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

SEC FILE NUMBER
8-34201

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 1/1/12 AND ENDING 12/31/12
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
First State Financial Management, Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
225 East Columbia

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

Farmington MO 63640
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Sue Evans (573) 756-8971
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Cummings, Ristau & Associates, P.C.
(Name - if individual, state last, first, middle name)

13023 Tesson Ferry Road, Suite 201 St. Louis MO 63128
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

SEC
Mail Processing
Section
FEB 22 2013
Washington DC
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*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)

Em
3/4/13

OATH OR AFFIRMATION

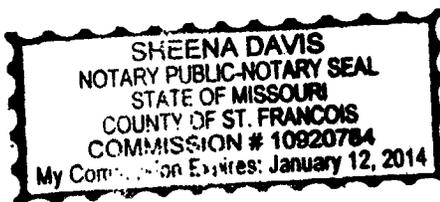
I, Susan M. Evans, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First State Financial Management, Inc., as of December 31, 20 12, are true and correct. I further swear (or affirm) that neither the 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:

Susan M. Evans
Signature

President

Title

Sheena Davis
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).

**STATEMENT OF FINANCIAL CONDITION
WITH INDEPENDENT AUDITORS' REPORT**

FIRST STATE FINANCIAL MANAGEMENT, INC.

December 31, 2012

FIRST STATE FINANCIAL MANAGEMENT, INC.

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December 31, 2012

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Independent Auditors' Report

The Board of Directors
First State Financial Management, Inc.:

We have audited the accompanying statement of financial condition of First State Financial Management, Inc. (the Company) as of December 31, 2012. The statement of financial condition 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 financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 statement of financial condition referred to above presents fairly, in all material respects, the financial position of First State Financial Management, Inc. at December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

Cummings, Ristau & Associates P.C.

St. Louis, Missouri
January 18, 2013



FIRST STATE FINANCIAL MANAGEMENT, INC.

Statement of Financial Condition

December 31, 2012

ASSETS

Cash	\$ 75,957
Money market fund with clearing organization	211,067
Notes receivable – officer and employee (note 4)	57,304
Commissions receivable	88,008
Premises and equipment, net (note 2)	228,935
Goodwill	1,532,096
Other assets	<u>28,862</u>
Total assets	\$ <u>2,222,229</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Accrued expenses	\$ 102,256
Deferred income taxes payable (note 3)	<u>17,603</u>
Total liabilities	<u>119,859</u>

Commitments and contingencies (note 6)

Stockholder's equity (note 5):

Common stock, \$1 par value; 250,000 shares authorized, 100,000 shares issued and outstanding	100,000
Additional paid-in capital	315,000
Retained earnings	<u>1,687,370</u>
Total stockholder's equity	<u>2,102,370</u>
	\$ <u>2,222,229</u>

See accompanying notes to statement of financial condition.

FIRST STATE FINANCIAL MANAGEMENT, INC.

Notes to Statement of Financial Condition

December 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

First State Financial Management, Inc. (the Company), a wholly owned subsidiary of First State Bancshares, Inc., is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA). The Company was incorporated under the laws of Missouri in 1985. The Company operates as a fully disclosed introducing broker and does not maintain customer accounts or securities.

The accounting and reporting policies of the Company conform to generally accepted accounting principles within the broker-dealer industry. Following is a description of the more significant of the Company's accounting practices:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation. When retired or otherwise disposed of, the original cost and accumulated depreciation are removed from the respective accounts and the net difference, less any amount realized from disposition, is reflected in operations.

Depreciation is computed on the straight-line method for financial reporting purposes as follows: building and improvements – seven to 39 years; furniture and fixtures – five to ten years; computer equipment – three years.

Premises and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In such situations, recoverability of assets to be held and used would be measured by a comparison of the carrying amount of the assets to future net cash flows expected to be generated by the assets. If such assets were considered to be impaired, the impairment to be recognized would be measured by the amount by which the carrying amount of the assets exceeded the fair value of the assets, using observable market prices.

Goodwill

The excess of the consideration given in the Company's acquisition by First State Bancshares, Inc. over the fair value of the net assets acquired is recorded as goodwill, an intangible asset on the Company's statement of financial condition. Goodwill is the Company's only intangible asset with an indefinite useful life, and the Company is required to test the intangible asset for impairment on an annual basis. Impairment is measured as the excess of carrying value over the

FIRST STATE FINANCIAL MANAGEMENT, INC.

Notes to Statement of Financial Condition

(continued)

fair value of an intangible asset with an indefinite life. No impairment write-downs were required in 2012.

Income Taxes

The Company is included in the consolidated federal and state income tax returns of First State Bancshares, Inc. Applicable income taxes are computed based on reported income and expenses, adjusted for permanent differences between reported and taxable income. Penalties and interest assessed by income taxing authorities are included in income tax expense in the year assessed, unless such amounts relate to an uncertain tax position. The Company had no uncertain tax positions at December 31, 2012.

The Company uses the asset and liability method of accounting for income taxes, in which deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period which includes the enactment date.

The most recent examination of First State Bancshares, Inc.'s consolidated federal income tax returns covered the years ended December 31, 2004, 2003, and 2002. First State Bancshares, Inc. has not had a state income tax examination by the State of Missouri Department of Revenue for several years. The consolidated federal and state income tax returns of First State Bancshares, Inc. are generally subject to examination by the Internal Revenue Service or State of Missouri Department of Revenue for three years after such returns are filed.

Subsequent Events

The Company has considered all events occurring subsequent to December 31, 2012 for possible disclosures through January 18, 2013, the date this financial statement was issued.

NOTE 2 – PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2012 is as follows:

Land	\$ 30,213
Building and improvements	375,538
Furniture, fixtures, and equipment	<u>248,371</u>
	654,122
Less accumulated depreciation	<u>425,187</u>
	\$ <u>228,935</u>

FIRST STATE FINANCIAL MANAGEMENT, INC.

Notes to Statement of Financial Condition

(continued)

NOTE 3 – INCOME TAXES

The tax effects of temporary differences which give rise to deferred tax liabilities at December 31, 2012 are presented below:

Premises and equipment	\$ 13,762
Prepaid expense	<u>3,841</u>
Total deferred tax liabilities	\$ <u>17,603</u>

NOTE 4 – RELATED PARTY TRANSACTIONS

The Company has advanced Susan M. Evans, an officer of the Company, an insurance premium loan under a split-dollar life insurance arrangement. This is a zero-interest loan payable on demand. The officer has executed a collateral assignment agreement that provides that the Company will be reimbursed from the policy value an amount equal to the cumulative premium advances upon the occurrence of specific events. Cumulative advances under this agreement to Ms. Evans totaled \$36,000.

In 2011, the Company made a \$30,000 loan to an employee. The loan will be forgiven by the Company in annual installments through February 1, 2014 if the employee remains employed by the Company through 2014.

NOTE 5 – NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2012, the Company had net capital of \$192,952, which was \$142,952 in excess of its required minimum net capital of \$50,000. The Company's aggregate indebtedness to net capital ratio was 0.62 to 1.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Company management is unaware of any legal matters that may have arisen in the normal course of business which could result in any material liability to the Company.

**FIRST STATE
FINANCIAL MANAGEMENT, INC.**

Statement of Financial Condition

December 31, 2012



Cummings, Ristan & Associates, P.C.

STATEMENT OF FINANCIAL CONDITION