------------------------|-----------------------------|
| Accounts payable and accrued expenses                                                                          | \$ 10,428                   |
| Deferred income                                                                                                | 11,576                      |
| Unearned income                                                                                                | <u>14,131</u>               |
| <br>Total Liabilities                                                                                          | <br><u>36,135</u>           |
| <br>Contingencies                                                                                              | <br>-                       |
| <br>Common stock - par value \$10 per share, 20,000 shares<br>authorized, 15,001 shares issued and outstanding | <br><br>150,010             |
| Retained deficit                                                                                               | <u>(108,761)</u>            |
| <br>Total Stockholder's Equity                                                                                 | <br><u>41,249</u>           |
| <br>Total Liabilities and Stockholder's Equity                                                                 | <br><u><u>\$ 77,384</u></u> |

See accompanying notes.

**JOHN M. CUNNINGHAM, INC**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

|                                  |                            |
|----------------------------------|----------------------------|
| Fee income                       | \$ 41,034                  |
| Commissions                      | 38,233                     |
| Trading gains                    | <u>1,130</u>               |
| <br>Total Revenue                | <br><u>80,397</u>          |
| <br>Costs and Expenses:          |                            |
| Salaries                         | 26,500                     |
| Payroll taxes                    | 2,054                      |
| Employee benefits                | 4,539                      |
| Transportation costs             | 5,279                      |
| Research costs                   | 2,919                      |
| Professional fees                | 4,607                      |
| Telephone                        | 1,352                      |
| Regulatory fees                  | 1,842                      |
| Insurance                        | 12,217                     |
| Marketing and promotion          | 7,920                      |
| Office supplies and expenses     | 4,834                      |
| Other operating costs            | <u>484</u>                 |
| <br>Total Costs and Expenses     | <br><u>74,547</u>          |
| <br>Operating income             | <br>5,850                  |
| <br>Interest and dividend income | <br><u>1,640</u>           |
| <br>Net income (loss)            | <br><u><u>\$ 7,490</u></u> |

See accompanying notes.

**JOHN M. CUNNINGHAM, INC**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Cash Flows From Operating Activities:

|                                                                                |                |
|--------------------------------------------------------------------------------|----------------|
| Net income (loss)                                                              | \$ 7,490       |
| Adjustment to reconcile net income to net cash (used) by operating activities: |                |
| Unrealized losses on marketable securities                                     | (123)          |
| Decrease in receivable from clearing firm                                      | 13,507         |
| (Increase) in receivable from customers                                        | (11,992)       |
| Decrease in marketable securities                                              | 6,521          |
| Increase in accounts payable and accrued expenses                              | 5,170          |
| (Decrease) in deferred income                                                  | 130            |
| (Decrease) in unearned income                                                  | <u>(8,616)</u> |

|                                         |               |
|-----------------------------------------|---------------|
| Net Cash (Used) By Operating Activities | <u>12,087</u> |
|-----------------------------------------|---------------|

Cash Flows From Investing Activities:

-

Cash Flows from Financing Activities:

-

|                        |        |
|------------------------|--------|
| Net (Decrease) In Cash | 12,087 |
|------------------------|--------|

|                                         |              |
|-----------------------------------------|--------------|
| Cash and equivalents, beginning of year | <u>3,516</u> |
|-----------------------------------------|--------------|

|                                   |                  |
|-----------------------------------|------------------|
| Cash and equivalents, end of year | <u>\$ 15,603</u> |
|-----------------------------------|------------------|

See accompanying notes.

**JOHN M. CUNNINGHAM, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2006**

|                        | Common<br>Stock   | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Deficit) |
|------------------------|-------------------|----------------------------------|-----------------------------------|
| Balance, July 1, 2005  | \$ 150,010        | \$ -                             | \$ (116,251)                      |
| Capital contributions  | -                 | -                                | -                                 |
| Net income (loss)      | -                 | -                                | 7,490                             |
| Balance, June 30, 2006 | <u>\$ 150,010</u> | <u>\$ -</u>                      | <u>\$ (108,761)</u>               |

See accompanying notes.

**JOHN M. CUNNINGHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**1. ORGANIZATION AND NATURE OF OPERATIONS**

John M. Cunningham, Inc. (the "Company"), was incorporated in the Commonwealth of Pennsylvania on July 1, 1975, is registered as a broker-dealer under the Securities Exchange Act of 1934, and is a member of the National Association of Securities Dealers, Inc. (NASD) and the Securities Investor Protection Corp. (SIPC). The Company was granted membership in the NASD to conduct a general securities operation.

