

KH 4/22

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: April 30, 2013  
Estimated average burden  
hours per response..... 12.00



**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER  
8- 40577

FACING PAGE  
**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1/1/2010 AND ENDING 12/31/10  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Boston Merchant Financial Services OFFICIAL USE ONLY  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
419 Boylston St  
Boston MA 02116  
(City) (State) (Zip Code)

OFFICIAL USE ONLY  
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
PRATT, William L  
(Name - if individual, state last, first, middle name)  
1610 MAW STREET SO. Weymouth MA 02190  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.



**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

KH 4/22

OATH OR AFFIRMATION

I, Harry W Maxfield, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Boston Merchant Financial Services, as of Dec 31, 20 10, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

[Signature]  
Signature  
President  
Title

[Signature]  
Notary Public

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**Boston Merchant Financial Services, Inc.**  
**Financial Statements and Supplementary Information**  
**December 31, 2010**

## CONTENTS

	Page
Independent Auditor's Report	1
<u>Financial Statements</u>	
Statement of Financial Position	2
Statement of Income	3
Statement of Cash Flows	4
Statement of Changes in Stockholder's Equity	5
Notes to Financial Statements	6-8
<u>Supplemental Information</u>	
Independent Auditor's Report on Supplementary Information	9
Schedule of General And Administrative Expenses	10
Computation of Net Capital under Rule 15c-1	11
Computation of Determination of Reserve Requirements	12

**WILLIAM L PRATT**  
**CERTIFIED PUBLIC ACCOUNTANT**  
1610 Main Street  
S. Weymouth, MA 02190

Member:  
American Institute of CPA's  
Mass. Society of CPA's  
National Association of CVA's

Phone: 781-331-5818  
Fax: 781-340-1228  
Email: [bill@wlprattcpa.com](mailto:bill@wlprattcpa.com)  
Web: [www.wlprattcpa.com](http://www.wlprattcpa.com)

To the Board of Directors and Stockholders of  
Boston Merchant Financial Services, Inc.

Independent Auditor's Report

We have audited the accompanying Statement of Financial position of Boston Merchant Financial Services, Inc. (a Connecticut Corporation) as of December 31, 2010, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities and Exchange Act of 1934. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Boston Merchant Financial Services, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the initial period then ended in conformity with the accounting principles generally accepted in the United States of America.

Sincerely,



William L. Pratt, CPA

April 5, 2011

**Boston Merchant Financial Services, Inc.**  
**Statement of Financial Position**  
**December 31, 2010**

ASSETS

Current assets:	
Cash and cash equivalents	\$108,202
Accounts receivable	544
Total assets	<u>108,746</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities:	
Accounts payable	52,174
Stockholder's equity:	
Common stock, no par value (stated value \$10) 5,000 shares authorized, 1,000 shares issued	10,000
Additional paid-in capital	661,000
Retained (deficit) earnings	(601,054)
Less: Treasury stock	<u>(13,374)</u>
Total stockholder's equity	<u>56,572</u>
Total liabilities and stockholder's equity	<u>\$108,746</u>

See accompanying notes

**Boston Merchant Financial Services, Inc.**  
**Statement of Income**  
**December 31, 2010**

Revenues:	
Mutual fund incentives	\$2,924
Commissions income	<u>238</u>
Total	3,162
Operating Expenses	<u>316,136</u>
Operating Income (Loss)	(301,824)
Add Other Income:	
Interest income	<u>12</u>
Deduct Losses:	
Interest Expense	7
Loss on investment account	<u>(182)</u>
Income (loss) before taxes	(301,857)
Current corporation income taxes	<u>988</u>
Net income (loss)	<u>\$ (302,563)</u>

See accompanying notes

**Boston Merchant Financial Services, Inc.**  
**Statement of Cash Flows**  
**For the Years Ended December 31, 2010**

Cash Flows from Operating Activities

Net (loss) income	(229,119)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:	
Decrease (increase) in prepaid expenses	
Decrease (increase) in other receivables	(544)
Increase (decrease) in accrued taxes	141
Increase (decrease) in accounts payable	<u>8,781</u>
Net cash (used in) provided by operating activities	8,376

