

SEC

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

SEC FILE NUMBER
B-40844

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: Alliance Affiliated Equities Corp.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1 Ward Parkway, Suite 345

(No. and Street)

Kansas City,

MO

64112

(City)

(State)

(Zip Code)

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

David Dyer

(816) 561-5755

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

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

Acord Cox & Company

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

15700 College Blvd., Suite 100 Lenexa

KS

66219

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**PROCESSED**

**B** **MAR 22 2007**  
**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)

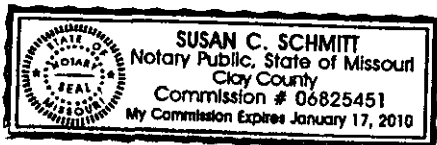
SEC 1410 (06-02)

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BP 3/21

OATH OR AFFIRMATION

I, David Dyer, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Alliance Affiliated Equities Corp., as of December 31, 20 06, 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:



[Signature]  
Signature  
PRESIDENT  
Title

Susan C. Schmitt  
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 15c3-3 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).

**Alliance Affiliated Equities Corporation**

**Financial Statements for the  
Years Ended December 31, 2006 and 2005  
and Independent Auditors' Report**

# ALLIANCE AFFILIATED EQUITIES CORPORATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Alliance Affiliated Equities Corporation  
Kansas City, Missouri

We have audited the accompanying balance sheets of Alliance Affiliated Equities Corporation (the "Company") as of December 31, 2006 and 2005, and the related statements of operations, stockholder's equity and cash flows for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audits 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.

*Acord Cox & Co.*

January 22, 2007

# ALLIANCE AFFILIATED EQUITIES CORPORATION

## BALANCE SHEETS

**DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ -	\$ 18,466
Certificate of deposit	16,039	-
Investments	123,160	-
Prepaid NASD fees	12,000	11,920
Total current assets	151,199	30,386
<b>FIXED ASSETS</b>		
Office equipment	6,432	6,432
Accumulated depreciation	(6,432)	(6,432)
	-	-
	\$ 151,199	\$ 30,386
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accrued expenses	\$ 6,184	\$ -
<b>STOCKHOLDER'S EQUITY</b>		
Non-cumulative preferred stock, \$10.00 par value, 2,500,000 shares authorized, none issued	-	-
Class A common stock, \$.01 par value, 7,500,000 shares authorized, 750,000 shares issued and outstanding	7,500	7,500
Class B common stock, \$.01 par value, 5,000,000 shares authorized, none issued	-	-
Additional paid-in capital	11,500	11,500
Retained Earnings	66,855	11,386
Unrealized gain on available-for-sale securities	59,160	-
	145,015	30,386
	\$ 151,199	\$ 30,386

See notes to financial statements.

# ALLIANCE AFFILIATED EQUITIES CORPORATION

## STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
REVENUES		
Commission Income	\$ <u>2,600,094</u>	\$ <u>2,243,679</u>
EXPENSES		
Commissions and salaries	405,797	830,874
Service fees	2,047,542	1,306,800
Regulatory Agencies Registration Fees	14,175	13,717
Other	<u>77,081</u>	<u>100,576</u>
	<u>2,544,595</u>	<u>2,251,967</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>55,499</u>	<u>(8,288)</u>
OTHER INCOME (EXPENSES)		
Interest and dividend income	753	798
Other income	<u>5,401</u>	<u>1,636</u>
	<u>6,154</u>	<u>2,434</u>
NET INCOME (LOSS) BEFORE TAXES	61,653	(5,854)
INCOME TAX EXPENSE	<u>6,184</u>	
NET INCOME (LOSS)	\$ <u><u>55,469</u></u>	\$ <u><u>(5,854)</u></u>

# ALLIANCE AFFILIATED EQUITIES CORPORATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
OPERATING ACTIVITIES		
Net income (loss)	\$ 55,469	\$ (5,854)
Add depreciation	-	494
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Change in certificate of deposit	(16,039)	-
Change in prepaid expenses	(80)	548
Change in income tax receivable	-	2,237
Change in accrued liabilities	6,184	(1,204)
Cash provided (used) by operating activities	<u>45,534</u>	<u>(3,779)</u>
INVESTING ACTIVITIES		
Purchase of investments	<u>(64,000)</u>	<u>-</u>
NET CHANGE IN CASH	(18,466)	(3,779)
CASH, BEGINNING OF YEAR	<u>18,466</u>	<u>22,245</u>
CASH, END OF YEAR	\$ <u>-</u>	\$ <u>18,466</u>



# ALLIANCE AFFILIATED EQUITIES CORPORATION

## STATEMENTS OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2006 AND 2005

	Class A Common Stock	Paid-In Capital	Retained Earnings	Unrealized gain on available- for-sale securities	Comprehensive Income	Total
Balances, December 31, 2004	\$ 7,500	\$ 11,500	\$ 17,240	-	\$	\$ 36,240
Net loss			(5,854)			(5,854)
Balances, December 31, 2005	7,500	11,500	11,386	-		30,386
Net income			55,469		55,469	55,469
Change in unrealized gain on available-for-sale securities				59,160	59,160	59,160
					<u>\$ 114,629</u>	
Balances, December 31, 2006	<u>\$ 7,500</u>	<u>\$ 11,500</u>	<u>\$ 66,855</u>	<u>\$ 59,160</u>	<u>\$</u>	<u>\$ 145,015</u>

See notes to financial statements.

