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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 8-66187

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: Meritus Financial Group, Inc.

OFFICIAL USE ONLY FIRM I.D. NO.

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

645 Tollgate Rd., Suite 140

(No. and Street)

Elgin

IL

60123

(City)

(State)

(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Russell Novak & Company, LLP

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

225 W. Illinois St., Suite 300, Chicago, IL

(Address)

(City)

(State)

(Zip Code)

PROCESSED

JAN 22 2008

THOMSON FINANCIAL

CHECK ONE:

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

SECURITIES AND EXCHANGE COMMISSION RECEIVED NOV 27 2007 BRANCH OF REGISTRATIONS AND EXAMINATIONS 04

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)

MM

OATH OR AFFIRMATION

I, Lynn Schmidt, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Meritus Financial Group, Inc., 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:

Lynn Schmidt
Signature

President
Title

Heather L. Friedel
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~~ Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

MERITUS FINANCIAL GROUP, INC.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2006

ASSETS

ASSETS

Cash	\$ 73,656
Receivable from brokers - dealers	<u>20,385</u>
Total Assets	<u>\$ 94,041</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

Accrued expenses and accounts payable	\$ <u>26,949</u>
Total Liabilities	<u>26,949</u>

STOCKHOLDER'S EQUITY

Common stock - no par value; 30,000 shares authorized; 1,000 shares issued and outstanding	1,000
Additional paid in capital	59,000
Retained earnings	<u>7,092</u>
Total Stockholder's Equity	<u>67,092</u>
Total Liabilities and Stockholder's Equity	<u>\$ 94,041</u>

(See Accompanying Notes)

MERITUS FINANCIAL GROUP, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>REVENUE</u>	
Commissions	\$ <u>407,385</u>
<u>EXPENSES</u>	
Management fees	287,021
Clearing costs	63,235
Commissions	4,763
Technology cost	1,935
Office expense	29,431
Professional fees	9,100
Regulatory fees and dues	5,988
Advertising and marketing	50
Dues & subscriptions	1,045
Charitable contributions	5,075
Insurance	903
Miscellaneous expenses	<u>280</u>
Total Expenses	<u>408,826</u>
<u>NET LOSS FROM OPERATIONS</u>	(1,441)
<u>OTHER INCOME (EXPENSE)</u>	<u>2,513</u>
<u>NET INCOME BEFORE TAXES</u>	1,072
<u>PROVISION FOR INCOME TAXES</u>	<u>(52)</u>
<u>NET INCOME</u>	\$ <u><u>1,020</u></u>

(See Accompanying Notes)

Russell Novak & Company, LLP

MERITUS FINANCIAL GROUP, INC.
STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF CREDITORS
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>BALANCE - JANUARY 01, 2006</u>	\$ <u> -</u>
<u>ADDITIONS (DEDUCTIONS)</u>	<u> -</u>
<u>BALANCE - DECEMBER 31, 2006</u>	\$ <u> -</u>

(See Accompanying Notes)

MERITUS FINANCIAL GROUP, INC.
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>
<u>BALANCE - JANUARY 01, 2006</u>	\$ 1,000	\$ 59,000	\$ 6,072
Capital contribution during the year ended December 31, 2006	-	-	-
Net income for the year ended December 31, 2006	-	-	<u>1,020</u>
<u>BALANCE - DECEMBER 31, 2006</u>	<u>\$ 1,000</u>	<u>\$ 59,000</u>	<u>\$ 7,092</u>

(See Accompanying Notes)

MERITUS FINANCIAL GROUP, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Net income	\$ 1,020
Adjustments to reconcile net income to net cash provided by operations:	
(Increase) decrease in assets:	
Accounts receivable	(14,188)
Due from officers	654
Increase (decrease) in liabilities:	
Accrued expenses and accounts payable	<u>26,660</u>
Net Cash provided by Operating Activities	<u>14,146</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	 <u>-</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	 <u>-</u>
 <u>NET INCREASE IN CASH</u>	 14,146
 <u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	 <u>59,510</u>
 <u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	 \$ <u>73,656</u>
 <u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>	
Cash paid for state replacement tax	\$ <u>52</u>

(See Accompanying Notes)

MERITUS FINANCIAL GROUP, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 1 - Organization

Meritus Financial Group, Inc. (the Company) was incorporated in the State of Illinois on June 11, 1997. Registration as a broker-dealer with the Securities and Exchange Commission became effective February 2004. Currently, the Company operates as an introducing licensed broker-dealer with its principal location in Elgin, Illinois.

Note 2 - Significant Accounting Policies

The Company uses the accrual method of accounting. Customer transactions are cleared on a fully-disclosed basis through another broker-dealer. Commissions and related clearing expenses are recorded on a trade-date basis as transactions occur.

The Company, with the consent of its shareholder, elected to be an S-Corporation under the provisions of the Internal Revenue Code. Instead of paying corporate income taxes, the shareholders of an S-Corporation are taxed individually on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements. The Company is responsible for paying Illinois state replacement tax on the Company's taxable income.

