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FEB 25 2019

Washington DC
408**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 01/01/2018 AND ENDING 12/31/2018

MM/DD/YY

MM/DD/YY

A. REGISTRANT IDENTIFICATIONNAME OF BROKER-DEALER: First State Financial Management

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

225 E. Columbia Street

OFFICIAL USE ONLY
016590
FIRM I.D. NO.

(No. and Street)

FarmingtonMO63640

(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, PC

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

13023 Tesson Ferry RoadSt. LouisMO63128

(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)

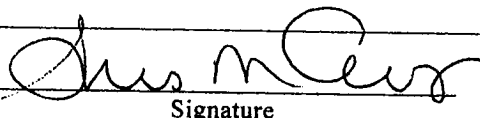
SEC 1410 (11-05)

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RMS

OATH OR AFFIRMATION

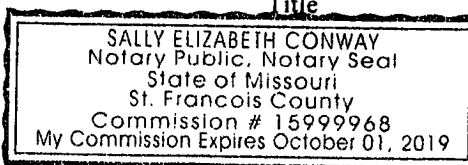
I, Susan M. Evans, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First State Financial Management of December 31, 20 19, are true and correct. I further swear (or affirm) that neither the company 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

President

Title


Notary Public



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

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☒ (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).

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

FIRST STATE FINANCIAL MANAGEMENT, INC.

Year Ended December 31, 2018

FIRST STATE FINANCIAL MANAGEMENT, INC.

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December 31, 2018

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Cummings, Ristau & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of First State Financial Management, Inc. (the Company) as of December 31, 2018, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes and schedules (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of First State Financial Management, Inc. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The supplemental schedules titled Schedule 1 – Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission; Schedule 2 – Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission; and Schedule 3 – Information for Possession or Control Requirements Under Rule 15c3-3 of the Securities and Exchange Commission (collectively referred to as the supplemental information) have been subjected to the audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming an opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. § 240.17a-5. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Cummings, Ristau & Associates, P.C.

We have served as the Company's auditor since 2002.

St. Louis, Missouri
February 19, 2019

FIRST STATE FINANCIAL MANAGEMENT, INC.
Statement of Financial Condition
December 31, 2018

Assets

Cash	\$ 60,032
Money market fund with clearing organization	245,984
Notes receivable - officer and employee	49,306
Commissions receivable	335,939
Premises and equipment, net	195,165
Goodwill	1,532,096
Identifiable intangible assets, net of accumulated amortization of \$39,797	85,879
Other assets	50,467
Total assets	<u>\$ 2,554,868</u>

Liabilities and Stockholder's Equity

Accrued expenses	\$ 232,560
Deferred income taxes payable	9,118
Total liabilities	<u>241,678</u>

Commitments and contingencies

Stockholder's equity:

Common stock, \$1 par value; 250,000 shares authorized 100,000 shares issued and outstanding	100,000
Additional paid-in capital	490,000
Retained earnings	1,723,190
Total stockholder's equity	<u>2,313,190</u>
	<u>\$ 2,554,868</u>

See accompanying notes to financial statements.

First State Financial Management
Statement of Income
Year Ended December 31, 2018

Revenues:

Commissions	\$ 2,091,517
Interest income	20,559
Other income	<u>6,010</u>
Total revenues	<u>2,118,086</u>

Expenses:

Employee compensation and benefits	1,416,756
Occupancy and equipment	112,683
Office supplies and postage	40,584
Subscriptions and services	46,435
Clearing broker charges and expense	30,034
Telecommunications	5,578
Travel and entertainment	22,710
Advertising	18,077
Amortization of intangible assets	12,567
Other expenses	<u>79,889</u>
Total expenses	<u>1,785,313</u>
Net income before taxes	332,773
Income tax expense	<u>85,520</u>
Net income before taxes	<u><u>\$ 247,253</u></u>

See accompanying notes to financial statements.

