COMMONWEALTH FINANCIAL NETWORK[SM]
A REGISTERED SERVICE MARK OF
COMMONWEALTH EQUITY SERVICES, LLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

(Confidential)

This report is deemed confidential in accordance with Rule 17a 5(e)(3) of the Securities Exchange Act of 1934. A statement of financial condition bound separately has been filed with the Securities and Exchange Commission simultaneously as a public document.

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

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

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8-24040

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 1/1/2020 (MM/DD/YY) AND ENDING 12/31/2020 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Commonwealth Financial Network

OFFICIAL USE ONLY
FIRM I.D. NO.

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

29 Sawyer Road
(No. and Street)

Waltham	Massachusetts	02453-3483
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Paul J. Ims 781.529.9118
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

RSM US, LLP
(Name – *if individual, state last, first, middle name*)

80 City Square	Boston	Ma	02129
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

- [x] 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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Paul J. Ims, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Commonwealth Financial Network, as of December 31, 20 20, 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

Controller

Title

Ginette A. Giblin
MY COMMISSION EXPIRES February 21, 2025
NOTARY PUBLIC
COMMONWEALTH OF MASSACHUSETTS

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).*

RSM US LLP

Report of Independent Registered Public Accounting Firm

Member and the Board of Directors of
Commonwealth Financial Network
(A Registered Service Mark of Commonwealth Equity Services, LLC)

Opinion on the Financial Statements
We have audited the accompanying statement of financial condition of Commonwealth Financial Network (the Company), a Registered Service Mark of Commonwealth Equity Services, LLC, as of December 31, 2020, and the related statements of income, changes in subordinated borrowings, changes in member's equity and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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 supplementary information contained in Schedule I, Computation of Net Capital under Rule 15c3-1, Schedule II, Computation for Determination of Reserve Requirement under Rule 15c3-3, and Schedule III, Information for Possession or Control Requirement under Rule 15c3-3 (the Supplemental Information) has been subjected to 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 our 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 and 17 C.F.R. §1.10. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have served as the Company's auditor since 2019.

RSM US LLP

Boston, Massachusetts
February 26, 2021

COMMONWEALTH FINANCIAL NETWORK[SM]

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2020

	2020
Assets	
Cash and cash equivalents	$ 48,556,445
Receivables:	
Brokers and clearing organizations	22,574,393
Employees and registered representatives, net	68,111,045
Other	114,743
Securities owned, at fair value	50,836,323
Property and equipment, net	1,882,197
Right of use leases, net	21,756,884
Other assets	16,975,746
Deposits with clearing organizations	50,000
Total Assets	$ 230,857,776
Liabilities and Member's Equity	
Accrued liabilities	$ 19,915,043
Accrued deferred compensation	9,666,641
Payables:	
Brokers and clearing organizations	6,964,995
Trade and reimbursements	10,740,087
Lease liabilities	22,385,012
Other liabilities	1,228,563
Subordinated borrowings - related parties	140,155,000
Total Liabilities	211,055,341
Commitments and contingencies (Note 11)	
Member's Equity	
Member's Units-100 issued and outstanding	19,802,435
Total Member's Equity	19,802,435
Total Liabilities and Member's Equity	$ 230,857,776

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH FINANCIAL NETWORK℠

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020
Revenues	
Advisory fees	$ 1,093,998,238
Commissions	230,231,650
Other revenue	282,718,051
Gain on principal transactions	7,795,310
Net investment income	2,931,022
Income from affiliates	3,274,459
Total Revenues	1,620,948,730
Expenses	
Commissions and advisory fee expense	1,248,724,914
Compensation and benefits	125,957,613
Brokerage, exchange and clearing fees	22,461,237
Occupancy	8,659,785
Legal, professional and consulting fees	16,802,333
Communications	2,322,715
Recruiting and advertising	21,249,654
Depreciation and amortization	1,022,686
Data processing and technology	62,489,037
Interest expense	8,951,276
Regulatory	1,689,178
Miscellaneous expenses	1,278,220
Total Expenses	1,521,608,648
Net Income	$ 99,340,082

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH FINANCIAL NETWORK[SM]

STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS

FOR THE YEAR ENDED DECEMBER 31, 2020

Subordinated Borrowings at January 1, 2020	$	130,155,000
Increases:		
Issuance of new subordinated notes		10,000,000
Subordinated Borrowings at December 31, 2020	$	140,155,000

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH FINANCIAL NETWORK[SM]

STATEMENT OF CHANGES IN MEMBER'S EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2020

	Member's Units	Member's Equity
Balance - January 1, 2020	100	$ 28,509,102
Cumulative effect of accounting change	-	(76,783)
Net Income	-	99,340,082
Distributions for equity compensation plan	-	(14,862,195)
Distributions	-	(93,107,771)
Balance - December 31, 2020	100	$ 19,802,435

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH FINANCIAL NETWORK[SM]

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020

		2020
Cash Flows from Operating Activities		
Net income	$	99,340,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization		1,022,686
Provision for loan losses		19,058
Amortization of non-cash operating lease costs		4,498,579
Amortization of forgivable loans		13,395,162
Equity compensation		(14,862,195)
Changes in operating assets and liabilities:		
Receivables		(13,422,804)
Securities owned, at fair value		58,443,066
Other assets		(259,063)
Payables		4,995,534
Accrued deferred compensation		(66,391,112)
Lease liabilities		(4,328,058)
Accrued and other liabilities		29,695
Net Cash Provided by Operating Activities		82,480,630
Cash Flows from Investing Activities		
Acquisition of property and equipment		(295,902)
Net Cash Used in Investing Activities		(295,902)
Cash Flows from Financing Activities		
Distributions		(93,107,771)
Proceeds from issuance of subordinated notes - related parties		10,000,000
Net Cash Used in Financing Activities		(83,107,771)
Net Change in Cash and Cash Equivalents		(923,043)
Cash, and Cash Equivalents - Beginning		49,479,488
Cash, and Cash Equivalents - Ending	$	48,556,445

Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$	8,950,292
Non-cash financing activities:		
Non-cash distributions for equity compensation plan (Note 10)	$	14,862,195

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Commonwealth Financial Network^{SM} is a Registered Service Mark of Commonwealth Equity Services, LLC (the "Company"). The Company, organized in Massachusetts and founded in 1979, has offices in Waltham, Massachusetts and San Diego, California. The Company is an independent broker/dealer and registered investment advisor that is the "home office" for its national network of independent registered representatives and independent advisor representatives. These representatives (advisors) are licensed to sell securities through the Company by the Financial Industry Regulatory Authority ("FINRA"). The Company is registered with FINRA and with the Securities and Exchange Commission (the "SEC"). The Company clears its public customer accounts on an introducing basis with National Financial Services, LLC, a Fidelity Investments Company, and other providers.

