

CETERA INVESTMENT SERVICES LLC  
(SEC I.D. No. 8-31826)

STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2017  
AND REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

Filed pursuant to Rule 17a-5(d) under the Securities Exchange Act of 1934 as a Public Document.

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

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

OMB APPROVAL
OMB Number: 3235-0123
Expires: August 31, 2020
Estimated average burden hours per response... 12.00
SEC FILE NUMBER
8-31826

**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 01/01/17 AND ENDING 12/31/17  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
Cetera Investment Services LLC

OFFICIAL USE ONLY

FIRM I.D. NO.

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

400 First Street South, Suite 300

(No. and Street)

St. Cloud

(City)

MN

(State)

56301

(Zip Code)

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

Mark Paul Shelson

(320) 229-3191

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Deloitte & Touche LLP

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

555 W 5th Street, #2700

(Address)

Los Angeles

(City)

CA

(State)

90013

(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).  
SEC 1410 (06-02)

OATH OR AFFIRMATION

I, Mark Paul Shelson, affirm that, to the best of my knowledge and belief, the accompanying financial statement pertaining to Cetera Investment Services LLC (the "Company") as of December 31, 2017, is true and correct. I further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

LINDA D. FEDDEMA  
Notary Public  
State of Minnesota  
My Commission Expires  
January 31, 2020

  
Notary Public

  
  
Signature  
Title

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

- ☒ (x) Report of Independent Registered Public Accounting Firm
- ☒ (x) (a) Facing Page
- ☒ (x) (b) Statement of Financial Condition
- ☐ ( ) (c) Statement of Income
- ☐ ( ) (d) Statement of Cash Flows
- ☐ ( ) (e) Statement of Changes in Member's Equity
- ☐ ( ) (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors (not applicable)
- ☒ (x) Notes to Statement of Financial Condition
- ☐ ( ) (g) Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934
- ☐ ( ) (h) Computation for Determination of Reserve Requirement for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934
- ☐ ( ) (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934
- ☐ ( ) (U) A Reconciliation, including appropriate explanations of the Computation of Net Capital under Rule 15c3-1 (included in item g) and the Computation for Determination of the Reserve Requirements under Exhibit A of Rule 15c3-3 (not required)
- ☐ ( ) (k) A Reconciliation Between the audited and unaudited Statements of Financial Condition with Respect to Methods of Consolidation (not applicable)
- ☒ (X) (l) An Oath or Affirmation
- ☐ ( ) (m) A Report describing the Existence of Internal Control over Compliance with the Financial Responsibility Rules and the Broker-Dealer's Compliance with the Financial Responsibility Rules (the "Compliance Report") and Report of Independent Registered Public Accounting Firm Thereon

\*\* For conditions of confidential treatment of certain portions of this filing, see Section 240.17a-5(e)(3).



**Deloitte & Touche LLP**  
555 West 5th Street  
Suite 2700  
Los Angeles, CA 90013-1010  
USA

Tel: +1 213 688 0800  
Fax: +1 213 688 0100  
[www.deloitte.com](http://www.deloitte.com)

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Member of  
Cetera Investment Services LLC

### **Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of Cetera Investment Services LLC (the "Company") as of December 31, 2017, and 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, 2017, 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 this 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 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 of the financial statement provides a reasonable basis for our opinion.

*Deloitte & Touche LLP*

March 1, 2018

We have served as the Company's auditor since 2016.

**CETERA INVESTMENT SERVICES LLC****STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2017****ASSETS**

Cash and cash equivalents	\$	23,396,238
Cash segregated under federal regulations		64,532,353
Receivable from brokers, dealers and clearing organizations		1,879,626
Receivable from customers		9,737,154
Commissions receivable		6,079,996
Other receivables		8,325,042
Prepaid expenses and deferred charges		9,150,359
Other assets		4,145,962
<b>Total assets</b>	<b>\$</b>	<b>127,246,730</b>

**LIABILITIES AND MEMBER'S EQUITY****LIABILITIES**

Payables to brokers, dealers and clearing organizations	\$	842,029
Payables to customers		58,124,392
Commissions payable		16,201,466
Accrued expenses and accounts payable		2,746,525
Deferred credits		2,794,785
Other liabilities		7,277,899
<b>Total liabilities</b>		<b>87,987,096</b>

