

AB
3/11



12014111

UNI
SECURITIES AND
Washing

SEC
Mail Processing
Section

FEB 28 2012

Washington, DC
123

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

OMB APPROVAL
OMB Number: 3235-0123
Expires: April 30, 2013
Estimated average burden
hours per response..... 12.00

SEC FILE NUMBER
8-28009

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 01/01/11 AND ENDING 12/31/11
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: ROYAL Securities Company

OFFICIAL USE ONLY
FIRM I.D. NO.

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

4095 Chicago Drive, S.W.

(No. and Street)

Grandville

MI

49418

(City)

(State)

(Zip Code)

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

Ms. Megan Brower

(616) 538-2550

Chief Financial Officer

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Kiekover, Scholma & Shumaker, PC.

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

205 East Main Street

Zeeland

MI

49464

(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)

AB
3/13

OATH OR AFFIRMATION

I, Megan Brower, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Royal Securities Company, as of December 31,, 2011, 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:

Megan Brower
Signature
Chief Financial Officer
Title

Keith Ann Newhouse
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).

ROYAL SECURITIES COMPANY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011



Kiekover, Scholma & Shumaker, PC

Certified Public Accountants and Consultants

ROYAL SECURITIES COMPANY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

KIEKOVER, SCHOLMA & SHUMAKER, PC
Certified Public Accountants
Zeeland, Michigan

ROYAL SECURITIES COMPANY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1
Financial Statements for the Year Ended December 31, 2011	
Statement of Financial Condition	2
Statement of Income	3
Statement of Stockholders' Equity	4
Statement of Changes in Subordinated Borrowings	5
Statement of Cash Flows	6
Notes to Financial Statements	7-11
Supplementary Schedule	
Computation of Net Capital Under Rule 15c3-1 of The Securities and Exchange Commission	12-13
Independent Auditors' Report on Internal Control Required by SEC Rule 17a-5	14-15



Kiekover, Scholma & Shumaker, PC

Certified Public Accountants and Consultants

Joseph Kuiper
David Nienhuis
Emil Sabolish, Jr.
Kenneth Scholma
Timothy Stob

INDEPENDENT AUDITOR'S REPORT

February 13, 2012

Stockholder and Board of Directors
Royal Securities Company
Grandville, Michigan

We have audited the accompanying statement of financial condition of Royal Securities Company as of December 31, 2011, and the related statements of income, changes in stockholders' equity, changes in subordinated borrowings, and cash flows for the year 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 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 Royal Securities Company as of December 31, 2011, 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 purpose of forming an opinion on the financial statements as a whole. The supplementary information contained in Schedule I required by Rule 17a-5 under the Securities Exchange Act of 1934 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kiekover, Scholma & Shumaker, PC
Kiekover, Scholma & Shumaker, PC
Certified Public Accountants

**ROYAL SECURITIES COMPANY
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2011**

ASSETS

Cash and cash equivalents	\$ 351,833
Commissions receivable	258,327
Employee and other receivables	12,479
Securities owned, at fair value	105,873
Net furniture, equipment, and other improvements	133,347
Deposits	25,000
Prepaid expenses	<u>53,389</u>
Total Assets	<u>\$ 940,248</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities

Accrued sales commissions	\$ 202,074
Accounts payable	24,680
Accrued expenses	185,352
Accrued income taxes	17,080
Deferred income taxes	<u>8,000</u>

Total Liabilities 437,186

Stockholder's Equity

Common stock (Class B), \$1 par value; 100,000 shares authorized, 9,700 shares issued and outstanding	9,700
Additional paid-in capital	269,176
Retained earnings	<u>224,186</u>

Total Stockholder's Equity 503,062

Total Liabilities and Stockholder's Equity **\$ 940,248**

See notes to financial statements.

**ROYAL SECURITIES COMPANY
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2011**

REVENUES	
Commissions	\$4,410,483
Net dealer inventory and investment gains	613,615
Other	<u>380,767</u>
Total revenues	<u>5,404,865</u>
EXPENSES	
Broker commissions	3,194,560
Administrative salaries	639,130
Payroll related taxes	211,869
401(k) contribution	74,682
Group insurance	114,935
Other employee benefits	4,854
Clearing fees	117,720
Data communications	161,606
Advertising	27,038
Occupancy	284,608
Depreciation and amortization	30,589
Dues and subscriptions	13,811
Maintenance	53,130
Utilities	25,106
Taxes and licenses	29,094
Regulatory fees	45,592
Legal and professional	29,430
Outside services	16,484
Postage	25,284
Office supplies	38,170
Interest	4,683
Other	<u>81,688</u>
Total expenses	<u>5,224,063</u>
Income before income taxes	<u>180,802</u>
INCOME TAXES	
Federal income tax expense	(19,780)
Michigan Business Tax expense	<u>(51,251)</u>
Total income tax (expense) benefit	<u>(71,031)</u>
NET INCOME	<u>\$ 109,771</u>

See notes to financial statements.