The Company operates under the provisions of Paragraphs (k)(2)(i) and (k)(2)(ii) of rule 15c3-3 of the Securities Exchange Act of 1934 and, accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of Paragraphs (k)(2)(i) and (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker-dealer and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker-dealer.

The Company is a Massachusetts limited liability company, wholly owned by 1979 Holding Company, LLC ("1979 Holding"), a Delaware limited liability company. CFN Ventures, LLC ("Ventures"), a Delaware limited liability company is the sole owner of 1979 Holding and is wholly owned by CFN Holding Company, LLC ("CFN Holding"), a Massachusetts limited liability company. Level Above, LLC ("Level Above"), a Delaware limited liability company holds a 99.99% membership interest in CFN Holding and Odd Couple, Inc. ("OCI"), a Delaware C-corporation, holds the remaining 0.01% membership interest in CFN Holding. Both Level Above and OCI are wholly owned by Gratitude Holdings, Inc. ("Gratitude"), a Massachusetts S-Corporation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which require the Company make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

CONSOLIDATION

The Company applies the guidance in Accounting Standards Codification ("ASC") 810, *Consolidation*, in its consolidation policy. The Company consolidates entities in which it has a controlling financial interest, as determined by evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE").

The Company is determined to have a controlling financial interest in a voting interest entity when it has ownership of a majority voting interest. If such determination is made, the entity is consolidated into the Company's financial statements.

The Company has a controlling financial interest in a VIE when it has a variable interest or interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. If both criteria are met, the Company is considered to be a primary beneficiary of a VIE and consolidates it under ASC 810.

At December 31, 2020, the Company determined that it did not have a controlling financial interest in a voting interest entity, nor was it a primary beneficiary in a VIE. Therefore, no entities were consolidated in the preparation of these financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There are no recently issued accounting pronouncements that would materially impact the Company’s financial statements and related disclosures.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

MEASUREMENT OF CREDIT LOSSES ON FINANCIAL INSTRUMENTS (ASC 326)

On January 1, 2020, the Company adopted Accounting Standards Update (“ASU”) 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost. The CECL model requires an entity to estimate its lifetime expected credit loss and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. Adoption of the standard requires more timely recognition of credit losses and credit loss estimates are required to use historical information, current information, and reasonable and supportable forecasts of future events.

The Company adopted ASC 326 using the modified retrospective method. The adoption had no material impact on the Company’s recognition of credit losses. The application of the CECL model has impacted the loss reserves associated with the Company's portfolio of financial advisor loans. The Company recorded a net decrease to Member’s Equity of $76,783 as of January 1, 2020 for the cumulative effect of adopting ASC 326. The adoption had no material impact on the Company’s recognition of credit losses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's receivable from broker dealers and clearing organizations include amounts due in connection with the Company's normal course of business with it clearing partner. These accounts approximate fair value because of the short maturity of these financial instruments and are generally negligible risk. The Company has had no prior defaults in its historical experience to collect from brokers and clearing organizations, therefore, management considers it appropriate not to establish an allowance for these receivables.

The following table illustrates the impact of ASC 326 on in scope assets:

	January 1, 2020		
	As reported Under ASC 326	Pre ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Receivables:			
Employees and registered representatives, net:			
Forgivable Loans	$ 48,369,509	$ 48,369,509	$ -
Non-forgivable Loans	15,941,588	15,941,588	-
Allowance for credit losses on loans	(76,783)	-	(76,783)
Brokers and clearing organizations	26,107,035	26,107,035	-
Other	10,316	10,316	-
Other Assets:			
Receivable from sponsors	7,332,417	7,332,417	-

Refer to Note 7 – Advisor Loans, for additional disclosure and accounting policies affecting CECL. As shown above, the adoption of CECL had no impact to receivables from brokers and clearing organizations and other assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CHANGES TO THE DISCLOSURE REQUIREMENTS FOR FAIR VALUE MEASUREMENT (ASC 820)

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) — Changes to the Disclosure Requirements for Fair Value Measurement. This update eliminated the requirement to disclose the amounts and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and modifies the disclosure requirement relating to Level 3 investments. The Company adopted the provisions of this guidance on January 1, 2020. The adoption had no material impact on the Company's related disclosures.

IMPLEMENTATION COSTS INCURRED IN A CLOUD COMPUTING ARRANGEMENT (ASC 350)

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Topic 350): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This update aligned the accounting for costs to implement a cloud computing arrangement that is a service with the guidance on capitalizing costs for developing or obtaining internal-use software. Specifically, the ASU amended ASC 350 to include in its scope implementation costs of a cloud computing arrangement that is a service contract and clarified that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a cloud computing arrangement that is considered a service contract. The Company adopted the provisions of this guidance on January 1, 2020. The adoption had no material impact on the Company's financial statements.

SECURITIES OWNED

Proprietary securities transactions are reflected on a trade-date basis. The Company's proprietary security positions are recorded at fair value with the resulting net realized and unrealized gains and losses reflected in current operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board ("FASB") ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The fair values for all of the Company's financial assets are based on observable prices and inputs or short term or replaceable on demand inputs and are classified in levels 1 and 2 of the fair value hierarchy, where applicable.

See Note 4 – Fair Value Measurements for further information about fair value of Company's financial assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLE FROM AND PAYABLE TO BROKERS AND CLEARING ORGANIZATIONS

The balances shown as receivable from and payable to brokers and clearing organizations represent amounts due in connection with the Company's normal transactions from revenues and expenses involving trading of securities. Management considers all receivables to be collectible; therefore, no allowance for credit losses has been provided for.

CASH AND CASH EQUIVALENTS

The Company defines cash equivalents as liquid overnight deposits held in the ordinary course of business, as well as money market funds and other short-term investments with an original maturity at the date of purchase of ninety days or less.

PROPERTY AND EQUIPMENT

Property and equipment are stated at historical cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related assets, over a period of three to five years, or more. Leasehold improvements are recorded at cost and are amortized over the shorter of the lease term or estimated useful life. Routine repairs and maintenance are expensed as incurred.

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software and certain costs related to implementation of cloud computing arrangements, or hosting arrangements, that are service contracts. All capitalized internal use software development costs are amortized using the straight-line method over the estimated useful life, ranging from three to five years, once placed in service. All capitalized hosting arrangement implementation costs are generally amortized over the terms of such hosting arrangements, which include reasonably certain renewals.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Company is a single member limited liability company wholly owned by 1979 Holding, and included in the consolidated tax returns of CFN Holding. The Company is treated as a disregarded entity for federal tax purposes and is not subject to any entity level federal or state income tax. CFN Holding reports its allocable share of income from the Company and files its tax return as a partnership. Therefore, no provision or liability for federal or state income taxes is included in these financial statements.

