

SEC  
Mail Processing  
Section



13014717

MAR 1 - 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Washington DC  
400

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

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

SEC FILE NUMBER
8- 48067

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 1/1/2012 AND ENDING 12/31/2012  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Mischler Financial Group, INC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
1111 Bayside Drive, Suite 100

(No. and Street)

Corona del Mar

CA

92625

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Doyle L. Holmes - President (949) 720-0640

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KMJ Corbin & Company, LLP.

(Name - if individual, state last, first, middle name)

555 Anton Blvd., Suite 1000

Costa Mesa

CA

92626

(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)

*Handwritten:* CM, 3/12/13

OATH OR AFFIRMATION

I, Doyle L. Holmes, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Mischler Financial Group, 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:

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

*Doyle L. Holmes*

Signature

**Doyle L. Holmes**  
**President**

Title

*Sheryl A. Urtusuastegui*  
Notary Public  
**Sheryl A. Urtusuastegui, 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).

**MISCHLER FINANCIAL GROUP, INC.**  
SEC ID No. 8-48067

**STATEMENT OF FINANCIAL CONDITION AND  
SUPPLEMENTAL SCHEDULE**

**As of December 31, 2012**

*with*

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
THEREON**

*and*

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON  
INTERNAL ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5**

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors  
Mischler Financial Group, Inc.

**Report on the Financial Statement**

We have audited the accompanying statement of financial condition and changes in subordinated borrowings of Mischler Financial Group, Inc. (the "Company") as of December 31, 2012 that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Mischler Financial Group, Inc. as of December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the financial statement, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information in Schedule I has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Schedule I is fairly stated in all material respects in relation to the financial statement taken as a whole.

*KMJ Corbin & Company LLP*

KMJ Corbin & Company LLP

Costa Mesa, California  
February 28, 2013

**MISCHLER FINANCIAL GROUP, INC.**  
**STATEMENT OF FINANCIAL CONDITION**

<b>ASSETS</b>	<b>December 31, 2012</b>
<b>Current assets:</b>	
Cash and cash equivalents	\$ 2,000,356
Receivables from brokers, dealers and clearing organizations	2,434,500
Receivable from customers	16,532
Deposits with clearing organizations	500,000
Other receivables	130,191
Prepaid expenses and other	<u>21,422</u>
Total current assets	5,103,001
Cash surrender value of life insurance policy	<u>190,828</u>
	<u>\$ 5,293,829</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
<b>Current liabilities:</b>	
Payables to brokers, dealers and clearing organizations	\$ 961,798
Accounts payable and accrued expenses	241,714
Commissions payable	<u>283,718</u>
Total current liabilities	<u>1,487,230</u>
Commitments and contingencies	
Related party subordinated borrowings	<u>2,000,000</u>
<b>Shareholders' equity:</b>	
Series A convertible preferred stock, no par value; 50,000 shares authorized; no shares issued and outstanding	-
Common stock, no par value; 200,000 shares authorized; 10,000 shares issued and outstanding	100,000
Common stock subscribed but not yet issued	440,000
Contributed capital	676,578
Retained earnings	<u>590,021</u>
Total shareholders' equity	<u>1,806,599</u>
	<u>\$ 5,293,829</u>

*See accompanying notes to statement of financial condition*

MISCHLER FINANCIAL GROUP, INC.

STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS

---

	<b>For The Year Ended December 31, 2012</b>
Related party subordinated borrowings at January 1, 2012	\$ -
Increases:	
Issuance of related party subordinated notes	<u>2,000,000</u>
Related party subordinated borrowings at December 31, 2012	<u>\$ 2,000,000</u>

---

*See accompanying notes to statement of financial condition*

# MISCHLER FINANCIAL GROUP, INC.

## NOTES TO STATEMENT OF FINANCIAL CONDITION

As of December 31, 2012

---

### NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Mischler Financial Group, Inc. (the “Company”) was incorporated in California on November 17, 1994 and commenced operations on March 17, 1995. The Company is a registered broker-dealer in securities under the Securities Exchange Act of 1934 and is a licensed member of the Financial Industry Regulatory Authority (“FINRA”).