ROYAL SECURITIES COMPANY
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
YEAR ENDED DECEMBER 31, 2011

	Common stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balances, January 1, 2011	11,075	\$ 11,075	\$ 356,809	\$ 121,151	\$ 489,035
Net income	-	-	-	109,771	109,771
Common stock repurchased and retired	(1,375)	(1,375)	(87,633)	(6,736)	(95,744)
BALANCES, December 31, 2011	<u>9,700</u>	<u>\$ 9,700</u>	<u>\$ 269,176</u>	<u>\$ 224,186</u>	<u>\$ 503,062</u>

See notes to financial statements.

ROYAL SECURITIES COMPANY
STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS
YEAR ENDED DECEMBER 31, 2011

Subordinated borrowings at January 1, 2011	\$ 100,000
Increases	-
Decreases	<u>(100,000)</u>
Subordinated borrowings at December 31, 2011	<u>\$ -</u>

See notes to financial statements.

**ROYAL SECURITIES COMPANY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011**

OPERATING ACTIVITIES		
Net income		\$ 109,771
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 30,589	
Loss on disposal of equipment	7,306	
Deferred income taxes	19,700	
Change in assets and liabilities:		
(Increase) decrease in commissions receivable	110,132	
(Increase) decrease in receivables from non-customers	16,332	
(Increase) decrease in other assets	(6,936)	
(Increase) decrease in securities inventory	180,518	
Increase (decrease) in accounts payable and accruals	<u>(94,881)</u>	
Total Adjustments		<u>262,760</u>
Net Cash Provided By Operating Activities		<u>372,531</u>
INVESTING ACTIVITIES		
Purchase of equipment		<u>(35,982)</u>
FINANCING ACTIVITIES		
Payments on note payable - subordinated		(100,000)
Common stock repurchased and retired		<u>(95,744)</u>
Net Cash Provided (Used) By Financing Activities		<u>(195,744)</u>
Net Increase in Cash and Cash Equivalents		140,805
Cash and Cash Equivalents, January 1, 2011		<u>211,028</u>
CASH AND CASH EQUIVALENTS, December 31, 2011		<u>\$ 351,833</u>

See notes to financial statements.

**ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity – Royal Securities Company (the “Company”), a wholly owned subsidiary of RSC Holdings, Inc., is a securities broker/dealer that introduces transactions and accounts on a fully disclosed basis. Because the company does not carry customer accounts it operates under certain exemptive regulatory provisions. The Company is registered with the Securities and Exchange Commission and the State of Michigan. It is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation. Its customers are predominately individuals residing in Western Michigan.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents consist of demand deposits in banks, money market funds, and cash on hand. The Company, at certain times, maintains deposits that exceed insured limits. Management does not consider this a significant risk.

Security Transactions - Security transactions and related commission revenue and expense are recorded on a settlement date basis, generally the third business day following the transaction date.

Securities Owned - Securities owned consists of state, municipal, and corporate obligations which are reported at quoted market values. Unrealized gains and losses are recognized currently and are included in net dealer inventory and investment gains on the statement of income.

Property, Equipment and Depreciation - Property and equipment are stated at cost. Depreciation is computed using straight-line or declining balance methods over the estimated life of the assets.

Income taxes - Deferred income tax assets and liabilities are determined by applying the currently enacted tax laws and rates to the cumulative temporary differences between the carrying value of assets and liabilities for financial statements and income tax purposes. Deferred income tax expense or credit is measured by the change in the deferred income tax asset and liability accounts during the year.

The Company recognizes and measures its unrecognized tax benefits (if any) in accordance with FASB ASC 740, Income Taxes. Under that guidance the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

The Company believes it has no liability for unrecognized tax benefits at December 31, 2011.

The accrual of any interest and penalties related to unrecognized tax benefits are recognized in income tax expense. No interest and penalties were recognized in the year ended December 31, 2011.

