

SECURITI



07003458

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 2007
Estimated average burden hours per response....	12.00

SEC FILE NUMBER
8-67028

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

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:

**Kinecta Financial and Insurance Services, LLC**

OFFICIAL USE ONLY
FIRM I.D. NO.

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

**1500 Rosecrans Avenue, Suite 202**

(No. and Street)

**Manhattan Beach**

(City)

**California**

(State)

**90266**

(Zip Code)

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

**Doug Wicks**

**(310) 643-2078**

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**McGladrey & Pullen, LLP**

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

**2001 S. Barrington Ave., Ste. 303**

(Address)

**Los Angeles,**

(City)

**CA**

(State)

**90025**

(Zip Code)

CHECK ONE:

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

**PROCESSED**

**MAR 29 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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

MRE  
3/24

3/23

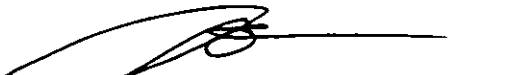
## OATH OR AFFIRMATION

I, Doug Wicks, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of **Kinecta Financial and Insurance Services, LLC** as of **December 31, 2006**, 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: NONE.



  
Signature

EXECUTIVE PRINCIPAL  
Title

  
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 Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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.
- (o) Independent Auditor's Report on Internal Control

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

**Kinecta Financial and Insurance  
Services, LLC**

**(A Wholly Owned Subsidiary of  
Kinecta Federal Credit Union)**

**Financial Report  
December 31, 2006**

## TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF FINANCIAL CONDITION.....	2
STATEMENT OF INCOME .....	3
STATEMENT OF MEMBERSHIP CAPITAL .....	4
STATEMENT OF CASH FLOWS.....	5
NOTES TO FINANCIAL STATEMENTS.....	6
SCHEDULE I – COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15C3-1 .....	9
SCHEDULE II – COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS UNDER RULE 15C3-3 .....	10
SCHEDULE III – INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS UNDER RULE 15C3-3.....	11
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL.....	12

# McGladrey & Pullen

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Kinecta Financial and Insurance Services, LLC  
Manhattan Beach, California

We have audited the accompanying statement of financial condition of Kinecta Financial and Insurance Services, LLC as of December 31, 2006 and the related statements of income, membership capital, 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 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 Kinecta Financial and Insurance Services, LLC as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III 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 Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Los Angeles, California  
February 23, 2007

kinfs.ta.ann.fs.06.nh

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2006**

---

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 5,525,026
Accounts receivable	<u>265,756</u>
	5,790,782

Term deposits	1,033,345
Property and equipment	28,043
Prepaid expenses	<u>13,235</u>
	<u>\$ 6,865,405</u>

**LIABILITIES AND MEMBERSHIP CAPITAL**

Current liabilities:

Accounts payable and other liabilities	\$ 575,747
--	------------

Membership Capital	<u>6,289,658</u>
	<u>\$ 6,865,405</u>

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC**  
**STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2006**

---

Revenues

Commission income	\$ 7,015,964
Other income	<u>182,742</u>
<b>Total revenue</b>	<u>7,198,706</u>

Expenses

Compensation and related benefits	1,966,204
Commissions	1,708,149
Operations	1,089,426
Professional and outside services	103,532
Occupancy	93,682
Marketing and promotions	<u>257,430</u>
<b>Total expenses</b>	<u>5,218,423</u>

Net Income before taxes 1,980,283

State taxes 20,990

**Net income** \$ 1,959,293

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC  
STATEMENT OF MEMBERSHIP CAPITAL  
YEAR ENDED DECEMBER 31, 2006**

---

Balance, December 31, 2005	\$ 4,330,365
Net income	<u>1,959,293</u>
Balance, December 31, 2006	<u>\$ 6,289,658</u>

The accompanying notes are an integral part of this statement.



**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2006**

---

Cash flows from operating activities

Net income	\$ 1,959,293
Adjustments to reconcile net income to net cash provided by operating activities:	
Accretion of net discount on marketable securities	(642)
Depreciation	19,885
Decrease in accrued interest receivable	19,572
Increase in accounts receivable	(142,537)
Decrease in prepaid expenses	11,845
Increase in accounts payable and other liabilities	36,227
	<hr/>
Net cash provided by operating activities	1,903,643

Cash flows from investing activities

Sale of marketable securities	1,496,083
Increase in term deposits	(1,033,345)
	<hr/>
Net cash provided by investing activities	462,738

Increase in cash and cash equivalents	2,366,381
Cash and cash equivalents, beginning of year	3,158,645
	<hr/>
Cash and cash equivalents, end of year	\$ 5,525,026

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

---

**Note 1. Nature of Business and Significant Accounting Policies**

Nature of Business:

Kinecta Financial and Insurance Services, LLC (the "Company") is a broker-dealer registered with the Securities and Exchange Commission and is a member of National Association of Securities Dealers, Inc. The Company is a wholly owned subsidiary of Kinecta Financial Management, LLC (the Parent) that is wholly owned by Kinecta Federal Credit Union. The Company was established primarily to provide brokerage and insurance services to members of Kinecta Federal Credit Union.

