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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
8- 30780

9/13/12

Washington DC  
405

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 07/01/2011 AND ENDING 06/30/2012  
MM/DD/YY MM/DD/YY

\*

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: VSR Financial Services, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

8620 W. 110th Street, Suite 200

(No. and Street)

Overland Park

KS

66210

(City)

(State)

(Zip Code)

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

Eileen M. Quint

913-498-2900

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Miller Haviland Ketter PC, PA

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

1901 W. 47th Place, Suite 204

Westwood

KS

66205

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

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

**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)

SEC 1410 (06-02)

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9/19/12

OATH OR AFFIRMATION

I, Eileen M. Quint, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of VSR Financial Services, Inc. of June 30, 2012, 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:



Eileen M. Quint
Signature
Chief Financial Officer
Title

Amy Goodwin
Notary Public

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

- X (a) Facing Page.
X (b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
X (g) Computation of Net Capital.
X (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
X (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
X (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 of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
X (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.
X (o) Independent Auditors' Report on Internal Control required by SEC Rule 17a-5.

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

**VSR FINANCIAL SERVICES, INC.**

STATEMENTS OF FINANCIAL CONDITION  
AND SUPPLEMENTARY INFORMATION  
AS OF JUNE 30, 2012 AND 2011  
AND FOR THE YEARS THEN ENDED  
WITH INDEPENDENT AUDITORS' REPORT



**MHK**  
MILLER HAVILAND KETTER  
CERTIFIED PUBLIC ACCOUNTANTS

**VSR FINANCIAL SERVICES, INC.**

STATEMENTS OF FINANCIAL CONDITION  
AND SUPPLEMENTARY INFORMATION  
AS OF JUNE 30, 2012 AND 2011  
AND FOR THE YEARS THEN ENDED  
WITH INDEPENDENT AUDITORS' REPORT

**Filed in accordance with  
Rule 17a-5(e)(3)  
as a Public Document**

**VSR FINANCIAL SERVICES, INC.  
STATEMENTS OF FINANCIAL CONDITION  
AND SUPPLEMENTARY INFORMATION  
AS OF JUNE 30, 2012 AND 2011  
AND FOR THE YEARS THEN ENDED  
WITH INDEPENDENT AUDITORS' REPORT**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
VSR Financial Services, Inc.

We have audited the accompanying statements of financial condition of

**VSR FINANCIAL SERVICES, INC.**

as of June 30, 2012 and 2011 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 of America. Those standards require that we plan and perform the audits 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 VSR Financial Services, Inc., as of June 30, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the statements of financial condition. The information contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the statements of financial condition, but is supplementary information required by rule 17a-5 under the Securities and Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the statements of financial condition.

A handwritten signature in black ink, appearing to read 'Miller Haviland Ketter, P.C.', is written over the printed name.

CERTIFIED PUBLIC ACCOUNTANTS

Westwood, Kansas  
August 15, 2012

**VSR FINANCIAL SERVICES, INC.**  
**STATEMENTS OF FINANCIAL CONDITION**  
**AS OF JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash	\$ 736,481	\$ 981,701
Restricted Cash for Customer Refunds	27,686	27,802
Receivable from Brokers and Dealers	4,367,351	4,509,838
Marketable Securities, at fair value	956,710	1,144,705
Securities Not Readily Marketable, at fair value	141,400	141,400
Prepaid Income Taxes	215,955	118,044
	<u>\$ 6,445,583</u>	<u>\$ 6,923,490</u>
 <u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
<u>LIABILITIES</u>		
Commissions Payable	\$ 3,652,925	\$ 3,744,748
Accounts Payable	354,125	237,393
Accrued Customer Refunds	28,094	28,094
	<u>4,035,144</u>	<u>4,010,235</u>
 <u>STOCKHOLDER'S EQUITY</u>		
Paid in Capital		
Common stock, par value \$.001, authorized 10,000,000 shares, 1,309,110 shares issued, 798,510 shares outstanding (excluding treasury stock below)	1,309	1,309
Additional Paid in Capital	602,881	602,881
	<u>604,190</u>	<u>604,190</u>
Retained Earnings	2,956,237	3,459,053
	<u>3,560,427</u>	<u>4,063,243</u>
Less: Treasury Stock, at cost, 510,600 shares	<u>(1,149,988)</u>	<u>(1,149,988)</u>
	<u>2,410,439</u>	<u>2,913,255</u>
TOTAL STOCKHOLDER'S EQUITY		
	<u>2,410,439</u>	<u>2,913,255</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 6,445,583</u>	<u>\$ 6,923,490</u>

