

PUBLIC



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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 05/01/18 AND ENDING 04/30/19  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CENTAURUS FINANCIAL, INC.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

2300 E. KATELLA AVE., STE. 200

ANAHEIM CA 92806  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
SHERI LEJMAN 714-456-1790

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

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

18500 VON KARMAN AVE., 10 TH FLOOR IRVINE CA 92612  
(Address) (City) (State) (Zip Code)

SEC  
Mail Processing  
Section

JUN 28 2019

Washington DC  
406

CHECK ONE:

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

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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)

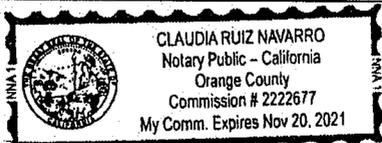
SEC 1410 (11-05)

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OATH OR AFFIRMATION

I, SHERI LEJMAN, 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, 2019, 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]*

Notary Public

*[Signature]*

Signature

CFO/FINOP

Title

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).

**CENTAURUS FINANCIAL, INC.**  
**FINANCIAL STATEMENT AND NOTES TO FINANCIAL STATEMENT**  
**For The Year Ended April 30, 2019**

This report is filed in accordance with Rule 17a-5(e)(3) of the Securities and Exchange Commission as a public document.

**CENTAURUS FINANCIAL, INC.**  
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**APRIL 30, 2019**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Equity Owners of Centaurus Financial, Inc.

### Opinion on the Financial Statements

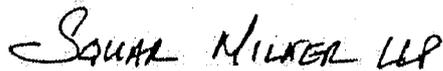
We have audited the accompanying statement of financial condition of Centaurus Financial, Inc. (the Company) as of April 30, 2019, and the related notes to the financial statement (collectively, the financial statements). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 30, 2019, 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.



We have served as the Company's auditor since 2014.

Irvine, California  
June 25, 2019

**CENTAURUS FINANCIAL, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**April 30, 2019**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 23,759,794
Commissions receivable	4,035,495
Receivables from broker-dealers and clearing organizations	78,871
Note receivable from officer	535,000
Prepaid expenses and other assets	5,112,074
Investment securities held for trading, at fair value	8,818,883
Investment securities, held-to-maturity	391,282
Property and equipment, net	1,416,881
Deferred tax asset	1,649,000
Deposits with clearing organizations	100,000
<b>TOTAL ASSETS</b>	<u><u>\$ 45,897,280</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
<b>LIABILITIES</b>	
Commissions payable	\$ 6,236,776
Accounts payable and other liabilities	11,268,965
Deferred revenue	1,327,141
Income taxes payable	705,990
Deferred tax liability	59,000
Note payable to bank	506,085
<b>TOTAL LIABILITIES</b>	<u><u>20,103,957</u></u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 8)</b>	
<b>STOCKHOLDERS' EQUITY</b>	
Common stock - no par value, 10,000,000 shares authorized, 137,313 shares issued and outstanding	544,861
Notes receivable from related party	(7,768,195)
Retained earnings	33,016,657
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u><u>25,793,323</u></u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 45,897,280</u></u>

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

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

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**NOTE 1 - DESCRIPTION OF BUSINESS**

Centaurus Financial, Inc. (the "Company") is a national broker/dealer licensed to offer securities, investment advisory services and insurance products. The Company is a Registered Investment Advisor with the U.S. Securities and Exchange Commission (the "SEC") and a member of both the Financial Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

Founded in 1992, the Company was formed with a focus to provide service, support, technology, and education to independent financial advisers in the securities industry. While the industry as a whole and the Company itself have evolved since the Company's inception, the focus of the Company remains the same as of the date of these financial statements.

The Company is an independent broker/dealer providing a platform for over 600 financial advisors and 350 branch offices across the United States of America. The Company is headquartered in Anaheim, California. The Company is a subsidiary of Federation of Financial Services, Inc. ("FFS"), a holding company. FFS owns 83.75% of the Company.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of presentation** – The Company's accounting policies conform to accounting principles generally accepted in the United States of America ("GAAP") in all material respects, and have been consistently applied in preparing the accompanying financial statements.