The Company conducts business on a fully disclosed basis with two broker-dealers and, accordingly, is exempt from Rule 15c3-3 of the Securities Exchange Act of 1934 under the exemption appearing in paragraph (k)(2)(ii) of Rule 15c3-3.

#### Securities Transactions

Customer securities transactions and the related commissions and expenses are recorded on a trade-date basis and are cleared by Bank of America Merrill Lynch (“BAML”) and Industrial and Commercial Bank of China Financial Services, LLC (“ICBC”).

#### Registration

The Company must register with state departments which govern compliance with securities laws for the states in which it does business. The Company generates a substantial amount of commission income in the States of California and Connecticut. Various regulatory requirements exist in the states with which the Company must comply. Should the Company violate certain state securities laws, it could be prohibited from doing business in those states.

#### Concentrations of Credit Risk

##### *Cash and cash equivalents*

The Company maintains its cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. In addition to the basic insurance coverage, effective December 31, 2010, the FDIC is providing temporary unlimited coverage for noninterest bearing transaction accounts through December 31, 2012. At December 31, 2012, the Company had approximately \$1,250,000 in these accounts in excess of the FDIC insurance limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to these deposits.

As of December 31, 2012

---

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

*Customers*

In the normal course of business, the Company's activities involve the execution and settlement of various customer securities and financial instrument transactions. These activities may expose the Company to off-balance-sheet credit risk in the event the customer is unable to fulfill its contracted obligations. The Company mitigates this risk by dealing with institutional investors through an extensive approval process.

The Company's receivables are primarily due from brokers, dealers and clearing organizations and customers. The Company expects to collect amounts due because of these customers' history with the Company and the nature of the industry, although actual collections may differ from amounts recorded.

As of December 31, 2012, receivables from two broker-dealers and a clearing organization accounted for 12%, 15% and 44%, respectively, of the total receivables from brokers, dealers and clearing organizations balance.

Cash and Cash Equivalents

The Company considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximate fair value.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from broker, dealers and clearing organizations include amounts receivable arising from settled transactions. Payables to brokers, dealers and clearing organizations include amounts payable arising from settled transactions.

Other Receivables

Other receivables consist of receivables from employees. Included in other receivables is \$30,000 due from certain of the Company's shareholders. Other receivables are non-interest bearing and are due on demand.

MISCHLER FINANCIAL GROUP, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

As of December 31, 2012

---

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Office Equipment

Office equipment consists of equipment, furniture and fixtures. Depreciation is provided for using the straight-line method over the estimated useful lives of the related assets, which is generally three years. Office equipment is fully depreciated.

Cash Surrender Value of Life Insurance Policy

The Company maintains a life insurance policy for one of its shareholders. The cash surrender value of the policy as of December 31, 2012 was \$190,828.

Income Taxes

The Company has elected to be treated as a C corporation for income tax purposes. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements in accordance with the accounting guidance for income taxes. Deferred tax assets and liabilities are recognized for future tax benefits or consequences attributable to temporary 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 expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for significant deferred tax assets when it is more-likely-than not that such assets will not be realized through future operations.

The Company recognizes any uncertain income tax positions on income tax returns at the largest amount that is more-likely-than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. There are no unrecognized tax benefits as of the date of adoption. There are no unrecognized tax benefits included in the statement of financial condition that would, if recognized, affect the effective tax rate. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had \$0 accrued for interest and penalties on the Company's statement of financial condition at December 31, 2012.

The Company is subject to taxation in the U.S. and State of California. The Company does not foresee material changes to its gross uncertain income tax position liability within the next twelve months. The Company is no longer subject to IRS or state examinations prior to 2008.

As of December 31, 2012

---

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Fair Value Measurements

As of December 31, 2012, the Company measures the fair value of certain of its financial assets on a recurring basis. The Company applies the fair value hierarchy of Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements*, to rank the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets and liabilities, quoted prices in the markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of December 31, 2012, the Company’s cash surrender value of life insurance policy of \$190,828 is valued using quoted prices for similar assets, or Level 2, as defined by the fair value hierarchy.

Use of Estimates

The preparation of the 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Significant estimates made by the Company’s management include but are not limited to, the collectibility of receivables and valuation of life insurance policy. Actual results could differ from those estimates.