The Company received approval from the National Association of Securities Dealers, Inc. to operate as a registered broker-dealer on December 14, 2005.

The Company operates under the provisions of paragraph (k)(2)(ii) of rule 15c3-3 of the Securities and Exchange Commission and accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker-dealer, and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker-dealer.

A summary of the Company's significant accounting policies follows:

Cash and Cash Equivalents:

Cash and cash equivalents consist of non-term deposit accounts at Kinecta Federal Credit Union and Linsco/Private Ledger.

Term Deposits

Term deposits consist of accounts at Kinecta Federal Credit Union with an original maturity of three months or more.

Property and Equipment

Property and equipment is recorded at cost and is depreciated principally under the straight-line method over the estimated useful lives of the respective assets.

Revenue Recognition:

The Company receives commission income in accordance with the terms of an agreement with their clearing agent. Commission income and related expenses for financial services are recognized on a trade date basis. Commission income and expenses relating to the sale of insurance products for various insurance carriers are recognized at the time of the sale.

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

---

Income Taxes:

Kinecta Financial and Insurance Services, LLC is a single member limited liability company and as such is not subject to federal and state income tax. Income or loss from the Company is passed through to its member. The Company is, however, subject to state taxes on gross receipts.

Accounting 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.

**Note 2. Property and Equipment**

Property and equipment are summarized as of December 31, 2006 as follows:

Furniture, fixtures, and equipment	\$ 683,664
Accumulated depreciation and amortization	<u>(655,621)</u>
	<u>\$ 28,043</u>

**Note 3. Employee Benefit Plans**

The Company also participates in Kinecta Federal Credit Union's 401(k) pension plan that allows employees to defer a portion of their salary into the 401(k) plan. The Company matches a portion of employees' wage reductions. Pension costs are accrued and funded on a current basis. The Company contributed approximately \$178,370 to the plan for the year ended December 31, 2006.

**Note 4. Related Party Transactions**

The Company is charged by the parent credit union, Kinecta Federal Credit Union, for certain expense allocations, including the cost of office space and management support. These expenses, which are included in operations and occupancy, totaled \$177,769 for the year ended December 31, 2006.

The company has \$6,085,561 on deposit with Kinecta Federal Credit Union at December 31, 2006. The balance is insured by the National Credit Union Share Insurance Fund up to \$100,000.

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

---

**Note 5. Off Balance Sheet Risk and Concentration of Credit Risk**

As discussed in Note 1, the Company's customers' securities transactions are introduced on a fully disclosed basis with its clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers of the Company and is responsible for execution, collection of, and payment of funds and, receipt and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker-dealer may charge any losses it incurs to the Company. The Company seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers and that customer transactions are executed properly by the clearing broker-dealer.

**Note 6. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 or 8 to 1 during its first twelve months following approval of broker dealer status. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2006 the Company had net capital and net capital requirements of \$564,999 and \$30,969, respectively. The Company's ratio of aggregate indebtedness to net capital was 0.82 to 1.

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC**  
**SCHEDULE I – COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15C3-1**  
**DECEMBER 31, 2006**

---

Total membership equity from statement of financial condition		\$ 6,289,659
Less non-allowable assets:		
Prepaid expenses	\$ 13,235	
Property and equipment	28,043	
Accounts receivable	180,242	
Non-allowable deposits at affiliate credit union	5,493,684	
Total non-allowable assets		5,715,204
Net capital before other deductions		574,455
Money market account haircut		(9,456)
Net capital		\$ 564,999
Aggregate indebtedness:		
Accounts payable and accrued expenses		\$ 464,542
Computation of basic net capital requirement		
Minimum net capital required (Greater of \$5,000 or 6 and 2/3% of aggregate indebtedness)		\$ 30,969
Net capital in excess of minimum requirement		\$ 534,030
Ratio of aggregate indebtedness to net capital		0.82 to 1

Statement pursuant to paragraph (d) of rule 17a-5:

There are no material differences between the amounts presented in the computations of net capital set forth above and the amounts as reported in the Company's unaudited Part IIA Quarterly FOCUS Report as of December 31, 2006.

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC  
SCHEDULE II – COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
UNDER RULE 15C3-3  
DECEMBER 31, 2006**

---

None, the Company is exempt from rule 15c3-3 pursuant to the provisions of subparagraph (k)(2)(ii) thereof.

**KINECTA FINANCIAL AND INSURANCE SERVICES, LLC**  
**SCHEDULE III – INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS**  
**UNDER RULE 15C3-3**  
**DECEMBER 31, 2006**

---

None, the Company is exempt from rule 15c3-3 pursuant to the provisions of subparagraph (k)(2)(ii) thereof.

# McGladrey & Pullen

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors  
Kinecta Financial and Insurance Services, LLC  
Manhattan Beach, California

In planning and performing our audit of the financial statements of Kinecta Financial and Insurance Services, LLC (the Company), as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered 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 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 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 accounting principles generally accepted in the United States of America. 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 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, 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.

*McGladrey & Pullen, LLP*

Los Angeles, California  
February 23, 2007