**Cash and cash equivalents** – Cash and cash equivalents are comprised of cash in banks and highly liquid instruments with original maturities of three months or less, primarily consisting of bank time deposits and investments in institutional money market funds. Cash in bank accounts at times may exceed federally insured limits (See Note 10).

**Revenues** - The Company's revenues are derived from the Company assisting in effecting the execution of clients' purchases of packaged products such as mutual funds, exchange traded funds, variable and fixed insurance products, real estate investment trusts and other securities. Such transactions are effected directly with a product sponsor (accounts held direct) or effected via a clearing arrangement with the Company's clearing broker-dealer. In addition, to a commission based business, as an independent broker-dealer the Company also provides a fee-based business under its registered investment advisory platform, with its two primary third-party custodians. The Company's primary revenues are comprised as follows:

**Commissions revenue** – Commission revenue represents sales commissions generated by the Company's financial advisors for their clients' purchases of securities on exchanges and over-the-counter, as well as purchases of other investment products. The purchase of investment products is a single performance obligation. The transaction price varies by investment product and is based on a percentage of an investment product's current market value at the time of purchase. Commission revenue is recognized at the point of purchase.

The Company is the principal for commission revenue, as it is responsible for the effecting the execution of the clients' purchases and maintains relationships with the product sponsors. The financial advisors assist the Company in performing its obligations. Accordingly, total commission revenues are reported on a gross basis.

**Advisory revenue** – Advisory revenue represents fees charged to financial advisors' clients' accounts on the Company's corporate Advisory and Wealth Management platform. The Company provides ongoing investment advice and administrative services for these client accounts. The advisory revenue generated from the Company's corporate RIA platform is based on a percentage of the market value of the eligible assets in these clients' advisory accounts. The percentage is negotiated between the financial advisors and their clients, based on a fee schedule. This series of performance obligations (ongoing investment advice by the financial advisor for the client accounts) occurs over time as the services are performed. The revenue is recognized ratably over time to match the continued delivery of the performance obligations to the client over the life of the contract.

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenues - (Continued)

The Company is the principal in these arrangements and recognizes advisory revenue on a gross basis, as the Company is responsible for satisfying the performance obligations and has control over determining the fees, by setting a maximum amount to be charged based on portfolio value. The financial advisors assist the Company in performing its regulatory and other obligations.

Marketing Revenue - Marketing revenue represents compensation paid to the Company by certain financial product manufacturers in return for the Company's selling the products of these product manufacturers. The purchase of investment products is a single performance obligation. The transaction price varies by investment product and is based on a percentage of an investment product's current market value at the time of purchase. Marketing revenue is recognized at the point of purchase.

The Company is the principal in these arrangements as it is responsible for and determines the level of servicing and marketing support it provides to the product sponsors.

Other revenues -- Other revenues principally consists of amounts earned by the Company from clearing organizations related to trade facilitation, operational and administrative services fees, and clearing credits; fees charged to the Company's independent representatives for service, support and technology, annual licensing renewals with the FINRA and errors and omission insurance; realized and unrealized losses on investments; and other miscellaneous revenues.

Fair value of financial instruments -- The Company's carrying amounts of cash and cash equivalents, commissions receivable, receivables from broker-dealers and clearing organizations, accounts payable and other liabilities, prepaid expenses and other assets approximate their fair values due to their short-term nature and/or as they are receivable or payable upon demand. Amounts shown for debt approximate fair value.