**COMMITMENTS AND CONTINGENCIES (Note 9)**

<b>MEMBER'S EQUITY</b>		<b>39,259,634</b>
<b>Total liabilities and member's equity</b>	<b>\$</b>	<b>127,246,730</b>

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

## **CETERA INVESTMENT SERVICES LLC**

### **NOTES TO STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2017**

---

#### **NOTE 1 - ORGANIZATION AND DESCRIPTION OF THE COMPANY**

Cetera Investment Services LLC (the “Company”) is a broker-dealer registered under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”). The Company provides brokerage and insurance services to individuals nationally through financial institutions.

The Company is a wholly owned subsidiary of Cetera Financial Group, Inc. (“Cetera Financial”) which is a wholly owned subsidiary of Cetera Financial Holdings, Inc. (“Cetera Holdings”). Cetera Holdings is a wholly owned subsidiary of Aretec Group, Inc. (“Aretec”).

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

##### **Basis of Presentation**

The statement of financial condition was prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). To conform financial information to certain company-wide and industry standards, the Company has reclassified amounts in the statement of financial condition that differ from the prior year presentation related to customer debits from receivable from brokers, dealers and clearing organizations to receivable from customers in the current year presentation. The Company has also reclassified amounts in the statement of financial condition that differ from the prior year presentation related to financial advisor incentive bonus accruals from accrued compensation to fees and commissions payable in the current year presentation.

##### **Use of Estimates**

The preparation of the statement of financial condition in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statement of financial condition. Accordingly, actual results could differ from those estimates, and these differences could be material.

##### **Cash and Cash Equivalents**

Cash equivalents include all highly liquid instruments purchased with original maturities of 90 days or less.

##### **Cash Segregated Under Federal Regulations**

The Company segregates cash pursuant to the requirements of Securities and Exchange Commission (“SEC”) Rule 15c3-3 for the exclusive benefit of customers.

##### **Receivable from and Payable to Customers**

Receivable from and payable to customers include amounts related to cash and margin transactions. Customer cash receivables and payables arise from timing differences in the receipt and disbursement of customer funds. In margin accounts, the Company extends credit to its customers to finance their purchases of securities. Securities owned by customers are held as collateral for margin receivables. Such collateral is not reflected in the statement of financial condition.

##### **Commissions Receivable and Payable**

Commissions receivable includes commissions from brokerage, mutual fund and direct private placement transactions, traded but not yet received. Commissions receivable also includes mutual fund and annuity trailers. Commissions payable related to these transactions are recorded based on estimated payout ratios for each product as commission revenue is accrued.

### **Securities Owned, and Securities Sold, Not Yet Purchased**

Securities owned, and securities sold, not yet purchased are recorded on a settlement date basis which is not materially different from a trade date basis. Securities owned, and securities sold not yet purchased are stated at fair value. As of December 31, 2017, securities owned of \$43,088 are included in other assets. Securities sold, not yet purchased of \$250,888 are included in other liabilities. See Note 3 for more information.

### **Other Receivables**

Other receivables primarily consist of accrued customer account fees and accrued reimbursements and allowances from product sponsors.

### **Prepaid Expenses and Deferred Charges**

Prepaid expenses and deferred charges primarily consist of unamortized conversion and recruiting allowances provided to the Company's financial institution investment programs. The allowances are typically amortized over the term of the program's contract, usually 3 to 5 years.

### **Other Assets**

As of December 31, 2017, other assets primarily consisted of furniture, equipment and software with a cost of \$911,350, less accumulated depreciation of \$613,370, and leasehold improvements with a cost of \$1,681,405, less accumulated depreciation of \$1,541,460. Furniture, equipment, software and leasehold improvements are depreciated using the straight-line method over their estimated useful lives of 3 to 10 years.

### **Deferred Credits**

Deferred credits primarily consist of contract rebates received on the signing of the Company's service bureau contract. The contract rebates are amortized over the 8 year term of the contract.

