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

SEC FILE NUMBER  
8-44803

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, 2006 AND ENDING December 31, 2006  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Nancy Barron & Associates, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
150 Grand Boulevard

OFFICIAL USE ONLY  
FIRM I.D. NO.

(No. and Street)  
Lexington, KY 40507  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Michael Foley, CPA 1-859-231-1800  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Ray, Foley, Hensley & Company,  
(Name -- if individual, state last, first, middle name)  
230 Lexington Green Circle, Ste 600, Lexington, KY 40503  
(Address) (City) (State) (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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\*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)

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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 Stockholder's Equity or Partners' or Sole Proprietor's Capital
- (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors (not applicable).
- (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 explanations, 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 (not applicable).
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation (not applicable).
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report (not applicable).
- (n) A report describing any material inadequacies found to exist or to have existed since the date of the previous audit (not applicable).
- (o) Report of independent auditors on internal control structure required by Rule 17a-5.

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

**NANCY BARRON & ASSOCIATES, INC.**  
**Lexington, Kentucky**

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**INDEPENDENT AUDITORS' REPORT**  
**December 31, 2006**

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# Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Dennis H. England, CPA  
Michael D. Foley, CPA  
Lyman Hager, Jr., CPA  
Jerry W. Hensley, CPA  
J. Carroll Luby, CPA  
Marc T. Ray, CPA-ABV

## INDEPENDENT AUDITORS' REPORT

To the Stockholder  
of Nancy Barron & Associates, Inc.

We have audited the accompanying balance sheet of Nancy Barron & Associates, Inc. as of December 31, 2006, and the related statements of income, 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 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 Nancy Barron & Associates, Inc. as of December 31, 2006, 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 purposes of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV is presented for the 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.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
February 22, 2007

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**NANCY BARRON & ASSOCIATES, INC.**  
**BALANCE SHEET**  
**December 31, 2006**

**ASSETS**

Cash	\$ 162,578
Accounts receivable	74,835
Advances to employees	14,000
Prepaid expenses	7,151
Investments	148,505
Property and equipment (net of accumulated depreciation of \$122,729)	<u>16,665</u>
Total assets	<u><u>\$ 423,734</u></u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Liabilities

Accounts payable	\$ 16,094
Employee withholdings	15,208
Accrued state and local income taxes	2,548
Accrued wages	75,000
Accrued expenses	<u>3,750</u>
Total Liabilities	<u>112,600</u>

Stockholder's equity

Common stock, no par value; 1,000 shares authorized, 345 shares issued and outstanding	186,561
Additional paid-in capital	9,042
Retained earnings	<u>115,531</u>
Total stockholder's equity	<u>311,134</u>

Total liabilities and stockholder's equity	<u><u>\$ 423,734</u></u>
--	--------------------------

The accompanying notes are an integral part of the financial statements

**NANCY BARRON & ASSOCIATES, INC.**  
**STATEMENT OF INCOME**  
for the year ended December 31, 2006

Income	
Commission income	\$ 974,236
Dividends and interest income	41,620
Unrealized gain on investments	<u>12,555</u>
Total income	<u>1,028,411</u>
Expenses	
Employee compensation and benefits	649,032
Clearing fees	150,300
Communication and promotion	29,304
Occupancy costs	48,000
Other operating expenses	89,059
Depreciation	<u>7,912</u>
Total expenses	<u>973,607</u>
Net income before income taxes	54,804
Provision for income taxes	<u>1,633</u>
Net income	<u>\$ 53,171</u>

The accompanying notes are an integral part of the financial statements

**NANCY BARRON & ASSOCIATES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**  
**for the year ended December 31, 2006**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances at beginning of year	\$ 186,561	\$ 9,042	\$ 130,332	\$ 325,935
Net income			53,171	53,171
Stockholder distributions			(67,972)	(67,972)
Balances at end of year	<u>\$ 186,561</u>	<u>\$ 9,042</u>	<u>\$ 115,531</u>	<u>\$ 311,134</u>

The accompanying notes are an integral part of the financial statements

**NANCY BARRON & ASSOCIATES, INC.**  
**STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2006

<b>Cash flows from operating activities</b>		
Net income		\$ 53,171
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	\$ 7,912	
Unrealized gain on investments	(12,555)	
(Increase) decrease in		
Accounts receivable	(5,693)	
Prepaid expenses	208	
Increase (decrease) in		
Accounts payable	5,078	
Payable to brokers or dealers	(470)	
Employee withholdings	(220)	
Accrued wages	(3,500)	
Accrued expenses	(3,166)	
	<u>(12,406)</u>	
Net cash provided by operating activities		40,765
<b>Cash flows from investing activities</b>		
Capital expenditures		-
Net cash (used) in investing activities		-
<b>Cash flows from financing activities</b>		
Stockholder distributions	(67,972)	
Advances to employees	(3,850)	
Net cash (used) in financing activities		<u>(71,822)</u>
Net (decrease) in cash		(31,057)
Cash, beginning of year		<u>193,635</u>
Cash, end of year		<u>\$ 162,578</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year ended for:		
Interest		<u>\$ -</u>
Income taxes		<u>\$ 5,700</u>