Prepaid expenses and other assets -- The Company's prepaid expenses and other assets include expenses that are prepaid and notes receivable from financial advisors. The Company periodically extends credit to its advisors in the form of recruiting loans, commission advances, and other loans. The decisions to extend credit to advisors are generally based either on the advisor's credit history and their ability to generate future commissions. Certain loans made in connection with recruiting are forgivable over the terms of the loan provided the advisor remains licensed through the Company. At April 30, 2019, \$1,788,539 of the loan balance could become forgivable and is included in prepaid expenses and other assets in the accompanying statement of financial condition. The amounts forgiven for the year ended April 30, 2019 was \$122,024 and is included in operating expenses in the accompanying statement of operations. If an advisor terminates their arrangement with the Company prior to the forgivable loan term date, an allowance for uncollectible amounts would be recorded using an analysis that would take into account the advisor's registration status as well as the advisor's ability to repay the outstanding balance due. Management monitors the adequacy of the allowance for uncollectible amounts through periodic evaluations of these loans and actual trends experienced. These loans are unsecured, and for any amounts not forgiven, will earn interest per annum generally ranging from 3% to 4%. As of April 30, 2019, the Company concluded that no such allowance for uncollectible amounts was required.

Investment securities -- Marketable equity securities and debt securities are classified as trading, held-to-maturity, or available-for-sale. Management determines the appropriate classification of securities at the time of purchase and evaluates such designation at each balance sheet date. Investments in debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost in the statement of financial condition. Securities that are bought principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value. Investments not classified as either held-to-maturity or trading are classified as available-for-sale and reported at fair value, with changes in earnings reported in stockholders' equity. As of April 30, 2019, the Company had \$8,818,883 of investments classified as held-to-maturity and reported at fair value within the fair value hierarchy (See Note 3). As of April 30, 2019, the Company had \$391,282 of investments classified as held-to-maturity and are reported at amortized cost (See Note 3). As of April 30, 2019, the Company had no investment securities classified as available-for-sale. The Company accounts for its investments in business development companies, REITS and limited partnerships which are classified as held for trading in accordance with ASU 2015-07, Fair Value Measurements. Such investments are valued as a practical expedient utilizing the net asset valuations provided by the investee fund manager's net asset value ("NAV") to determine the fair value of these investments that do not have readily determinable fair value.

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property and equipment – Property and equipment is recorded at historical cost, net of accumulated depreciation. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. Computers and software, as well as furniture and equipment, are depreciated over a period of three to seven years. Buildings and related improvements are depreciated over a period of 15 to 39 years. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases. Land is not depreciated. Routine repairs and maintenance costs are expensed as incurred. Management reviews property and equipment for impairment whenever events or circumstances indicate the carrying amount of the assets may not be recoverable. No impairment was required for the year ended April 30, 2019.

Income taxes – The Company files its income taxes as part of the consolidated income tax return of its parent. In preparing the financial statements, the Company estimates income tax based upon if the Company filed on a separate return basis. The Company must assess the likelihood that the deferred tax asset will be realized. A valuation allowance is established to the extent that it is more-likely-than-not that such deferred tax asset will not be realized. Management makes significant judgments in determining the provision for income taxes, the deferred tax assets and liabilities, and any valuation allowances recorded against the deferred tax asset. Changes in estimates of these taxes may occur periodically due to changes in tax rates, changes in business operations, implementation of tax planning strategies, newly enacted statutory, judicial, and regulatory guidance. These changes could have a material effect on the Company's statements of operations, financial condition or cash flows in the period or periods in which they occur.

The Company follows the provisions of uncertain tax positions as addressed in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*. Based on management's evaluation, there are no uncertain tax positions at April 30, 2019 that would require recognition in the financial statements. The Company has elected to include interest and penalties related to its tax contingencies in income tax expense. No interest or penalties have been accrued or charged to expense as of and for the year ended April 30, 2019. The Company is no longer subject to federal or state examinations by taxing authorities for the years before 2014.

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recently adopted accounting pronouncements – The FASB issued the following Accounting Standard Updates ("ASUs") as part of their comprehensive new revenue recognition standard:

ASU 2014-09, Revenue from Contracts with Customers. This update defines the new standard for recognizing revenue from contracts when goods and services are transferred to a customer in exchange for payment. The amendments in this update are effective for fiscal years beginning after December 15, 2017.