The Company’s tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

Advertising Costs – The Company incurred and expensed advertising costs of \$27,036 for the year ended December 31, 2011.

**ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events – In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through February 13, 2012, the date the financial statements were available to be issued.

NOTE B: NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital of \$100,000 at December 31, 2011, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2011 the Company had net capital of \$286,649, which was \$186,649 in excess of the required amount of net capital. The Company's net capital ratio was 1.53 to 1.

NOTE C: FAIR VALUE MEASUREMENT

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the assets or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

The Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 consist of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial instruments owned:				
Municipal debt	\$ 5,044	\$ -	\$ -	\$ 5,044
Equities	<u>100,829</u>	<u>-</u>	<u>-</u>	<u>100,829</u>
	<u>\$ 105,873</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,873</u>

**ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS**

NOTE D: FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Furniture, equipment, and leasehold improvements are as follows at December 31, 2011:

Leasehold improvements	\$	39,720
Office furniture and equipment		338,457
Computer equipment		<u>43,048</u>
 Total		 421,225
Less accumulated depreciation		<u>(287,878)</u>
 Net furniture, equipment and leasehold improvements	 \$	 <u>133,347</u>

NOTE E: SUBORDINATED BORROWINGS

At December 31, 2010, the Company had a subordinated note to a shareholder of RSC Holdings, Inc. for \$100,000 issued in connection with the purchase of Kent King Securities Co., Inc. The note bears interest at an annual rate of 6% and requires interest only payments. Interest payments are due monthly and totaled \$3,500 for the year ended December 31, 2011. This note was paid-off during the year ended December 31, 2011.

NOTE F: LEASES

The Company occupies office space under an operating lease agreement with a limited liability company whose owners are shareholders of RSC Holdings, Inc. expiring April 2015. Monthly rent is currently \$12,500, and is subject to annual increases based on the Consumer Price Index. Rental payments under this agreement totaled \$147,500 for the year ended December 31, 2011.

The Company rents office space from a limited liability company whose owner is a relative of a shareholder of RSC Holdings, Inc. under an operating lease agreement expiring August 2012, at a current monthly rental rate of \$4,357. The lease contains renewal options for 2 consecutive 60 month periods at the current rate increased by the Consumer Price Index. Rent payments under this operating lease totaled \$51,272 for the year ended December 31, 2011.

The Company rents office space under an operating lease agreement that expires May 2012, at a monthly rental rate ranging from \$3,650 to \$3,900. Rent payments under this operating lease totaled \$46,175 for the year ended December 31, 2011.

The Company rents office space under an operating lease agreement that expires June 2012, at a monthly rental rate of \$2,200. The lease contains renewal options for 6 consecutive 12 month periods with an annual rate increase of \$1,200. Rent payments under this operating lease totaled \$14,300 for the year ended December 31, 2011.

The Company rents office space under an operating lease agreement that expires October 2012, at a monthly rental rate ranging from \$2,929 to \$3,109. Rent payments under this operating lease totaled \$38,670 for the year ended December 31, 2011. The Company subleases a portion of this space under a lease agreement expiring September 2012. Sub-lease rent income totaled \$27,106 for the year ended December 31, 2011.

The Company rented other office space under a month-to-month operating lease agreement, at a monthly rental rate of \$450. This rental arrangement ended in March 2011. Rent payments under this operating lease totaled \$1,350 for the year ended December 31, 2011.

**ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS**

NOTE F: LEASES (Continued)

Total rent expense under all leases (including short-term rentals), net of sublease rental income, was \$284,353 for the year ended December 31, 2011.

Future minimum lease payments and sublease income under the operating leases are as follows:

<u>Year ended December 31</u>	<u>Future Lease Payments</u>	<u>Future Lease Income</u>
2012	\$ 248,644	\$ 19,998
2013	150,000	-
2014	150,000	-
2015	50,000	-
2016	-	-
Thereafter	-	-
	<u>\$ 598,644</u>	<u>\$ 19,998</u>

NOTE G: PROVISION FOR FEDERAL INCOME TAXES

The provision for federal income taxes consists of the following:

Current	\$ 80
Deferred	<u>17,000</u>
	<u>\$ 17,080</u>

Significant components of the Company's deferred tax liabilities (assets) at December 31, 2011 are as follows:

Tax over book depreciation	\$ 11,485
Net operating loss carryover	(1,692)
Other	<u>(1,793)</u>
	<u>\$ 8,000</u>

The Company has a net operating loss carryover of \$11,279 which expires in 2020.