MISCHLER FINANCIAL GROUP, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

As of December 31, 2012

---

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Fair Value of Financial Instruments

At December 31, 2012, the Company's financial instruments include cash and cash equivalents, receivables from and payables to brokers, dealers and clearing organizations, receivable from customers, deposits with clearing organizations, other receivables, accounts payable and accrued expenses, commissions payable and subordinated borrowings. The carrying amount of cash and cash equivalents, receivables from and payables to brokers, dealers and clearing organizations, receivable from customers, deposits with clearing organizations, other receivables, accounts payable and accrued expenses and commissions payable approximates fair value due to the short-term maturities of these instruments. Based on borrowing rates currently available to the Company, the carrying value of subordinated borrowings approximates fair value.

Subsequent Events

The Company has evaluated and determined that no events have occurred subsequent to the statement of financial condition date and through the date of issuance of these financial statements, which would require inclusion or disclosure in its financial statements other than as described in the accompanying notes.

**NOTE 2 – OFFICE EQUIPMENT**

Office equipment consisted of the following at December 31, 2012:

Furniture and fixtures	\$ 61,459
Equipment	<u>104,549</u>
	166,008
Less accumulated depreciation	<u>(166,008)</u>
	<u>\$ -</u>

**NOTE 3 – RELATED PARTY SUBORDINATED BORROWINGS**

The borrowings under related party subordination agreements at December 31, 2012 are as follows:

Related party subordinated notes, 8%, due February 27, 2014	<u>\$ 2,000,000</u>
---	---------------------

MISCHLER FINANCIAL GROUP, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

As of December 31, 2012

---

**NOTE 3 – RELATED PARTY SUBORDINATED BORROWINGS, continued**

The related party subordinated borrowings are available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. Subsequent to year end, the related party subordinated borrowings have been renewed for one year and mature on February 27, 2014.

**NOTE 4 – SHAREHOLDERS' EQUITY**

Convertible Preferred Stock

As of and during the year ended December 31, 2012, the Company had no preferred stock outstanding. If such stock were outstanding, holders of the shares would have \$10 per share liquidation rights, conversion rights on a one-for-one basis into common stock, and other dividend and dissolution rights as defined in the Company's Articles of Incorporation.

Common Stock

On December 27, 2012, the Company and its shareholders entered into a Stock Purchase Agreement with a new shareholder for the purchase of 3,300 shares of the Company's common stock for proceeds of \$440,000. As of December 31, 2012, the shares of common stock have not been issued to the new shareholder and accordingly, the unissued shares have been accounted for as common stock subscribed but not issued in the accompanying statement of financial condition.

In connection with the Stock Purchase Agreement, the Company will convert 3,300 shares of common stock into 3,300 shares of Series A convertible preferred stock. As of December 31, 2012, the Company has not issued or converted the shares but is expected to issue the shares of common stock and convert the shares of common stock into Series A convertible preferred stock in 2013.

MISCHLER FINANCIAL GROUP, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

As of December 31, 2012

---

**NOTE 5 – COMMITMENTS AND CONTINGENCIES**

Operating Lease

The Company leases its office space under a non-cancelable operating lease expiring in March 2015. Approximate annual future minimum rental payments are as follows:

<u>Year Ending December 31,</u>	
2013	\$ 187,000
2014	193,000
2015	<u>53,000</u>
	<u>\$ 433,000</u>

Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions. The Company indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of California. As part of the trade execution agreements entered into by the Company with different trading partners, the Company indemnifies some of its trading partners for various performance and non-performance issues. In connection with its facility lease, the Company has indemnified its lessor for certain claims arising from the use of the facilities. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying statement of financial condition.

**NOTE 6 – RETIREMENT PLAN**

The Company has a 401(k) profit sharing plan (the “Plan”) in which all eligible employees, as defined, can elect to participate. Employees can contribute up to 75 percent of their earnings, up to allowable Internal Revenue Service limits, each year. Employer contributions to the Plan are at the discretion of the Company and vest over a six-year period. During the year ended December 31, 2012, the Company did not make any contributions to the Plan.