ASU 2016-08, Revenue Recognition - Principal versus Agent (reporting revenue gross versus net). This update adds clarifications to the principal versus agent guidance contained within ASU 2014-09 and provides guidance to aid in the assessment of control. Under the new guidance, an entity that controls the specified good or services before it is transferred to a customer is considered a principal and will recognize revenue on a gross basis. The amendments in this update are effective concurrently with ASU 2014-09.

ASU 2016-12, Revenue Recognition - Narrow-scope Improvements and Practical Expedients. This update provides clarifying guidance impacting several areas of the new standard, including noncash consideration and assessing collectability. The amendments in this update are effective concurrently with ASU 2014-09.

ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. This update makes various minor clarifications to the guidance issued in ASU 2014-09. The amendments in this update are effective concurrently with ASU 2014-09.

On May 1, 2018, the Company, implemented ASC Topic 606, Revenue from Contracts with Customers, utilizing the modified retrospective method. Reporting results for periods beginning subsequent to April 30, 2018 reflect the new standard. There was no material impact to retained earnings as of May 1, 2018 or to revenue for the year ended April 30, 2019, as revenue recognition and timing of revenue did not change as a result of implementing ASC Topic 606.

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Recently issued accounting pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases*, which establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the statement of financial condition for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements*, which provides an optional transition method that allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted the provisions of this guidance, including the optional transition method, on May 1, 2019. A right of use asset and corresponding lease liability will be recognized on the Company's statement of financial condition in the amount of \$1,485,721. The Company does not expect a material impact on its statement of operations or its net capital.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 removes or modifies certain current disclosures, and adds additional disclosures. The changes are meant to provide more relevant information regarding valuation techniques and inputs used to arrive at measures of fair value, uncertainty in the fair value measurements, and how changes in fair value measurements impact an entity's performance and cash flows. Certain disclosures in ASU 2018-13 will need to be applied on a retrospective basis and others on a prospective basis. Early adoption is permitted. The Company expects to adopt the provisions of this guidance on May 1, 2020, and is currently evaluating the impact that ASU 2018-13 will have on its related disclosures.

**NOTE 3 - FAIR VALUE MEASUREMENTS**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are prioritized within a three-level fair value hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

*Level 2* – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by active market data.

*Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the methodologies, and similar techniques that use significant unobservable inputs.

*NAV* - Investments in other funds are valued at the latest available reported NAV of the respective fund, where their value is based upon the most recent NAV.

The Company's policy is to recognize transfers in and transfers out of the three levels of input as of the date of the event or change in circumstances that caused the transfers. The Company had no transfers between the three levels during the year ended April 30, 2019.

The Company's fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date.

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

**NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)**

The following table summarizes the Company's financial assets measured at fair value on a recurring basis:

	Fair Value Hierarchy Classification			
	Level 1	Level 2	Level 3	NAV
Business development companies	\$ -	\$ -	\$ -	\$ 53,590
Real estate investment trusts (REITS)	-	-	-	515,350
Limited partnerships	-	-	-	160,743
U.S. Treasury bills	7,978,492	-	-	-
Common stock	32,886	-	-	-
Fixed income	-	77,822	-	-
	<u>\$ 8,011,378</u>	<u>\$ 77,822</u>	<u>\$ -</u>	<u>\$ 729,683</u>

The following methods and assumptions were used to estimate the fair value for each class of financial investments measured at fair value:

*Business Development Companies, REITS, and Limited Partnerships* – Business development companies, REITS and limited partnerships are classified as NAV, and are offered on the secondary market as publicly registered, non-traded investment funds, where their value is based upon the most recent NAV.

*U.S. Treasury Bills* – The value of U.S. treasury bills is based on quoted prices in active fixed income markets.

*Common Stock* – The value of common stock is based quoted prices in active publicly traded markets.

*Fixed Income* – The value of fixed income is determined based on the observed values for underlying interest rates and market-determined risk.

The Company's investments in business development companies, REITS and limited partnerships have certain redemption and liquidity restrictions. It is estimated that these investments will be liquidated between 2019 – 2022.