The Company has charitable contribution carryovers which expire as follows: \$5,314 - 2013, \$3,875 - 2014 and \$2,899 - 2015.

NOTE H: RETIREMENT PLAN

The Company has a 401(k) and profit sharing plan (a "safe-harbor" plan) under which the Company contributes 3% of eligible wages for eligible employees. The plan covers all full-time employees with at least one year of service. Company matching contributions totaled \$74,682 for the year ended December 31, 2011. Profit sharing contributions are at the discretion of the Company and were \$0 for the year ended December 31, 2011.

**ROYAL SECURITIES COMPANY
NOTES TO FINANCIAL STATEMENTS**

NOTE I: STOCK REPURCHASE AGREEMENT

RSC Holdings, Inc. and its stockholders are parties to an agreement under which the Company has the option to repurchase shares from the stockholders upon the stockholder's death, disability, termination of employment, or offer to sell. The purchase price is the net book value of the stock except for termination of employment, whereby, the purchase price is reduced by 20% for each year that the stockholder's employment is less than 5 years.

NOTE J: RELATED PARTY TRANSACTIONS

The Company had a note payable to a shareholder of RSC Holdings, Inc. as described in Note E.

The Company rents office space from a limited liability company whose owners are shareholders of RSC Holdings, Inc., as described in Note F.

The Company rents office space from a limited liability company whose owner is a relative of a shareholder of RSC Holdings, Inc., as described in Note F.

The Company receives management fees from Royal Advisors, LLC, which is wholly owned by RSC Holdings, Inc. Management fees for the year ended December 31, 2011 totaled \$367,128.

NOTE K: CASH FLOW INFORMATION

Cash paid for interest was \$4,683 in the year ended December 31, 2011.

Cash paid for federal and state income taxes was \$36,330 in the year ended December 31, 2011.

NOTE L: CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at a financial institution located in West Michigan. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2011, the Company's uninsured bank balances totaled \$58,267.

SUPPLEMENTARY SCHEDULE

ROYAL SECURITIES COMPANY
SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2011

Total Stockholder's Equity	\$ 503,062
Add	
Liabilities subordinated to claims of general creditors allowable in computation of net capital	<u>-</u>
Total capital and allowable subordinated liabilities	<u>503,062</u>
Deductions	
Non-allowable assets	
Non-customer receivables	11,251
Furniture, equipment and leasehold improvements	133,347
Prepaid expenses and other	<u>53,514</u>
Total Deductions	<u>198,112</u>
Net capital before haircuts on securities positions	<u>304,950</u>
Haircuts on securities positions	
Trading and investment securities	
Money market account	629
State and municipal obligations	328
Corporate obligations	15,124
Undue concentration	<u>2,220</u>
Total haircuts on securities positions	<u>18,301</u>
NET CAPITAL	<u><u>\$ 286,649</u></u>

ROYAL SECURITIES COMPANY
SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION (CONTINUED)
DECEMBER 31, 2011

Aggregate indebtedness	
Accounts payable and other liabilities	<u>\$ 437,186</u>

Computation of basic net capital requirement

Minimum net capital required	<u>\$ 100,000</u>
Excess net capital	<u>\$ 186,649</u>
Excess net capital at 1500%	<u>\$ 257,503</u>
Excess net capital at 1000%	<u>\$ 242,930</u>
Ratio: Aggregate indebtedness to net capital	<u>1.53 to 1</u>

Reconciliation with company's computation (included in Part II of Form X-17A-5 as of December 31, 2011).

Net capital as reported in company's Part II (unaudited) FOCUS report	\$ 457,536
Audit adjustments to adjust payables and accruals	(13,819)
Audit adjustments for commissions revenues	(11,685)
Audit adjustments to record additional compensation	(126,412)
Audit adjustments to record income tax accruals	(20,031)
Other audit adjustments - net	<u>1,060</u>
Net capital per previous page	<u>\$ 286,649</u>

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL**



Kiekover, Scholma & Shumaker, PC

Certified Public Accountants and Consultants

Joseph Kuiper
David Nienhuis
Emil Sabolish, Jr.
Kenneth Scholma
Timothy Stob

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY SEC RULE 17a-5**

February 13, 2012

Stockholders and Board of Directors
Royal Securities Company
Grandville, Michigan

In planning and performing our audit of the financial statements of Royal Securities Company (the "Company") as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, 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 on 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 have 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 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 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.

