

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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ANNUAL AUDITED REPORT  
FORM X-17A  
PART III

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365  
WASH. D.C. SECTION

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, 2001 AND ENDING December 31, 2001  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

IFG Network Securities, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

3424 Peachtree Road, NE Suite 1900

Atlanta Georgia 30326  
(City) (State) (Zip Code)

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

E. Paul Stewart (404) 841-6800

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Ernst & Young LLP

600 Peachtree Street, Suite 2800 Atlanta Georgia 30308  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

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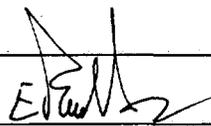
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

3/26/02

**OATH OR AFFIRMATION**

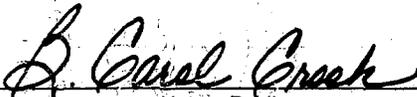
I, E. Paul Stewart, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of IFG Network Securities, Inc., as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



\_\_\_\_\_  
Signature  
Financial Operations Principal

\_\_\_\_\_  
Title



\_\_\_\_\_  
Notary Public  
Notary Public, Cherokee County, Georgia  
My Commission Expires June 1, 2002

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (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 or 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 or 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) Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges.
- (p) Statement of Secured Amount and Funds Held in Separate Accounts for Foreign Futures and Options Customers Pursuant to Commission Regulation 30.7.

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

IFG Network Securities, Inc.

Audited Financial Statements  
and Supplemental Information

For the years ended December 31, 2001 and 2000

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## Report of Independent Auditors

Stockholder and Board of Directors  
IFG Network Securities, Inc.

We have audited the accompanying statements of financial condition of IFG Network Securities, Inc. (the Company) as of December 31, 2001 and 2000, and the related statements of operations, changes in stockholder's equity and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 that our audits provide 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 IFG Network Securities, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were 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 supplemental information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in our audits 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.

*Ernst & Young LLP*

Atlanta, Georgia  
February 8, 2002

IFG Network Securities, Inc.

Statements of Financial Condition

	December 31	
	2001	2000
<b>Assets</b>		
Cash and cash equivalents	\$3,964,297	\$3,911,134
Cash segregated for regulatory purposes	113,495	142,905
Commissions and concessions receivable	1,561,014	2,001,597
Deferred income tax asset	218,964	239,800
Other assets	113,393	82,077
Total assets	<u>\$5,971,163</u>	<u>\$6,377,513</u>
<b>Liabilities and stockholder's equity</b>		
<b>Liabilities:</b>		
Commissions and concessions payable	\$1,510,026	\$2,773,186
Due to affiliates	1,604,473	1,310,887
Accounts payable and other accrued expenses	354,014	308,373
Other liabilities	3,918	45,555
Total liabilities	<u>3,472,431</u>	<u>4,438,001</u>
<b>Stockholder's equity:</b>		
Common stock, par value \$.01 per share; 7,500 shares authorized; 1,000 shares issued and outstanding	10	10
Additional paid-in capital	1,878,836	1,878,836
Retained earnings	619,886	60,666
Total stockholder's equity	<u>2,498,732</u>	<u>1,939,512</u>
Total liabilities and stockholder's equity	<u>\$5,971,163</u>	<u>\$6,377,513</u>

*See accompanying notes.*

IFG Network Securities, Inc.

Statements of Operations

	Year ended December 31	
	2001	2000
Revenues:		
Commissions	\$49,394,382	\$63,564,545
Interest and dividend income	257,005	309,289
Other	1,358,318	1,403,021
Total revenues	<u>51,009,705</u>	<u>65,276,855</u>
Expenses:		
Commissions	43,438,281	56,258,731
Management fees paid to affiliates	5,417,904	6,761,722
Amortization of intangible assets	-	133,471
Other operating expenses	1,262,884	2,689,608
Total expenses	<u>50,119,069</u>	<u>65,843,532</u>
Net income (loss) before taxes	<u>890,636</u>	<u>(566,677)</u>
Income tax expense (benefit):		
Current	310,580	(169,371)
Deferred	20,836	(17,523)
Total income tax expense (benefit)	<u>331,416</u>	<u>(186,894)</u>
Net income (loss)	<u>\$ 559,220</u>	<u>\$ (379,783)</u>

*See accompanying notes.*

IFG Network Securities, Inc.