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered nonrecurring fair value measurements.

The Company reports held-to-maturity investments at amortized cost. The Company has a certificate of deposit with an original maturity date of three years that secures a note payable with that bank. This investment is not available for use in the current operations of the Company, until the maturity of the note on August 15, 2021 and therefore is considered restricted (Note 5).

The table below shows the amortized cost, unrealized gain position and fair value of this investment as of April 30, 2019:

	Nonrecurring Fair Value Measurement		
	Amortized Cost	Unrealized Gain	Fair Value
Certificate of deposit	\$ 391,282	\$ 10,385	\$ 401,667

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

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**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost and as of April 30, 2019 consists of the following:

Land	\$	153,041
Building and improvements		1,326,494
Office furniture and fixtures		576,529
Office computers and equipment		434,973
Leasehold improvements		14,594
Autos		153,671
		<u>2,659,302</u>
Less accumulated depreciation		<u>(1,242,421)</u>
Property and equipment - net	\$	<u>1,416,881</u>

Depreciation and amortization expense was \$113,710 for the year ended April 30, 2019.

On June 15, 2018, the Company purchased an office building in a Southern state for internal business use for cash in the amount of \$426,151.

**NOTE 5 - NOTE PAYABLE TO BANK**

The Company obtained financing in connection with the purchase of a corporate office facility. The original terms of the note called for a payoff date of August 15, 2015. The Company subsequently extended the original note for a payoff date of August 15, 2018. On August 15, 2018, the Company entered into an agreement with the bank to extend the note for a second time. The terms of the extension calls for 36 payments of \$2,823, at an interest rate of 3.85% per annum, and one final payment of \$487,728 due August 15, 2021. As of April 30, 2019, the outstanding principal balance was \$506,085. Interest expense in the amount of \$18,609 was paid in connection with this loan during the year ended April 30, 2019. The investment securities, held-to-maturity in the amount of \$391,282 discussed in Note 3 is held as security for the note, as required by the bank.

**NOTE 6 - REGULATORY**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. As of April 30, 2019, the Company had net capital of \$15,853,260 which was \$14,512,996 in excess of its required net capital of \$1,340,264.

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

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**NOTE 7 - RELATED PARTIES**

Commonality of ownership – Because the Company and other related entities have commonality of ownership and/or management control, the reported operating results and/or financial position of the Company could differ from what would have been obtained if such entities were autonomous.

Administrative services agreement – The Company entered into an administrative services agreement with a related party to provide the Company with educational, staff support, and other administrative services. The terms of this agreement call for a monthly service fee of \$238,000. Changes are made based on a management analysis of actual costs. For the year ended April 30, 2019, \$2,856,000 has been recorded as an expense in connection with this agreement and is included within operating expenses in the statement of operations. The administrative and services agreement can be terminated by either party, upon written notice delivered to the other party at least thirty (30) days prior to such termination.

Meeting and event services – The Company received meeting and event services from an affiliate such as support for seminars and conventions, and state registration and licensing services to the Company. For the year ended April 30, 2019, the Company paid \$2,129,954 to such affiliate for these services performed, of which \$59,162 is included as an expense within operating expenses in the statement of operations and \$2,070,792 is netted against respective third party sponsorship monies received by the Company from third parties for attending its seminars and meetings.