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Furthermore, the Company maintains its cash in accounts at various financial institutions. The balances, at times, may exceed federally insured amounts. Management periodically reviews the financial stability of these institutions.

The Company expenses advertising costs as incurred.

Note 3 - Net Capital Requirements

Pursuant to the net capital provisions of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under SEC rule 15c3-1. Net capital may fluctuate on a daily basis. As of December 31, 2006, the Company had net capital and net capital requirements of \$66,018 and \$5,000, respectively. The net capital rules may effectively restrict the payment of cash dividends.

Note 4 - Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

MERITUS FINANCIAL GROUP, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 5 - Related Party Transactions

The Company shares office space with another company affiliated by common ownership. All rent and associated occupancy costs were paid entirely by this affiliated company on behalf of Meritus Financial Group, Inc. Beginning in January 2006, Meritus Financial Group, Inc. pays this affiliated company \$2,430 per month for its share of these costs. These costs are included as office expense on the statement of operations. Additionally, this affiliated company pays commission expense on behalf of Meritus Financial Group, Inc. In December 2006, Meritus Financial Group, Inc. paid this affiliated company \$4,763 as reimbursement for commission expense paid in 2006. As of December 31, 2006 there were no amounts included in the assets or liabilities of Meritus Financial Group, Inc. pursuant to this reimbursement agreement.

The Company reimburses a common paymaster (affiliated through common ownership) for salaries and other operating expenses. These costs, which are included as management fee expense in the statement of operations, total \$287,021 as of December 31, 2006. Of this amount, \$23,938 is recorded as a liability of Meritus Financial Group, Inc. as of December 31, 2006, pursuant to this reimbursement agreement.

SUPPLEMENTAL MATERIAL



To the Board of Directors
Meritus Financial Group, Inc.

In planning and performing our audit of the financial statements and supplemental material of Meritus Financial Group, Inc. (the Company), for the year ended December 31, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and supplemental material and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (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.
2. Recordation of differences required by rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with 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.



Our consideration of internal control would not necessarily disclose all matters relating to internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the NASD, 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.

Russell Novak & Company, LLP

Russell Novak & Company, LLP
January 25, 2007

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II**

BROKER OR DEALER: Meritus Financial Group, Inc.

as of: December 31, 2006

COMPUTATION OF NET CAPITAL

1. Total ownership equity (from Statement of Financial Condition - Item 1800)		\$ 67,092	3480
2. Deduct: Ownership equity not allowable for net capital		0	3490
3. Total ownership equity qualified for net capital		67,092	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital		0	3520
B. Other (deductions) or allowable credits (List)		0	3525
5. Total capital and allowable subordinated liabilities		\$ 67,092	3530
6. Deductions and/or charges:			
A. Total non-allowable assets from Statement of Financial Condition (Notes B and C)		\$ 0	3540
1. Additional charges for customers' and non-customers' security accounts		0	3550
2. Additional charges for customers' and non-customers' commodity accounts		0	3560
B. Aged fail-to-deliver			
1. Number of items	0	3450	
C. Aged short security differences-less reserve of	\$ 0	3460	0
number of items	0	3470	
D. Secured demand note deficiency		0	3590
E. Commodity futures contracts and spot commodities proprietary capital charges		0	3600
F. Other deductions and/or charges		0	3610
G. Deductions for accounts carried under Rule 15c3-1(a)(6),(a)(7) and (c)(2)(x)		0	3615
H. Total deductions and/or charges			0
7. Other additions and/or allowable credits (List)			0
8. Net Capital before haircuts on securities positions		\$ 67,092	3640
9. Haircuts on securities: (computed, where applicable, pursuant to 15c3-1(f)):			
A. Contractual securities commitments		0	3660
B. Subordinated securities borrowings		0	3670
C. Trading and Investment securities:			
1. Bankers' acceptances, certificates of deposit and commercial paper		0	3680
2. U.S. and Canadian government obligations		0	3690
3. State and municipal government obligations		0	3700
4. Corporate obligations		0	3710
5. Stocks and warrants		0	3720
6. Options		0	3730
7. Arbitrage		0	3732
8. Other securities	1,074		3734
D. Undue concentration		0	3650
E. Other (list)		0	3738
10. Net Capital		\$ 66,018	3750

MERITUS FINANCIAL GROUP, INC.
RECONCILIATION OF UNAUDITED NET CAPITAL COMPUTATION
TO AUDITED NET CAPITAL AND UNAUDITED AGGREGATE
INDEBTEDNESS TO AUDITED AGGREGATE INDEBTEDNESS
DECEMBER 31, 2006

<u>NET CAPITAL PER UNAUDITED COMPUTATION</u>	\$ 86,657
Adjustment for additional assets	5,799
Adjustment for additional accrual	(26,438)
<u>NET CAPITAL PER AUDITED COMPUTATION</u>	<u>\$ 66,018</u>
<u>AGGREGATE INDEBTEDNESS PER UNAUDITED COMPUTATION</u>	\$ 511
Adjustment for additional accrual	<u>26,438</u>
<u>AGGREGATE INDEBTEDNESS PER AUDITED COMPUTATION</u>	<u>\$ 26,949</u>

END