

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

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

|   |                 |
|---|-----------------|
| OMB APPROVAL  |                 |
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| 8-67161         |

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2018 AND ENDING 12/31/2018  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Navy Federal Brokerage Services, LLC

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

820 Follin Lane SE

(No. and Street)

Vienna

VA

22180

(City)

(State)

(Zip Code)

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

Xiaoning Gunn

703-206-2003

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

PricewaterhouseCoopers, LLP

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

1800 Tysons Boulevard

McLean

VA

22102

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



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

FOR OFFICIAL USE ONLY

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

## OATH OR AFFIRMATION

I, Patricia P. Wood, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Navy Federal Brokerage Services, LLC, as of December 31, 2018, 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:



Lori A. Carter  
Notary Public

Patricia P. Wood  
Signature

COO

Title

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.
- ☐ (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).**

**Navy Federal Brokerage Services, LLC**  
**(An Indirect Wholly Owned Subsidiary of Navy Federal Credit Union)**  
**(Sec I.D. No. 8-67161)**

**Statement of Financial Condition**  
**December 31, 2018**

**Pursuant to Rule 17a-5 of the**  
**Securities and Exchange Commission**

**Navy Federal Brokerage Services, LLC**  
(An Indirect Wholly Owned Subsidiary of Navy Federal Credit Union)  
**Index**  
**December 31, 2018**

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## **Report of Independent Registered Public Accounting Firm**

To the Member of Navy Federal Brokerage Services, LLC

### ***Opinion on the Financial Statement – Statement of Financial Condition***

We have audited the accompanying statement of financial condition of Navy Federal Brokerage Services (the “Company”) as of December 31, 2018, including the related notes (collectively referred to as the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

The financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statement 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 the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of this financial statement 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 statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, 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 statement. 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 statement. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 22, 2019

We have served as the Company’s auditor since 2006.

**Navy Federal Brokerage Services, LLC**  
(An Indirect Wholly Owned Subsidiary of Navy Federal Credit Union)  
**Statement of Financial Condition**  
**As of December 31, 2018**

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**Assets:**

|                           |               |
|---------------------------|---------------|
| Cash and cash equivalents | \$10,119,722  |
| Restricted cash           | 10,000        |
| Accounts receivable       | 271,734       |
| Prepaid expenses          | 288,153       |
| Other assets              | <u>22,942</u> |

Total assets \$10,712,551

**Liabilities:**

|                   |              |
|-------------------|--------------|
| Accrued expenses  | \$2,436,712  |
| Accounts payable  | 102,622      |
| Other liabilities | <u>8,258</u> |

Total liabilities \$2,547,592

Commitments and contingencies (See Note 4)

**Member's Interest:**

|                         |                    |
|-------------------------|--------------------|
| Member's interest       | \$17,250,000       |
| Retained deficit        | <u>(9,085,041)</u> |
| Total member's interest | <u>\$8,164,959</u> |

Total liabilities and member's interest \$10,712,551

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

**Navy Federal Brokerage Services, LLC**  
(An Indirect Wholly Owned Subsidiary of Navy Federal Credit Union)  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2018**

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**Note 1: Organization and Nature of Business**

Navy Federal Brokerage Services, LLC (“NFBS” or “the Company”) is a registered introducing broker-dealer, a Securities Exchange Commission (“SEC”) registered investment adviser, and is a member of the Financial Industry Regulatory Authority, Inc. and the Securities Investor Protection Corporation. The Company was formed in the Commonwealth of Virginia on September 6, 2005 as a limited liability company.

The Company is a wholly owned subsidiary of Navy Federal Financial Group, LLC (“NFFG”), which is a wholly owned subsidiary of Navy Federal Credit Union (“NFCU”). NFBS provides broker-dealer and investment advisory services primarily to NFCU members. NFCU is a federally chartered credit union domiciled in the Commonwealth of Virginia. NFCU is the sole member of Navy Federal Financial Group, LLC and NFFG is the sole member of Navy Federal Brokerage Services, LLC.

The Company operates under the provisions of paragraph (k)(2)(ii) of Rule 15c3-3 of the SEC and accordingly, is exempt from the remaining provisions of that Rule. Essentially, the requirement of paragraph (k)(2)(ii) provides 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.

**Note 2: Summary of Significant Accounting Policies**

**Basis of Presentation**

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), and in format prescribed by Rule 17a-5 under the Securities Exchange Act of 1934 for brokers and dealers in securities.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash and cash equivalents**

Cash and cash equivalents consist of demand deposits and money market accounts with financial institutions. The Company defines cash and cash equivalents as highly liquid investments with original maturities of three months or less.

