



## STATEMENT OF FINANCIAL CONDITION

December 31, 2010

(Audited)

### INDEPENDENT AUDITOR'S REPORT

The Partners

Vining-Sparks IBG, Limited Partnership and Subsidiary:

We have audited the accompanying consolidated statement of financial condition of Vining-Sparks IBG, Limited Partnership and subsidiary (the Company) as of December 31, 2010, that you are filing pursuant to Rule 17a 5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated 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 statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit of a statement of financial condition also includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition 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 Vining-Sparks IBG, Limited Partnership and subsidiary as of December 31, 2010, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 25, 2011

### FROM THE PRESIDENT/CEO

We entered the year with people expecting the economy to be recovering from the Great Recession at a reasonable pace. Following the decline of several European countries' finances and the eventual bailout of Greece, the U.S. economy took an unexpected drop in activity. As the U.S. downturn developed, fears of potential deflation emerged which, along with the sluggish growth of jobs, pushed the Fed to embark on a second round of quantitative easing. As 2010 drew to a close, the major concerns for the economy were a second drop in home prices and a sticky unemployment rate. These will likely continue to be headwinds for economic growth in 2011 that will challenge the recent re-emergence of "green shoots."

In 2010, in addition to some shifts in product mix, we saw growth in Small Business Administration loan and securities business as well as municipals and corporates. We increased our commitment and presence in the municipal and corporate bond markets and expect to see further growth in those areas.

As 2011 begins, our customers' concerns about interest rate risk and loan portfolio composition have been reflected in our business. We have seen an increase in loan trading activity as well as increased activity in interest rate swaps that help our customers offer fixed rate commercial loans without retaining the risk of rising interest rates. We have also just launched two new business lines. Vining Sparks Asset Management, launched in January 2011, provides fiduciary-based investment advisory services to depository institutions as needed. In addition, in April 2011 we formed a group to offer M&A and other financial advisory services to community banks.

Our focus remains on our customers, to whom we seek to serve daily. As always, we thank you for your ongoing support and relationship and look forward to serving you in the coming year.

Mark A. Medford  
President/CEO

April 2011

**STATEMENT OF FINANCIAL CONDITION**  
December 31, 2010 (Audited)

**Assets**

Cash, including \$9,188,662 segregated under federal regulations	\$ 12,311,247
Securities purchased under agreements to resell	96,561,656
Receivables from customers	9,097,032
Receivables from broker-dealers and clearing organizations	119,765,716
Securities owned, at fair value	423,442,421
Furniture, fixtures, and equipment, at cost, net of accumulated depreciation and amortization of \$8,120,803	2,640,877
Accrued interest receivable on securities	2,103,296
Other receivables	2,105,430
Other assets	<u>1,763,651</u>
Total assets	<u><u>\$669,791,326</u></u>

**Liabilities and Partners' Capital**

## Liabilities:

Payable to clearing agents and brokers and dealers	\$231,884,230
Securities sold under agreements to repurchase	236,070,149
Payable to customers	1,711,497
Securities sold, not yet purchased, at fair value	97,814,470
Accrued interest payable on securities	226,359
Accounts payable and accrued expenses	26,635,008
Total liabilities	<u>594,341,713</u>

## Partners' capital:

Vining-Sparks Securities, Inc.	1,005,194
Vining-Sparks Fund, L.P.	36,824,124
Vining-Sparks & Associates, L.P.	<u>37,620,295</u>
Total partners' capital	75,449,613

## Commitments and contingencies (notes 11 and 12)

Total liabilities and partners' capital	<u><u>\$669,791,326</u></u>
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See accompanying notes to statement of financial condition.

## Notes to Consolidated Statement of Financial Condition December 31, 2010

### (1) Summary of Significant Accounting Policies

#### (a) Organization

Vining-Sparks IBG, Limited Partnership (the Partnership) primarily acts as a U.S. government and municipal securities broker dealer. In the United States of America, the Partnership is registered with the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority, Inc. (FINRA), the Municipal Securities Rulemaking Board (MSRB), the National Futures Association (NFA), and the Commodities Futures Trading Commission (CFTC). The Partnership is also registered in Europe with the Financial Services Authority (FSA) of the United Kingdom, and with certain regulatory agencies in Canada.

