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

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018
AND REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

This report is deemed **CONFIDENTIAL** in accordance with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934. A statement of financial condition, bound separately, has been filed with the Securities and Exchange Commission simultaneously herewith as a Public Document.

| OMB APPROVAL |
|---|
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|---|
| 8-31826 |

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

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

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

REPORT FOR THE PERIOD BEGINNING 01/01/18 (MM/DD/YY) AND ENDING 12/31/18 (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 | MN | 56301 |
|---|---|---|
| (City) | (State) | (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 | Los Angeles | CA | 90013 |
|---|---|---|---|
| (Address) | (City) | (State) | (Zip Code) |

**CHECK ONE:**

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

| FOR OFFICIAL USE ONLY |
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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).*

# OATH OR AFFIRMATION

I, Mark Shelson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Cetera Investment 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:

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

Signature

Chief Financial Officer

Title

Notary Public

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

0 (a) Facing Page.

0 (b) Statement of Financial Condition.

1Z] (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.

0 (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.

D (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.

D (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-l and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3. (not required)

D (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation. (not applicable)

(l) An Oath or Affirmation.

0 (m) A copy of the SIPC Supplemental Report.

0 (n) 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 the 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.

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Los Angeles, CA 90013-1010
USA

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**Opinion on the Financial Statements**

We have audited the accompanying statement of financial condition of Cetera Investment Services LLC (the "Company") as of December 31, 2018, and the related statements of income, cash flows, and changes in member's equity, for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended 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 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 statements are 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 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.

**Report on Supplemental Schedules**

The supplemental schedules "g, h, and i" listed in the accompanying table of contents have been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental schedules are the responsibility of the Company's management. Our audit procedures included determining whether the supplemental schedules reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in compliance with Rule 17a-5 under the Securities Exchange Act of 1934. In our opinion, such schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Deloitte & Touche LLP

March 1, 2019

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

**CETERA INVESTMENT SERVICES LLC**

**STATEMENT OF FINANCIAL CONDITION**
**AS OF DECEMBER 31, 2018**

| | | |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 8,792,448 |
| Cash segregated under federal regulations | | 65,497,551 |
| Receivable from clearing organizations, brokers and dealers | | 1,934,388 |
| Receivable from customers | | 26,907,698 |
| Commissions receivable | | 6,658,508 |
| Other receivables | | 11,257,345 |
| Deferred charges | | 6,885,797 |
| Other assets | | 5,561,198 |
| **Total assets** | $ | 133,494,933 |

| | | |
|---|---|---|
| **LIABILITIES AND MEMBER'S EQUITY** | | |
| **LIABILITIES** | | |
| Payables to clearing organizations, brokers and dealers | $ | 1,089,043 |
| Payables to customers | | 58,919,558 |
| Commissions payable | | 18,290,236 |
| Accrued expenses and accounts payable | | 2,405,834 |
| Deferred revenue | | 2,012,125 |
| Other liabilities | | 5,462,337 |
| **Total liabilities** | | 88,179,133 |
| **COMMITMENTS AND CONTINGENCIES (Note 10)** | | |
| **MEMBER'S EQUITY** | | 45,315,800 |
| **Total liabilities and member's equity** | $ | 133,494,933 |

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

**CETERA INVESTMENT SERVICES LLC**

**STATEMENT OF INCOME**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| | |
|---|---|
| **REVENUES** | |
| Commissions | $ 216,831,339 |
| Asset-based fees | 30,632,840 |
| Transaction fees | 12,603,397 |
| Other revenue | 33,999,357 |
| **Total revenues** | 294,066,933 |
| **EXPENSES** | |
| Commissions | 194,745,798 |
| Related party expense allocations | 25,253,756 |
| Compensation and benefits | 12,935,091 |
| Clearing expense | 10,538,983 |
| Other expenses | 12,070,202 |
| **Total expenses** | 255,543,830 |
| **INCOME BEFORE INCOME TAXES** | 38,523,103 |
| **INCOME TAX PROVISION** | 10,018,491 |
| **NET INCOME** | $ 28,504,612 |

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

**CETERA INVESTMENT SERVICES LLC**

**STATEMENT OF CHANGES IN MEMBER'S EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| | | Member's Equity |
|---|---|---|
| **Balance - December 31, 2017** | $ | 39,259,634 |
| Cumulative effect of accounting change (see Note 3) | | 135,971 |
| **Balance - January 1, 2018** | $ | 39,395,605 |
| Net income | | 28,504,612 |
| Share-based compensation | | 1,302 |
| Contributions | | 664,281 |
| Distributions | | (23,250,000 ) |
| **Balance - December 31, 2018** | $ | 45,315,800 |

