

# FMSBONDS, INC.

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## STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

DECEMBER 31, 2015

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**FMSbonds, Inc.**

## STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

DECEMBER 31, 2015

**ASSETS**

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CASH, including \$500,250 segregated for exclusive benefit of customers	\$	3,267,599
RECEIVABLE FROM BROKERS AND DEALERS		73,527
RECEIVABLE FROM CUSTOMERS		3,913,231
SECURITIES OWNED, AT FAIR VALUE (NOTES 5 AND 9)		114,596,353
BOND INTEREST AND REDEMPTIONS RECEIVABLE		2,017,679
SECURED DEMAND NOTE (NOTE 2)		10,000,000
PROPERTY AND EQUIPMENT (NOTE 3)		1,542,851
OTHER ASSETS (NOTE 4)		2,530,186
	\$	137,941,426

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**LIABILITIES AND STOCKHOLDERS' EQUITY**

## LIABILITIES

Collateral loans payable (Note 5)	\$	54,016,000
Payable to brokers and dealers		333,601
Payable to customers		454,726
Securities sold, but not yet purchased, at fair value (Note 9)		302,980
Accounts payable and accrued liabilities (Note 7)		10,767,242
		65,874,549
LEASE COMMITMENTS AND CONTINGENCIES (NOTE 6)		
SUBORDINATED LIABILITIES (NOTE 2)		10,000,000
STOCKHOLDERS' EQUITY		62,066,877
	\$	137,941,426

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See accompanying notes.

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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***Description of Business and Organization***

FMSbonds, Inc. (the Company), is a broker and dealer specializing in municipal bonds. The Company acts primarily in a principal capacity, buying and selling for its own account and trading with customers and other dealers. To a lesser extent, the Company acts in an agency capacity, buying and selling equity securities and annuities for its customers and charging a commission.

***Government and Other Regulation***

The Company's business is subject to significant regulation by various governmental agencies and self-regulatory organizations. Such regulation includes, among other things, periodic examinations by these regulatory bodies to determine whether the Company is conducting and reporting its operations in accordance with the applicable requirements of these organizations.

***Securities Transactions***

Securities transactions are reported on a settlement date basis.

***Valuation of Investments in Securities at Fair Value - Definition and Hierarchy***

The Company reports its investments in securities at estimated fair value. Fair value is defined as the price that the Company would receive to sell an investment or pay to transfer a liability in an orderly transaction with an independent counter-party in the principal market or in the absence of a principal market, the most advantageous market for the investment or liability.

***Property and Equipment***

Property and equipment is recorded at cost. Expenditures for major betterments and additions are charged to the asset accounts while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense.

***Depreciation and Amortization***

Depreciation and amortization of property and equipment is computed using the straight-line method at various rates based upon the estimated useful lives of the assets. The range of estimated useful lives is summarized as follows:

Furniture and fixtures	7 years
Office equipment	5 years
Leasehold improvements	7 years
Transportation equipment	5 years

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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***Receivables***

The Company does not provide a reserve for uncollected receivables as substantially all amounts are collateralized by securities awaiting delivery. Amounts are charged directly to expense when deemed uncollectible, and have historically been immaterial.

***Loans and advances to employees***

Loans and advances to employees are stated at the outstanding balance of funds due for repayment of cash advances. The carrying amount may be reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. As management believes that the amounts are fully collectible and are therefore stated at net realizable value, management has not recorded an allowance for doubtful accounts.

***Income Taxes***

The Company has elected, with the stockholders' consent, to be taxed under the S Corporation provisions of the Internal Revenue Code. Under these provisions, the taxable income of the Company is reflected by the stockholders on their personal income tax returns. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Company assesses its tax positions in accordance with "*Accounting for Uncertainties in Income Taxes*" as prescribed by the *Accounting Standards Codification*, which provides guidance for financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return for open tax years (generally a period of three years from the later of each return's due date or the date filed) that remain subject to examination by the Company's major tax jurisdictions. Generally, the Company is no longer subject to income tax examinations by its major taxing authorities for years before 2012.

The Company assesses its tax positions and determines whether it has any material unrecognized liabilities for uncertain tax positions. The Company records these liabilities to the extent it deems them more likely than not to be incurred. Interest and penalties related to uncertain tax positions, if any, would be classified as a component of income tax expense.

The Company believes that it does not have any significant uncertain tax positions requiring recognition or measurement in the accompanying financial statements.

***Use of Estimates in the Preparation of Financial Statements***

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 statement of financial condition. Actual results could differ from those estimates.

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**NOTE 2. SECURED DEMAND NOTE COLLATERALIZED BY MARKETABLE SECURITIES AND SUBORDINATED LIABILITIES**

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Secured demand note collateralized by marketable securities consists of a non-interest bearing loan to a related entity of \$10,000,000.