The Company's business includes clearing its transactions on a fully disclosed basis through its clearing broker. The Company acts as a broker-dealer and is exempt from Securities and Exchange Commission Rule 15c3-3 under paragraph k (2) (ii) and is not responsible for compliance with Section 4(c) of Regulations T of the Board of Governors of the Federal Reserve System, as all customers' accounts, as defined by such rules, are carried by the clearing firm.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**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 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.

**Basis of Presentation**

The Company is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services, including principal transactions and agency transactions.

The Company uses the accrual method of accounting for both financial and tax reporting purposes. The Company's year-end is June 30.

**Revenues**

Trading gains – The Company trades securities for its own account recording regular-way trades on the settlement date, which is not materially different than trade date.

Commissions – Commissions are recorded on settlement date, which is not materially different than trade date.

Fee Income – Fees are recorded on the renewal date of each contract. They are initially recorded as unearned and recorded as income as earned.

**JOHN M. CUNNINGHAM, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**Securities, At Fair Value**

The Company's investments are carried at fair market value. At June 30, 2006, the Company held equities of \$ 5,905 and money market investments of \$10,949.

**3. NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission's Uniform net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital of \$5,000 and that the aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At June 30, 2006, John M. Cunningham, Inc. had net capital of \$39,060, which exceeded its required net capital of \$5,000. The Company had aggregate indebtedness at June 30, 2006 of \$36,135.

**4. INCOME TAXES**

The Company has a capital loss carryforward of nearly \$205,000, the benefit from which have not been recorded because their realization is doubtful. During the year ended June 30, 2006, the Company utilized none of its loss carryforward, offsetting any income tax liability on the current year's earnings.

**5. FAIR VALUE**

The Company's financial instruments approximate fair value.

**6. CONCENTRATIONS OF CREDIT RISK**

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

**JOHN M. CUNNINGHAM, INC**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**JUNE 30, 2006**

**NET CAPITAL:**

|                                                     |          |                         |
|-----------------------------------------------------|----------|-------------------------|
| Total stockholder's equity                          |          | \$ 41,249               |
| Deductions and/or charges:                          |          |                         |
| Non-allowable assets:                               |          |                         |
|                                                     | <u>-</u> |                         |
| Net capital before haircuts on securities positions |          | 41,249                  |
| Haircuts on securities positions                    |          | <u>(2,190)</u>          |
| Net Capital                                         |          | <u><u>\$ 39,059</u></u> |

**AGGREGATE INDEBTEDNESS:**

Items included in the statement of financial condition:

|                                       |               |                         |
|---------------------------------------|---------------|-------------------------|
| Accounts payable and accrued expenses | 10,428        |                         |
| Deferred revenue                      | 11,576        |                         |
| Unearned income                       | <u>14,131</u> | <u><u>\$ 36,135</u></u> |

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:**

|                              |                         |
|------------------------------|-------------------------|
| Minimum net capital required | <u><u>\$ 5,000</u></u>  |
| Excess net capital at 1000%  | <u><u>\$ 35,446</u></u> |

The above computation does not differ materially from the June 30, 2005 computation of net capital filed electronically by the Company on FOCUS Form X-17A-5 Part IIA.

**Donald P. McGill**  
**Certified Public Accountant**

53 Darby Road  
Paoli, PA 19301

Tel (610) 725-9290  
Fax (610) 725-9205

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL  
ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5**

To the Board of Directors of  
John M. Cunningham, Inc.

In planning and performing our audit of the financial statements and supplementary information of John M. Cunningham, Inc. (the "Company") for the year ended June 30, 2006, we considered its internal control structure, including procedures 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 the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (the "Commission"), 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-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 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 Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure 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 transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance 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 any internal control structure or the practices and procedures referred to above, errors or irregularities 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 the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 the internal control structure, including procedures 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 Commission 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 June 30, 2006 to meet the Commission's objectives.

Our opinion recognizes that it is not practicable in a company the size of John M. Cunningham, Inc. to achieve all the divisions of duties and cross-checks generally included in a system of internal accounting control, and alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., 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 should not be used for any other purpose.

A handwritten signature in black ink, reading "Donald P. McGill". The signature is written in a cursive, flowing style with a large initial "D".

Paoli, PA  
July 14, 2006