For all open tax years and for all major taxing jurisdictions, the Company has concluded that it is a pass-through entity and there are no uncertain tax positions that would require recognition in the financial statements. If the Company were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes. No interest expense or penalties were recognized for the year ended December 31, 2020.

The Company's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based upon ongoing analyses of tax laws, regulations and interpretations thereof, as well as other factors. Generally, federal, state, and local authorities may examine CFN Holding's tax returns for three years from the date of filing and the current and prior three years remain subject to examination as of December 31, 2020.

EQUITY-BASED COMPENSATION

The Company records compensation expense based on the increase in the awards' intrinsic value, between grant date and the time of exercise. The options are remeasured at each quarter until their settlement. The Company recognizes the change in options' fair value as an adjustment to compensation cost. For new and previously issued awards that are modified, repurchased, or cancelled after the adoption date, such value is recorded over the requisite service period using a graded vesting schedule.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED COMPENSATION

The Company recognizes the obligation to provide post employment or post service compensation if the obligation is attributable to services already rendered by advisors or employees, the rights of advisors or employees to that compensation accumulates or vests, payment of compensation is probable, and the amount of the compensation can be reasonably estimated.

NOTE 3 - REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company recognizes revenue from contracts with customers in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

Revenue from contracts with customers includes advisory fees, commissions, and other revenue. The recognition and measurement of revenue is based on an assessment of individual contract terms. The Company is the principal for advisory fees and commissions when advisors act in the capacity of independent registered representatives of the Company. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time, how to allocate transaction prices where multiple performance obligations are identified, when to recognize revenue based on the appropriate measure of the Company's progress under the contract, and whether constraints on variable consideration should be applied to future events. The following discussion describes the nature, timing, and uncertainty of revenues and cash flows arising from the Company's contracts with customers.

ADVISORY FEES

The Company earns revenue for performing services for certain customers' fee-based advisory accounts. Generally, advisory fees are charged to each client based on a contractual fixed rate applied, as a percentage, to the market value of assets managed in the account. The Company charges the majority of the fees for its investment advisory services on a quarterly basis. Most of these fees are billed in advance according to agreements with each client.

NOTE 3 - REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

The performance obligations for advisory fees are considered a series of distinct services that are similar in nature and are satisfied each day over the quarterly billing period.

Accordingly, management records deferred revenue for all advisory fees collected or charged which have not been earned and recognizes revenues ratably as earned throughout the quarterly billing period. Fee schedules may vary from client to client based upon several factors, including assets under management, investment strategy and other considerations. A substantial portion of these advisory fees are paid to the related advisor and these payments are classified as commissions and advisory fee expense in the Statement of Income. Advisory fees revenues and related payments to advisors are therefore presented on a gross basis in the Company's Statement of Income.

The Company also provides its investment advisory platform, tools and services to unaffiliated Independent Registered Investment Advisor firms ("IRIAs"). These IRIAs operate under their own RIA license. Investment advisory fees charged by the IRIAs to their customers are not recorded as revenues of the Company when the IRIA and its representatives have no other licensing or registration with the Company. The Company earns revenue from IRIAs through fee-based account services as disclosed below in Other Revenues. For the year ended December 31, 2020, no further disaggregation of advisory fees is deemed necessary as all revenues were similar in nature.

COMMISSIONS

The Company generates two types of revenue from commissions: sales-based commissions that are recognized at the time of sale and 12b-1 fees that are recognized over the time that the customer holds certain investments.

For sales commissions, the performance obligation is earned on the execution of a customer's security transaction on the trade date. Revenues from 12b-1 fees are based on a percentage of the market value or contract value of the underlying investment and are paid and recognized over the time that the customer owns the investment. During this ownership period, the Company provides services including on-going support.

NOTE 3 - REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Revenues from 12b-1 fees are variable consideration which are constrained due to market volatility and client behavior (including the duration for which the investment is held by the customer).

The 12b-1 fees are not recognized until it is probable that a significant reversal will not occur. In recording 12b-1 fees, management makes estimates of amounts to be received after year end for fees earned before year end based on a model that reflects historical collection experience. A substantial portion of commission revenue is paid to the related advisors and these payments are classified as commissions and advisory fee expense in the Statement of Income. As a matter of policy, the Company credits the mutual fund 12b-1 fees it receives from mutual funds purchased or held in the Company's managed accounts back to the client accounts paying such 12b-1 fees.

The following table displays the sales-based commissions and 12b-1 fees for the year ended December 31, 2020:

Sales-based commissions	$ 93,429,712
12b-1 fees	136,801,938
Total commissions	$ 230,231,650

NOTE 3 - REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

OTHER REVENUES

The following table presents a disaggregation of the other revenues for the year ended December 31, 2020:

Insured deposit sweep fees	$ 23,722,173
Revenue participation	64,439,914
Other clearing-related	48,569,935
Total clearing-related	136,732,022
Fee-based account services	100,923,822
Sponsor marketing support and conferences	30,848,318
Miscellaneous	14,213,889
Total other revenues	$ 282,718,051

Through its clearing partners, the Company earns revenue for placing customers' deposits into sweep programs with third-party banks. For brokerage customers, the revenue earned by the Company is based upon a fixed-rate, applied as a percentage, to the aggregate of the customers' deposit balance. For retirement advisory accounts, the revenue earned consists of a per-account fee and a fee based upon a fixed-rate, applied as a percentage, to the market value of retirement plan assets in the Company's advisory programs. The performance obligations primarily involve making the sweep programs available to customers and providing information relevant to the programs to customers and advisors. These performance obligations are considered a series of distinct services that are substantially the same and are satisfied each day over the monthly billing period.

The Company's clearing firms receive fees for recordkeeping, custodial, shareholder and administrative services provided to mutual fund sponsors. Certain of these fees are shared by the clearing firms with the Company as the Company aids in the provision of these services.

NOTE 3 - REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

These revenue participations are based upon a fixed rate applied, as a percentage, to the market value of the funds held in each mutual fund offered as part of the applicable program or are based on an annual fixed fee for each fund position. Each of the various custodial and account maintenance services which comprise the various performance obligations of the Company to NFS represents a series of distinct services that are similar in nature and are satisfied by the Company each day over the contract term. Revenue participations are collected and credited by the clearing firms throughout the month and are reported to the Company on the monthly clearing statement. The Company recognizes revenue in the month when the revenue participations are reported in the clearing statement for that month.

