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OMB Number: 3235-0123
Expires: September 30, 1998
Estimated average burden
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SEC FILE NUMBER
8- 45185

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

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 05/01/02 AND ENDING 04/30/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Centaurus Financial, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

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

333 City Boulevard West, Suite 2010

Orange California 92868

(City) (State) (Zip Code)

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

J. Ronald King (714) 456-1790

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

LaVine & Associates CPAs, Inc.

26691 Plaza Drive, Suite 222 Mission Viejo, CA 92691

(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED
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THOMSON FINANCIAL

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

WBS

SEC 1410 (3-91)

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OATH OR AFFIRMATION

I, J. Ronald King, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Centaurus Financial, Inc., as of

April 30, 2003, 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:



James R. King
Signature
President
Title

Scott Peters
Notary Public

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in ~~Financial Condition~~ Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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).

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

ANNUAL AUDIT REPORT

DATE - APRIL 30, 2003

CENTAURUS FINANCIAL, INC.

333 City Blvd. West, Suite 2010
ORANGE, CALIFORNIA 92868

Mr. J. Ronald King
CENTAURUS FINANCIAL, INC.
333 City Blvd. West, Suite 2010
ORANGE, CALIFORNIA 92868

CENTAURUS FINANCIAL, INC.

Table of Contents

	<u>PAGE</u>
Accountant's Report.....	1-2
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Stockholders' Equity	5
Statements of Cash Flows.....	6
Statements of Changes in Liabilities Subordinated to Claims of General Creditors	7
Notes to Financial Statements.....	8-11
Computation of Net Capital Pursuant to Rule 15c3-1 - Schedule I.....	12
Reconciliation Pursuant to Rule 17a-5(d)(4) - Schedule I	12
Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 - Schedule II.....	13
Information Relating to the Possession or Control Requirements Under Rule 15c3-3 - Schedule III.....	14
Statement of Internal Control.....	15-16



REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

Board of Directors
Centaurus Financial, Inc.
Orange, California

We have audited the accompanying balance sheets of Centaurus Financial, Inc. as of April 30, 2003 and 2002, and the related statements of operations, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the years then ended, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centaurus Financial, Inc. as of April 30, 2003 and 2002, and the results of their operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LaVine & Associates CPA'S, INC.

Mission Viejo, California
June 24, 2003

CENTAURUS FINANCIAL, INC.

Statements of Operations

For The Years Ended April 30,

	<u>2003</u>	<u>2002</u>
REVENUES		
Commission income	\$30,719,865	\$29,294,993
Interest	10,028	42,764
Other income	<u>677,391</u>	<u>625,915</u>
TOTAL REVENUES	<u>31,407,284</u>	<u>29,963,672</u>
EXPENSES		
Commission expense	27,645,492	26,046,146
Salaries	1,772,862	1,628,075
Depreciation	17,097	15,810
Interest	17,537	17,558
Other operating expenses	<u>1,443,215</u>	<u>1,377,684</u>
TOTAL EXPENSES	<u>30,896,203</u>	<u>29,085,273</u>
INCOME FROM OPERATIONS BEFORE PROVISION FOR INCOME TAXES	<u>511,081</u>	<u>878,399</u>
PROVISION FOR INCOME TAXES - Note 6		
Current	<u>224,999</u>	<u>345,689</u>
TOTAL PROVISION FOR INCOME TAXES	<u>224,999</u>	<u>345,689</u>
NET INCOME	<u>\$ 286,082</u>	<u>\$ 532,710</u>

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

4

CENTAURUS FINANCIAL, INC.

Statements of Changes in Stockholders' Equity

For The Years Ended April 30, 2003 and 2002

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
Balance - April 30, 2001	\$280,375	\$ 631,615	\$ 911,990
Dividends	-	(54,380)	(54,380)
Stock Issuance	79,346	-	79,346
Net Income	<u>-</u>	<u>532,710</u>	<u>532,710</u>
Balance - April 30, 2002	359,721	1,109,945	1,469,666
Stock Issuance	79,346	-	79,346
Net Income	<u>-</u>	<u>286,082</u>	<u>286,082</u>
Balance - April 30, 2003	<u>\$439,067</u>	<u>\$1,396,027</u>	<u>\$1,835,094</u>

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

5

CENTAURUS FINANCIAL, INC.