*The accompanying notes are an integral part of these financial statements.*



**VSR FINANCIAL SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

VSR Financial Services, Inc. ["Financial" and "Company"] is a fully-disclosed, full-service securities broker/dealer and investment advisory services firm founded in 1985. Financial operates through its network of approximately 275 independent representatives and registered advisory agents in 39 states who serve approximately 85,000 clients throughout North America. Financial is licensed in all 50 states of the USA, and is a member in good standing of the Financial Industry Regulatory Authority [FINRA]. All general securities accounts are insured by the Securities Investor Protection Corporation [SIPC].

Financial is a wholly-owned subsidiary of VSR Group, Inc. ["Group"]; the accounts of Group are not presented or otherwise included in these financial statements. Financial files consolidated corporation income tax returns with Group.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Subsequent Events

Subsequent events have been evaluated through August 15, 2012 which is the date the financial statements were available to be issued.

Revenue and Expense Recognition

Revenue and expenses in connection with securities transactions are recorded on a trade-date basis. Advisory fee income is recognized upon completion of services rendered; since the Company does not extend credit to its advisory service clients, payment is received at the time of completion in most cases. Asset management fee income is recognized on the accrual basis in the period when earned.

Cash

Cash consists of demand deposit checking accounts, specifically excluding bank certificates of deposit with original maturities in excess of 90 days, and also excluding restricted cash that has been segregated into a special reserve bank account for the benefit of the Company's customers under Rule 15c3-3(k)(2)(i) of the Securities and Exchange Commission. From time to time, the Company maintains cash balances with financial institutions in excess of the Federal Depositor Insurance Corporation (FDIC) limit. The Company has suffered no loss as a result of this risk.

Marketable Securities

Marketable securities investments consist of bank certificates of deposit with original maturities of 12 months that are classified as debt securities held to maturity, and also preferred stocks, common stocks, options and mutual funds which are classified as equity securities available-for-sale. All marketable securities are carried at fair value; for debt securities, fair value approximates cost.

**VSR FINANCIAL SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A** - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Securities Not Readily Marketable

Securities not readily marketable consist of limited interests in limited partnerships and stock warrants, and are stated at fair value equal to cost that does not exceed estimated net realizable value.

**NOTE B** - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires (1) maintenance of minimum net capital, and (2) that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1; and the rule of "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. Net capital requirements at June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Net Capital	\$1,702,448	\$2,166,643
Aggregate Indebtedness	3,819,189	3,892,191
Minimum Net Capital Required (as computed)	254,613	259,480
Minimum Dollar Net Capital Required	250,479	250,479
Net Capital Requirement	254,613	259,480
Excess Net Capital at 1500%	1,447,835	1,907,163
Net Capital Less 120% of Requirement	1,320,529	1,777,424
Net Capital Ratio	2.24 to 1	1.80 to 1

The Company is exempt from the cash reserve requirements and remaining provisions of Rule 15c3-3 of the Securities and Exchange Commission as it operates under the limitations of paragraph (k)(2)(ii) of Rule 15c3-3. The requirements of paragraph (k)(2)(ii) provide that the Company clear all transactions with and for customers on a fully-disclosed basis with a clearing broker/dealer and promptly transmit all customer funds and securities to the clearing broker/dealer.

**NOTE C** - RECEIVABLE FROM BROKERS AND DEALERS

As of June 30, 2012 and 2011, receivable from brokers and dealers is summarized as follows:

	<u>2012</u>	<u>2011</u>
Clearing firms	\$ 734,680	\$ 926,080
Private placement	2,448,014	2,408,414
Other brokers and dealers	1,184,657	1,175,344
	<u>\$ 4,367,351</u>	<u>\$ 4,509,838</u>

**VSR FINANCIAL SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE D - MARKETABLE SECURITIES**

Fair value is defined 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 pursuant to a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs are used to measure fair value:

- Level 1**            Quoted prices in active markets for identical assets or liabilities
- Level 2**            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 for substantially the full term of the assets or liabilities
- Level 3**            Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity securities, mutual funds and U.S. Treasury securities. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics, discounted cash flows or pricing models. Level 2 securities include corporate, municipal, government agency securities, common trust funds, hedge funds and other investments. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At June 30, 2012 and 2011, marketable securities were classified as follows:

	Fair Value	
	2012	2011
Level 1	\$ 432,779	\$ 625,292
Level 2	523,931	519,413
Total portfolio investments	<u>\$ 956,710</u>	<u>\$ 1,144,705</u>

**VSR FINANCIAL SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE D - MARKETABLE SECURITIES - continued**

As of June 30, 2012 and 2011 marketable securities consisted of the following:

	June 30, 2012			
	Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost
Equity Securities Available for Sale				
Common stocks and options	\$ 144,054	\$ -	\$ (216,101)	360,155
Mutual funds	288,725	45,637	(9,864)	252,952
Total Equity Securities Available for Sale	<u>432,779</u>	<u>45,637</u>	<u>(225,965)</u>	<u>613,107</u>
Debt Securities Held to Maturity				
Certificates of deposit	523,931	-	-	523,931
<b>TOTAL MARKETABLE SECURITIES</b>	<b><u>\$ 956,710</u></b>	<b><u>\$ 45,637</u></b>	<b><u>\$ (225,965)</u></b>	<b><u>\$1,137,038</u></b>

  

	June 30, 2011			
	Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost
Equity Securities Available for Sale				
Common stocks and options	\$ 332,106	\$ -	\$ (28,049)	360,155
Mutual funds	293,186	55,963	(1,994)	239,217
Total Equity Securities Available for Sale	<u>625,292</u>	<u>55,963</u>	<u>(30,043)</u>	<u>599,372</u>
Debt Securities Held to Maturity				
Certificates of deposit	519,413	-	-	519,413
<b>TOTAL MARKETABLE SECURITIES</b>	<b><u>\$ 1,144,705</u></b>	<b><u>\$ 55,963</u></b>	<b><u>\$ (30,043)</u></b>	<b><u>\$1,118,785</u></b>

The following is a summary of net investment income (loss) for the years ended June 30, 2012 and 2011:

	2012	2011
Interest and dividend income	\$ 14,177	\$ 22,044
Realized gains	2,514	19,036
Unrealized loss	(206,444)	(175,009)
	<u>(189,753)</u>	<u>(133,929)</u>
Less: investment management fees	(700)	(670)
<b>Net investment loss</b>	<b><u>\$ (190,453)</u></b>	<b><u>\$ (134,599)</u></b>

**VSR FINANCIAL SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE E - OPERATING LEASES**

The Company leases office space and office equipment under the terms of month-to-month operating leases with related parties disclosed in Note F. Following is a summary of rental expense under all operating leases:

	<u>2012</u>	<u>2011</u>
Related party (see Note F)	\$ 306,453	\$ 298,483
Other	8,337	6,216
Total	<u>\$ 314,790</u>	<u>\$ 304,699</u>

**NOTE F - RELATED PARTY TRANSACTIONS**

The Company leases office space, as disclosed in Note E, from its parent company, VSR Group, Inc. The Company also leases office equipment and purchases consulting services from VSR Group, Inc. Following is a summary of transactions and balances with related parties (other than operating leases) for the fiscal years ended June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Consulting fees & equipment leases	<u>\$ 1,153,707</u>	<u>\$ 50,000</u>

**NOTE G - INCOME TAXES**

For the years ended June 30, 2012 and 2011, income taxes paid were \$1,300,000 and \$1,200,000, respectively. Income tax returns filed by Group are subject to examination by the Internal Revenue Service (IRS) for three years after the date filed, with the result that the years 2011, 2010, 2009 and 2008 remain open as of August 15, 2012, although no returns have been selected for examination by the IRS. Management has evaluated tax positions taken or expected to be taken in the course of preparing the Group's tax returns with assistance from the Group's tax preparer to determine whether its tax positions are more likely than not to be sustained by applicable taxing authorities; likely tax positions are reported in these financial statements, and unlikely tax positions are not.