The Company participates in other clearing-related revenues, primarily transaction and account fees. The allocation of these fees is described in the Company's fully-disclosed clearing contracts. Transaction fees represent charges to advisors or customers for executing certain transactions, which are recognized when the service is performed. Revenue from account fees is recognized when the Company satisfies its performance obligations.

The Company earns revenues from services relating to its fee-based account offering provided to advisors using its proprietary fee-based account platform. For these administration fees charged to advisors, the performance obligations involve maintaining, operating and marketing a turn-key fee-based account offering. The Company also earns revenues for providing portfolio management services for certain products and for providing support for trading decisions and trade execution on other fee-based products. In each case, the performance obligations are considered a series of distinct services that are substantially the same and are satisfied each day of the billing period. These fees are generally based upon a tiered-rate applied, on a percentage basis, to the eligible assets.

The Company earns sponsor marketing support revenues from various sponsors of mutual funds and annuities to support the availability and distribution of these sponsors' products on the Company's platforms and to provide sponsors with an opportunity to train and support the advisors on their products. The majority of the revenue is earned based on a fixed fee.

NOTE 3 - REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

The performance obligations primarily involve the Company making the products of the sponsors available to the Company's customers and the Company enabling sponsors to access the Company's advisors to distribute educational materials about those products. These performance obligations are considered a series of distinct services that are similar in nature and are satisfied over each day of the contract term. Accordingly, revenue is recognized ratably over time to match the continued delivery of the performance obligations to the sponsors. Generally, sponsor marketing support fees are invoiced and collected quarterly.

The Company reported receivables from customers as follows at December 31, 2020:

Receivable from clearing firm	$ 18,192,467
Receivable from direct commissions	$ 4,261,690
Receivable from sponsors	$ 6,582,632

NOTE 4 – FAIR VALUE MEASUREMENTS

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$ 41,110,841	$ --	$ --	$ 41,110,841
Debt securities:				
Municipal bonds	--	694	--	694
Corporate bonds	--	7,617	--	7,617
REITs	--	483,538	--	483,538
Mutual funds:				
Equities	34,692,163	--	--	34,692,163
Fixed income	15,652,311	--	--	15,652,311
Total securities owned	$ 91,455,315	$ 491,849	$ --	$ 91,947,164

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

In addition, other assets on the Company's Statement of Financial Condition carry Level 1 securities measured at fair value. The fair value of cash and cash equivalents in these accounts as of December 31, 2020 was $807,885 and mutual funds was $4,947,338.

Cash equivalents primarily consist of money market funds and are categorized as Level 1 on the fair value hierarchy.

Investments in mutual funds, including money market mutual funds, are generally priced at the quoted net asset value (NAV). These securities are categorized as Level 1 securities.

The fair value of municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates, bond or credit default swap spreads and volatility. Municipal bonds are categorized in Level 2 of the fair value hierarchy.

Corporate bonds when valued using market quotations in an active market, will be categorized as Level 1 securities. However, they may be valued on the basis of prices furnished by a pricing service when the Company believes such prices more accurately reflect the fair value of such securities. A pricing service utilizes electronic data processing techniques based on yield spreads relating to securities with similar characteristics to determine prices for normal institutional-size trading units of debt securities without regard to sale or bid prices. These securities will generally be categorized as Level 2 securities. If the Company decides that a price provided by the pricing services does not accurately reflect the fair value of the securities, when prices are not readily available from a pricing service, or when certain restricted or illiquid securities are being valued, securities are valued at fair value as determined in good faith by the Company. These securities will be categorized as Level 3 securities.

Investments in real estate investment trusts (" REITs") are generally valued based on external broker quotes using external price/spread data. If external price data is not observable, the valuation is either based on prices of comparable securities or based on the net asset value (NAV) as published by the REIT managers. Investments in REITs are generally categorized in Level 2 or Level 3 of the fair value hierarchy.

NOTE 5 – LEASES

The Company determines if an arrangement is a lease or contains a lease at inception. The Company entered into operating leases for office space in Waltham, Massachusetts, San Diego, California and Marlborough, Massachusetts. The Company adopted ASU 842 in January 2019, when the Company recognized Right-of-Use ("ROU") assets, representing the right to use the underlying asset for the lease term, and lease liabilities, representing the liability to make payments. The lease terms are determined based on the contractual maturity of the leases. For leases where the Company has the option to terminate or extend the lease, an assessment of the likelihood of exercising the option is incorporated into the determination of the lease term. The assessment is initially performed at the inception of the lease and is updated if events occur that impact the original assessment.

An operating lease ROU asset is initially determined based on the operating lease liability, adjusted for initial direct costs, lease incentives and amounts paid at or prior to lease commencement. The total lease cost is amortized on a straight-line basis over the lease term.

The Company has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company recognizes lease cost associated with its short-term leases on a straight-line basis over the lease term.

The following table represents the Company's operating leases and their respective expiration dates as of December 31, 2020:

Facility	Expiration Date
Waltham Building 1	12/31/25
Waltham Building 3	12/31/25
Marlborough*	12/31/20
San Diego 110 Plaza	7/31/21
San Diego Viewridge	3/31/25

*Marlborough lease ended 12.31.20 and was not renewed

NOTE 5 – LEASES (CONTINUED)

The components of lease cost included in Occupancy on the Company's Statement of Income for the year ended December 31, 2020 are as follows:

Operating lease cost	$	5,821,235
Variable lease cost		429,746
Total lease cost	$	6,250,981

Other information related to leases as of December 31, 2020 was as follows:

Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$	5,798,189
ROU assets obtained in exchange for lease obligations:		
Operating leases	$	376,008
Weighted-average remaining lease term		
Operating leases		4.83 years
Weighted-average discount rate		
Operating leases		4.49%

Amounts disclosed for ROU assets obtained in exchange for lease obligations and reductions to ROU assets resulting from reductions to lease obligations include amounts added to or reduced from the carrying amount of ROU assets resulting from new leases, lease modifications or reassessments.

NOTE 5 – LEASES (CONTINUED)

Future minimum payments of lease liabilities under non-cancellable operating leases as of December 31, 2020 are as follows:

	Amount
2021	$ 5,436,067
2022	4,859,748
2023	4,909,026
2024	4,958,607
2025	4,708,828
Total undiscounted lease payments	24,872,276
Less: imputed interest	(2,487,265)
Present value of lease liabilities	$ 22,385,012

As part of the lessor's requirement for leasing the office space in Waltham, the Company has set aside fully refundable security deposit funds totaling $3,702,563 which is included in other assets on the Statement of Financial Condition. The Company did not have any finance leases as of December 31, 2020.