The subordinated liability may be repaid at the stated maturity date only if, after giving effect to such repayment, the Company meets the regulatory net capital requirements governing repayment of such subordinated debt. The loan was made under an agreement pursuant to the rules and regulations of the Securities and Exchange Commission, approved by the Financial Industry Regulatory Authority (“FINRA”) and is subordinated to the claims of general creditors.

The maturity of the subordinated liability for subsequent fiscal years is as follows:

2016	0
2017	10,000,000
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	\$ 10,000,000

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**NOTE 3. PROPERTY AND EQUIPMENT**

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Property and equipment at December 31, 2015 consisted of the following:

Furniture and fixtures	\$ 929,775
Office equipment	665,039
Leasehold improvements	1,472,200
Transportation equipment	569,261
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	3,626,275
Less: accumulated depreciation and amortization	( 2,083,424)
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	\$ 1,542,851

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**NOTE 4. OTHER ASSETS**

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Other assets at December 31, 2015 consisted of the following:

Net cash value of life insurance policies	\$ 25,000
Prepays	32,627
Deposits	21,052
Other receivables	542,517
Employee loans receivable	1,908,990
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	\$ 2,530,186

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**NOTE 5. COLLATERAL LOANS PAYABLE**

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The Company has a collateral loan payable due to its primary clearing broker in New York, Bank of New York Mellon (BNY Mellon). This credit facility provides for borrowings up to \$100,000,000, due on demand. The loan is collateralized by securities owned or held as collateral by the Company and securities awaiting delivery on uncompleted transactions. At December 31, 2015, the loan balance was \$51,016,000.

Additionally, the Company has a secondary brokerage credit agreement with U.S. Bank National Association (U.S. Bank). This credit facility provides for borrowings up to \$50,000,000, due on demand. The collateral loan payable due to U.S. Bank is collateralized in the same manner as the due to clearing broker. The collateral is pledged to U.S. Bank and held at the Depository Trust Company. At December 31, 2015, the loan balance was \$3,000,000.

All amounts due are payable on demand.

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**NOTE 6. LEASE COMMITMENTS AND CONTINGENCIES**

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***Lease Commitments***

The Company is obligated under various non-cancelable operating leases for certain equipment and office facilities.

As of December 31, 2015, the approximate future minimum annual rentals under the non-cancelable leases are as follows:

2016	\$	183,000
2017		85,000
2018		31,000
2019		28,000
2020		7,000
	\$	334,000

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The Company has month-to-month lease arrangements with a related entity for office facilities in North Miami Beach, Florida and Boca Raton, Florida.

***Contingencies***

The Company is party to a legal proceeding arising in the ordinary course of business. In the opinion of management, based on a review with legal counsel, the Company does not believe that this matter will have a material effect on the Company's financial position or operating results.

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**NOTE 7. EMPLOYEE BENEFIT PLANS**

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The Company maintains a 401(k) plan covering substantially all employees. Employer contributions to the plan are at the discretion of management. At December 31, 2015, the Company had accrued \$446,571 for this plan. Additionally, the Company maintains a non-qualified Supplemental Employees' Retirement Plan (SERP). Contributions, the funding of which is at management's discretion, are calculated based on the qualifying employee's salary and years of employment. At December 31, 2015, the Company had accrued \$6,614,789 for the SERP. These accruals are included in accounts payable and accrued liabilities in the accompanying statement of financial condition.

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**NOTE 8. NET CAPITAL REQUIREMENTS**

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As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule of the Securities and Exchange Commission, which requires that "Net Capital", as defined, shall be at least the greater of \$250,000 or 6-2/3% of "Aggregate Indebtedness", as defined. At December 31, 2015, the Company's "Net Capital" was \$47,190,473 which exceeded requirements by \$46,425,307. The ratio of "Aggregate Indebtedness" to "Net Capital" was 0.24 to 1 at December 31, 2015.

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**NOTE 9. CREDIT CONCENTRATIONS AND OFF-BALANCE-SHEET RISK**

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In the normal course of business, the Company enters into financial transactions in which there is a risk of loss due to changes in the market ("market risk") or failure of the other party to the transaction to perform ("credit risk"), as described below.

***Securities Sold, But Not Yet Purchased***

Securities sold, but not yet purchased, aggregate \$302,980 at December 31, 2015. Subsequent market fluctuations may require the Company to purchase these securities at prices which exceed the fair value in the accompanying statement of financial condition. Additionally, the securities owned and cash on deposit with clearing firms serve as collateral for this short-sale liability.

***Custody of Securities***

Custodial functions for the Company's securities transactions are substantially provided by BNY Mellon and the Depository Trust Company. At December 31, 2015, a majority of securities owned are held by these entities.

***Deposits with Financial Institutions***

The Company may, during the course of operations, maintain cash deposits in excess of federally insured limits.

***Other Risk Concentrations***

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