Cash Flows from Financing Activities:

Contributed capital	<u>181,000</u>
Net cash (used in) provided by financing activities	181,000
Net increase (decrease) in cash and cash equivalents	(39,743)
Cash and cash equivalents, beginning of year	<u>147,945</u>
Cash and cash equivalents, end of year	<u>108,202</u>

Supplemental Disclosures

Cash paid during the year for:	
Interest	\$7
Taxes	988

See accompanying notes

Boston Merchant Financial Services, Inc.  
Statement of Changes in Stockholders Equity  
For the Years Ended December 31, 2010

	<u>Common Stock</u> <u>Shares</u>	<u>Amount</u>	<u>Treasury Stock</u> <u>Shares</u>	<u>Amount</u>	<u>Paid in</u> <u>Capital</u>	<u>Retained</u> <u>(Deficit)</u> <u>Earnings</u>	<u>Total</u> <u>Stockholder's</u> <u>Equity</u>
Balance, December 31, 2009	1,000	\$10,000	(250)	\$(13,374)	\$480,000	\$(371,935)	\$104,692
Net Income						(229,118)	(229,118)
Contributed Capital					181,000		181,000
Shareholder distributions							
Balance, December 31, 2009	<u>1,000</u>	<u>\$10,000</u>	<u>(250)</u>	<u>(\$13,374)</u>	<u>\$661,000</u>	<u>(601,053)</u>	<u>\$56,573</u>

See Accompanying Notes

1. Nature of Operations:

Boston Merchant Financial Services, Inc. is a broker-dealer registered with the SEC and is a member of various exchanges and the FINRA. The company was organized on November 1, 1988, as a Connecticut corporation, for the purpose of conducting business as a broker-dealer and selling mutual fund shares to institutional customers located in Connecticut and Massachusetts.

2. Summary of Significant Accounting Policies:

**Stock Ownership**

During 2007, 100% of the shares of the Corporation were transferred to a new shareholder.

**Name Change**

Boston Merchant Financial Services, Inc. was formerly T.O. Richardson Securities, Inc. before legally changing its corporate name. The name became effective on October 3, 2007.

**Income Taxes**

Under the provisions of the Internal Revenue Code, the company was taxed as an S Corporation through August 7, 2007. Under such election, the Company's taxable income was passed through to the individual shareholders. However, the Company terminated its S Corporation election effective August 7, 2007 and beginning August 8, 2007, the Company is taxed as a C Corporation.

The Company now accounts for income taxes in accordance with the Statement of Financial Accounting Standards No. 109, whereby deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. At December 31, 2009 there were no differences arising from book and tax purposes. Further, Management is uncertain as to the utilization of net operating loss carry forwards to offset taxable income in the future. Therefore, there are no deferred tax assets or liabilities recorded in these financial statements.

**Fair Value of Financial Instruments**

Their fair value of the Company's assets and liabilities including cash and cash equivalents and accounts payable, approximates the carrying amounts presented in the statement of financial condition at December 31, 2010.

**Cash and Cash Equivalents**

The company has defined cash equivalents as short-term, highly liquid investments with original maturities of less than 90 days, including the money market funds held for investment.

### **Use of Estimates**

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 at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

#### **3. Net Capital and Reserve Requirements:**

Under the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1 (the Rule), the Company is required to maintain minimum "net capital" equal to the greater of \$25,000, or 6-2\3% of "aggregate indebtedness", as those terms are defined in the Rule. The Company's net capital under the Rule at December 31, 2009 equals \$104,692, which is in excess of the required minimum.

The Company does not hold funds or securities for, or owe funds or securities to, customers other than funds or securities promptly forwarded to the clearing broker/dealer or customer. The Company is thereby exempted from Rule 15c3-3 of the Securities Exchange Act of 1934 by paragraph (k) (2) (i) of that rule.

#### **4. Related Parties:**

BMP Standard, LLC, the sole shareholder of Boston Merchant Financial Services, Inc. is a holding company that also owns Boston Merchant Financial, LLC, a member of NFA, which acts as an introducing agent for futures and commodities trading to Future Commission Merchants. During the year end December 31, 2009, BMP Standard, LLC contributed an additional \$260,000 in capital to the Company.

