

**VINING-SPARKS IBG, LIMITED PARTNERSHIP AND SUBSIDIARY**

Consolidated Statement of Financial Condition

June 30, 2011

**Assets**

Cash, including \$5,721,039 segregated under federal regulations	\$ 7,518,704
Securities purchased under agreements to resell	142,979,285
Receivable from customers	14,579,761
Receivable from broker-dealers and clearing agents	61,739,994
Securities owned, at fair value	465,117,696
Furniture, fixtures, and equipment, at cost, net of accumulated depreciation and amortization of \$8,737,875	3,126,024
Accrued interest receivable on securities	2,378,741
Other receivables	2,149,088
Other assets	2,881,820
Total assets	<u>\$ 702,471,113</u>

**Liabilities and Partners' Capital**

Liabilities:

Payable to clearing agents and brokers and dealers	\$ 280,592,365
Securities sold under agreements to repurchase	166,820,598
Payable to customers	5,691,301
Securities sold, not yet purchased, at fair value	148,145,779
Accrued interest payable on securities	316,202
Accounts payable and accrued expenses	21,641,848
Total liabilities	<u>623,208,093</u>

Partners' capital:

Vining-Sparks Securities, Inc.	1,057,720
Vining-Sparks Fund, L.P.	39,021,482
Vining-Sparks & Associates, L.P.	39,183,818
Total partners' capital	<u>79,263,020</u>

Commitments and contingencies

Total liabilities and partners' capital	<u>\$ 702,471,113</u>
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See accompanying notes to consolidated statement of financial condition.

## VINING-SPARKS IBG, LIMITED PARTNERSHIP AND SUBSIDIARY

Notes to Consolidated Statement of Financial Condition

June 30, 2011 (Unaudited)

### (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 the six months ended June 30, 2011 were not significant. The Partnership and VSAM are referred to hereafter as the Company.

At June 30, 2011, 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 consolidated 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 June 30, 2011.

#### (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:

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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 June 30, 2011.

**(g) *Fair Value of Financial Instruments***

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

**(h) *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.

**(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 June 30, 2011, restricted cash of \$5,721,039 has been segregated into this account.

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June 30, 2011 (Unaudited)

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

The receivable from broker-dealers and clearing agents is comprised of the following at June 30, 2011:

Securities failed to deliver	\$ 55,547,264
Receivable from clearing agents	147,241
Other	<u>6,045,489</u>
	<u>\$ 61,739,994</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:

	<u>Owned</u>	<u>Sold, not yet purchased</u>
U.S. government and agencies	\$ 233,256,798	148,073,251
Agency collateralized mortgage obligations	34,387,314	—
Corporate collateralized mortgage obligations	2,798,320	—
Small Business Administration (SBA) securities	130,540,229	32,701
United States Department of Agriculture (USDA) loans	1,201,914	—
SBA interest-only strips	558,259	—
State and municipal	41,202,979	39,827
Corporate bonds	<u>21,171,883</u>	<u>—</u>
	<u>\$ 465,117,696</u>	<u>148,145,779</u>

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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 June 30, 2011:

	<b>Fair value measurements at reporting date using</b>			
	<b>Quoted prices in active market for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
Trading securities	\$ —	465,117,696	—	465,117,696
Securities sold, not yet purchased	—	148,145,779	—	148,145,779

There were no transfers of securities to or from Level 2 during the six months ended June 30, 2011.

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

The payable to clearing agents and brokers and dealers is comprised of the following at June 30, 2011:

Securities failed to receive	\$ 50,660,498
Secured borrowings from clearing agent	135,743,046
Net payable for unsettled trades	94,188,345
Other	476
	<u>\$ 280,592,365</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 June 30, 2011 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 \$171,807,489 were sold under agreements to repurchase at prices totaling \$166,820,598.

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### **(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 June 30, 2011. The lines of credit mature on July 5, 2012.

### **(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.

### **(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 the six months ended June 30, 2011, 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 June 30, 2011, the Partnership had net capital of \$40,376,446, which was \$40,045,655 in excess of required net capital.

## VINING-SPARKS IBG, LIMITED PARTNERSHIP AND SUBSIDIARY

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June 30, 2011 (Unaudited)

### (11) Commitments and Contingencies

#### *Leases*

At June 30, 2011, 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 (remaining)	\$ 1,261,100
2012	2,425,315
2013	2,270,446
2014	2,150,264
2015	1,854,164
2016 and thereafter	8,755,944
	<u>\$ 18,717,233</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 June 30, 2011, 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 June 30, 2011 was a commitment to purchase securities totaling \$78,382,065 and a commitment to sell securities totaling \$116,985,830.

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.