

FMSBONDS, INC.

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2008



CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL CONDITION	2
NOTES TO STATEMENT OF FINANCIAL CONDITION	3 - 7

INDEPENDENT AUDITORS' REPORT

To the Stockholders
FMSbonds, Inc.
Boca Raton, Florida

We have audited the accompanying statement of financial condition of FMSbonds, Inc. as of June 30, 2008. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of FMSbonds, Inc. as of June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.



Miami, Florida
August 26, 2008

**KAUFMAN
ROSSIN**
CO. PROFESSIONAL
ASSOCIATION
CERTIFIED PUBLIC ACCOUNTANTS

FMSbonds, Inc.

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2008

ASSETS

CASH, including \$101,621 segregated for the exclusive benefit of customers	\$	2,936,233
RECEIVABLE FROM BROKERS AND DEALERS		12,718,552
RECEIVABLE FROM CUSTOMERS		8,125,442
SECURITIES OWNED, AT MARKET (NOTES 5 AND 9)		99,284,111
BOND INTEREST AND REDEMPTIONS RECEIVABLE		1,188,709
SECURED DEMAND NOTES COLLATERALIZED BY MARKETABLE SECURITIES (NOTE 2)		8,350,000
PROPERTY AND EQUIPMENT (NOTE 3)		743,500
OTHER ASSETS (NOTE 4)		451,572
		<hr/>
	\$	133,798,119

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Collateral loan payable (Note 5)	\$	98,497,298
Payable to brokers and dealers		2,111,449
Payable to customers		202,917
Securities sold, but not yet purchased, at market (Note 9)		657,134
Accounts payable and accrued liabilities (Note 7)		7,663,350
Stockholders' distribution payable		700,000
		<hr/>
		109,832,148
LEASE COMMITMENTS AND CONTINGENCIES (NOTE 6)		
SUBORDINATED LIABILITIES (NOTE 2)		8,350,000
STOCKHOLDERS' EQUITY		15,615,971
		<hr/>
	\$	133,798,119

See accompanying notes.

FMSbonds, Inc.

NOTES TO STATEMENT OF FINANCIAL CONDITION

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.

Securities Transactions and Revenue Recognition

Securities transactions are reported on a trade date basis, and 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	7 to 8 years
Office equipment	5 to 7 years
Leasehold improvements	7 years
Transportation equipment	5 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$8,350,000.

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") (formerly known as the National Association of Security Dealers, Inc.) and are subordinated to the claims of general creditors.

Effective August 13, 2007, extension of maturity of \$3,035,000 of secured demand notes receivable and corresponding liabilities to stockholders was granted, with FINRA approval, with a new expiration date of August 31, 2010.

Effective September 21, 2007, \$2,000,000 of secured demand notes receivable and corresponding liabilities to stockholders were granted, with FINRA approval, with an expiration date of September 30, 2010.

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

The maturities of the subordinated liabilities for the years subsequent to June 30, 2008, are as follows:

2009	\$ 3,315,000
2010	-
2011	5,035,000
	<hr/>
	\$ 8,350,000

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Furniture and fixtures	\$ 599,654
Office equipment	819,555
Leasehold improvements	540,018
Transportation equipment	416,608
	<hr/>
	2,375,835
Less accumulated depreciation and amortization	(1,632,335)
	<hr/>
	\$ 743,500

NOTE 4. OTHER ASSETS

Other assets consisted of the following:

Prepays	\$ 54,537
Other receivables	60,715
Net cash value of life insurance policies	25,072
Deposits	87,598
Employee loans receivable	223,650
	<hr/>
	\$ 451,572

NOTE 5. COLLATERAL LOAN PAYABLE

Collateral loan payable represents amounts due to the Company's clearing broker and is collateralized by securities owned or held as collateral by the Company and securities awaiting delivery on uncompleted transactions. Interest is payable monthly at the prevailing variable rate, which was 3.20% at June 30, 2008. All amounts due are payable on demand.

NOTE 6. LEASE COMMITMENTS AND CONTINGENCIES

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

As of June 30, 2008, the approximate future minimum annual rentals under the non-cancelable leases are as follows:

2009	\$	51,000
2010		37,000
	\$	88,000

The Company has a month-to-month lease arrangement with its stockholders for an office facility in North Miami Beach, Florida.

Litigation Matters

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. At June 30, 2008, the Company had accrued \$163,000 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 June 30, 2008, the Company had accrued \$2,347,590 for the SERP. This amount is included in accounts payable and accrued liabilities in the accompanying statement of financial condition.

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 June 30, 2008, the Company's "Net Capital" was \$13,048,490 which exceeded requirements by \$12,436,906. The ratio of "Aggregate Indebtedness" to "Net Capital" was 0.70 to 1 at June 30, 2008.

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 \$657,134 at June 30, 2008. 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 June 30, 2008, 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.