Statement of Financial Condition

April 30, 2019 — Unaudited

George K. Baum & Company

INVESTMENT BANKERS SINCE 1928

Statement of Financial Condition

April 30, 2019

ASSETS

Cash and cash equivalents			$	708,121
Restricted cash				1,100,000
Receivables from customers				4,471,894
Receivables from brokers, dealers, and clearing organizations				1,444,552
Securities owned, at fair value ($15,492,354 pledged as collateral):				
U.S. government agency mortgage-backed securities	$	924,265		
State and municipal obligations		20,166,946		
Corporate debt obligations		10,434,151		
				31,525,362
Fixed assets, net				1,202,073
Prepaids and other assets				11,463,315
Total assets			$	51,915,317

LIABILITIES AND STOCKHOLDER'S EQUITY

Short-term bank borrowings	$	12,300,000
Payables to customers		65,981
Payables to brokers, dealers, and clearing organizations		11,359,189
Accrued compensation and benefits		4,849,422
Other liabilities and accrued expenses		4,977,700
		33,552,292
Subordinated liabilities		4,131,589
Stockholder's equity		14,231,436
Total liabilities and stockholder's equity	$	51,915,317

See notes to Statement of Financial Condition

Notes to Statement of Financial Condition

April 30, 2019

1. ORGANIZATION

George K. Baum & Company (the Company) is a wholly owned subsidiary of George K. Baum Holdings, Inc. (the Parent). The Company is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority, which serves as the Company's self-regulatory organization. The Company is an underwriter of tax-exempt securities and also provides a range of investment banking services.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Statement of Financial Condition is prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the more significant of which are summarized below.

Cash, Cash Equivalents & Restricted Cash

Cash and cash equivalents represent amounts on deposit with various financial institutions and investments in money market mutual funds.

At April 30, 2019, the Company's cash accounts exceeded federally insured limits by approximately $394,000. Pursuant to Rule 15c3-3 of the SEC, the Company maintains special reserve bank accounts for the benefit of customers and proprietary accounts of broker-dealers. At April 30, 2019, restricted cash of $1,100,000 has been segregated into these accounts.

Securities Owned

Securities owned are stated at fair value and recorded on a trade-date basis. Fair value generally is based on recent trade data. If no recent trade data exists, fair value is based on other relevant factors, including dealer price quotations and third party pricing services, which take into consideration time value, liquidity, credit, and volatility factors underlying the securities.

Receivables from and Payables to Customers, Brokers, Dealers & Clearing Organizations

Receivables from and payables to customers, brokers, dealers, and clearing organizations include amounts owed and due on securities transactions, margin lending, securities failed to deliver, securities failed to receive, and deposits with clearing organizations. Securities owned by customers, but not fully paid for, are held as collateral against the customer receivables. Such collateral is not reflected in the accompanying statement of financial condition.

Prepaids and Other Assets

Prepaids and other assets consist principally of the cash value of life insurance contracts in the amount of $4,938,594 owned as an economic hedge for the Company's deferred compensation plan, loans to employees of $3,074,348, and other receivables and prepaid expenses. The cash value of these life insurance contracts is invested in assets that directly correlate to the return on the investment options selected by the participants in the deferred compensation plan. Loans to employees are generally forgivable based on continued employment and are amortized to compensation and benefits using the straight-line method over the terms of the loans, which are generally three years or less.

Fixed Assets

Fixed assets are recorded at amortized cost and primarily consist of leasehold improvements, which are amortized using the straight-line method over the shorter of the lease term or useful life, and furniture and equipment, which are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Fixed assets are presented net of accumulated depreciation and amortization of $4,792,641.

Income Taxes

The Parent is an S corporation for income tax purposes, and the Company is treated as a Qualified Subchapter S Subsidiary. As an S corporation, the income tax due on the taxable income of the Company is the obligation of the stockholders of the Parent.

Use of Estimates

The preparation of the statement of financial condition in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results may differ from those estimates.

Fair Value Measurements

Accounting Standards Codification ("ASC 820-10"), *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

ASC 820-10 also requires expanded disclosure of instruments carried on the statement of financial condition at fair value. These disclosures define a hierarchy based on the nature and observability of inputs used and require a fair valuation that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are those that market participants use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's own assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available under the circumstances. The hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations are based on quoted prices (unadjusted) in active markets for identical assets or liabilities. The types of assets and liabilities that are categorized by the Company as Level 1 generally include money market mutual funds and bank certificates of deposit.