Statements of Changes in Stockholder's Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance at January 1, 2000	\$10	\$1,878,836	\$ 440,449	\$2,319,295
Net loss	-	-	(379,783)	(379,783)
Balance at December 31, 2000	10	1,878,836	60,666	1,939,512
Net income	-	-	559,220	559,220
Balance at December 31, 2001	<u>\$10</u>	<u>\$1,878,836</u>	<u>\$ 619,886</u>	<u>\$2,498,732</u>

*See accompanying notes.*

IFG Network Securities, Inc.

Statements of Cash Flows

	Year ended December 31	
	2001	2000
<b>Operating activities</b>		
Net income (loss)	\$ 559,220	\$ (379,783)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization	-	126,127
Deferred income taxes	20,836	(17,523)
Change in operating assets and liabilities:		
Commissions and concessions receivable	440,583	154,964
Other assets	(31,316)	93,378
Commissions and concessions payable	(1,263,160)	(89,237)
Accounts payable and other accrued expenses	45,641	210,694
Due to affiliates	293,586	815,507
Other liabilities	(41,637)	(214,835)
Net cash provided by operating activities	<u>23,753</u>	<u>699,292</u>
Net increase in cash and cash equivalents	23,753	699,292
Cash and cash equivalents at beginning of year	4,054,039	3,354,747
Cash and cash equivalents at end of year	<u>\$ 4,077,792</u>	<u>\$4,054,039</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for:		
Income taxes	\$ 235,470	\$ -

See accompanying notes.

# IFG Network Securities, Inc.

## Notes to Financial Statements

December 31, 2001

### 1. Nature of Business and Ownership

IFG Network Securities, Inc. (the "Company") is a broker-dealer registered under the Securities and Exchange Act of 1934 and is a member of the National Association of Securities Dealers. The Company is a wholly owned subsidiary of Investors Financial Planning, Inc. (the "Parent") and ultimately of ING America Insurance Holdings, Inc. ("ING AIH"). ING AIH is a wholly owned subsidiary of ING Groep N.V., a global financial services holding company based in the Netherlands.

The Company is a fully disclosed broker-dealer and clears all securities transactions through an unaffiliated clearing broker. Therefore, the Company is exempt from Securities and Exchange Commission ("SEC") Rule 15c3-3. The Company does not carry customer accounts and is not required to make the periodic computation of reserve requirements for the exclusive benefit of customers.

### 2. Summary of Significant Accounting Policies

#### General

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Certain reclassifications have been made to prior year amounts to conform with the current financial statement presentation.

#### Cash and Cash Equivalents

The Company considers deposits that can be redeemed on demand and highly liquid investments that have original maturities of three months or less, when purchased, to be cash and cash equivalents.

Cash of \$113,495 and \$142,905 at December 31, 2001 and 2000, respectively, has been segregated in a special reserve bank account, for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission and represents funds deposited by customers as a result of mutual fund trades.

IFG Network Securities, Inc.

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Income Taxes**

Deferred income tax assets and liabilities result from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

**Revenue Recognition**

Commission revenue and expense are recognized on a trade-date basis, which is the date a trade is executed.

**Financial Instruments with Off-Balance Sheet Risk**

The securities transactions of the Company's customers are introduced on a fully disclosed basis with a clearing broker-dealer. The Company holds no customer funds or securities. The clearing broker-dealer 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 related losses to the Company. The Company seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and to ensure that customer transactions are executed properly by the clearing broker-dealer.