NOTE 6 – RECEIVABLE BROKERS AND CLEARING ORGANIZATIONS

The Company has a margin account with its clearing firm, National Financial Services, LLC, for the purpose of buying and selling securities in the Company's inventory account. At December 31, 2020 there were trades that were pending settlement resulting in a receivable from clearing organizations of $66,948 included in the Statement of Financial Condition under receivables from brokers and clearing organizations.

As of December 31, 2020, commissions receivable from the Company's clearing firm, National Financial Services, LLC, was $18,192,467.

NOTE 7 – ADVISOR LOANS

The Company occasionally issues forgivable and non-forgivable loans to its advisors to assist in setting up their respective businesses. Loans are extended after considering the credit history and production levels of the advisors. Forgivable loans are generally granted to prospect advisors and are forgivable over a five-year period and forgiveness is based upon the achievement of specific asset or production targets. Non-forgivable loans are generally granted to advisors with a longer tenure at the Company and are offered to assist in acquisitions and growth of existing businesses. Non-forgivable loans are subject to an amortization schedule, with monthly payments of principal and interest required. Both forgivable and non-forgivable loans are recorded at face value at the time the loans are made.

As stated In Note 2 – Summary of Significant Accounting Policies, the Company adopted ASC 326 on January 1, 2020, when the Company recorded an allowance for credit losses on its forgivable and non-forgivable loans. The allowance for credit losses is deducted from the amortized cost basis of the loans to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. The Company performs periodic credit evaluations and provides an allowance based on its assessment of specifically identified unsecured receivables and other factors, including its advisor payment history.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as portfolio composition, as well as for changes in environmental conditions, such as changes in GDP, unemployment rates, and other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company identified the following portfolio segments in its advisor loans assets based on different risk profiles: forgivable loans and non–forgivable loans. The Company used the weighted-average remaining maturity ("WARM") method to estimate allowance for credit losses on both of its portfolio segments for the year ended December 31, 2020.

NOTE 7 – ADVISOR LOANS (CONTINUED)

Loans included in receivables: employees and registered representatives on the Company's Statement of Financial Condition at year-end were as follows:

Advisor Loans	
Forgivable	$ 48,124,495
Non-forgivable	19,583,145
Allowance for credit losses	(95,841)
Advisor Loans, net	$ 67,611,799

The following schedule reflects the Company's activity in providing for an allowance for uncollectible advisor loans by portfolio segment for the year ended December 31, 2020:

	Forgivable	Non-forgivable	Total
Allowance for credit losses:			
Beginning balance, prior to adoption of ASC 326	$ -	$ -	$ -
Impact of adoption ASC 326	57,750	19,033	76,783
Provision for credit loss expense	22,919	(3,861)	19,058
Loans charged-off	-	-	-
Recoveries collected	-	-	-
Total ending allowance balance	$ 80,669	$ 15,172	$ 95,841

Upon adoption of ASC 326, the Company elected the practical expedience provided in paragraph 326-20-30-5A of ASU 2016-13, where the Company does not measure an allowance for credit losses for accrued interest receivable on its advisor loans portfolio since it is the Company's policy and practice to write off the uncollectible accrued interest receivable balance in a timely manner. The monthly accrued interest on loans deemed uncollectible stops accruing and is written off when it is determined that the loan is uncollectible. The variable interest rate on advisor loans is the prime lending rate plus an additional two percent and was 5.25% at December 31, 2020.

NOTE 8 – PROPERTY AND EQUIPMENT

The components of property and equipment are as follows at December 31, 2020:

	2020
Computers, furniture and fixtures	$ 3,892,941
Software	8,307,619
Leasehold improvements	9,193,971
	21,394,531
Less: accumulated depreciation and amortization	(19,512,334)
Property and equipment, net	$ 1,882,197

Depreciation and amortization expense for the year ended December 31, 2020 was $1,022,686.

NOTE 9 – SUBORDINATED BORROWINGS - RELATED PARTIES

The direct lender, consisting of 1979 Holding, has, under all agreements, subordinated its right of collection of principal and claims to all other present and future senior creditors of the Company prior to the expiration of the respective notes. The subordination of rights extends to CFN Holding, Gratitude and its principal shareholders who are the ultimate lenders. The subordinated borrowings are covered by agreements approved by FINRA and are thus available for computing net capital under the SEC's uniform net capital rule. The borrowings qualify as equity capital, as such term is defined.

To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. During 2020, $10,000,000 was loaned to the Company under subordinated borrowing agreements. At December 31, 2020 subordinated loans totaled $140,155,000.

NOTE 9 – SUBORDINATED BORROWINGS - RELATED PARTIES (CONTINUED)

The Company has subordinated borrowings maturing as follows:

2023	$ 10,000,000
2024	--
2025	130,155,000
Total	$ 140,155,000

The interest rate on all subordinated debt is at the prime lending rate, plus an additional three percent and was 6.25% as of December 31, 2020. Subordinated loan interest is paid annually. All subordinated notes issued have a minimum interest rate of 6%. For the year ended December 31, 2020 the interest rate ranged from 6.25% to 7.75%. Interest expense on these loans for the year ended December 31, 2020 totaled $8,950,292.

NOTE 10 - EQUITY OPTION PLANS

CFN Holding offers equity compensation to eligible employees of the Company through the 2018 Equity Option Plan (the "Plan"), a non-qualified membership interest option plan. The Plan permits the Board of Managers of CFN Holding to grant options of CFN Holding interests to employees of CFN Holding and its subsidiaries, including the Company, up to an aggregate of 999,760 options. Substantially all current and existing options issued and outstanding are to employees of the Company. CFN Holding has the right, but not the obligation, to repurchase any interests purchased by an option holder on exercise of an option. Options granted under the Plan generally vest over a period of up to five years and expire either 10 or 25 years from the grant date.

CFN Holding accounts for LLC interest option grants as liability awards. Awards are granted with an exercise price equal to their fair value on the date of grant. The options are remeasured at each quarter until their settlement. The amount of cash payment is determined based on the increase in the awards' fair value, or intrinsic value, between grant date and the time of exercise. The Company recognizes the change in options' fair value as an adjustment to compensation cost. The impact of remeasuring the awards' intrinsic value for the year ended December 31, 2020, was a decrease of $14,862,195 and is reflected in the Company's Statement of Income as a reduction to the compensation and benefits line item.

NOTE 10 - EQUITY OPTION PLANS (CONTINUED)

The offset to the decrease in expense incurred by the Company is deemed a capital distribution to CFN Holding and is reflected in the Company's Statement of Changes in Member's Equity as distributions for equity compensation plan. During the year ended December 31, 2020, CFN Holding repurchased $30,743,769 of interests exercised by the Company's employees during the year. The Company settled the corresponding intercompany balance to CFN Holding through distributions, which is included as distributions on the Company's Statement of Changes to Member's Equity. The total intrinsic value of the options vested under the Plan as of December 31, 2020 was $26,519,535.