Notes receivable – As of April 30, 2019, the Company had notes receivable from FFS in the amount of \$7,768,195. This amount is classified as contra-equity in the statement of financial condition. These notes accrue interest at 3% per annum and mature in June and December 2021. The Company entered into these separate note transactions with FFS contemporaneously with FFS making payments to an unrelated third party ("FFS Lender") to which FFS has a note payable (the "FFS Note"). The Company loaned FFS \$1,014,454 to make payments on the FFS Note during the year ended April 30, 2019. The FFS Note to the FFS lender has an outstanding balance of \$998,506 as of April 30, 2019. The original FFS Note called for all of the Company's stock to be pledged against such outstanding balance. On August 21, 2018 Amendment No. 1 to Loan Agreement with Pledge of Stock ("FFS Note Amendment No. 1") was executed between the FFS Lender and FFS, whereby, effective August 21, 2018 only 25% of the Company's stock is required to be pledged against the outstanding balance of the FFS Note. The FFS Note may be prepaid at any time in whole or in part without penalty. Additionally, it is the expressed intent of the two FFS shareholders to retire the FFS Note, prior to its maturity and repay the Company's notes receivable. The FFS Note requires the Company to make scheduled payments to the FFS Lender in the event of an FFS default. In addition, in accordance with the terms of the FFS Note the Company is required to be in compliance with certain loan covenants and is not permitted to make certain dividends and bonus payments without the approval of the FFS Lender during the term of the FFS Note. On February 5, 2019 the Company paid dividends to the Company's stockholders amounting to \$1,500,000 as permitted based on parameters outlined in the FFS Note. As of April 30, 2019, management believes that the Company is in compliance with all covenants related to the FFS Note.

On June 1, 2016, a stockholder of the Company purchased a building from the Company for \$665,000, which approximated its carrying cost in exchange for a note. The note accrues interest at 3.5% per annum and matures on December 31, 2020. The balance on the note at April 30, 2019 was \$535,000.

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

Operating leases - The Company records rent expense related to its non-cancellable operating leases on a straight-line basis over the term of the lease. The cumulative difference between the rent expense as recognized by the Company and actual rental payments to date is reflected as deferred rent included within accounts payable and other liabilities in the statement of financial condition. Rent expense was \$624,216 for the year ended April 30, 2019.

The following is a schedule of minimum lease payments as of April 30, 2019 for the remaining years of the lease term:

2020	\$	563,572
2021		579,834
2022		414,473
2023		39,499
	\$	<u>1,597,378</u>

Litigation and claims - In the ordinary course of business, the Company is routinely a defendant in or party to pending and threatened legal actions and proceedings brought on behalf of various claimants, some of which seek material and/or indeterminable amounts. Certain of these actions and proceedings are based on alleged violations of consumer protection, securities and other laws and may involve claims for substantial monetary damages asserted against the Company.

The Company maintains Errors and Omissions ("E&O") insurance to protect itself from potential damages and/or legal costs associated with certain litigation and arbitration proceedings and, as a result, in cases with origination dates from January 1, 2016 to December 31, 2017, the self-insured retention is \$3,000,000 per calendar year, for all claims combined that are made in that calendar year such that the Company's exposure is limited to \$3,000,000 per policy year, subject to policy limitations and exclusions. In cases with origination dates from January 1, 2018 to December 31, 2018, the self-insured retention is \$2,000,000 per calendar year, for all claims combined that are made in that calendar year such that the Company's exposure is limited to \$2,000,000 per policy year, subject to policy limitations and exclusions. Lastly, in cases with origination dates after December 31, 2018, the self-insured retention is \$1,500,000 per calendar year, for all claims combined that are made in that calendar year such that the Company's exposure is limited to \$1,500,000 per policy year, subject to policy limitations and exclusions.

The Company also maintains a fidelity bond to protect itself from potential damages and/or legal costs related to fraudulent activities pursuant to which the Company's exposure is usually limited to a \$100,000 deductible per case, subject to policy limitations and exclusions.

The Company recognizes a legal liability when management believes it is probable that a liability has been incurred and the amount can be reasonably estimated. Conclusions on the likelihood that a liability has been incurred and estimates as to the amount of the liability are based on consultations with the Company's general counsel who, when situations warrant, may engage and consult external counsel to assist with the evaluation and handle certain matters. Legal fees for defense costs are expensed as incurred and classified as professional services within the statement of operations.

As of April 30, 2019, the Company had accrued \$4,666,714 relating to the Company's defense in various legal matters. The amount actually paid in relation to these legal matters may differ from the year end accrual.