Level 2 – Valuations are based on quoted prices for identical or similar instruments in less-than-active markets and valuation techniques for which significant assumptions are observable, either directly or indirectly. The observable assumptions for the valuation techniques can include contractual cash flows, benchmark yields, and credit spreads to determine fair value. The types of assets and liabilities that are categorized by the Company as Level 2 generally include U.S. government agency mortgage-backed securities, most state and local municipal bonds, corporate obligations, and derivative financial instruments consisting of mortgage-backed to-be-announced contracts.

Level 3 – Valuations are based on valuation techniques whereby significant assumptions and inputs are unobservable and reflect the Company's best estimate of assumptions it believes market participants would use in pricing the asset or liability. The types of assets and liabilities that are categorized by the Company as Level 3 would generally include certain high-yield corporate debt and securities with inactive markets.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. See Note 7 for further discussions and disclosures related to Fair Value Measurements.

Recent Accounting Standards Developments

Revenue Recognition

As of November 1, 2018, the Company has adopted the requirements of ASU 2014-09, *Revenue from Contracts with Customers*, ("ASU 2014-09") which requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services, and also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue that is recognized. The implementation of ASU 2014-09 did not have a material impact on the Company's financial condition.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize a right-of- use asset and lease liability on the statement of financial condition and disclose key information about leasing arrangements. ASU 2016- 02 is effective for annual and interim periods beginning after December 15, 2018. The Company is evaluating other service contracts which may include embedded leases. The impact of the new guidance on the Company's net capital is expected to be minimal.

3. EMPLOYEE BENEFITS

The Company provides a defined contribution 401(k) profit-sharing plan for all full-time employees. The Company's matching contribution consists of both formula-based and discretionary amounts.

Certain employees participate in a deferred compensation plan offered by the Company. Participants voluntarily defer a portion of their compensation, which is invested in a variety of approved investments for a minimum period of five years. The employee deferrals are charged to compensation expense in the year of deferral. The Company's total deferred compensation plan liability at April 30, 2019, was $4,274,421 of which $4,131,589 is included in subordinated liabilities on the statement of financial condition. The remaining $142,832 is included in accrued compensation and benefits on the statement of financial condition.

4. COMMITMENTS AND CONTINGENCIES

The Company is a party to certain financial instruments and contracts with off-balance-sheet risk in the normal course of principal trading, securities underwriting, and clearance of securities transactions. These financial instruments involve elements of market risk whose ultimate obligation may exceed the amount recognized in the statement of financial condition.

As a securities broker-dealer, the Company maintains margin and cash security accounts for its customers and may extend credit to its customers subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. In the event a customer fails to satisfy its obligations, the Company may be required to purchase or sell securities at prevailing market prices in order to fulfill the customer's obligations. The Company monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or reduce positions, when necessary.

The Company seeks to minimize off-balance-sheet risks and credit risks through a variety of reporting and control procedures. Among the policies of the Company to address these risks, besides maintaining collateral in compliance with regulatory and internal requirements, are the setting and monitoring of credit limits for customers and other brokers with which it conducts significant transactions and ongoing monitoring of market exposure and counterparty risk.

In the ordinary course of business, the Company is involved, from time to time, in examinations, investigations and reviews by government agencies and its self-regulatory organization regarding the Company's business. These reviews do not currently involve any actual or threatened direct claims against the Company.

5. SHORT-TERM BANK BORROWINGS

In the ordinary course of business, the Company borrows funds under bank uncommitted lines of credit. Short-term borrowings are secured by Company-owned securities and are payable on demand. Interest is charged at fluctuating rates tied to the daily federal funds rate. Under these lines of credit, the Company had $12,300,000 of outstanding borrowings at April 30, 2019.

