

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
8-53383

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 01/01/2006 AND ENDING 12/31/2006
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Bozarth, Newton & Murphy Securities, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

528 E Spokane Falls Blvd Ste 501

Spokane WA 99202
(City) (State) (Zip Code)

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

Dan Murphy (509) 755-5001

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

PROCESSED

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

APR 09 2007

McDermid, Mikkelsen & Secrest, P.S.

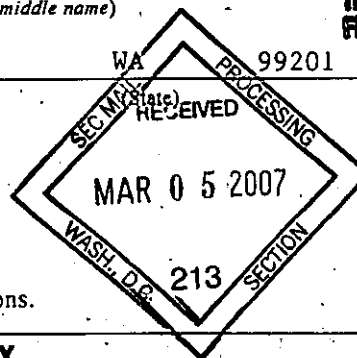
(Name - if individual, state last, first, middle name)

THOMSON
FINANCIAL

926 W Sprague Ave, Ste 300 Spokane WA 99201
(Address) (City) (State) (Zip Code)

CHECK ONE:

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



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).

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OATH OR AFFIRMATION

I, G. David Bozarth, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Bozarth, Newton & Murphy Securities, Inc., as of February 5th, 2007, 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:



G. David Bozarth
Signature
President
Title

Kushy Mage
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).

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

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McDIRMID, MIKKELSEN & SECREST, P.S.

Certified Public Accountants

James K. McDirmid
Chris D. Mikkelsen
Kenneth E. Secrest
William A. Simer
Andrew J. McDirmid
Marcie M. Harper

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bozarth, Newton & Murphy Securities, Inc.
Spokane, Washington

We have audited the accompanying statement of financial condition of Bozarth, Newton & Murphy Securities, Inc. as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholders' equity, and cash flows for 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 audits provide 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 Bozarth, Newton & Murphy Securities, Inc. 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.

McDirmid, Mikkelsen, & Secrest, P.S.

February 7, 2007
Spokane, Washington

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

STATEMENT OF FINANCIAL CONDITION

December 31, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Cash	\$ 14,820	\$ 8,482
CRD cash account	235	235
Commissions receivable	6,358	5,296
Related party receivable		708
Deposit with clearing agent	35,000	35,000
Office equipment, net of accumulated depreciation of \$3,554 and \$2,702	<u>1,278</u>	<u>2,130</u>
	<u>\$ 57,691</u>	<u>\$ 51,851</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 858	\$ 1,508
Related party payable	1,280	
Note payable to stockholder	<u>21,523</u>	<u>20,072</u>
	<u>23,661</u>	<u>21,580</u>
 Stockholders' equity:		
Common stock, \$.10 par value:		
Authorized, 500 shares;		
Issued and outstanding, 500 shares	50	50
Additional paid-in capital	19,950	19,950
Retained earnings	<u>14,030</u>	<u>10,271</u>
	<u>34,030</u>	<u>30,271</u>
	<u>\$ 57,691</u>	<u>\$ 51,851</u>

*The accompanying notes are an integral
part of the financial statements.*

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

STATEMENT OF OPERATIONS
for the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Commissions, net of regulatory fees	\$256,608	\$278,300
Interest income	<u>2,566</u>	<u>1,966</u>
	<u>259,174</u>	<u>280,266</u>
Expenses:		
Office wages, payroll taxes and benefits	202,319	239,665
Advertising	783	2,613
Business taxes and licenses	4,226	4,396
Corporate insurance	1,839	2,676
Depreciation	852	939
Dues and subscriptions	9,658	9,855
Miscellaneous	827	2,537
Office expense	6,533	5,085
Professional fees	11,986	5,905
Rent	11,173	7,336
Utilities	3,736	5,131
Interest	<u>1,483</u>	<u>1,353</u>
	<u>255,415</u>	<u>287,491</u>
Net income (loss)	<u>\$ 3,759</u>	<u>\$ (7,225)</u>

*The accompanying notes are an integral
part of the financial statements.*

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
for the years ended December 31, 2006 and 2005

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
	Number of Shares	Par Value			
Balances, January 1, 2005	500	\$ 50	\$ 19,950	\$ 17,496	\$ 37,496
Net loss				(7,225)	(7,225)
Balances, December 31, 2005	500	50	19,950	10,271	30,271
Net income				3,759	3,759
Balances, December 31, 2006	<u>500</u>	<u>\$ 50</u>	<u>\$ 19,950</u>	<u>\$ 14,030</u>	<u>\$ 34,030</u>

*The accompanying notes are an integral
part of the financial statements.*

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

STATEMENT OF CASH FLOWS
for the years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income (loss)	\$ 3,759	\$ (7,225)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	852	939
Changes in assets and liabilities:		
Commissions receivable	(1,062)	(3,988)
Related party receivable	708	
Accounts payable	(650)	1,508
Related party payable	<u>1,280</u>	
Net cash provided by (used in) operating activities	<u>4,887</u>	<u>(8,766)</u>
Cash flows from investing activities:		
Acquisition of property and equipment		(1,441)
Cash flows from financing activities:		
Stockholder note	<u>1,451</u>	<u>1,354</u>
Net increase (decrease) in cash	6,338	(8,853)
Cash at beginning of year	<u>8,482</u>	<u>17,335</u>
Cash at end of year	<u>\$ 14,820</u>	<u>\$ 8,482</u>

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

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. **The Company and Significant Accounting Policies:**

The Company was incorporated under the laws of the State of Washington on April 4, 2001, to operate as a broker/dealer in investment securities. The Company does not carry security accounts for customers or perform custodial functions relating to customer securities. The Company's office is located in Spokane, Washington.

