

FMSbonds, Inc.

**STATEMENT OF FINANCIAL CONDITION (UNAUDITED)
DECEMBER 31, 2011**

ASSETS

Cash, including 501,337 segregated for the exclusive benefit of customers	\$ 5,069,773
Receivable from brokers and dealers	1,003,549
Receivable from customers	5,705,221
Securities owned, at market (notes 5 and 9)	177,302,417
Bond interest and redemptions receivable	2,290,995
Secured demand notes collateralized by marketable securities (note 2)	3,035,000
Property and equipment (note 3)	1,289,387
Other assets (note 4)	2,461,976
	<u>\$198,158,318</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES	
Collateral loan payable (note 5)	\$130,901,000
Payable to brokers and dealers	1,835,534
Payable to customers	117,637
Securities sold, but not yet purchased, at market (note 9)	575,720
Accounts payable and accrued liabilities (note 7)	8,341,005
	<u>141,770,896</u>
 LEASE COMMITMENTS AND CONTINGENCIES (note 6)	
 SUBORDINATED LIABILITIES (note 2)	 3,035,000
 STOCKHOLDERS' EQUITY	 <u>53,352,422</u>
	<u>\$198,158,318</u>

See accompanying notes.

fmsbonds, Inc.
Municipal Bond Specialists

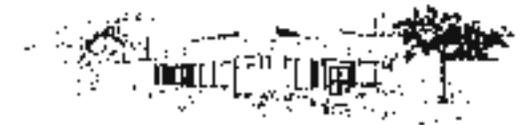
20660 W. Dixie Highway
North Miami Beach, FL 33180

4775 Technology Way
Boca Raton, FL 33431

7900 E Union Ave, Suite 1109
Denver, CO 80237

137 Rowayton Avenue, Suite 220
Greenwich, CT 06853

129 West Main Street, Suite B3
Bozeman, MT 59715



*Statement of
Financial Condition
(Unaudited)
December 31, 2011*

The Statement of Financial Condition of the most recent annual audit report of FMSbonds, Inc. pursuant to rule 17a-5(d) is available for examination at the offices of FMSbonds, Inc. and at the regional office of the Securities and Exchange Commission.

Dade	(305) 937-0660
Broward	(954) 462-0084
Boca Raton	(561) 368-5284
Palm Beach	(561) 655-0505
Toll Free	(800) 741-1103
www.fmsbonds.com	

Member FINRA & SIPC

NOTES TO STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Revenue Recognition

Securities owned and securities sold, but not yet purchased are valued at market.

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 currently.

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	5 to 8 years
Office equipment	5 to 8 years
Leasehold improvements	5 to 10 years
Transportation equipment	5 years

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.

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.

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 financial statement. Actual results could differ from those estimates.

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

Secured demand notes collateralized by marketable securities consist of non-interest bearing loans to stockholders of \$3,035,000.

The subordinated liabilities may be repaid at the stated maturity dates only if, after giving effect to such repayment, the Company meets the regulatory net capital requirements governing repayment of such subordinated debt. These loans were made under agreements pursuant to the rules and regulations of the Securities and Exchange Commission, approved by the Financial Industry Regulatory Authority ("FINRA") and are subordinated to the claims of general creditors.

The maturities of the subordinated liabilities for subsequent fiscal years are as follows:

2012	-
2013	3,035,000
	<u>\$ 3,035,000</u>

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Furniture and fixtures	\$ 974,591
Office equipment	589,910
Leasehold improvements	577,346
Transportation equipment	646,611
	<u>\$ 2,788,458</u>
Less accumulated depreciation and amortization	<u>(1,499,071)</u>
	<u>\$ 1,289,387</u>

NOTE 4. OTHER ASSETS

Other assets consisted of the following:

Prepays	\$ 13,167
Other receivables	368,372
Net cash value of life insurance policies	25,000
Deposits	1,103,118
Employee loans receivable	952,319
	<u>\$ 2,461,976</u>

NOTE 5. COLLATERAL LOAN PAYABLE

The Company has a collateral loan payable due to its primary clearing broker in New York. 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, 2011, the loan balance was \$80,901,000.

Additionally, the Company entered into 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, 2011, the loan balance was \$50,000,000.

NOTE 6. LEASE COMMITMENTS AND CONTINGENCIES

The Company is obligated under various non-cancellable operating leases for certain equipment.

As of December 31, 2011, the approximate future minimum annual rentals under the non-cancellable leases for subsequent fiscal years are as follows:

2012	48,991
2013	77,538
2014	71,336
2015	28,662
	<u>\$ 226,527</u>

The Company has a month-to-month lease arrangement with its stockholders for office facilities in North Miami Beach and Boca Raton, Florida.

The Company is involved in various legal proceedings arising in the ordinary course of business. While it is not feasible to predict or determine the outcome of these proceedings, in the opinion of management, based on a review with legal counsel, any losses which may result from such legal proceedings are not expected to have a material adverse effect on the financial position or results of the Company.

NOTE 7. EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) plan covering substantially all employees. Employer contributions to the plan are at the discretion of management. For the year ended December 31, 2011, the Company had accrued \$362,000 for this plan. Additionally, the Company maintains a non-qualified Senior Executives' 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, 2011, the Company had accrued \$4,641,000 for the SERP.

NOTE 8. NET CAPITAL REQUIREMENTS

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, 2011, the Company's "Net Capital" was \$35,149,886 which exceeded requirements by \$34,578,646. The ratio of "Aggregate Indebtedness" to "Net Capital" was 0.24 to 1 at December 31, 2011.

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

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 \$575,720 at December 31, 2011. Subsequent market fluctuations may require the Company to purchase these securities at prices which exceed the market value in the accompanying statement of financial condition.

Custody of Securities

Custodial functions for the Company's securities transactions are substantially provided by a New York City bank. At December 31, 2011, a majority of securities owned is held by this bank.

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.