Statements of Cash Flows
For The Years Ended April 30,

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 286,082	\$ 532,710
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	17,097	15,810
Changes in assets and liabilities:		
Increase in accounts receivable	(62,257)	(343,690)
(Increase) Decrease in due from affiliate	(189,161)	162,847
Increase in prepaid expenses and other assets	(106,103)	(42,283)
Increase in accounts payable and other liabilities	487,939	134,248
(Decrease) Increase in commissions payable	(704,382)	355,714
(Decrease) Increase in interest payable	(145,850)	17,500
(Decrease) Increase in income taxes payable	<u>(10,395)</u>	<u>10,395</u>
Net cash (consumed) provided by operating activities	<u>(427,030)</u>	<u>843,251</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(27,746)</u>	<u>(6,486)</u>
Net cash consumed by investing activities	<u>(27,746)</u>	<u>(6,486)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Stock issuance	79,346	79,346
Payment of dividends	<u>-</u>	<u>(54,380)</u>
Net cash consumed by financing activities	<u>79,346</u>	<u>24,966</u>
Net (decrease) increase in cash	(375,430)	861,731
CASH BALANCE - beginning	<u>3,413,964</u>	<u>2,552,233</u>
CASH BALANCE - ending	<u>\$3,038,534</u>	<u>\$3,413,964</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 163,387</u>	<u>\$ 58</u>
Income taxes paid	<u>\$ 224,999</u>	<u>\$ 361,565</u>

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

6

CENTAURUS FINANCIAL, INC.

Statements of Changes in Liabilities
Subordinated to Claims of General Creditors

April 30, 2003 and 2002

BALANCE - April 30, 2001	\$250,000
Activity - None	<u>-</u>
BALANCE - April 30, 2002	250,000
Activity - None	<u>-</u>
BALANCE - April 30, 2003	<u>\$250,000</u>

Accrued interest in the amount of \$158,975 was paid in full during the year ended April 30, 2003.

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

7

CENTAURUS FINANCIAL, INC.
Notes to Financial Statements
For The Years Ended April 30, 2003 and 2002

THE COMPANY

Centaurus Financial, Inc., "the Company", is a registered securities broker-dealer and is a subsidiary of Federation of Financial Services, Inc. The Company sells financial products, primarily mutual funds and insurance, through independent registered representatives. The Company is registered to do business throughout the United States.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and practices of the Company are as follows:

Accounting method - the Company uses the accrual method of accounting for both financial statement reporting and income tax return preparation.

Recognition of sales and income - securities transactions are recorded on a settlement basis, generally the third business day following the transaction date.

Fixed assets - fixed assets are stated at cost. Repairs and maintenance expenditures which do not extend the useful life of the assets owned are expensed as incurred. Depreciation is computed using both straight-line and accelerated methods, based upon the estimated useful lives of the assets ranging from three to five years.

Income taxes - a provision has been made for the estimated amount of income taxes which are payable currently and in the future (See Note 6). Deferred income taxes are computed annually in accordance with Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes, when applicable.

Use of estimates - the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comprehensive income – Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, (SFAS 130), requires that total comprehensive income be reported in the financial statements. Comprehensive income is the same as net income as reported in the Financial Statements of Income for the years ended April 30, 2003 and 2002.

Reclassification – Certain reclassifications have been made to the financial statements to conform with the presentation of the 2003 financial statements. The reclassifications have no effect on the net income for the year ended April 30, 2002.

NOTE 2 - FIXED ASSETS

Fixed assets are stated at cost and as of April 30, 2003 and 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
Office furniture and fixtures	\$ 38,403	\$ 38,403
Office computers and equipment	<u>96,256</u>	<u>68,510</u>
	134,659	106,913
Less accumulated depreciation	<u>(111,710)</u>	<u>(94,613)</u>
Net fixed assets	<u>\$ 22,949</u>	<u>\$ 12,300</u>

Depreciation expense was \$17,097 and \$15,810 for the years ended April 30, 2003 and 2002, respectively.

NOTE 3 - SUBORDINATED LOANS

The borrowings under a subordination agreement with Federation of Financial Services, Inc. (See "The Company" Note) as of April 30, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Note payable, bearing interest at 7.0% per annum, maturing extended to January 2005	<u>\$250,000</u>	<u>\$250,000</u>

The subordinated borrowing and the accrued interest is covered by agreements approved by the National Association of Securities Dealers (NASD) and is available in computing net capital under the Securities and Exchange commission uniform net capital rule. The terms of the subordinated loan agreement includes certain covenants and restrictions as to the repayment of this loan. Interest in the amount of \$145,850 had been accrued on this loan as of April 30, 2002, and \$158,975 as of January 31, 2003.

In January, 2003, the maturity date was extended to January, 2005. Pursuant to the terms of the amended agreement, the NASD approved the payment of the accrued interest in the amount of \$158,975. The Company now pays the interest on a monthly basis.

NOTE 4 - NET CAPITAL REQUIREMENT

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. At April 30, 2003 and 2002, the Company had net capital of \$1,429,302 and \$1,486,484 which was \$1,329,302 and \$1,386,484 in excess of its required net capital of \$100,000 for each year.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

In February 1999, the Company moved its operations to Orange, California, and obtained a lease for a five year term. The operating lease currently calls for monthly payments of \$11,912. Rent expense was \$143,609 and \$129,463, respectively, for the years ended April 30, 2003 and 2002. Management is currently in negotiations to extend the office lease.

