

# McGladrey & Pullen

Certified Public Accountants

## **Sentinel Management Group, Inc.**

Statement of Financial Condition

December 31, 2006

**Sentinel Management Group, Inc.**  
**Table of Contents**  
**December 31, 2006**

---

	Page
<b>Independent Auditors' Report</b>	1
<b>Financial Statement</b>	
Statement of Financial Condition	2
Notes to the Statement of Financial Condition	3 - 7

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditors' Report

Board of Directors of  
Sentinel Management Group, Inc.

We have audited the accompanying statement of financial condition of Sentinel Management Group, Inc. as of December 31, 2006. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 statement of financial condition referred to above presents fairly, in all material respects, the financial position of Sentinel Management Group, Inc. as of December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Chicago, Illinois  
March 30, 2007

**Sentinel Management Group, Inc.**  
**Statement of Financial Condition**  
**December 31, 2006**

---

**Assets**

Cash	\$	986,822
Cash in segregation		2,159,184
Securities, pledged		233,268,260
Income taxes receivable from Parent		121,084
Other assets		<u>271,390</u>
<b>Total assets</b>	<b>\$</b>	<b><u>236,806,740</u></b>

**Liabilities and Stockholder's Equity**

Liabilities		
Short-term bank loan payable	\$	230,628,000
Loan interest payable		1,369,379
Management fee payable to Parent		350,000
Accounts payable and accrued expenses		<u>1,201,009</u>
Total liabilities		233,548,388
Stockholder's equity		<u>3,258,352</u>
<b>Total liabilities and stockholder's equity</b>	<b>\$</b>	<b><u>236,806,740</u></b>

**Sentinel Management Group, Inc.**  
**Notes to the Statement of Financial Condition**  
**December 31, 2006**

---

**Note 1 Nature of Operations and Significant Accounting Policies**

**Nature of Operations**—Sentinel Management Group, Inc. (the "Company"), an Illinois corporation, is a special purpose registered futures commission merchant and registered investment advisor that earns fees for providing investment services. The Company specializes in providing custom cash management services primarily to participants in the futures industry, including futures commission merchants, and public and private trading funds. The Company is a wholly owned subsidiary of Sentinel Investment Group, Inc. (the "Parent"), an Illinois corporation.

**Use of Estimates**—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Securities**—Securities transactions are recorded on trade date. The Company purchases securities for customers and for its own account that are generally held in trust until maturity. As described in the Company's Form ADV, net investment gains from customers' securities sold before maturity are held in trust for the benefit of customers. Net investment gains from proprietary securities are included in revenue. Securities held in trust and proprietary securities are carried at cost plus accrued interest, net of related unamortized discounts or premiums.

**Revenue Recognition**—Service fees are recognized when earned and are based upon a percentage of assets under management. Interest income includes interest from investments in securities and amounts charged to customer accounts.

**Income Taxes**—The Company's taxable income is included in the consolidated tax return of the Parent. The Company computes a provision or benefit for current income taxes, and the resulting payable to or receivable from the Parent, as though the Company files a separate return. Deferred income taxes are recorded to reflect the effects of differences in the recognition of income and expenses for financial reporting and tax reporting purposes, primarily investment gains from customers' securities sold before maturity.

**Translation of Foreign Currencies**—Assets and liabilities denominated in foreign currencies are translated at year end exchange rates.

**Stock-Based Compensation**—The Company accounts for employee stock-based compensation (phantom stock awards) in accordance with the provision of SFAS No. 123 Revised, *Share Based Payment* ("SFAS 123R") which requires entities to measure the cost of employee services received in exchange for an award of equity based instruments based on the grant date fair value of the award, with limited exceptions.

**Recently Issued Accounting Pronouncements**—On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date.

