

# FMSBONDS, INC.

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## STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

DECEMBER 31, 2022

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**FMSbonds, Inc.**

## STATEMENT OF FINANCIAL CONDITION (UNAUDITED)

DECEMBER 31, 2022

**ASSETS**

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CASH, including \$3,930,876 segregated for exclusive benefit of customers	\$	5,960,706
RECEIVABLE FROM BROKERS AND DEALERS		821,754
RECEIVABLE FROM CUSTOMERS		4,972,186
SECURITIES OWNED, AT FAIR VALUE (NOTES 4 AND 8)		96,941,836
BOND INTEREST AND REDEMPTIONS RECEIVABLE		1,102,267
PROPERTY AND EQUIPMENT (NOTE 2)		1,215,638
RIGHT OF USE ASSET, NET (NOTE 5)		1,456,040
OTHER ASSETS (NOTE 3)		1,536,544
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	\$	114,006,971

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**LIABILITIES AND STOCKHOLDERS' EQUITY**

## LIABILITIES

Collateral loans payable (Note 4)	\$	15,832,785
Payable to brokers and dealers		742,241
Payable to customers		474,588
Securities sold, but not yet purchased, at fair value (Note 8)		580,568
Lease liability (Note 5)		1,570,051
Stockholders' distribution payable		1,200,000
Accounts payable and accrued liabilities (Note 6)		16,705,169
Total liabilities		<hr/> 37,105,402

LEASE COMMITMENTS AND CONTINGENCIES (NOTE 5)

STOCKHOLDERS' EQUITY		<hr/> 76,901,569
	\$	<hr/> 114,006,971

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See accompanying notes.

## **FMSbonds, Inc.**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION (UNAUDITED)**

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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, and in an administrative capacity earning fees for administrative services rendered.

##### ***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, and all securities are carried at fair value.

##### ***Restricted Cash***

If the Company has a requirement under the reserve computation, that amount of the minimum deposit required by the regulation would be considered restricted cash. While there was a balance in the special reserve account at December 31, 2022, there was no minimum deposit requirement needed.

##### ***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 currently.

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

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***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

***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.

***Leases***

The Company's leases for office space are classified as operating leases and comprise substantially all of the right-of-use ("ROU") assets and lease liability in the Company's statement of financial condition. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising for the lease. A lease liability and corresponding ROU asset are initially recognized based on the present value of the minimum lease payments and do not include other variable contractual obligations, such as operating expenses, real estate taxes and employee parking. These costs are accounted for as period costs and expensed as incurred. When calculating the measurement of ROU assets and liabilities, the Company used its 3.0% incremental borrowing rate as of the lease commencement date. The subsequent measurement of the lease results in the recognition of a single lease expense amount that is recorded on a straight-line basis over the lease term.

***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.

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

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***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.

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. PROPERTY AND EQUIPMENT**

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Property and equipment at December 31, 2022 consisted of the following:

Furniture and fixtures	\$ 929,775
Office equipment	1,276,766
Leasehold improvements	1,638,718
Transportation equipment	526,950
	<hr/> 4,372,209
Less: accumulated depreciation and amortization	( 3,156,571 )
	<hr/> \$ 1,215,638

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**NOTE 3. OTHER ASSETS**

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Other assets at December 31, 2022 consisted of the following:

Prepays	\$ 482,511
Deposits	98,620
Other receivables	764,571
Employee loans receivable	190,842
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	\$ 1,536,544

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**NOTE 4. COLLATERAL LOAN FACILITIES**

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The Company has a collateral loan facility with 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, and is due on demand. Borrowings are collateralized by securities owned or held as collateral by the Company and securities awaiting delivery on uncompleted transactions. At December 31, 2022, the loan balance was \$15,832,785.

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, and is due on demand. The collateral loan payable due to U.S. Bank is collateralized in the same manner as amounts due to the clearings broker. The collateral is pledged to U.S. Bank and held at the Depository Trust Company. There was no outstanding balance at December 31, 2022.

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**NOTE 5. 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, expiring through June 2024.

As of December 31, 2022, the future minimum annual rentals under the non-cancelable operating leases, of which substantially all are facility leases on two locations with the Company stockholders, are as follows:

2023	\$ 601,727
2024	1,164,722
	<hr/>
	1,766,449
Less: lease commitment on short-term leases not capitalized	( 154,865 )
Less: discount to present value of lease liability	( 41,533 )
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Total lease liability	\$ 1,570,051

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**NOTE 5. LEASE COMMITMENTS AND CONTINGENCIES (Continued)**

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The Company has two facility leases with its stockholders for office facilities in North Miami Beach, Florida and Boca Raton, Florida with 3% rent escalation provisions.

***Contingencies***

The Company is party to legal proceedings 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 these matters will have a material effect on the Company's financial position or operating results.

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**NOTE 6. 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, 2022, the Company had accrued approximately \$450,000 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 December 31, 2022, the Company had accrued approximately \$9,250,000 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 7. 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, 2022, the Company's "Net Capital" was \$48,075,175 which exceeded requirements by \$46,847,586. The ratio of "Aggregate Indebtedness" to "Net Capital" was 0.38 to 1 at December 31, 2022.



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**NOTE 8. 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 \$580,568 at December 31, 2022. 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, 2022, 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.