Information with respect to activity under the Plan of CFN Holding is as follows:

	Number of Options	Exercise Price per Interest	Weighted Average Exercise Price
Options outstanding, December 31, 2019	705,353	$19.40 - $246.58	$ 142.56
Granted	144,000	$220.19 - $251.77	$ 239.38
Exercised	--	--	$ --
Canceled	(232,414)	$19.40 - $251.77	$ 112.72
Options outstanding, December 31, 2020	616,939	$19.40 - $251.77	$ 176.40
Options exercisable, December 31, 2020	388,615	$19.40 - $251.77	$ 146.73

The weighted average remaining contractual term in years was 14.46 for options outstanding at December 31, 2020 and 16.27 for options exercisable at December 31, 2020.

NOTE 10 - EQUITY OPTION PLANS (CONTINUED)

The following table provides a summary of the status of the CFN Holding's unvested options for the purchase of interests in the Plan of CFN Holding as of December 31, 2020 and the changes during the year then ended:

	LLC Interests	Weighted Average Intrinsic Value
Non-vested - beginning of year	178,054	$ 42.94
Granted	144,000	$ -
Vested	(76,492)	$ 15.53
Forfeited	(17,238)	$ 11.43
Non-vested - end of year	228,324	$ 5.97

NOTE 11 – COMMITMENTS AND CONTINGENCIES

LITIGATION AND CLAIMS

The Company is involved with various judicial, regulatory, and arbitration proceedings concerning matters arising in connection with the conduct of its business. Some of these legal actions include claims for substantial or unspecified compensatory and/or punitive damages. In addition, in the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions. ASC 450, *Loss Contingencies*, governs the recognition and disclosure of loss contingencies, including potential losses from legal and regulatory matters. ASC 450 categorizes loss contingencies using three terms based on the likelihood of occurrence of events that result in a loss: "probable" means that "the future event or events are likely to occur;" "remote" means that "the chance of the future event or events occurring is slight;" and "reasonably possible" means that "the chance of the future event or events occurring is more than remote but less than likely." Under ASC 450, the Company accrues for losses that are considered both probable and reasonably estimable. Legal fees are accrued as the services are provided.

The Company may incur losses in addition to the amounts accrued where the losses are greater than estimated by management, or for matters for which an unfavorable outcome is considered reasonably possible, but not probable.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

At December 31, 2020, the Company was the co-defendant in several lawsuits. Management believes, based on current available information, that the results of such proceedings in the aggregate will not have a material adverse effect on the Company's Statement of Financial Condition. The Company has errors and omissions insurance to protect itself from potential damages and/or legal costs associated with the aforementioned claims. There were no expenses for legal costs and potential settlements accrued for as of December 31, 2020.

REGULATORY MATTERS

On August 1, 2019, the SEC filed a Complaint against the Company alleging that the Company, in its role as a registered investment adviser for the period July 2014 through December 2018, failed to disclose material conflicts of interest related to certain revenue sharing agreements with its clearing firm. The Complaint also alleged that the Company failed to adopt and implement written policies and procedures reasonably designed to identify and to ensure the disclosure of material conflicts of interest arising from its revenue sharing agreement with its clearing firm. The Company filed an answer to the Complaint denying the SEC's allegations which set forth several factual and legal defenses as well as affirmative defenses. The Complaint does not set forth an amount with respect to disgorgement the SEC is seeking nor does it set forth the amount of the civil penalty it is also seeking. In light of the absence of specific allegations, the defenses available to the Company and the limited discovery which has been conducted to date, the Company concludes that no estimate of possible loss can be made as of the date of issuance of the Financial Statements.

DEFERRED COMPENSATION

CFN Holding has agreements (the "Agreements") with certain employees (the "Employees") of the Company that provide for the payment of deferred compensation upon termination of employment, subject to five-year vesting schedules. Following termination of employment, each of the Employees are entitled to receive cash payments that in total equal the value of his or her vested deferred compensation as determined under terms of the Agreements. The Company began recording accrued deferred compensation expense in 2006 in accordance with the vesting schedules. In 2019, the Agreements were terminated, and a significant portion of the liability was settled during 2020.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company paid $78,837,880 of accrued deferred compensation and recognized deferred compensation expense of $11,828,694 for the year ended December 31, 2020 pursuant to the terms of the Agreements.

The Company offers a non-qualified deferred compensation plan for the purpose of attracting and retaining advisors who operate, for tax purposes, as independent contractors by allowing participating advisors to defer receipt of certain gross commissions and fees. The deferred compensation plan has been fully funded to date by participant contributions. Plan assets are invested in mutual funds and other securities, which are held by the Company in a Rabbi Trust. The cash value of the trust assets in the amount of $2,052,659 is included in other assets in the Statement of Financial Condition and corresponding deferred compensation liability for benefits accrued under the non-qualified deferred compensation plan totaled $2,052,659 as of December 31, 2020.

NOTE 12 – 401(K) PLAN

The Company maintains a qualified retirement plan under Internal Revenue Code 401(k) covering substantially all employees. Employer contributions for the year ended December 31, 2020 were $3,207,249.

NOTE 13 – RELATED PARTY TRANSACTIONS

CES Insurance Agency, LLC ("CESI") is an entity wholly owned by 1979 Holding that assists the Company's independent advisors in the selling of insurance-based products. The Company provides ongoing operational and marketing services to CESI. Income earned for services provided to CESI, net of expenses allocated to CESI, was $3,170,000 for the year ended December 31, 2020. At December 31, 2020 the balance due to CESI from the Company was $211,174.

NOTE 13 – RELATED PARTY TRANSACTIONS (CONTINUED)

Claridge Insurance Co. ("Claridge") is an insurance company owned and controlled by a holding company that, in turn, is owned by ultimate shareholders of the Company and controlled by a principal officer of the Company. The Company pays premiums, at market rates, to Claridge on a monthly basis in exchange for errors and omissions coverage of up to $2,000,000 per occurrence. For the year ending December 31, 2020 the Company paid Claridge a total of $4,000,000 in premiums. There were no amounts due to or from Claridge at December 31, 2020.

Advisor360°, LLC ("A360") is a majority owned financial technology company of Gratitude. The Company entered into a transition services agreement ("TSA") with A360 in 2019 whereby A360 provides technology services and software to the Company and its advisors. On July 1, 2020 the Company executed a license agreement ("SaaS Agreement") with A360 whereby the A360 software is provided to the Company and its advisors. The SaaS Agreement supersedes the delivery of software to the Company and its advisors under the TSA. The TSA remains open as of December 31, 2020 for other technology services provided by A360 to the Company. The Company paid $27,792,978 in accordance with the TSA for services provided by A360 and $26,307,625 in licensing fees in accordance with the SaaS Agreement for the year ended December 31, 2020, which are included in the data processing and technology line item on the Statement of Income. The amount is included net of certain expenses allocated to A360 in the amount of $104,459.