### **Income Taxes**

As a single member limited liability company, the Company is not subject to income taxes and does not file a federal income tax return. The Company's financial results are included in a consolidated tax return with Aretec. The Company recognizes income tax expense in its financial statements using the separate return method. As part of the Company's tax sharing agreement with Cetera Financial, the Company does not separately record deferred income taxes in the statement of financial condition.

As of December 31, 2017, the Company determined that it had no uncertain tax positions that affected its financial position, and will continue to evaluate for uncertain tax positions in the future. See Note 5 for more information.

### **Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which supersedes the guidance in Accounting Standards Codification ("ASC") 840, "Leases." ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet 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 income. The Company expects to adopt the provisions of this guidance on January 1, 2019. The Company is currently evaluating the impact of this ASU on its financial statements and related disclosures.

## **NOTE 3 - FAIR VALUE DISCLOSURES**

The Company determines fair value based on quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. U.S. GAAP defines three levels of inputs that may be used to measure fair value:

*Level 1* - Quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2* - Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

*Level 3* - Unobservable inputs that reflect the entity's own assumptions about the data inputs that market participants would use in the pricing of the asset or liability and are consequently not based on market activity.

The determination of where an asset or liability falls in the hierarchy requires significant judgment and considers factors specific to the asset or liability. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is the most significant to the fair value measurement in its entirety.

A review of the fair value hierarchy classification is conducted on an annual basis. Changes in the type of inputs used in determining fair value may result in a reclassification for certain assets. The Company assumes all transfers occur at the beginning of the reporting period in which they occur. For the year ended December 31, 2017, there were no transfers between Levels 1, 2 and 3.

Cash equivalents include money market mutual fund instruments, which are short term in nature with readily determinable values derived from active markets. Publicly traded securities with sufficient trading volume are fair valued by management using quoted prices for identical instruments in active markets. Accordingly, these securities are primarily classified within Level 1. Mutual funds and unit investment trusts are fair valued by management using net asset values and are primarily classified within Level 2. Corporate bonds, certificate of deposits and state and municipal government obligations are fair valued by management using third-party pricing services, and are also primarily classified within Level 2.

The Company's fair value hierarchy for those assets measured at fair value on a recurring basis by product category as of December 31, 2017 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets:</b>				
Cash equivalents - money market funds	\$ 16,857,199	\$ -	\$ -	\$ 16,857,199
Securities owned - recorded in other assets:				
Equity securities	35,189	-	-	35,189
Mutual funds and unit investment trusts	-	2,091	-	2,091
Certificate of deposits	-	5,808	-	5,808
Total securities owned	35,189	7,899	-	43,088
Total	\$ 16,892,388	\$ 7,899	\$ -	\$ 16,900,287
<b>Liabilities:</b>				
Securities sold, not yet purchased - recorded in other liabilities:				
Mutual funds and unit investment trusts	\$ -	\$ 245,720	\$ -	\$ 245,720
Certificate of deposits	-	5,168	-	5,168
Total	\$ -	\$ 250,888	\$ -	\$ 250,888

#### **NOTE 4 - RECEIVABLE FROM AND PAYABLE TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS**

Receivable from and payable to brokers, dealers and clearing organizations result from the Company's processing of customer transactions and consisted of the following as of December 31, 2017:

<b>Receivables:</b>	
Fails to deliver	\$ 345,160
Securities borrowed	21,900
Omnibus account receivable	1,512,566
Other receivables	-
Total	\$ 1,879,626
<b>Payables:</b>	
Fails to receive	\$ 469,840
Clearing organization	372,189
Total	\$ 842,029



## **NOTE 5 - INCOME TAXES**

The Company had no unsettled liability with Cetera Financial for income taxes as of December 31, 2017.

The Company believes that, as of December 31, 2017, it had no material uncertain tax positions. There was no liability for interest or penalties accrued as of December 31, 2017.

The Company files state income tax returns in various state jurisdictions. The Company is no longer subject to U.S. federal tax examinations for years before 2014. The Company's state income tax returns are open to audit under the statute of limitations for 2013 to 2016.

