FMSBONDS, INC.

STATEMENT OF FINANCIAL CONDITION
(UNAUDITED)

DECEMBER 31, 2024

C O N T E N T S

FMSbonds, Inc.
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December 31, 2024

ASSETS

CASH, including $255,798 segregated for exclusive benefit of customers	$	2,055,528
RESTRICTED CASH		3,789,860
RECEIVABLE FROM BROKERS AND DEALERS		1,298,128
RECEIVABLE FROM CUSTOMERS		5,577,287
SECURITIES OWNED, AT FAIR VALUE (NOTES 4 AND 8)		207,307,680
BOND INTEREST AND REDEMPTIONS RECEIVABLE		3,832,733
PROPERTY AND EQUIPMENT, NET (NOTE 2)		653,371
RIGHT OF USE ASSET, NET (NOTE 5)		4,390,456
DERIVATIVE CONTRACTS (NOTE 9)		407,536
OTHER ASSETS (NOTE 3)		5,719,232
	$	235,031,811

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Collateral loan credit facilities (Note 4)	$	122,781,000
Payable to brokers and dealers		1,017,469
Payable to customers		782,286
Securities sold, but not yet purchased, at fair value (Note 8)		617,655
Lease liability (Note 5)		4,423,430
Stockholders’ distribution payable		2,000,000
Accounts payable and accrued liabilities (Note 6)		19,110,860
Total liabilities		150,732,700
LEASE COMMITMENTS AND CONTINGENCIES (NOTE 5)		
STOCKHOLDERS' EQUITY		84,299,111
	$	235,031,811

See accompanying notes.

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, and in an administrative capacity, earning fees for administrative services rendered, and in its capacity as underwriter for various municipal securities offerings.

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 trade date basis. All securities are carried at fair value with the resulting difference between cost and fair value included in trading profits in the statement of operations.

Cash and 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, 2024, there was no minimum deposit requirement needed.

The Company also considers cash collateral posted with counterparties for open derivative contracts (Note 9) to be restricted cash. As of December 31, 2024, the balance of collateral posted with Morgan Stanley was $3,748,860. This balance is subject to a legal or contractual restriction by third parties as well as a restriction as to withdrawal or use, including restrictions that require the funds to be used for a specified purpose and restrictions that limit the purpose for which the funds can be used.

Offsetting of Amounts Related to Derivative Contracts

The Company has elected not to offset fair value amounts recognized for cash collateral receivables against fair value amounts recognized for derivative positions executed with the same counterparty under the same master netting agreement.

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.

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 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 and real estate taxes. 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.

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 financial statements. Actual results could differ from those estimates.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2024 consisted of the following:

Furniture and fixtures	$ 929,775
Office equipment	1,354,967
Leasehold improvements	2,023,265
	4,308,007
Less: accumulated depreciation and amortization	(3,654,636)
	$ 653,371

NOTE 3. OTHER ASSETS

Other assets at December 31, 2024 consisted of the following:

Prepaids	$ 695,342
Deposits	171,327
Other receivables	774,263
Employee loans receivable	4,078,300
	$ 5,719,232

NOTE 4. COLLATERAL LOAN FACILITIES

The Company has a collateral loan credit 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, 2024, the loan balance was $111,281,000.

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 and is due on demand. The collateral loan credit facility due to U.S. Bank is collateralized in the same manner as amounts due to the clearing broker. The collateral is pledged to U.S. Bank and held at the Depository Trust Company. At December 31, 2024, the loan balance was $11,500,000.

NOTE 5. LEASE COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company is obligated under various non-cancelable operating leases for certain equipment and office facilities, expiring through June 2029.

As of December 31, 2024, 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:

2025	$ 533,333
2026	1,098,667
2027	1,131,627
2028	1,165,575
2029	1,200,542
Less: lease commitment on short-term leases not capitalized	(443,706)
Less: discount to present value of lease liability	(262,608)
Total lease liability	$ 4,423,430

Other information related to operating leases as of December 31, 2023:

Weighted average remaining lease term (years)	5.00
Weighted average discount rate	6.75 %

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.

NOTE 6. 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 December 31, 2024, the Company had accrued approximately $424,000 for this plan.

NOTE 6. EMPLOYEE BENEFIT PLANS (Continued)

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 employees' salary and years of employment. At December 31, 2024, the Company had accrued approximately $10,030,000 for the SERP. These accruals are included in accounts payable and accrued liabilities in the accompanying statement of financial condition.

NOTE 7. 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, 2024, the Company's "Net Capital" was $42,352,083 which exceeded requirements by $40,868,718. The ratio of "Aggregate Indebtedness" to "Net Capital" was 0.53 to 1 at December 31, 2024.

NOTE 8. 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 $617,655 at December 31, 2024. 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, 2024, 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.

NOTE 8. CREDIT CONCENTRATIONS AND OFF-BALANCE-SHEET RISK (Continued)

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.

NOTE 9. DERIVATIVE INSTRUMENTS

The Company enters into total return swaps and interest rate swaps to hedge against unfavorable changes in the value of its investments, and to protect against adverse movements in interest rates or credit performance with counterparties. Generally, a swap contract is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified notional amount of the underlying assets. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

The fair value of open swaps reported in the statement of financial condition may differ from that which would be realized in the event the Company terminated its position in the contract. Risks may arise as a result of the failure of the counterparty to the swap contract to comply with the terms of the swap contract. The loss incurred by the failure of a counterparty is generally limited to the aggregate fair value of swap contracts in an unrealized gain position as well as any collateral posted with the counterparty. The risk is mitigated by having a master netting arrangement between the Company and the counterparty and by the posting of collateral by the counterparty to the Company to cover the Company’s exposure to the counterparty. Therefore, the Company considers the creditworthiness of each counterparty to a swap contract in evaluating potential credit risk. Additionally, risks may arise from unanticipated movements in the fair value of the underlying investments.

The following table lists fair value of derivatives by contract type as included in statement of financial condition. Balances are presented on a gross basis, without impact of counterparty and collateral netting.

Primary Underlying Risk	Number of Contracts	Notional Amount	Derivative Assets	Derivative Liabilities
Interest Rate Risk				
Total return swap and interest rate swap contracts	10	$ 35,000,000	$ 407,536	$ -