MISCHLER FINANCIAL GROUP, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

As of December 31, 2012

---

**NOTE 7 – NET CAPITAL REQUIREMENTS**

As a registered broker-dealer, the Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires that the Company maintain a minimum net capital, as defined, and may not permit its aggregate indebtedness, as defined, to exceed fifteen times its net capital. At December 31, 2012, under the most restrictive requirement, the Company had net capital of \$3,106,755 which was \$2,856,755 in excess of its minimum required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was 0.48 to 1.

**NOTE 8 – RESERVE REQUIREMENTS AND POSSESSION AND CONTROL STATEMENT FOR BROKERS OR DEALERS**

The Company is exempt from the provisions of Rule 15c3-3 (pursuant to paragraph k(2)(ii) of such Rule) under the Securities Exchange Act of 1934, as the Company is an introducing broker or dealer that clears its securities on a fully disclosed basis with a clearing broker. Because of such exemption, the Company is not required to prepare a determination of reserve requirements or possession and control statement for brokers and dealers by Rule 17a-13 and Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

MISCHLER FINANCIAL GROUP, INC.

SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION

As of December 31, 2012

	Unaudited Amounts per FOCUS Report	Amounts Based on Annual Report	Difference Increase (Decrease)
<b>Net capital -</b>			
Total shareholders' equity from statement of financial condition	\$ <u>1,806,600</u>	\$ <u>1,806,599</u>	\$ _____ (1)
<b>Additions and/or credits:</b>			
Related party subordinated borrowings allowable for net capital	<u>2,000,000</u>	<u>2,000,000</u>	_____ -
<b>Deductions and/or charges:</b>			
Nonallowable assets included in the following statement of financial condition captions:			
Receivables from brokers, dealers and clearing organizations	531,699	531,699	-
Receivable from customers	16,532	16,532	-
Other receivables	130,191	130,191	-
Prepaid expenses and other	<u>21,422</u>	<u>21,422</u>	_____ -
Total deductions and/or charges	<u>699,844</u>	<u>699,844</u>	_____ -
Net capital	3,106,756	3,106,755	(1)
Minimum net capital required	<u>250,000</u>	<u>250,000</u>	_____ -
Excess net capital	\$ <u>2,856,756</u>	\$ <u>2,856,755</u>	\$ _____ (1)
Total aggregate indebtedness	\$ <u>1,487,230</u>	\$ <u>1,487,230</u>	\$ _____ -
Ratio of aggregate indebtedness to net capital	<u>0.48 to 1</u>	<u>0.48 to 1</u>	

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON  
INTERNAL ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5**

Board of Directors  
Mischler Financial Group, Inc.

In planning and performing our audit of the statement of financial condition of Mischler Financial Group, Inc. (the "Company") as of December 31, 2012, 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 statement, 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-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities 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 examinations, 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 previously 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 loss from unauthorized use or disposition and that transactions are executed in accordance with

management's authorization and recorded properly to permit the preparation of the financial statement in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of 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 changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

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, 2012, 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 specified parties.

KMJ Corbin & Company LLP  
KMJ Corbin & Company LLP

Costa Mesa, California  
February 28, 2013

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON  
 APPLYING AGREED-UPON PROCEDURES RELATED TO AN ENTITY'S SIPC  
 ASSESSMENT RECONCILIATION**

Board of Directors  
 Mischler Financial Group, Inc.

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments (General Assessment Reconciliation (Form SIPC-7)) to the Securities Investor Protection Corporation ("SIPC") for the year ended December 31, 2012, which were agreed to by Mischler Financial Group, Inc. (the "Company") and the Securities and Exchange Commission ("SEC"), Financial Industry Regulatory Authority, Inc. ("FINRA") and SIPC, solely to assist you and the other specified parties in evaluating the Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). The Company's management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries and copies of checks, noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2012, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2012, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers (detail of annuity contracts revenue and details of commissions on treasury bills and certificate of deposits, customer's payment details), noting a difference as follows;

<u>Item No.</u>	<u>Description of Adjustments</u>	<u>Per SIPC-7</u>	<u>Schedules Used</u>	<u>Amount per Audit</u>	<u>Difference</u>
2c(9)(i)	Total interest and dividend expense (Focus Part IIA Line 13) but not in excess of total interest and dividend income.	\$ 125,524	General ledger transaction detail	\$ 14,417	\$ 111,107

4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers (revenue listing of annuities contracts and general ledger transaction detail by account) supporting the adjustments, noting no differences; and
5. Compared the amount of any overpayment, if applicable, applied to the current assessment with the Form SIPC-7 on which it was originally computed, noting no differences.