**NOTE 9 - INCOME TAXES**

The Company is included in the consolidated federal and state income tax returns filed by its parent. Federal and state taxes are calculated as if the Company filed separate income tax returns.

The Company operates, for tax purposes, pursuant to a tax sharing arrangement by which certain tax attributes are limited or otherwise modified by virtue of being a group member. To the extent the tax sharing agreement differs from the tax method of allocation pursuant to FASB ASC 740-10-30-27 and 28, such difference between the amount paid or received (tax sharing agreement) and the settlement (method of allocation) will be treated as a dividend or capital contribution. As a member of the parent, the Company is severally liable for certain Federal and state income liabilities. Under the arrangement, the parent makes all the decisions with respect to all matters relating to taxes of the consolidated tax group. The provisions of the arrangement takes into account both the Company separately and the Company as a member of the consolidated tax group. As a result, the

**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

**NOTE 9 - INCOME TAXES (CONTINUED)**

Company may incur tax liabilities greater than on a separate basis. The Company has a due to parent balance of \$375,308 as of April 30, 2019 related to this tax sharing arrangement which is included in accounts payable and other liabilities in the accompanying statement of financial condition.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes) and accrued legal reserves (expensed for financial statement purposes but not deductible for income tax purposes until paid). The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible the assets and liabilities are recovered or settled. As of April 30, 2019, the deferred tax asset was \$1,649,000 and the deferred tax liability was \$59,000.

On December 22, 2017, the United States passed the Tax Cuts and Jobs Act of 2017 which reduced the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. As a result, the Company revalued the deferred tax assets to reflect the reduction in the future corporate tax rate.

The current and deferred portions of the income tax expense included in the statement of operations for the year ended April 30, 2019 is as follows:

	Current	Deferred	Total
Federal	\$ 2,126,790	\$ (415,000)	\$ 1,711,790
State	804,254	\$ (125,000)	679,254
	\$ 2,931,044	\$ (540,000)	\$ 2,391,044

The Company's effective tax rate differs from its expected federal statutory rate as a result of permanent items, state taxes and adjustments to tax accounts for filed returns. Components of the Company's deferred tax assets and liabilities as of April 30, 2019 are as follows:

Deferred tax assets:

Legal reserve	\$	1,383,000
Deferred rent		33,700
Accrued vacation		29,300
Reserve for book of business acquisitions		14,000
State taxes		189,000
Total	\$	1,649,000

Deferred tax liability:

Depreciation on property and equipment	\$	59,000
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**CENTAURUS FINANCIAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended April 30, 2019**

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**NOTE 10 - CONCENTRATIONS OF CASH**

At April 30, 2019, the carrying amount of the Company's cash and cash equivalents, held at three banking institutions, was \$23,759,794. Each institution insures amounts of \$250,000 provided by the Federal Deposit Insurance Corporation.

**NOTE 11 - RETIREMENT PLANS**

The Company has a defined contribution 401(k) plan (the "Plan") covering all of its eligible employees. The Plan is subject to limitations set forth by the Internal Revenue Code. Eligible employees can contribute up to 20% of their gross compensation, subject to annual limitations. During the year ended April 30, 2019, the Company made matching contributions of \$107,460.

**NOTE 12 - OFF-BALANCE SHEET RISK**

Off-balance sheet financial instruments include futures, forward and foreign exchange contracts, exchange-traded and over-the-counter options, delayed deliveries, forward mortgage-backed trade, securities purchased and sold on a when issued basis (when-issued securities), and interest rate swaps. Derivative financial instruments may be used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions may be entered into for trading purposes or to economically hedge other positions or transactions. Futures and forward contracts and to-be-announced securities and when-issued securities provide for the delayed delivery of the underlying instrument.

As of April 30, 2019, and for the year then ended, the Company had not entered into or was a party to off-balance sheet financial instruments in its normal course of business as referred to in the aforementioned paragraph.

**NOTE 13 - SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through June 25, 2019, the date at which the financial statements were available to be issued. No additional events have occurred which would have a material effect on the financial statements of the Company as of that date.