**Restricted cash**

Restricted cash consists of an account held at the Company's secondary clearing broker to fund unmet obligations of NFBS's customers to the clearing broker.

The following table reconciles cash, cash equivalents and restricted cash from the Statement of Cash Flows to the amounts reported in the Statement of Financial Position:

|  | <u>December 31, 2018</u> |
|--|--------------------------|
| Cash and cash equivalents                        | \$ 10,119,722            |
| Restricted cash                                  | <u>10,000</u>            |
| Total Cash, cash equivalents and restricted cash | <u>\$ 10,129,722</u>     |

**Income Taxes**

NFBS is a single member limited liability company and as such is not subject to federal and state income tax. As of December 31, 2018, the Company believes it does not have any uncertain tax positions which did not meet the more likely than not measurement threshold. The current and prior three tax years remain subject to examination by state and local tax authorities.

**Financial Instruments**

The carrying amounts of cash, receivables and payables approximated fair value due to the short-term maturity of the instruments.

**New Accounting Pronouncements**

Accounting Standards Update ("ASU") 2016-13 "*Measurement of Credit Losses on Financial Instruments*" requires enhanced financial statement disclosures and introduces a new impairment model for certain financial instruments based on historical experience, current conditions and reasonable and supportable forecasts. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is currently assessing the impact this ASC will have on its financial statements.

**Note 3: Employee Retirement Benefit Plans**

NFBS participates in NFCU's retirement benefit plans including a defined benefit pension plan, 401(k) defined contribution and 457(b) savings plan.



#### **Note 4: Commitments and Contingencies**

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not occurred. The Company believes the risk of loss to be remote. NFBS maintains errors and omissions insurance as well as a fidelity bond to mitigate losses.

##### **Receivables from clearing firms and other broker-dealers**

Receivables include funds due from CUSO Financial Services, L.P. ("CFS"), which represents commissions receivable from Pershing, LLC, the Company's primary clearing broker, less any fees charged for the services they provide. The Company is subject to credit risk if our clearing broker or CFS are unable to repay the receivable balance reflected in the Statement of Financial Condition. The carrying value of the receivable approximates the fair value as the balance is short term. The receivable due from CFS totaled \$257,790 as of December 31, 2018. The Company clears all of its securities transactions through clearing brokers on a fully disclosed basis. Pursuant to the terms of the agreement between the Company and the clearing broker, the clearing broker has the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations.

The Company monitors the credit standing of the clearing brokers and all counterparties with which it conducts business.

#### **Note 5: Related Party Transactions**

The Company contracts with NFFG, and indirectly, NFCU, to provide sales support, rent, marketing, and administrative services. The contract is month-to-month with a 30 day right to cancel by either party. Total expenses incurred as a result of the aforementioned services received from NFFG totaled \$2,187,576 for the year ended December 31, 2018 and are reflected in the Management fees, Office operations, and Equipment and software line items in the Company's income statement.

As of December 31, 2018, accounts payable and accrued expenses include amounts due to parent entities of \$2,316,692.

##### **Capitalization**

In January 2018, NFFG contributed \$10,000,000 of capital to NFBS bringing NFFG's total investment in NFBS to \$17,250,000. In exchange for the additional capital contribution, NFFG will own a total of 17,250,000 economic units and 17,250,000 participation units, which represents 100% economic interest in the Company.

**Note 6: Net Capital Requirement**

The Company is subject to the Uniform Net Capital Rule under Rule 15c3-1 of the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. The Company computes net capital, as defined, of not less than 6.67 percent of aggregate indebtedness, also as defined. As of December 31, 2018, the Company had net capital of \$7,741,012, which was \$7,571,172 in excess of its required net capital of \$169,840. As of December 31, 2018, the Company's aggregate indebtedness to net capital ratio was 0.33 to 1.00.

**Note 7: Rule 15c3-3 Exemption**

The Company is exempt from provisions of Rule 15c3-3 (pursuant to paragraph (k)(2)(ii) of such Rule) under the Securities Exchange Act of 1934 as an introducing broker-dealer. The Company does not hold any customer funds and/or securities and promptly transmits customer funds and/or securities to the clearing broker-dealer. Operating under such exemption, the Company is not required to provide reserve requirements nor is required to adhere to control requirements for brokers or dealers under Rule 15c3-3.

**Note 8: Subsequent Events**

The Company has evaluated subsequent events through February 22, 2019, the date these financial statements were issued. No subsequent events were identified that would require disclosure in this report.