FIRST STATE FINANCIAL MANAGEMENT, INC.
Statement of Changes in Stockholder's Equity
Year ended December 31, 2018

	Common Stock	Additional paid-in capital	Retained Earnings	Total
Balance at December 31,2017	\$ 100,000	490,000	1,650,937	2,240,937
Net Income	0	0	247,253	247,253
Dividends	<u>0</u>	<u>0</u>	<u>(175,000)</u>	<u>(175,000)</u>
Balance at December 31, 2018	<u>\$ 100,000</u>	<u>490,000</u>	<u>1,723,190</u>	<u>2,313,190</u>

See accompanying notes to financial statements.

FIRST STATE FINANCIAL MANAGEMENT, INC.

Statement of Cash Flows

Year ended December 31, 2018

Cash flows from operating activities:

Net income \$ 247,253

Adjustments to reconcile net income to net cash
provided by operating activities:

Depreciation and amortization expense 37,866

Deferred income tax benefit (207)

Increase in commissions receivable (34,420)

Increase in accrued expenses 1,725

Other, net (15,792)

Net cash provided by operating activities 236,425

Cash flows from investing activities - purchase
of furniture and equipment

(19,009)

Cash flows from financing activities - dividends paid (175,000)

Net increase in cash and cash equivalents 42,416

Cash and cash equivalents at beginning of year 263,600

Cash and cash equivalents at end of year \$ 306,016

Supplemental information - cash paid for federal and state
income taxes

\$ 86,702

See accompanying notes to financial statements.

FIRST STATE FINANCIAL MANAGEMENT, INC.

Notes to Financial Statements

December 31, 2018

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.

Commissions

Commission income and expenses, as well as related clearing expenses, are recorded on a settlement date basis, which does not differ materially from a trade date basis.

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.

FIRST STATE FINANCIAL MANAGEMENT, INC.

Notes to Financial Statements

(continued)

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets consist of a book of business acquired in 2015. This identifiable intangible asset is being amortized on a straight-line basis over the estimated useful life of ten years. Amortization of identifiable intangible assets at December 31, 2018 will be \$12,568 per year through 2024 and \$10,471 in 2025.

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 fair value of an intangible asset with an indefinite life. No impairment write-downs were required in 2018.

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 related to an uncertain tax position. The company had no uncertain tax positions at December 31, 2018.

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 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.

FIRST STATE FINANCIAL MANAGEMENT, INC.

Notes to Financial Statements

(continued)

Cash and Cash Equivalents

The Company considers the money market fund with its clearing organization to be a cash equivalent.

Subsequent Events

The Company has considered all events occurring subsequent to December 31, 2018 for possible disclosures through February 19, 2019, the date these financial statements were available to be issued.

NOTE 2- PREMISES AND EQUIPMENT

A summary of premises and equipment at December 31, 2017 is as follows:

Land	\$	30,213
Building and improvements		398,162
Furniture, fixtures, and equipment		359,996
		<u>788,371</u>
Less accumulated depreciation		593,206
	\$	<u>195,165</u>

Depreciation expense charged to operations for the year ended December 31, 2018 was \$25,299.

The Company leases certain premises and equipment from its affiliate, First State Community Bank (as described more fully in note 4 below), as well as other premises under cancelable lease arrangements. Total rent expense incurred for the year ended December 31, 2018 was \$75,378.

NOTE 3- INCOME TAXES

The components of income tax expense (benefit) for the year ended December 31, 2018 are as follows:

Current:	
Federal	\$ 85,727
State	0
Deferred	<u>(207)</u>
	<u>\$ 85,520</u>

FIRST STATE FINANCIAL MANAGEMENT, INC.

Notes to Financial Statements

(continued)

A reconciliation of expected income tax expense computed by applying the federal statutory rate of 21% to income before applicable income taxes for the year ended December 31, 2018 is as follows:

Expected statutory federal income tax	\$ 69,882
State tax, net of related federal benefit	0
Nondeductible meals and entertainment	1,365
Other, net	<u>14,273</u>
	<u>\$ 85,520</u>

The tax effects of temporary differences which give rise to deferred tax liabilities at December 31, 2018 are presented below:

Premises and equipment	\$ 8,980
Employee benefit plans	(1,873)
Prepaid expense	<u>2,011</u>
Total deferred tax liabilities	<u>\$ 9,118</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.