**Liabilities Subordinated to the Claims of General Creditors**

At December 31, 2001 and 2000 and during the years then ended, the Company had no liabilities subordinated to the claims of general creditors.

IFG Network Securities, Inc.

Notes to Financial Statements (continued)

**3. Income Taxes**

The results of the Company's operations are included in the consolidated tax return of ING AIH. ING AIH and its subsidiaries each report current income tax expense as allocated under a consolidated tax allocation agreement. Generally, this allocation results in profitable companies recognizing a tax provision as if the individual company filed a separate return and loss companies recognizing benefits to the extent of their losses.

Income tax expense (benefit) consists of the following:

	<b>Year ended December 31</b>	
	<b>2001</b>	<b>2000</b>
Current:		
Federal	\$251,563	\$(152,434)
State	59,017	(16,937)
	310,580	(169,371)
Deferred:		
Federal	26,415	(15,771)
State	(5,579)	(1,752)
	20,836	(17,523)
Total	\$331,416	\$(186,894)

Variations from the federal statutory rate are as follows:

	<b>Year ended December 31</b>	
	<b>2001</b>	<b>2000</b>
Expected federal income tax expense (benefit) at statutory rate of 35%	\$311,723	\$(198,337)
Effect of permanent differences	(13,089)	13,089
State income tax expense (benefit), net of federal benefit (expense)	32,782	(12,761)
Other	-	11,115
Income tax expense (benefit)	\$331,416	\$(186,894)

IFG Network Securities, Inc.

Notes to Financial Statements (continued)

**3. Income Taxes (continued)**

The difference between the income tax provision computed at the federal statutory rate and the effective income tax rate is due to state income taxes and nondeductible expenses such as travel, entertainment, and meals. The Company has certain state net operating loss carryforwards that expire through the 2020 tax year.

Deferred income taxes have been established by each member of the consolidated group based upon the temporary differences within each entity. Significant components of the Company's deferred tax assets and liabilities are as follows:

	<b>December 31</b>	
	<b>2001</b>	<b>2000</b>
Deferred tax assets:		
Allowance for doubtful accounts	\$ 19,621	\$19,104
Deferred compensation	41,513	-
Intangible assets	72,425	143,473
Net operating loss carryforwards	61,623	61,623
State taxes	7,382	-
Other reserves	16,400	15,600
Net deferred tax asset	<u>\$218,964</u>	<u>\$239,800</u>

Management has evaluated the need for a valuation allowance for the deferred tax asset and believes that the deferred tax asset will more likely than not be realized. Accordingly, no valuation allowance has been recognized.

## IFG Network Securities, Inc.

### Notes to Financial Statements (continued)

#### 4. Related Party Transactions

The Company and one of its affiliates, IFG Services, Inc. ("Services"), a wholly owned subsidiary of Investors Financial Group, have entered into an agreement ("Agreement") whereby Services provides administrative services for a fee. The Agreement allows expenses to be allocated, using a consistent method, to the extent it does not place the Company in violation of its net capital requirements. During the years ended December 31, 2001 and 2000, administrative services fees of \$5,418,000 and \$6,762,000, respectively, were paid to Services by the Company. There were no unbilled fees at December 31, 2001 and 2000. The Company received revenues from an affiliate for broker-dealer services which approximated \$8,038,000 and \$7,935,000 for the years ended December 31, 2001 and 2000, respectively.

#### 5. Employee and Registered Representative Benefits

##### Deferred Compensation Plan

In October 2001, the Company through the ING Advisors Network, established a deferred compensation plan (the "Plan") for registered representatives. Under the Plan, if certain eligibility requirements are met, a participant may defer up to 25% of their commission and fee earnings and an OSJ participant may defer up to 50% of their earnings during a Plan year. The deferred compensation plan is unfunded; therefore, benefits are paid from the general assets of the Company. The total of participant deferrals which is reflected in accounts payable and other accrued expenses was \$100,750 at December 31, 2001. The interest expense related to this plan was \$502 for the year ended December 31, 2001.