The accompanying notes are an integral part of the financial statements

**NANCY BARRON & ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Nancy Barron & Associates, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

**Nature of Organization:**

Nancy Barron & Associates, Inc. is a registered broker-dealer with certain restrictions as outlined in an agreement with the National Association of Securities Dealers. The Company was incorporated on March 26, 1992, and is registered with the Securities and Exchange Commission.

In general, the Company has agreed to not hold funds or securities for customers, or to owe money or securities to customers and does not carry accounts of, or for, customers, except with respect to purchase, sale and redemption of redeemable shares of registered investment companies or of interests or participation in insurance company separate accounts. Additionally, the Company introduces and forwards all transactions and accounts of customers to another broker or dealer who carries such accounts on a fully disclosed basis.

**Method of Accounting:**

The accompanying financial statements have been prepared on the accrual basis of accounting using generally accepted accounting principles. The significant accounting policies, as described below, are presented to clarify the Company's financial statements.

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

**Cash Equivalents:**

For purposes of reporting cash flows, the Company considers all short-term marketable securities with maturity dates of more than three months to be investments rather than cash equivalents.

**NANCY BARRON & ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Marketable Securities:**

All marketable securities held by the Company are available for sale. These marketable securities are valued at market value. The resulting difference between cost and market from one year to the next is included in the statement of income as unrealized gain (loss) on investments.

**Fixed Assets and Depreciation:**

Fixed assets are recorded at historical cost. Depreciation and amortization is calculated using the straight-line method for financial reporting purposes at rates based on the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Furniture and fixtures	10
Office equipment	5
Leasehold improvements	10

**Revenue:**

The Company's primary source of revenue is through commissions generated by effecting trades for its customers, most of whom are principally located in the Central and Eastern Kentucky areas. Customers' securities transactions are recorded on a settlement date basis. Securities transactions of the Company are recorded on a trade date basis.

**Income Tax:**

The Company, with the consent of its sole stockholder, has elected under the provisions of the Internal Revenue Code to be a Subchapter S Corporation. As a result of this election, the stockholders of an S Corporation are taxed on their proportionate share of the Corporation's taxable income and, accordingly, no provision for federal income tax has been made. In 2005, Kentucky passed legislation taxing S-Corporations and other pass-through entities at the entity level, accordingly, the Company has made a provision for state and local income taxes based upon its taxable net income.

**NANCY BARRON & ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Year Ended December 31, 2006**

**NOTE 2 - ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts due from the Company's clearing broker principally for commissions earned for the month of December 2006, less a mid-month advance against the amount due. The Company does not require collateral under its present arrangement with the clearing broker.

**NOTE 3 - INVESTMENTS**

Marketable securities owned at December 31, 2006, consist of investment securities at quoted market values, and are as follows:

Corporate Stocks	<u>\$ 148,505</u>
	<u>\$ 148,505</u>

These investments are being carried at fair market value. The cost basis of these investments as of December 31, 2006 is \$86,477. The unrealized gain at December 31, 2006 is \$62,028.

**NOTE 4 - PROPERTY AND EQUIPMENT**

As of December 31, 2006, the fixed asset accounts reflected the following balances:

Furniture and fixtures	\$ 61,686
Office equipment	44,243
Leasehold improvements	<u>33,465</u>
	139,394
Less: Accumulated depreciation	<u>(122,729)</u>
	<u>\$ 16,665</u>

**NANCY BARRON & ASSOCIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended December 31, 2006**

**NOTE 5 - LEASE COMMITMENTS AND RELATED PARTY TRANSACTIONS**

In December 1996, the Company began conducting its business operations at 150 Grand Boulevard, Lexington, Kentucky. This office space is located in a building owned by a corporation that is owned in its entirety by the Company's sole shareholder. Presently, there is not a formal lease for the use of the premises between the two entities. The Company has agreed to pay \$4,000 per month for the use of the property beginning in January 2006. At December 31, 2006, the Company has prepaid rents to this related entity in the amount of \$6,000.