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker/dealers, bank, and other financial institutions. 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.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures 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.

Commission revenue on mutual fund transactions is recorded on a trade date basis.

Office equipment is recorded at cost. Depreciation is computed using accelerated methods over the estimated useful lives of the assets.

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, under those provisions, the Company generally does not pay federal corporation income taxes and the individual stockholders report their pro-rata share of the Company's income and deductions on their individual federal income tax returns.

Continued

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

2. Segregated Cash:

The Company maintains a central registration depository (CRD) account which is used for fees charged to the Company by the NASD. There is no minimum balance required in this reserve account. At December 31, 2006 and 2005, the balance was \$235.

3. Note Payable:

Effective December 31, 2001, Bozarth, Newton & Murphy Securities, Inc. entered into a note agreement with a 51% stockholder. Principal and interest at 7% are due 90 days after demand. As of February 7, 2007, no demand had been made on the remaining balance.

4. Commitments:

Beginning in December, 2005, the Company leases facilities and office space for \$2,136 per month under a lease expiring in December 2010, with scheduled rent increases each December. The lease and rental payments are joint with Bozarth Investment Management, which is owned by a 51% shareholder of the Company. Management estimates rent expense will be allocated at 50% per company. Rent expense for the year ended December 31, 2006 was \$11,173.

Future minimum payments at December 31, 2006, are as follows:

Years ended December 31:

2007	\$13,234
2008	13,636
2009	14,039
2010	<u>13,222</u>
	<u>\$54,131</u>

Continued

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

5. Net Capital Requirements:

The Company is subject to the Securities and Exchange Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital of \$5,000 and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. Net capital and the related net capital ratio will fluctuate on a daily basis. The Company had net capital of \$32,517 and \$27,198 at December 31, 2006 and 2005, respectively. The Company's net capital ratio was .73 to 1 and .79 to 1 at December 31, 2006 and 2005, respectively.

6. Related Party Transactions:

Bozarth, Newton & Murphy Securities, Inc. has had transactions in the normal course of business with Bozarth Investment Management, Inc., which is owned by a 51% stockholder of Bozarth, Newton & Murphy Securities, Inc. At December 31, 2006 the Company owed Bozarth Investment Management \$1,280, and at December 31, 2005 Bozarth Investment Management owed the Company \$708.

McDIRMID, MIKKELSEN & SECREST, P.S.

Certified Public Accountants

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

Board of Directors
Bozarth, Newton & Murphy Securities, Inc.
Spokane, Washington

We have audited the accompanying financial statements of Bozarth, Newton & Murphy Securities, Inc. as of December 31, 2006, and have issued our report dated February 7, 2007. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules 1, 2, and 3 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 under the Securities and Exchange Act of 1934. 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.

February 7, 2007
Spokane, Washington

McDirmid, Mikkelsen, & Secrest, P.S.

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

SCHEDULE 1
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
OF THE SECURITIES AND EXCHANGE COMMISSION
December 31, 2006

Net capital:

Stockholders' equity:

Common stock	\$ 50	
Additional paid-in capital	19,950	
Retained earnings	<u>14,030</u>	
Total stockholders' equity		\$ 34,030

Deductions:

Non-allowable assets		
Equipment, net of accumulated depreciation	1,278	
CRD cash account	<u>235</u>	
		<u>1,513</u>

Net capital **32,517**

Minimum net capital required **5,000**

Excess net capital **\$ 27,517**

Aggregate indebtedness:

Accounts payable	\$ 858	
Related party payable	1,280	
Note payable to stockholder	<u>21,523</u>	

Total aggregate indebtedness **\$ 23,661**

Ratio of aggregate indebtedness to net capital **.73 to 1**

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

SCHEDULE 2
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION
December 31, 2006

Bozarth, Newton & Murphy Securities, Inc. is exempt from Rule 15c3-3.

BOZARTH, NEWTON & MURPHY SECURITIES, INC.

SCHEDULE 3
RECONCILIATION WITH COMPANY'S COMPUTATION OF NET
CAPITAL INCLUDED IN PART II OF FORM X-17A-5
December 31, 2006

Aggregate indebtedness:	
Aggregate indebtedness as reported on FOCUS REPORT	\$ 19,576
Audit adjustments:	
Increase in note payable to stockholder	1,451
Increase in related party payable	1,280
Reclass of loan amounts included in capital	1,353
Rounding difference	<u>1</u>
Aggregate indebtedness as computed on page 10	<u>\$ 23,661</u>
Net capital:	
Net capital as reported on FOCUS REPORT	\$ 36,603
Audit adjustments:	
Increase in note payable to stockholder	(1,451)
Increase in related party payable	(1,280)
Reclass of loan amounts included in capital	(1,353)
Rounding difference	<u>(2)</u>
Net capital as computed on page 10	<u>\$ 32,517</u>

McDIRMID, MIKKELSEN & SECREST, P.S.

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS
REQUIRED BY SECURITIES AND EXCHANGE COMMISSION RULE 17a-5**

Board of Directors
Bozarth, Newton & Murphy Securities, Inc.
Spokane, Washington

In planning and performing our audit of the financial statements and supplemental schedules of Bozarth, Newton & Murphy Securities, Inc. for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States, we considered the Company's 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.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included 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 (or aggregate debits) 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 the quarterly securities examinations, counts, verifications and comparisons and recordation of differences required by rule 17a-13
2. 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 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

Continued

Board of Directors
Bozarth, Newton & Murphy Securities, Inc.

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.

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 and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and 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 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 use of management, the SEC, 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.

February 7, 2007
Spokane, Washington

M. Durand, M. Nielsen, & Ernest P.S.