#### 6. Contingencies

The Company is party to a number of claims and lawsuits arising in the course of their normal business activities. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that these matters, when resolved, will not have a material effect on the Company's results of operations or financial condition.

IFG Network Securities, Inc.

Notes to Financial Statements (continued)

**7. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity may not be withdrawn or cash dividends paid if the resulting net capital would exceed 10 to 1. At December 31, 2001, the Company had net capital of \$2,108,987 which was \$1,884,204 in excess of its required net capital of \$224,783. The Company's ratio of aggregate indebtedness to net capital at December 31, 2001 was 1.60 to 1.

# Supplemental Information

IFG Network Securities, Inc.

Schedule I  
 Computation of Net Capital and Aggregate Indebtedness  
 Pursuant to Rule 15c3-1 of the Securities and Exchange Commission

December 31, 2001

<b>Stockholder's equity</b>	<b>\$2,498,732</b>
<b>Non-allowable assets</b>	
Commissions and concessions receivable (Aged)	127,546
Deferred income tax asset	218,964
Other receivables	22,718
Total non-allowable assets	<u>369,228</u>
<b>Other deductions</b>	
Excess fidelity bond deductible	<u>14,626</u>
<b>Net capital before haircuts</b>	<b>2,114,878</b>
Haircuts	<u>5,891</u>
<b>Net Capital</b>	<b><u><u>\$2,108,987</u></u></b>
<b>Aggregate indebtedness (AI)</b>	
Accounts payable and other accrued expenses	\$ 257,258
Commissions and concessions payable	1,510,026
Due to affiliates	1,604,473
Other liabilities	<u>—</u>
Total aggregate indebtedness	<u><u>\$3,371,757</u></u>
Minimum net capital requirement, 6 2/3 % of AI	<u><u>\$ 224,783</u></u>
Minimum dollar net capital requirement	<u><u>\$ 100,000</u></u>
Excess net capital	<u><u>\$1,884,204</u></u>
Excess net capital at 1000%, as defined	<u><u>\$1,771,811</u></u>
Ratio of aggregate indebtedness to net capital	<u><u>1.60 to 1</u></u>

IFG Network Securities, Inc.

Schedule II  
Statement Pursuant to Rule 17a-5(d)(4)

December 31, 2001

There were no differences between the computation of net capital under Rule 15c3-1 included in this audited report and the computation included in the Company's corresponding unaudited Form X-17A-5 Part IIA filing as of December 31, 2001.

IFG Network Securities, Inc.

Schedule III  
Statement Regarding SEC Rule 15c3-3

December 31, 2001

**Exemptive Provisions**

The Company claims exemption from the requirements of Rule 15c3-3 under Section (k)(2)(i) and (k)(2)(ii) of the Rule.

## Report on Internal Control Required by SEC Rule 17a-5 for a Broker-Dealer Claiming an Exemption From SEC Rule 15c3-3

Stockholder and Board of Directors  
IFG Network Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of IFG Network Securities, Inc. (the "Company"), for the year ended December 31, 2001, 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 not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "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 criteria 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;
2. Recordation of differences required by rule 17a-13; and
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 internal 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 criteria. Two of the criteria 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 accordance with accounting principles generally accepted in the United States. Rule 17a-5(g) lists additional criteria of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the effectiveness of its design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in 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 one or more of the specific internal control components does not reduce to a relatively low level the risk that errors 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, and its operation that we consider to be material weaknesses as defined above.

We understand that practices and procedures that meet the criteria 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 meet such criteria 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, 2001, to meet the SEC's criteria.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers and other regulatory agencies which 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.

*Ernst & Young LLP*

Atlanta, Georgia  
February 8, 2002

Audited Financial Statements and Supplemental Information  
IFG Network Securities, Inc.  
*For the years ended December 31, 2001 and 2000*  
*with Reports of Independent Auditors*