During 2010, the Partnership formed a wholly owned subsidiary, Vining-Sparks Asset Management, LLC (VSAM), to serve as a registered investment advisor for depository institutions. The activities of VSAM during 2010 were not significant. The Partnership and VSAM are referred to hereafter as the Company.

At December 31, 2010, the partners are Vining Sparks Securities, Inc. (VSSI), as a 1.3774% general partner, Vining Sparks Fund, L.P., as a 50.2264% limited partner, and Vining Sparks & Associates, L.P., as a 48.3962% limited partner.

#### (b) Securities Transactions

Securities transactions in regular-way trades and related commission revenue and expenses are recorded on the trade date. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded on a net basis and are included in payable to clearing agents and brokers and dealers on the statement of financial condition.

Securities owned and securities sold, not yet purchased are stated at fair value. Marketable securities owned and securities sold, not yet purchased, are valued at fair value using quoted market prices or matrix pricing as determined through third-party pricing services. There were no securities that were not readily marketable at December 31, 2010.

#### (c) Fair Value

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 for Fair Value Measurements and Disclosures (ASC Topic 820) defines fair value as 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 (exit price). ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Partnership. Unobservable inputs are those that reflect the Partnership's assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

#### (d) Resale and Repurchase Agreements and Securities Lending Agreements

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements, reverse repos, or resale agreements) or sales of securities under agreements to repurchase (repurchase agreements or repos) are accounted for as collateralized financings. It is the policy of the Partnership to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Partnership may require counterparties to deposit additional collateral or return collateral pledged when appropriate.

#### (e) Depreciation and Amortization

Depreciation and amortization are provided on a straight line basis over the estimated useful lives of the assets (three to five years) or the life of the lease, whichever is less.

#### (f) Income Taxes

No provision for federal income taxes has been made because the Company allocates income and expenses to the partners for inclusion in their respective federal income tax returns. Deferred state income tax balances were not significant at December 31, 2010.

#### (g) Statement of Changes in Subordinated Liabilities

The financial statements do not include a statement of changes in liabilities subordinated to the claims of general creditors as required under Rule 17a 5 of the SEC, and CFTC Regulation 1.16(c)(5), since no such liabilities existed at December 31, 2010 or at any time during the year then ended.

#### (h) Fair Value of Financial Instruments

Substantially all of the Company's financial instruments are carried at fair value.

#### (i) Management 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. Actual results could differ from those estimates.

#### (j) Subsequent Events

The Company has evaluated subsequent events through February 25, 2011, the date the financial statements were issued.

### (2) Cash Segregated under Federal Regulations

A special reserve bank account for the benefit of customers is maintained pursuant to Rule 15c3-3 of the SEC. As of December 31, 2010, restricted cash of \$9,188,662 has been segregated into this account.

### (3) Receivable from Broker-Dealers and Clearing Agents

The receivable from broker-dealers and clearing agents is comprised of the following at December 31, 2010:

Securities failed to deliver	\$119,621,694
Receivable from clearing agents	143,706
Other	316
	<u>\$119,765,716</u>

**(4) Securities Owned and Securities Sold, Not Yet Purchased**

Marketable securities owned and sold, not yet purchased, consist of trading securities at fair value, as follows:

	Owned	Sold, not yet purchased
U.S. government and agencies	\$180,941,948	97,612,470
Agency collateralized mortgage obligations	55,006,221	—
Corporate collateralized mortgage obligations	665,236	—
Small Business Administration (SBA) securities	139,822,998	—
United States Department of Agriculture (USDA) loans	111,030	—
SBA interest-only strips	4,755,212	—
State and municipal	40,071,135	—
Corporate bonds	<u>2,068,641</u>	<u>202,000</u>
	<u>\$423,442,421</u>	<u>97,814,470</u>

Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. All securities are valued using matrix pricing and are classified as Level 2.

The following table presents the securities owned and sold, not yet purchased, based on valuation method, as of December 31, 2010:

	Fair value measurements at reporting date using			Total
	Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Trading Securities \$	—	423,442,421	—	423,442,421
Securities sold, not yet purchased	—	97,814,470	—	97,814,470

There were no transfers of securities to or from Level 2 during 2010.