**NOTE 6 - RETIREMENT PLAN**

The Company began a Simple IRA Retirement Plan in 1997 covering substantially all employees. Under the plan, participating employees make an election to defer a portion of their compensation and the Company makes a contribution equal to the lesser of the deferral or three percent of the total compensation of the participant. Plan expenses incurred by the Company during 2006 were \$16,304.

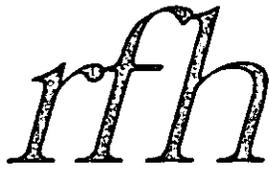
**SUPPLEMENTAL SCHEDULES**

**NANCY BARRON & ASSOCIATES, INC.**  
**SCHEDULE I**  
**COMPUTATION OF NET CAPITAL UNDER 15c3-1 OF THE SECURITIES**  
**AND EXCHANGE COMMISSION**  
**December 31, 2006**

<b>NET CAPITAL</b>		
Stockholder's equity		\$ 311,134
Deductions and/or charges		
Non-allowable fixed assets	\$ 16,729	
Non-allowable brokers' commissions	30,233	
Prepaid expenses	7,150	
Advances to employees	14,000	
Petty cash	<u>100</u>	
		<u>(68,212)</u>
Net capital before percentage reductions		242,922
Pursuant to rule 15c3-1 (F)		
Reduction of securities held as investments		<u>(37,375)</u>
Net capital		<u>\$ 205,547</u>
<b>AGGREGATE INDEBTEDNESS</b>		
Accounts payable	\$ 16,094	
Accrued state and local income tax	2,548	
Employee withholdings	15,208	
Accrued wages	75,000	
Accrued expenses	<u>3,750</u>	
Aggregate indebtedness		<u>\$ 112,600</u>
<b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT</b>		
Minimum net capital required		
\$112,600 divided by 15 or \$50,000 minimum		<u>\$ 50,000</u>
Excess net capital		<u>\$ 155,547</u>
Ratio of aggregate indebtedness to net capital		<u>54.78%</u>
<b>RECONCILIATION WITH COMPANY CALCULATIONS</b>		
Net capital as reported in FOCUS report		\$ 204,634
Effect of audit adjustments on accounts included in net capital calculation		<u>913</u>
Net capital as calculated above		<u>\$ 205,547</u>

**NANCY BARRON & ASSOCIATES, INC.**  
**SCHEDULE II**  
**COMPUTATION OF RESERVE REQUIREMENT IN ACCORDANCE WITH RULE 15c3-3**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**December 31, 2006**

Nancy Barron & Associates, Inc. had no notes payable collateralized by securities, or secured customer accounts receivable at any point throughout the year ended December 31, 2006. Therefore, a computation of reserve requirement in accordance with SEC Rule 15c3-3 is not applicable.



# Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Dennis H. England, CPA  
Michael D. Foley, CPA  
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J. Carroll Luby, CPA  
Marc T. Ray, CPA-ABV

**NANCY BARRON & ASSOCIATES, INC.  
SCHEDULE III  
INFORMATION RELATED TO POSSESSION OR CONTROL REQUIREMENTS UNDER  
RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION  
December 31, 2006**

We have examined the financial statements of Nancy Barron & Associates, Inc. as of December 31, 2006, and have submitted our report thereon dated February 22, 2007. As a part of this examination, we conducted a study and evaluation of the corporation's accounting system and system of internal control as required by Rule 17a-5 of the Securities and Exchange Act and by generally accepted auditing standards. The report on internal control is included on page 14 of our annual audit.

Our examination and study also included a review and evaluation of the procedures for compliance with the possession and control requirements of SEC Rule 15c3-3. In addition, Nancy Barron & Associates, Inc. has formal procedures insuring proper compliance and reporting of security transactions pursuant to SEC Rule 15c3-3, for all transactions in the corporation's possession or under corporate control.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
February 22, 2007

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**NANCY BARRON & ASSOCIATES, INC.**  
**SCHEDULE IV**  
**STATEMENT OF CHANGES IN SUBORDINATED LIABILITIES**  
**UNDER RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION**  
**December 31, 2006**

Nancy Barron & Associates, Inc. had no subordinated liabilities at any point throughout the year ended December 31, 2006. Consequently, there are no changes in the balances of such liabilities.



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Marc T. Ray, CPA-ABV

**NANCY BARRON & ASSOCIATES, INC.  
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING IN ACCORDANCE WITH  
GENERALLY ACCEPTED AUDITING STANDARDS**

To the Stockholder  
of Nancy Barron & Associates, Inc.

In planning and performing our audit of the financial statements of Nancy Barron & Associates, Inc. as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Nancy Barron & Associates, Inc. internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC

February 22, 2007

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