## **NOTE 6 - EMPLOYEE BENEFIT PLANS**

The employees of the Company are covered by a 401(k) defined contribution plan and a health and welfare plan that are administered by Cetera Financial. Subject to eligibility requirements, all employees are eligible to participate. The 401(k) plan features an employer-matching program. The health and welfare plan is a self-insured plan sponsored by Cetera Financial. Costs of the plans are allocated to the Company based on rates determined by Cetera Financial. The Company had no separate employee benefit plans in 2017 and relied on Cetera Financial to cover all eligible employees. All benefits that were paid by Cetera Financial were charged back to the Company for reimbursement.

## **NOTE 7 - RELATED PARTY TRANSACTIONS**

Cetera Financial allocates a portion of its general administrative expenses to the Company based on factors including assets under management, sales volume, number of personnel, and producing advisors. Such expenses include overhead services related to marketing and communication, IT, finance and administration, operations and risk management. Because these transactions and agreements are with affiliates, they may not be the same as those recorded if the Company was not a wholly owned subsidiary of Cetera Financial. As of December 31, 2017, outstanding net payables to Cetera Financial in connection with these services of \$128,548 were included in accrued expenses and accounts payable.

The Company provides custodial services for certain customer retirement accounts of two affiliated companies, Cetera Advisors LLC and Cetera Advisor Networks LLC. As of December 31, 2017, receivables and payables to related parties were not material.

## **NOTE 8 - OFF BALANCE SHEET RISK**

The Company is engaged in various principal and brokerage activities with counterparties primarily including broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty.

In the event a customer fails to satisfy its cash or margin account obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. The Company seeks to control the risk associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and pursuant to such guidelines, requires customers to deposit additional collateral or reduce positions, when necessary.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company maintains its cash in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Exposure to credit risk is reduced by maintaining the Company's banking relationships with high credit quality financial institutions.

The Company holds securities that can potentially subject the Company to market risk. The amount of potential gain or loss depends on the securities performance and overall market activity. The Company monitors its securities positions on a monthly basis to evaluate its positions, and, if applicable, may elect to sell all or a portion to limit the loss.

## NOTE 9- COMMITMENTS AND CONTINGENCIES

**Leases** - The Company's lease for office space cancelled December 31, 2017. Effective January 1, 2018, Cetera Financial entered into a lease for the office space renting to the Company on a month-to-month basis.

**Service contracts** - The Company has contracted for technology processing services. The following table shows the future annual minimum payments due:

	Year Ended December 31
2018	\$ 2,550,000
2019	2,700,000
2020	2,700,000
2021	2,700,000
Total	\$ 10,650,000

**Line of credit** - The Company has a \$50,000,000 uncommitted collateralized line of credit with a nationally recognized financial institution. The line of credit does not have a stated expiration. There were no outstanding borrowings as of December 31, 2017.

**Legal and regulatory proceedings related to business operations** - The Company is involved in legal proceedings from time to time arising out of their business operations, including arbitrations and lawsuits involving private claimants, subpoenas, investigations and other actions by government authorities and self-regulatory organizations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek indeterminate damages, the Company cannot estimate what the possible loss or range of loss related to such matters will be. The Company recognizes a liability with regard to a legal proceeding when it believes it is probable a liability has occurred and the amount can be reasonably estimated. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount, the Company accrues the minimum amount in the range. The Company maintains insurance coverage, including general liability, directors and officers, errors and omissions, excess entity errors and omissions and fidelity bond insurance. Defense costs with regard to legal proceedings are expensed as incurred and classified as other expense within the statement of income. When there is indemnification or insurance, the Company may engage in defense or settlement and subsequently seek reimbursement for such matters.

There are no pending matters that are reasonably possible for which the Company has determined it is not capable of providing a reasonable estimate of the losses.

## NOTE 10 - NET CAPITAL REQUIREMENTS

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1. The Company computes its net capital pursuant to the alternative method provided for in the Rule, which requires the maintenance of minimum net capital of the greater of \$250,000 or 2% of aggregate debit items.

At December 31, 2017, the Company had net capital of \$20,704,239, which was \$20,454,239 in excess of required net capital of \$250,000.

## NOTE 11 - SUBSEQUENT EVENTS

The Company has evaluated activity through the date the statement of financial condition was issued and concluded that no subsequent events have occurred that would require recognition or disclosure in the statement of financial condition.

\* \* \* \* \*