NOTE 14 – NET CAPITAL REQUIREMENTS

The Company is a registered broker-dealer and, accordingly, is subject to the SEC Uniform Net Capital Rule ("SEC Rule 15c3-1"), which requires the Company to maintain 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, 2020, the Company had net capital of $63,759,330 which was sufficient to meet the required net capital of $3,299,720. The Company's net capital ratio as of December 31, 2020 was 0.78 to 1.

NOTE 15 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, CONCENTRATIONS OF CREDIT RISK AND OTHER RISK

In the normal course of business, the Company's customers execute securities transactions through the Company. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company introduces all customer transactions in securities traded to another firm on a fully disclosed basis. The agreements between the Company and its clearing firms provide that the Company is obligated to assume any exposure related to non-performance by customers or counterparties. The Company monitors clearance and settlement of all customer transactions on a daily basis.

The Company's exposure to credit risk associated with the non-performance of customers and counter parties can be directly impacted by volatile trading markets which may impair the ability of the customer or counterparty to satisfy their obligations to the Company.

In the event of non-performance, the Company may be required to purchase or sell financial instruments at unfavorable market prices resulting in a loss to the Company. The Company does not anticipate non-performance by customers and counter parties in the above situations.

The Company seeks to control the aforementioned risks by requiring customers and counterparties to maintain collateral in compliance with regulatory requirements, guidelines of the Company's clearing firms and industry standards.

There are current uncertainties in the economy related to the COVID-19 outbreak that emerged in early 2020, which have led to increased market volatility. The period over which such volatility will persist, as well as any longer-term adverse effects on the world economies and markets, is difficult to predict as the situation is still evolving. The Company's revenues and results for the next financial year may continue to be impacted by COVID-19, and the extent of such impact will depend on how long the pandemic continues and other factors, including its effect on world economies and markets.

NOTE 16– SUBSEQUENT EVENTS

The Company has evaluated subsequent events and transactions through the date the financial statements were issued. All material subsequent events requiring adjustment to or disclosure in the financial statements are reflected therein.

The Company conducted a review for subsequent events and determined that no other subsequent events had occurred that would require accrual or additional disclosures.

COMMONWEALTH FINANCIAL NETWORK[SM]

COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1

YEAR ENDED DECEMBER 31, 2020

Schedule I

Total member's equity		$ 19,802,435
Subordinated loans for equity capital		140,155,000
Total capital and allowable subordinated liabilities		159,957,435
Less: non-allowable assets from the Statements of Financial Condition		(87,750,440)
Net capital before haircuts on securities		72,206,995
Less: haircuts on securities		(8,447,665)
Net capital		$ 63,759,330
Minimum net capital requirement:		
1/15 x aggregate indebtedness	$ 3,299,720	
or Minimum dollar net capital requirement	100,000	3,299,720
Excess net capital		$ 60,459,610
Aggregate indebtedness		$ 49,495,781
Percentage of aggregate indebtedness to net capital		78%

There were no material reconciling items per this report and the most recent quarterly filing that was submitted on January 20, 2021, by the Company of Part IIA of the Focus Report with respect to the computation of the Net Capital Pursuant to Rule 15c3-1.

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENT UNDER TO RULE 15c3-3

YEAR ENDED DECEMBER 31, 2020

Schedule II

The Company is exempt from the reserve requirements pursuant to Rule 15c3-3 under paragraphs (k)(2)(i) and (k)(2)(ii).

See report of independent registered public accounting firm

INFORMATION FOR POSSESSION OR CONTROL REQUIREMENTS
PURSUANT TO RULE 15c3-3

YEAR ENDED DECEMBER 31, 2020

Schedule III

Information relating to possession or control requirements is not applicable to The Company Financial Network[SM] as the Company qualifies for exemption under Rule 15c3-3 paragraphs (k)(2)(i) and (k)(2)(ii).

See report of independent registered public accounting firm

Commonwealth

COMMONWEALTH FINANCIAL NETWORK℠

INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES RELATED
TO AN ENTITY'S SIPC ASSESSMENT RECONCILIATION

RSM US LLP

Report of Independent Registered Public Accounting Firm on Applying Agreed-Upon Procedures

Member and the Board of Directors of
Commonwealth Financial Network
(A Registered Service Mark of Commonwealth Equity Services, LLC)

We have performed the procedures included in Rule 17a-5(e)(4) under the Securities Exchange Act of 1934 and in the Securities Investor Protection Corporation (SIPC) Series 600 Rules, which are enumerated below, and were agreed to by Commonwealth Financial Network (the Company), a Registered Mark of Commonwealth Equity Services, LLC and the SIPC, solely to assist you and the SIPC in evaluating the Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the year ended December 31, 2020. Management of the Company is responsible for its Form SIPC-7 and for its compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and 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 record entries noting no differences.
2. Compared the Total Revenue amounts reported on the Annual Audited Report Form X-17A-5 Part III for the year ended December 31, 2020, with the Total Revenue amounts reported in Form SIPC-7 for the year ended December 31, 2020, noting a difference of $4,699,086.
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences.
4. Recalculated 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.

We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Company's compliance with the applicable instructions of the Form SIPC-7 for the year ended December 31, 2020. Accordingly, we do not express such an opinion or conclusion. 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 Company and the SIPC and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

Boston, Massachusetts
February 26, 2021

COMMONWEALTH FINANCIAL NETWORK[SM]

SCHEDULE OF ASESSMENT AND PAYMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

General assessment			$ 1,771,916
Less: payments made			
	Date Paid	Amount	
	7/22/20	$ 887,694	(887,694)
Interest on late payment(s)			--
Total assessment balance and interest due			$ 884,222
Paid with this Form SIPC 7			$ 884,222

See independent accountants' report.