The Company occupies space inside certain First State Community Bank locations, another wholly owned subsidiary of First State Bancshares, Inc. Rent is being charged to the Company on these facilities based on a percentage of the commission revenue generated at those facilities. Total rent expense incurred by the Company from First State Community Bank was \$75,378 for the year ended December 31, 2018.

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, 2018, the Company had net capital of \$288,298, which was \$238,298, in excess of its required minimum net capital of \$50,000. The Company's aggregate indebtedness to net capital ratio was .84 To 1.

FIRST STATE FINANCIAL MANAGEMENT, INC.

Notes to Financial Statements

(continued)

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.

NOTE 7 – EMPLOYEE BENEFITS

The Company participates in a contributory 401(k) profit sharing plan sponsored by First State Bancshares, Inc. with provisions for Company matching contributions. Essentially all employees meeting certain age and service requirements are eligible to participate in the plan. Company matching contributions charged to expense totaled \$43,561 in 2018.

**SUPPLEMENTARY INFORMATION
REQUIRED BY RULE 17A-5 OF THE
SECURITIES AND EXCHANGE COMMISSION**

FIRST STATE FINANCIAL MANAGEMENT, INC.
 Computation of Net Capital Under
 Rule 15c3-1 of the Securities and Exchange Commission
 December 31, 2018

Net capital:

Total stockholder's equity	\$	2,313,190
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Deductions:

Nonallowable assets:

Excess cash in banks		0
Notes receivable - officer and employee	(49,306)	
Commissions receivable	(114,000)	
Premises and equipment	(195,165)	
Goodwill	(1,532,096)	
Identifiable intangible asset	(85,879)	
Other nonallowable assets	(43,526)	
Total nonallowable assets		(2,019,972)

Haircuts on money market fund with clearing firm		(4,920)
--	--	---------

Net capital	\$	288,298
-------------	----	---------

Aggregate indebtedness:

Accrued expenses	\$	232,560
Deferred income taxes payable		9,118
Total aggregate indebtedness	\$	241,678

Minimum net capital:	\$	50,000
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Excess net capital	\$	238,298
--------------------	----	---------

Ratio of aggregate indebtedness to net capital		.84 to 1
--	--	----------

Reconciliation with Company computation of net capital:

Net capital, as reported in Company's Part IIA (unaudited)

FOCUS report	\$	291,551
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Adjustment to commissions receivable		(780)
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Adjustments to accrued expenses		1,223
---------------------------------	--	-------

Adjustments for interest earned not recorded		(3,696)
--	--	---------

Net capital per above	\$	288,298
-----------------------	----	---------

See accompanying report of independent registered public accounting firm.

FIRST STATE FINANCIAL MANAGEMENT, INC.

Computation for Determination of Reserve Requirements Under
Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2018

Customer funds held in excess	\$ <u>0</u>
Amount in reserve bank account	\$ <u>0</u>

See accompanying report of independent registered public accounting firm.

FIRST STATE FINANCIAL MANAGEMENT, INC.

Information for Possession or Control Requirements Under
Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2018

The Company does not maintain customer accounts and does not handle securities and therefore is eligible under the exemptive provisions of rule 15c3-3 to exclude certain portions of 15c3-3 such as computations of amounts to be on deposit in a special reserve bank account, possession and control requirements. The Company is in compliance with the conditions of the exemption.

See accompanying report of independent registered public accounting firm.



Cummings, Ristau & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Accountants' Agreed-Upon Procedures Report on
Schedule of Assessment and Payments (Form SIPC-7)**

The Board of Directors
First State Financial Management, 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 (Form SIPC-7) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2018, which were agreed to by First State Financial Management, Inc. (the Company) and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating the Company's compliance with the applicable instructions of 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 Public Company Accounting Oversight Board (United States). 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, noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2018, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2018, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with the Company's internal financial records, noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments, noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed, noting no differences.

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.