#### **5. Income Taxes:**

Income tax expense for the year ended December 31, 2009 consists of the following items:

Taxes currently payable -	
Federal	\$0
Massachusetts	456
Other States	<u>532</u>
	<u>\$988</u>

The Company has Federal net operating losses available for carry-forward to future years. This carry-forward is in the amount of \$529,528.

6. Fair Value:

The fair value of the Company's assets and liabilities, which qualify as financial instruments under Statement of Financial Accounting Standards No. 107, "*Disclosures about Fair Value of Financial Instruments*," approximates the carrying amounts presented in the statements of financial condition.

7. Concentrations:

The Company maintains a bank account that sometimes exceeds \$100,000. The Federal Deposit Insurance Corporation (FDIC) secures these accounts up to \$100,000.

**Supplemental Information**

To the Board of Directors and Stockholders of  
Boston Merchant Financial Services, Inc.

We have audited the accompanying corrected Statement of Financial Position of Boston Merchant Financial Services, Inc. as and for the year ended December 31, 2010, and have issued our report thereon date April 5, 2010. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Schedule of General And Administrative Expenses, Computation of the Net Capital under Rule 15c-3.1, and Computation for Determination of Reserve Requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Sincerely,



William L. Pratt, CPA

April 5, 2011

**Boston Merchant Financial Services, Inc.**  
**Statement of Operating Expenses**  
**December 31, 2010**

Business services	\$785
Clearing services	51,717
Communications	7,894
Financial media services	10,500
Insurance expense	799
Marketing	219
Office Expense	2,357
Professional fees – Audit	7,031
Professional education	1,956
Penalties	659
Payroll	121,027
Quotes	4,104
Registration fees	1,085
Regulatory expenses	8,693
Rent	24,000
Travel & entertainment	4,020
Subcontractor wages	<u>7,400</u>
TOTAL	<u>\$254,246</u>

**Boston Merchant Financial Services, Inc.**  
**Statement of Net Capital**  
**December 31, 2010**

Net Capital	\$56,572
Deduct Stockholder's Equity not allowable for net capital	<u>0</u>
Net Capital per above	56,572
Net capital requirement	<u>25,000</u>
Excess Net Capital	<u>\$ 31,572</u>

No material differences exist between this report and the amounts reported on the December 31, 2009 unaudited filing of Part II or Part II A of the Focus report.

**Boston Merchant Financial Service, Inc.**  
**Computation for Determination of Reserve Requirements**  
**Under Rule 15c3-3 of the Securities and Exchange Commission**  
**For the Years Ended December 31, 2010**

Credit balance	\$0
Debit balance	<u>0</u>
Excess debits over credits	0
Required deposits	0
Excess as reported in Company's report	<u>\$0</u>

No material differences exist between this report and the amounts reported on the December 31, 2010  
unaudited filing of Part II or Part II A of the Focus report

**WILLIAM L PRATT**  
**CERTIFIED PUBLIC ACCOUNTANT**

1610 Main Street  
S. Weymouth, MA 02190

Phone: (781) 331-5818  
Fax: (781) 340-1228

Website: www.wlprattcpa.com  
Email: bill@wlprattcpa.com

Member:

American Institute of CPAs  
Mass. Society of CPAs  
National Association of CVA's

**Report on Internal Control Required by SEC Rule 17a-5 for a Broker-Dealer  
Claiming an Exemption from SEC Rule 15c3-3**

To the Board of Directors and Stockholders of  
Boston Merchant Financial Services, Inc.

In planning and performing our audits of the financial statements and supplemental schedule of Boston Merchant Financial Services, Inc. (the Company), as of and for the years ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g) (1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-3(a) (11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examination, counts, verifications, and comparisons and recordation of differences required by rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against from unauthorized

use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17-a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of the inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changed in conditions or that the effectiveness of their design and operation may deteriorate.

*A control deficiency* exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraph and would not necessarily identify all deficiencies in internal control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures as described in the second paragraph of this report were adequate at December 31, 2009 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these secured parties.

Sincerely,

William L. Pratt, CPA

April 5, 2011