A *deficiency in internal control* 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, in internal controls that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility 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 previously.

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, as described in the second paragraph of this report, were adequate at December 31, 2011, 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 FINRA, 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.

Kiekover, Scholma & Shumaker, PC
Kiekover, Scholma & Shumaker, PC
Certified Public Accountants

SEC
Mail Processing
Section

FEB 28 2012

Washington, DC
123

ROYAL SECURITIES COMPANY

**SCHEDULE OF ASSESSMENT AND PAYMENTS
[GENERAL ASSESSMENT RECONCILIATION
(FORM SIPC-7)] TO THE SECURITIES INVESTOR
PROTECTION CORPORATION (SIPC)**

YEAR ENDED DECEMBER 31, 2011

KIEKOVER, SCHOLMA & SHUMAKER, PC
Certified Public Accountants
Zeeland, Michigan



Kiekoover, Scholma & Shumaker, PC

Certified Public Accountants and Consultants

Joseph Kuiper
David Nienhuis
Emil Sabolish, Jr.
Kenneth Scholma
Timothy Stob

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES RELATED
TO AN ENTITY'S SIPC ASSESSMENT RECONCILIATION**

February 20, 2012

To the Stockholder and Board of Directors
Royal Securities Company
Grandville, Michigan

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [General Assessment Reconciliation (form SIPC-7)] to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2011, which were agreed to by Royal Securities Company, and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating Royal Securities Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Royal Securities Company's management is responsible for the Royal Securities Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries [checks written as shown in the Company's general ledger activity] noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2011, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2011, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers [general ledger details supported by RBC Dain annual settlement summary] noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences.
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7T on which it was originally computed noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

Kiekoover, Scholma & Shumaker, PC
Kiekoover, Scholma & Shumaker, PC
Certified Public Accountants

SIPC-7

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION
P.O. Box 92185 Washington, D.C. 20090-2185
202-371-8300

General Assessment Reconciliation

For the fiscal year ended Dec 31, 2011
(Read carefully the instructions in your Working Copy before completing this Form)

SIPC-7

(33-REV 7/10)

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

028009 FINRA DEC
ROYAL SECURITIES COMPANY 18*18
4095 CHICAGO DRIVE S.W.
PO BOX 509
GRANDVILLE MI 49468-0509

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

Megan Brower
616-301-1174

- 2. A. General Assessment (item 2e from page 2) \$ 6599
- B. Less payment made with SIPC-6 filed (exclude interest) (3487)
7/19/11
Date Paid
- C. Less prior overpayment applied (-)
- D. Assessment balance due or (overpayment) 3,112
- E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum -
- F. Total assessment balance and interest due (or overpayment carried forward) \$ 3,112
- G. PAID WITH THIS FORM:
Check enclosed, payable to SIPC
Total (must be same as F above) \$ 3,112
- H. Overpayment carried forward \$()

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Royal Securities Company
(Name of Corporation, Partnership or other organization)

[Signature]
(Authorized Signature)

Financial and operations Principal
(Title)

Dated the 21st day of Feb, 2012.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER Dates: Postmarked Received Reviewed

Calculations Documentation Forward Copy

Exceptions:

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"
AND GENERAL ASSESSMENT**

Amounts for the fiscal period
beginning Jan 1, 2011
and ending Dec 31, 2011

Eliminate cents

Item No.
2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$ 5,037,739

2b. Additions:

(1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.

(2) Net loss from principal transactions in securities in trading accounts.

(3) Net loss from principal transactions in commodities in trading accounts.

(4) Interest and dividend expense deducted in determining item 2a.

(5) Net loss from management of or participation in the underwriting or distribution of securities.

(6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.

(7) Net loss from securities in investment accounts.

47,292
47,292

Total additions

2c. Deductions:

(1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.

(2) Revenues from commodity transactions.

(3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.

(4) Reimbursements for postage in connection with proxy solicitation.

(5) Net gain from securities in investment accounts.

(6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.

(7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).

(8) Other revenue not related either directly or indirectly to the securities business.
(See Instruction C):

2,344,776
166,486

(Deductions in excess of \$100,000 require documentation)

(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.

\$ 0

(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ _____

Enter the greater of line (i) or (ii)

Total deductions

0
2,445,262

2d. SIPC Net Operating Revenues

\$ 2,639,769

2e. General Assessment @ .0025

\$ 6,599

(to page 1, line 2.A.)