

**Spectrum Financial, Inc.**  
**Balance Sheets**

		<b>December 31,</b>	
		<b>2009</b>	<b>2008</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$	108,732	\$ 33,656
Accounts receivable		392,565	358,898
Advances to brokers		331,166	538,657
Marketable securities		579,016	697,556
<b>Total current assets</b>		<b>1,411,479</b>	<b>1,628,767</b>
<b>Furniture and equipment</b>			
Less accumulated depreciation		921,186	923,671
<b>Furniture and equipment, net</b>		<b>186,468</b>	<b>217,016</b>
<b>Total assets</b>			
	<b>\$</b>	<b>1,597,947</b>	<b>\$ 1,845,783</b>
<b>Liabilities and Stockholder's Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses	\$	371,746	\$ 140,710
Deferred income		1,086,546	849,475
<b>Total liabilities</b>		<b>1,458,292</b>	<b>990,185</b>
<b>Stockholder's equity</b>			
Common stock, no par, 3,000 shares authorized and issued		402,000	402,000
Retained earnings (deficit)		(262,345)	453,598
<b>Total stockholder's equity</b>		<b>139,655</b>	<b>855,598</b>
<b>Total liabilities and stockholder's equity</b>			
	<b>\$</b>	<b>1,597,947</b>	<b>\$ 1,845,783</b>

**Notes to Financial Statements**

**Note 1 – Nature of operations and summary of significant accounting policies**

*Nature of business* – Spectrum Financial, Inc. (the “Company”) is a registered investment advisor under the Investment Advisors Act of 1940. Asset management service is provided to clients nationwide in the form of asset timing in the areas of bond and stock mutual funds.

*Revenue recognition* - The Company recognizes revenue on annual fee agreements ratably over the applicable periods of the agreements. Clients are generally charged an annual fee that is refundable on a pro rata basis upon termination of their agreement with the Company. Deferred income is recorded for the amount of the revenue not yet earned.

Commissions paid to brokers are charged to expense on the same basis that revenue is recognized. The unearned portion of their commission is included in advances to brokers.

*Cash equivalents* - For purposes of reporting cash flows, the Company considers all highly liquid debt instruments purchased which mature in three months or less to be cash equivalents.

*Accounts receivable* - Accounts receivable consist of trade accounts receivable and are stated at amounts billed less an allowance for doubtful accounts. Credit is extended to customers and generally collateral is not required. Management’s determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio. As of December 31, 2009 and 2008, no allowance is deemed necessary.

*Marketable securities* - The Company’s securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the period included in earnings. Fair value is based on quoted market prices. Realized gains and losses are recorded at trade date and determined under the specific identification method. Unrealized gains on investments held at December 31, 2009 were \$56,159 (2008 unrealized losses of \$98,705).

*Furniture and equipment* - Furniture and equipment are stated at acquired cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Furniture and equipment have been depreciated over five to seven years and building improvements over forty years. Long-lived assets held and used by the Company are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

*Advertising costs* - Advertising costs are expensed as incurred and amounted to \$15,424 for 2009 (2008 - \$3,324).

*Use of estimates* - Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

## **Note 2 – Income tax status**

The Company, with the consent of its stockholder, has elected to be taxed under sections of the federal and state income tax laws which provide that, in lieu of corporation income taxes, the stockholders separately account for their pro rata shares of the Company's items of income, deductions, losses and credits. Therefore, these statements do not include any provision for corporation income taxes.

Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes that became effective this year. Management has evaluated the tax positions that could have a significant affect on the financial statements and determined the Company had no uncertain income tax positions at December 31, 2009.

## **Note 3 – Related party transactions**

The Company's stockholder is a principal stockholder in Financial Technology Associates, Inc. Through its employees, Financial Technology Associates, Inc. provides management services to the Company. Management fees incurred for 2009 were \$574,635 of which \$277,496 was paid and the remaining balance was included in accounts payable (2008 - \$239,744 which was paid in full).

The Company leases its office space from A & D Associates, a wholly-owned venture of the Company's sole stockholder. The lease is on a year-to-year basis and can be terminated upon thirty days notice. Rents paid under this lease for 2009 were \$99,771 (2008 - \$63,928).

The Company loaned its stockholder \$386,557 during 2009 (2008 - \$414,513) and the stockholder made repayments during 2009 of \$386,557 (2008 - \$414,513) of which \$386,557 (2008 - \$53,271) was paid by a charge to dividends.

## **Note 4 – Defined contribution retirement plan**

The Company's employees are covered under a defined contribution retirement plan, which covers employees who have completed one year of service. Contributions to the plan for 2009 were \$83,447 (2008 - \$98,247).

## **Note 5 – Concentration of credit risk**

The Company places its cash and cash equivalents on deposit with financial institutions in the United States. In October and November 2008, the Federal Deposit Insurance Corporation (FDIC) temporarily increased coverage to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage is scheduled to expire on December 31, 2013, at which time it is anticipated amounts insured by the FDIC will return to \$100,000. During the year, the Company from time to time may have had amounts on deposit in excess of the insured limits.

Other financial instruments that potentially subject the Company to concentration of credit risk are accounts receivable and marketable securities. Concentrations of credit risk with respect to accounts receivables are limited due to the large number of clients and their dispersion across different industries and geographic areas.

## **Note 6 – Fair value measurements**

Accounting standards require that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2: Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3: Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The Company has marketable securities valued at Level 1 at December 31, 2009. The Company does not have any Level 2 assets or liabilities or Level 3 financial instruments.

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

## **Note 7 – Subsequent events**

The Company has evaluated subsequent events through February 10, 2010 in connection with the preparation of these financial statements which is the date the financial statements were available to be issued.