6. SUBORDINATED LIABILITIES

The Company has subordinated liabilities of $4,131,589 at April 30, 2019. The subordination agreements have been approved by the Company's designated self-regulatory organization and therefore are allowable in the computation of net capital under the Securities and Exchange Commission (SEC) rules. The subordinated liabilities are secondary to the claims of all other creditors, and to the extent these liabilities are necessary for the Company's continued compliance with minimum net capital requirements, they may not be paid out.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents information about the Company's financial instruments measured at fair value in accordance with ASC 820-10 as of April 30, 2019:

	Level 1	Level 2	Level 3
Assets			
Securities owned:			
State and municipal obligations	$ -	$ 20,166,946	$ -
U.S. government agency mortgage-backed securities	-	924,265	-
Corporate debt obligations	-	10,434,151	-
U.S. government agency mortgage-backed purchase commitments outstanding	-	434,289	-
Liabilities			
U.S. treasury futures	-	15,813	-
U.S. government agency mortgage-backed TBAs	$ -	$ 76,026	$ -

There were no transfers of assets or liabilities between levels for the year ended April 30, 2019. There were no purchases or sales of Level 3 assets or liabilities for the year ended April 30, 2019.

The fair value of all other financial instruments reflected in the statement of financial condition, consisting primarily of receivables from and payables to broker dealers, clearing organizations and customers, cash value of life insurance owned, short-term bank borrowings, and subordinated liabilities, approximate their carrying value.

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In the normal course of business, the Company enters into transactions in derivative instruments in order to meet the financing and hedging needs of its customers, and to reduce its own exposure to market risks. These financial instruments may include treasury futures contracts, mortgage-backed to-be-announced ("TBAs") securities, extended settlement trades and securities purchased and sold on a when-issued basis. Futures contracts, forward contracts, TBAs and when-issued securities provide for the delayed delivery or purchase of financial instruments at a specified future date at a specified price or yield.

Risks arise from unfavorable changes in interest rates or the market values of the securities underlying the instruments as well as the possible inability of counterparties to meet the terms of their contracts. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain. For futures contracts, the change in the market value is settled with a clearing broker on a daily basis. For TBAs and mortgage backed securities, the unrealized gain or loss is recorded on open positions by counterparty.

The following table presents information about the Company's derivative activity outstanding as of April 30, 2019.

	Derivative Assets		Derivative Liabilities	
	Notional	Fair Value	Notional	Fair value
U.S. government agency mortgage-backed purchase commitments	$ -	$ 434,289	$ 110,883,341	$ -
U.S. government agency mortgage-backed TBAs	$ 103,300,000	$ -	$ -	$ 76,026
U.S. government futures	$ -	$ -	$ 4,300,000	$ 15,813

As of April 30, 2019, the Company has posted cash collateral of $207,000 with counterparties which is included in its fair value liability of $76,026.

9. RELATED-PARTY TRANSACTIONS

The Company performs certain administrative services for affiliated entities for which it receives a monthly cost reimbursement.

10. NET CAPITAL REQUIREMENTS AND OTHER REGULATORY MATTERS

As a registered broker-dealer with the SEC, the Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1). The Company computes its net capital requirements under the alternative method provided for in Rule 15c3-1, which requires that the Company maintain net capital equal to the greater of 2% of aggregate customer-related debit items, as defined, or $250,000.

At April 30, 2019, the Company had net capital of $7,984,212, which was $7,734,212 in excess of the required net capital.

Advances to affiliates, repayment of subordinated liabilities, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the Uniform Net Capital Rule of the SEC and other regulatory bodies.

Our Mission

To Create Enduring Value for Our Clients, Our People & Our Shareholders

GUIDING PRINCIPLES:

I. Clients First
Client service is our first priority and is defined by our ability to anticipate and exceed our clients' needs and expectations. By placing our clients' interests first, we will ensure our own success.

II. Growth & Opportunity
Achieving a superior return on our capital is the key to growing our businesses and providing the best opportunities and rewards for our people.

III. People
Our long-term success is dependent upon our ability to attract and retain the best people who share our competitive spirit, commitment to excellence and passion to succeed.

IV. Uncompromising Standards
The preeminent reputation and integrity of the firm are paramount in our ability to serve our clients. We will maintain the highest ethical standards, both personally and professionally.

V. Teamwork
Our clients are served best when we combine our collective talents and individual creativity. This teamwork and our ability to effectively leverage these talents are based upon an environment of mutual trust, respect and open communication. We expect our people to serve the interests of our clients and the firm ahead of their own personal interests.

VI. Balance
We recognize the importance of enabling our team members to balance the rewards and challenges of their personal and professional lives.

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