The Company also has three equipment leases that have been recorded as operating leases, with payments ranging from \$330 to \$550 per month, expiring at various dates through January 2003.

The following is a schedule of minimum lease payments for the remainder of the lease terms:

2004 \$ 119,120

NOTE 6 - PROVISION FOR INCOME TAXES

The provision for income taxes at April 30, 2003 and 2002 consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
<u>2003</u>			
Federal	\$173,621	\$ -	\$173,621
State	<u>51,378</u>	<u>-</u>	<u>51,378</u>
	<u>\$224,999</u>	<u>\$ -</u>	<u>\$224,999</u>
<u>2002</u>			
Federal	\$264,126	\$ -	\$264,126
State	<u>81,563</u>	<u>-</u>	<u>81,563</u>
	<u>\$345,689</u>	<u>\$ -</u>	<u>\$345,689</u>

NOTE 6 - PROVISION FOR INCOME TAXES (continued)

For income tax purposes, the Company will file its income tax returns on a consolidated basis. The provision for income tax expense has been allocated to the Company based upon its estimated share of the total income tax provision on a consolidated basis.

NOTE 7 - SIGNIFICANT GROUP CONCENTRATIONS

The Company has banking relations with a financial institution in which depository account balances exceed \$100,000.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Company has an agreement with Broker Design & Development, Inc. "BD&D", an affiliated corporation, which provides continuing education, product development and related support services to the Company

The Company also has an agreement with Hamilton Strategic Marketing, Inc., "Hamilton", which provides seminar and convention support to the Company. For the years ended April 30, 2003 and 2002, the Company paid Hamilton \$50,800 and \$42,525, respectively, in connection with this agreement.

NOTE 9 - RETIREMENT PLANS

The Company sponsors a 401(k) plan. Employer contributions were \$19,282 and \$14,915 for the years ended April 30, 2003 and 2002, respectively.

CENTAURUS FINANCIAL, INC.
 Computation of Net Capital Pursuant to Rule 15c3-1
 April 30,

	<u>2003</u>	<u>2002</u>
COMPUTATION OF NET CAPITAL		
Total ownership equity:		
Stockholders' equity (from balance sheet)	\$1,835,094	\$1,469,666
Additions :		
Subordinated loans	250,000	250,000
Accrued interest - subordinated loans	-	145,850
Deductions:		
Fixed Assets - net	(22,949)	(12,300)
Prepaid expenses and other assets	(383,675)	(277,572)
Due from affiliates	(209,161)	(20,000)
Haircut on securities	(20,007)	(51,660)
Fidelity bond deductible	<u>(20,000)</u>	<u>-</u>
Net Capital	<u>\$1,429,302</u>	<u>\$1,486,484</u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS		
Minimum dollar net capital requirement	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Excess net capital	<u>\$1,329,302</u>	<u>\$1,386,484</u>
Excess net capital at 1,000% (net capital less 10% of aggregate indebtedness)	<u>\$1,139,642</u>	<u>\$1,174,140</u>
COMPUTATION OF AGGREGATE INDEBTEDNESS		
Total liabilities (from balance sheet)	<u>\$2,896,606</u>	<u>\$3,123,444</u>
Ratio of aggregate indebtedness to net capital	<u>4.93</u>	<u>4.76</u>
RECONCILIATION		
The following is a reconciliation as of April 30, 2003 and 2002, of the above net capital computation with the Company's corresponding unaudited computation pursuant to Rule 17a-5(d)(4):		
Net Capital - Company's computation	\$1,407,704	\$1,313,746
Reconciling items:		
Accrual of bonuses	(348,945)	(282,143)
Tax provision adjustment	400,929	525,667
Other net audit adjustments	<u>(30,386)</u>	<u>(70,786)</u>
Net Capital	<u>\$1,429,302</u>	<u>\$1,486,484</u>

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

CENTAURUS FINANCIAL, INC.

Computation for Determination of Reserve Requirements
Pursuant to Rule 15c3-3

April 30, 2003 and 2002

The respondent claims an exemption from Rule 15c3-3 under Section (K)(2)(B).

CENTAURUS FINANCIAL, INC.

Information Relating to the Possession or Control
Requirements Under Rule 15c3-3

April 30, 2003 and 2002

Not applicable.

**Independent Auditor's Report On Internal
Control Structure Required
By SEC Rule 17a-5**

Board of Directors
Centaurus Financial, Inc.
Orange, California

In planning and performing our audit of the financial statements and supplemental schedules of Centaurus Financial, Inc. (the Company), for the year ended April 30, 2003, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control structure.

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

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

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at April 30, 2003, to meet the SEC's objectives.

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

LaVine & Associates CPA's, INC.

Mission Viejo, California
June 24, 2003