As a result of applying these agreed-upon procedures, the Company has underpaid its General Assessment with the differences summarized as follows:

Item No.	Per SIPC-7 submitted	Recomputed by KMJ
2a	\$ 9,685,356	\$ 9,685,356
2c(1)	889,801	889,801
2c(3)	419,072	419,072
2c(6)	9,313	9,313
2c(9)(i)	125,524	14,417
Total deductions	<u>1,443,710</u>	<u>1,332,603</u>
SIPC net operating revenues	<u>\$ 8,241,646</u>	<u>\$ 8,352,753</u>
General assessment	\$ 20,604	\$ 20,882
Less payment made with SIPC-6	(8,326)	(8,326)
Less prior overpayment applied	-	-
Less payment made with SIPC-7	(12,278)	(12,278)
Underpayment	<u>\$ -</u>	<u>\$ 278</u>

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*KMJ Corbin & Company LLP*  
KMJ Corbin & Company LLP

Costa Mesa, California  
February 28, 2013

**SIPC-7**

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION  
P.O. Box 92185 Washington, D.C. 20090-2185  
202-371-8300

**General Assessment Reconciliation**

**SIPC-7**

(33-REV 7/10)

For the fiscal year ended 12/31/2012  
(Read carefully the instructions in your Working Copy before completing this Form)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

048067 FINRA DEC  
MISCHLER FINANCIAL GROUP INC 19\*19  
1111 BAYSIDE DR STE 201  
CORONA DEL MAR CA 92625-1714

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

2. A. General Assessment (item 2e from page 2)	\$ 20,604
B. Less payment made with SIPC-6 filed (exclude interest)	( 8,326 )
<u>7/20/2012</u> Date Paid	
C. Less prior overpayment applied	( 0 )
D. Assessment balance due or (overpayment)	12,278
E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum	0
F. Total assessment balance and interest due (or overpayment carried forward)	\$ 12,278
G. PAID WITH THIS FORM: Check enclosed, payable to SIPC Total (must be same as F above)	\$ 12,278
H. Overpayment carried forward	\$( 0 )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Mischler Financial Group, Inc

(Name of Corporation, Partnership or other organization)

[Signature]

(Authorized Signature)

President

(Title)

Dated the 22nd day of February, 20 13.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

**SIPC REVIEWER** Dates:            Postmarked            Received            Reviewed           

Calculations            Documentation            Forward Copy           

Exceptions:           

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"  
AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning 1/1/2012  
and ending 12/31/2012

Item No.		Eliminate cents
2a.	Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)	\$ <u>9,685,356</u>
2b.	Additions:	
	(1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.	<u>0</u>
	(2) Net loss from principal transactions in securities in trading accounts.	<u>0</u>
	(3) Net loss from principal transactions in commodities in trading accounts.	<u>0</u>
	(4) Interest and dividend expense deducted in determining item 2a.	<u>0</u>
	(5) Net loss from management of or participation in the underwriting or distribution of securities.	<u>0</u>
	(6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.	<u>0</u>
	(7) Net loss from securities in investment accounts.	
	Total additions	<u>9,685,356</u>
2c.	Deductions:	
	(1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.	<u>889,801</u>
	(2) Revenues from commodity transactions.	<u>0</u>
	(3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.	<u>419,072</u>
	(4) Reimbursements for postage in connection with proxy solicitation.	<u>0</u>
	(5) Net gain from securities in investment accounts.	<u>0</u>
	(6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.	<u>9,313</u>
	(7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).	<u>0</u>
	(8) Other revenue not related either directly or indirectly to the securities business, (See Instruction C):	<u>0</u>
	(Deductions in excess of \$100,000 require documentation)	
	(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.	<u>\$ 125,524</u>
	(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).	<u>0</u>
	Enter the greater of line (i) or (ii)	<u>125,524</u>
	Total deductions	<u>1,443,710</u>
2d.	SIPC Net Operating Revenues	<u>\$ 8,241,646</u>
2e.	General Assessment @ .0025	<u>\$ 20,604</u>

(to page 1, line 2.A.)