**NOTE H - CONTINGENCIES**

In the ordinary course of business, the Company becomes party to claims from time to time, most of which relate to sales of securities by representatives of the Company. As of June 30, 2012 and 2011, the Company was party to several such claims; management holds that its positions in each of these matters is meritorious, that it intends to defend its position vigorously, and that it anticipates favorable results. At this time it is not possible to predict the extent of the Company's liability, if any.

**NOTE I - DEFINED CONTRIBUTION RETIREMENT PLAN**

The Company sponsors a defined contribution 401(k) retirement plan covering all employees age 21 with one year of service. Company contributions are discretionary; current policy provides for Company matching contributions equal to 100% of the amount of employee contributions, limited to a total of 5.0% of each participant's compensation. The amounts of retirement contributions expense were \$229,986 and \$144,516 for fiscal years ended June 30, 2012 and 2011, respectively.

**SUPPLEMENTARY INFORMATION**

**VSR FINANCIAL SERVICES, INC.**  
**SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER**  
**RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION**  
**AS OF JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><u>NET CAPITAL</u></b>		
Total Stockholder's Equity	<u>\$ 2,410,439</u>	<u>\$ 2,913,255</u>
Deductions and/or charges:		
A. Nonallowable assets		
Securities not readily marketable	141,400	141,400
Commissions and other receivables	438,155	432,756
Prepaid income taxes	50	50
Other deductions and charges	46,118	46,015
	<u>625,723</u>	<u>620,221</u>
Net Capital Before Haircuts on Securities Positions	1,784,716	2,293,034
Haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f))		
A. Certificates of deposit and preferred stock	82,268	126,391
Net Capital	<u>\$ 1,702,448</u>	<u>\$ 2,166,643</u>
<b><u>AGGREGATE INDEBTEDNESS</u></b>		
Items Included in Statements of Financial Condition		
Commissions Payable	\$ 3,652,925	\$ 3,744,748
Accounts Payable	166,264	147,443
Total Aggregate Indebtedness	<u>\$ 3,819,189</u>	<u>\$ 3,892,191</u>
<b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT</b>		
Net Capital Required	<u>\$ 254,613</u>	<u>\$ 259,480</u>
Excess Net Capital	<u>\$ 1,447,835</u>	<u>\$ 1,907,163</u>
Net Capital Less 120% of Requirement	<u>\$ 1,320,529</u>	<u>\$ 1,777,424</u>
Ratio: Aggregate Indebtedness to Net Capital	<u>2.24 to 1</u>	<u>1.80 to 1</u>
<b><u>RECONCILIATION WITH COMPANY'S COMPUTATION</u></b>		
(included in Part II of Form X-17A-5 as of June 30, 2012 and 2011)		
Net Capital, as reported in Company's unaudited FOCUS report	<u>\$ 1,702,448</u>	<u>\$ 2,166,643</u>
Net Capital, as computed above	<u>\$ 1,702,448</u>	<u>\$ 2,166,643</u>

**VSR FINANCIAL SERVICES, INC.  
SCHEDULE II - COMPUTATION FOR  
DETERMINATION OF RESERVE REQUIREMENTS UNDER  
RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

The Company operated under the exemptive provisions of paragraph (k)(2)(ii) of Securities and Exchange Commission Rule 15c3-3 throughout the years ended June 30, 2012 and 2011.



**VSR FINANCIAL SERVICES, INC.  
SCHEDULE III - INFORMATION RELATING TO  
POSSESSION OR CONTROL REQUIREMENT UNDER  
RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

The Company has complied with the exemptive requirements of Rule 15c3-3 of the Securities and Exchange Commission and did not maintain possession or control of any customer funds or securities as of June 30, 2012 and 2011.



**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5**

Board of Directors  
VSR Financial Services, Inc.

In planning and performing our audits of the financial statements of VSR Financial Services, Inc., as of and for the years ended June 30, 2012 and 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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 VSR Financial Services, Inc., including consideration of control activities for safeguarding securities. This study included 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 and recordation of differences required by Rule 17a-13.
2. 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 generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and 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.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

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, as described in the second paragraph of this report, were adequate at June 30, 2012 and 2011, 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 New York Stock Exchange, 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.



**CERTIFIED PUBLIC ACCOUNTANTS**

Westwood, Kansas  
August 15, 2012