**(5) Payable to Clearing Agents and Brokers and Dealers**

The payable to clearing agents and brokers and dealers is comprised of the following at December 31, 2010:

Securities failed to receive	\$ 126,269,096
Secured borrowings from clearing agent	95,605,015
Net payable for unsettled trades	9,074,923
Other	<u>935,196</u>
	<u>\$231,884,230</u>

The payable to clearing agents, which incurs interest, is collateralized by securities either owned or held for the account of customers and other brokers and dealers for which payment has not yet been received. The interest rate on these collateralized borrowings at December 31, 2010 is 1.5%.

**(6) Securities Sold under Agreements to Repurchase**

The Partnership enters into sales of securities under agreements to repurchase, with the obligation to repurchase the securities sold reflected as a liability on the statement of financial condition. Securities owned with a fair value totaling \$247,018,413 were sold under agreements to repurchase at prices totaling \$236,070,149.

**(7) Working Capital Line of Credit**

The Partnership has a total of \$20,000,000 working capital lines of credit to a bank, which bear interest at prime rate. One note is collateralized by the SBA interest-only strips owned by the Partnership, and the other \$10,000,000 note is unsecured. There was no balance outstanding under these lines of credit at December 31, 2010. The lines of credit mature on July 8, 2011.

**(8) Partner Transactions**

Under the terms of the partnership agreement, a minimum of 35% of the Partnership's taxable net income, as defined, is to be distributed to the Partners based on their respective percentage interests in the Partnership. During 2010, the amount of distributions paid to the Partners was \$29,672,495, which includes \$3,155,779 in distributions accrued at December 31, 2009.

**(9) Agreements with Other Broker Dealers**

The Partnership has an agreement with ICBA Securities Corporation wherein the Partnership agrees to act as clearing broker and manage the sales and back office functions for ICBA Securities Corporation. Under the terms of the agreement, all expenses related to such activities, including management of the related accounts, are borne by the Partnership. During 2010, the Partnership paid such expenses and received commissions from business generated from this relationship.

**(10) Net Capital Requirements**

The Partnership is subject to the SEC Uniform Net Capital Rule, which requires the maintenance of minimum net capital. The Partnership has elected to use the alternative method, which requires the Partnership to maintain minimum net capital, as defined, equal to the greater of \$250,000, or 2% of aggregate debit balances, arising from customer transactions, as defined. At December 31, 2010, the Partnership had net capital of \$38,549,172, which was \$38,299,172 in excess of required net capital.

**(11) Commitments and Contingencies****Leases**

At December 31, 2010, the Company was obligated under noncancelable operating leases for office space with remaining terms in excess of one year. Estimated future annual commitments are as listed below:

Year ending December 31:	
2011	2,451,828
2012	2,425,315
2013	2,270,445
2014	2,150,263
2015	1,854,164
2016 and thereafter	<u>8,755,943</u>
	<u>\$19,907,958</u>

**Litigation**

In the normal course of business, the Company is subject to claims and litigation. Management believes that such matters will not have a material adverse effect on the results of operations, liquidity, or financial condition.

**(12) Financial Instruments with Off-Balance-Sheet Risk**

The Partnership enters into various transactions involving derivatives and other instruments with off balance sheet risk. These financial instruments include mortgage backed and SBA to be announced securities (TBAs), securities purchased and sold on a when issued basis, including SBA-guaranteed loans (when issued securities) and interest rate swaps. These financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. As of December 31, 2010, there were no interest rate swaps outstanding.

TBAs and when issued securities provide for the delayed delivery of the underlying instrument. Management does not anticipate that losses, if any, as a result of credit or market risk would materially affect the Partnership's financial position due in part to the short term nature of the commitments. The extent of the Partnership's involvement in TBAs and when issued financial instruments with off-balance-sheet risk as of December 31, 2010 was a commitment to purchase securities totaling \$31,552,571 and a commitment to sell securities totaling \$84,547,505.

In the normal course of business, the Partnership's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Partnership to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contractual obligations and the Partnership has to purchase or sell the financial instrument underlying the contract at a loss.



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