COMMONWEALTH FINANCIAL NETWORK[SM]

DETERMINATION OF SIPC NET OPERATING REVENUES

FOR THE YEAR ENDED DECEMBER 31, 2020

Total Revenue (Focus Line 12 Part 11A Line 9)		$ 1,616,249,644
Additions		
Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above		20,263,203
Net loss from principal transactions in securities in trading accounts		--
Net loss from principal transactions in commodities in trading accounts		--
Interest and dividend expense deducted in determining total revenue		--
Net loss from management of or participation in underwriting or distribution of securities		--
Expenses other than advertising, printing, registration fees and legal fees deducted in in determining new profit from management of or participation in underwriting or distribution of securities		--
Net loss from securities in investment accounts		--
Total Additions		20,263,203
Deductions		
Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts and from transactions in security future products		431,135,286
Revenues from commodity transactions		--
Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions		13,434,507
Reimbursement for postage with proxy transactions		--
Net gain from securities in investment accounts		--
100% of commissions and markups earned from transactions in certificates of deposit, treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date		--
Direct expense of printing, advertising and legal fees incurred in connection with other revenue related to the securities business		--
Other revenue not related either directed or indirectly to the securities business - securities business - Rental Income		-
Greater of:		
Total interest & dividend expense but not in excess of total interest and dividend income	$ 8,950,292	
40% of interest earned on customers securities accounts	10,665,963	10,665,963
Total Deductions		455,235,756
SIPC Net Operating Revenues		$ 1,181,277,091
General Assessment @ .0015		$ 1,771,916

See independent accountants' report.

Commonwealth

COMMONWEALTH FINANCIAL NETWORK℠

ASSERTIONS REGARDING EXEMPTION PROVISIONS

RSM

Report of Independent Registered Public Accounting Firm

RSM US LLP

Member and Board of Directors of
Commonwealth Financial Network
(A Registered Service Mark of Commonwealth Equity Services, LLC)

We have reviewed management's statements, included in the accompanying Assertions Regarding Exemption Provisions, in which Commonwealth Financial Network (the Company), a Registered Service Mark of Commonwealth Equity Services, LLC stated that:

1. The Company identified the following provisions of 17 C.F.R. § 240.15c3-3(k) under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3: Paragraphs (k)(2)(i) and (k)(2)(ii) (the exemption provisions), and the Company stated that it met the identified exemption provisions throughout the most recent fiscal year except as described in its exemption report;
2. The Company is also filing this Assertions Regarding Exemption Provisions because the Company's other business activities contemplated by Footnote 74 of the SEC Release No. 34-70073 adopting amendments to 17 C.F.R. § 240.17a-5 are limited to certain activities that would be eligible to file an exemption report throughout the most recent fiscal year; and
3. The Company (1) did not directly or indirectly receive, hold, or otherwise owe funds or securities for or to customers (other than money or other consideration received and promptly transmitted in compliance with paragraph (a) or (b)(2) of 17 C.F.R. § 240.15c2-4; (2) did not carry accounts of or for customers; and (3) did not carry proprietary accounts of broker-dealers (as defined in 17 C.F.R. § 240.15c3-3), throughout the most recent fiscal year without exception.

The Company's management is responsible for 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 the Company's compliance with the exemption provisions and that the Company's other business activities contemplated by Footnote 74 of the SEC Release No. 34-70073 adopting amendments to 17 C.F.R. § 240.17a-5 are limited to activities that would be eligible to file an exemption report and (1) did not directly or indirectly receive, hold, or otherwise owe funds or securities for or to customers (other than money or other consideration received and promptly transmitted in compliance with paragraph (a) or (b)(2) of 17 C.F.R. § 240.15c2-4; (2) did not carry accounts of or for customers; and (3) did not carry proprietary accounts of broker-dealers (as defined in 17 C.F.R. § 240.15c3-3) throughout the most recent fiscal year without exception. 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 provisions set forth in 17 C.F.R. § 240.15c3-3 and 17 C.F.R. § 240.17a-5.

RSM US LLP

Boston, Massachusetts
February 26, 2021

Assertions Regarding Exemption Provisions

We, as members of management of (*Commonwealth Financial Network*) ("the Company"), are responsible for compliance with the annual reporting requirements under Rule 17a-5 of the Securities Exchange Act of 1934. Those requirements compel a broker or dealer to file annual reports with the Securities Exchange Commission (SEC) and the broker or dealer's designated examining authority (DEA). One of the reports to be included in the annual filing is an exemption report prepared by an independent public accountant based upon a review of assertions provided by the broker or dealer. Pursuant to that requirement, the management of the Company hereby makes the following assertions:

<u>Identified Exemption Provisions:</u>
The Company claims exemption from the custody and reserve provisions of Rule 15c3-3 by operating under the exemption provided by Rule 15c3-3, Paragraphs ***(k)(2)(i)*** and ***(k)(2)(ii)***.

The Company is also filing this Exemption Report because the Company's other business activities contemplated by Footnote 74 of the SEC Release No. 34-70073 adopting amendments to 17 C.F.R. § 240.17a-5 are limited to activities that would be eligible to file an exemption report.

Because the Company (1) did not directly or indirectly receive, hold, or otherwise owe funds or securities for or to customers, other than money or other consideration received and promptly transmitted in compliance with paragraph (a) or (b)(2) of Rule 15c2-4; (2) did not carry accounts of or for customers; and (3) did not carry PAB accounts (as defined in Rule 15c3-3) during the year ended December 31, 2020.

<u>Statement Regarding Meeting Exemption Provision:</u>

17a-5(d)(4)(ii): Commonwealth Financial Network has met the identified exemption provisions in §240.15c3-3(k)(2)(i) and §240.15c3-3(k)(2)(ii) throughout the most recent fiscal year ending December 31, 2020 except as described under paragraph (d)(4)(iii).

17a-5(d)(4)(iii), Exception: There were 46 exceptions identified for the 2020 reporting period beginning January 1, 2020 through December 31, 2020. Two (2) of these exceptions originated in the firm's Cashiering Department while 38 of these exceptions originated in Branch Offices. The firm's Account Supervision Department had six (6) exceptions to report during 2020. The summary details are as follows:

1. The 2 exceptions occurring in the Firm's Cashiering department were a result of the checks being received not in good order.

2. The Firm has a network of 1,422 branch offices throughout the country. There were 38 branch exceptions noted in 2020. The reasons for these exceptions are varied. Common reasons include: clerical or administrative oversights, receiving the check too late in the day to forward in time, and insufficient information available to forward the check in time.

3. The Account Supervision department had six exceptions to report. Six stock certificates were held longer than 1 day. Five of these were from one client in the same mailing and one was from different client. A CFN employee did not realize the stock certificates were attached to the additional documentation.

These exceptions were discovered during Branch office audits and as part of the Firm's Rule 3120 testing. These reviews are specifically designed to identify exceptions to the conditions of 15c3-3(k)(2)(i) and (k)(2)(ii). The Firm considers these exceptions to be anomalies and not evidence of any systemic issues. Additional training has been provided to reinforce the policies as needed. During the 2020 fiscal year, the Cashiering department processed more than 315,000 checks and 3,200 stock certificates.

Commonwealth Financial Network

By: ______________________

(Paul J. Ims-Controller)

2/26/2021

(Date)