# ALLIANCE AFFILIATED EQUITIES CORPORATION

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Description of Business - Alliance Affiliated Equities Corporation ("the Company") is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). The Company is a Texas Corporation wholly owned by Mr. David Dyer, an individual.
- b. Revenue Recognition - Fees from commissions and the related costs are recognized in the period in which the commissions are actually received from the sponsor.
- c. Investment Securities - The Company determines the appropriate classification of debt and equity securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Debt securities are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at cost and investment income is included in earnings.

Securities that are not classified as held-to-maturity or trading are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized holding gains and losses reported as a separate component of stockholder's equity.

- d. Office Equipment - Office equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the corresponding assets.
- e. Advertising Costs - Advertising costs are expensed as incurred.
- f. Income Taxes - Deferred tax liabilities and assets are recognized for the tax effect of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

### 2. SIGNIFICANCE 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 disclosure of contingent 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.

### 3. INCOME TAXES

The Company's deferred tax asset, principally related to its net operating loss carryforward, totaled \$0 and \$6,936 at December 31, 2006 and 2005. A corresponding valuation allowance of the same amount was recorded at December 31, 2005.

#### 4. NET CAPITAL REQUIREMENTS

The company is subject to the SEC 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. At December 31, 2006 and 2005, the Company had net capital of \$133,015 and \$18,466, which met the \$5,000 requirement.

#### 5. REQUIRED INFORMATION OMITTED

The Company has no liabilities subordinated to claims of general creditors as of December 31, 2006 and 2005; therefore, the statement of changes in liabilities subordinated to claims of general creditors has been omitted.

The Company does not maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers" and it has not held "physical possession or control" of any securities for customers since operations commenced. Information relating to the possession or control requirements in rule 15c3-3 are also omitted.

#### 6. RELATED PARTY TRANSACTIONS

In 2006 and 2005, service fees of \$2,047,542 and \$1,306,800 were paid to a corporation owned by the Company's sole stockholder.

\* \* \* \* \*

# ALLIANCE AFFILIATED EQUITIES CORPORATION

## Schedule I

### Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission

December 31, 2006

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#### NET CAPITAL

Total Stockholder's Equity	\$145,015
Less Non-Allowed Assets Prepaid NASD fees	<u>12,000</u>
Net Capital	<u>\$133,015</u>
Minimum Net Capital Required	<u>\$ 5,000</u>
Total aggregate indebtedness	<u>\$ 6,184</u>
Ratio of aggregate indebtedness to net capital	<u>0.05 to 1</u>

#### RECONCILIATION WITH COMPANY'S COMPUTATION

Net Capital per Company's fourth quarter FOCUS report	\$139,199
Less audit adjustment to financial statements	<u>6,184</u>
Net Capital reported above	<u>\$133,015</u>

**ALLIANCE AFFILIATED EQUITIES CORPORATION**  
**Schedule II**  
**Computation of Reserve Requirements Under Rule 15c3-3 of the**  
**Securities and Exchange Commission**  
**December 31, 2006**

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An exemption is claimed from Rule 15c3-3 under the exemptive provisions of paragraph (k)(2)(i) as the Company does not hold customer funds or securities. All accounts are on a fully disclosed basis.

**ALLIANCE AFFILIATED EQUITIES CORPORATION**

**Schedule III**

**Information Relating to Possession or Control Requirements Under Rule 15c3-3 of the Securities and Exchange Commission**

**December 31, 2006**

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The Company has complied with the exemptive requirements of Rule 15c3-3 of the Securities and Exchange Commission and did not maintain possession or control of any customer funds or securities as of December 31, 2006.

**ALLIANCE AFFILIATED EQUITIES CORPORATION**

**Schedule IV**

**Schedule of Segregation Requirements and Funds in Segregation for Customers' Regulated  
Commodity Futures and Options Accounts**

**December 31, 2006**

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The Company is exempted under Rule 15c3-3(k)(2)(i).

\* \* \* \* \*

Report on Internal Control Required by SEC Rule 17a-5 for a Broker-Dealer Claiming an Exemption from SEC Rule 15c3-3

To Directors and Shareholders of  
Alliance Affiliated Equities Corporation

In planning and performing our audit of the financial statements and supplemental schedules of Alliance Affiliated Equities Corporation (the Company) for the year ended December 31, 2006, 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 the preparation of financial statements in



conformity 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 internal control or the practices and procedures referred to above, error 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, 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 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, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, 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 is not intended to be and should not be used by anyone other than these specified parties.

*Read by + Co.*

January 22, 2007