Cummings, Ristau & Associates P.C.

St. Louis, Missouri
February 19, 2019

SIPC-7

(36-REV 12/18)

SECURITIES INVESTOR PROTECTION CORPORATION

P.O. Box 92185 Washington, D.C. 20090-2185
202-371-8300

General Assessment Reconciliation

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FEB 25 2019

Washington DC
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SIPC-7

(36-REV 12/18)

For the fiscal year ended 12/31/2018

(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:

11*11*****2267*****MIXED AADC 220
34201 FINRA DEC
FIRST STATE FINANCIAL MANAGEMENT INC
225 E COLUMBIA ST
FARMINGTON, MO 63640-3106

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)

B. Less payment made with SIPC-6 filed (exclude interest)

7/18/18

Date Paid

C. Less prior overpayment applied

D. Assessment balance due or (overpayment)

E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum

F. Total assessment balance and interest due (or overpayment carried forward)

G. PAYMENT: ☒ the boxCheck mailed to P.O. Box ~~xx~~ Funds Wired ☐ ACH ☐

Total (must be same as F above)

H. Overpayment carried forward

\$ 1,580.40

(743.87)

(---)

836.53

0

\$ 836.53

\$

\$(

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.

First State Financial Management

(Name of Corporation, Partnership or other organization)

Dated the 10th day of January, 2019.

(Authorized Signature)

President

(Title)

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 1/1/2018
and ending 12/31/2018

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

Eliminate cents

\$ 2,118,086

2b. Additions:

(1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.

(2) Net loss from principal transactions in securities in trading accounts.

(3) Net loss from principal transactions in commodities in trading accounts.

(4) Interest and dividend expense deducted in determining item 2a.

(5) Net loss from management of or participation in the underwriting or distribution of securities.

(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.

(7) Net loss from securities in investment accounts.

Total additions

0

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.

1,037,916

(2) Revenues from commodity transactions.

(3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.

(4) Reimbursements for postage in connection with proxy solicitation.

(5) Net gain from securities in investment accounts.

(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.

(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).

(8) Other revenue not related either directly or indirectly to the securities business.

(See Instruction C):

3,600 rent 2,410 Trustee Fees

20,559 Interest

(Deductions in excess of \$100,000 require documentation)

26,569

(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.

\$ _____

(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ _____

Enter the greater of line (i) or (ii)

0

Total deductions

1,064,485

2d. SIPC Net Operating Revenues

\$ 1,053,601

2e. General Assessment @ .0015

\$ 1,580

(to page 1, line 2.A.)



Cummings, Ristau & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Report of Independent Registered Public Accounting Firm

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

We have reviewed management's statements, included in the accompanying Exemption Report Filed Pursuant to SEC Rule 17a-5, in which (1) First State Financial Management, Inc. identified the following provisions of 17 C.F.R. § 15c3-3(k) under which First State Financial Management, Inc. claimed an exemption from 17 C.F.R. § 240.15c3-3 (2)(ii) (the "exemption provisions") and (2) First State Financial Management, Inc. stated that First State Financial Management, Inc. met the identified exemption provisions through the most recent fiscal year without exception. First State Financial Management, Inc.'s management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about First State Financial Management, Inc.'s compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the conditions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

Cummings, Ristau & Associates, P.C.

St. Louis, Missouri
February 19, 2019



First State Financial Management

Susan M. Evans, CFP®, CTFA, CLU, ChFC
President

February 19, 2019

Regarding: Exemption Report Pursuant to SEC Rule 18a-5

Pursuant to SEC Rule 18a-5, Susan M. Evans, President of First State Financial Management, Inc (FSFM) is making the following assertions regarding its exemption from SEC Rule 15c3-3.

FSFM is exempt from SEC Rule 15c3-3 under section (k) (2) (ii) as all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

Further, FSFM met the identified exemption provisions, without exception, throughout the most recent fiscal year ended December 31, 2018.

Susan M. Evans

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*FSFM is an affiliate of First State Community Bank due to common ownership
No bank guarantee • Not FDIC insured • May lose value*