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

**CETERA INVESTMENT SERVICES LLC**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| NET INCOME | $ | 28,504,612 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of fixed assets | | 364,331 |
| Amortization of deferred charges | | 2,295,952 |
| Share-based compensation | | 1,302 |
| Changes in operating assets and liabilities: | | |
| Receivable from and payable to brokers, dealers and clearing organizations, net | | 192,252 |
| Receivable from and payable to customers, net | | (16,375,378) |
| Commissions receivable | | (578,512) |
| Other receivables | | (2,932,303) |
| Deferred charges | | (1,156,680) |
| Other assets | | (518,307) |
| Commissions payable | | 2,088,770 |
| Accrued expenses and accounts payable | | (340,691) |
| Deferred revenue | | (782,660) |
| Other liabilities | | (1,815,561) |
| **Net cash provided by operating activities** | | 8,947,127 |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Contributions | | 664,281 |
| Distributions | | (23,250,000) |
| **Net cash used in financing activities** | | (22,585,719) |
| | | |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS AND CASH SEGREGATED UNDER FEDERAL REGULATIONS** | | (13,638,592) |
| **CASH AND CASH EQUIVALENTS AND CASH SEGREGATED UNDER FEDERAL REGULATIONS - Beginning of year** | | 87,928,591 |
| **CASH AND CASH EQUIVALENTS AND CASH SEGREGATED UNDER FEDERAL REGULATIONS - End of year** | $ | 74,289,999 |
| | | |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | |
| Cash paid during the year for income taxes to states | $ | 12,715 |
| Settlement of income taxes with Cetera Financial | $ | 10,092,735 |

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

## 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"). On July 15, 2018, Aretec entered into an Agreement and Plan of Merger with GC Two Holdings, Inc. ("GC Two") and GC Two Merger Sub, Inc. On October 1, 2018, GC Two Merger Sub merged with and into Aretec with Aretec surviving the merger and continuing as a direct wholly owned subsidiary of GC Two Intermediate Holdings, Inc. which is wholly owned subsidiary of GC Two.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

### Use of Estimates

The preparation of financial statements 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 financial statements and reported amounts of revenues and expenses during the reporting period. 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 trade date basis. Securities owned, and securities sold not yet purchased are stated at fair value. As of December 31, 2018, securities owned of $62,068 are included in other assets. Securities sold, not yet purchased of $12,554 are included in other liabilities. See Note 4 for more information.

### Other Receivables

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

### Deferred Charges

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. As of December 31, 2018, the Company had unamortized deferred charges of $6,885,797. For the year ended December 31, 2018, there was total amortization expense of $2,295,952. See Contract Acquisition Costs below.

### Other Assets

Other assets primarily consist of investments not readily marketable, prepaid expenses, and furniture, equipment and software with a cost of $917,003, less accumulated depreciation of $837,002. Furniture, equipment and software are depreciated using the straight-line method over their estimated useful lives of 3 to 10 years. For the year ended December 31, 2018, depreciation of furniture, equipment and software of $364,331 was included in other expenses in the Statement of Income.

### 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. For the year ended December 31, 2018, amortization of $625,000 was included in clearing expense in the Statement of Income.

### Revenue Recognition

Substantially all of the Company's revenues are based on contractual agreements. In determining the appropriate revenue recognition of commissions, the Company reviews the terms and conditions of the brokerage account agreements between the Company and its clients.

Revenues are recognized when control of the promised services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Revenues are analyzed to determine whether the Company is the principal (i.e., reports revenues on a gross basis) or agent (i.e., reports revenues on a net basis) in the contract. Principal or agent designations depend primarily on the control an entity has over the product or service before control is transferred to a customer. The indicators of which party exercises control include primary responsibility over performance obligations, inventory risk before the good or service is transferred and discretion in establishing the price.

**Commissions**

The Company records commissions received from securities transactions on a trade-date basis. Commissions generated from mutual funds, variable annuities, and insurance product purchases transacted directly with the product sponsors, as well as mutual fund and annuity trailing fees are estimated for each accounting period. Commissions expense related to these transactions are recorded based upon estimated payout ratios for each product as commission revenue is accrued.

The following table presents the Company's commission revenues disaggregated by revenue source:

| | | Year Ended December 31, 2018 |
|---|---|---|
| **Transactional Commissions:** | | |
| Fixed Annuities | $ | 84,439,355 |
| Variable Annuities | | 19,843,551 |
| Mutual Funds | | 17,501,004 |
| General Securities | | 16,981,379 |
| Fixed Income | | 15,686,570 |
| Other Insurance | | 6,593,874 |
| Alternatives | | 3,532,549 |
| REITs | | 1,017,866 |
| Total Transactional Commissions | | 165,596,148 |
| **Trail Fees:** | | |
| Mutual Funds | | 29,814,951 |
| Variable Annuities | | 21,410,833 |
| Other | | 9,407 |
| Total Trail Fees | | 51,235,191 |
| Total Commissions | $ | 216,831,339 |

**Asset-Based Fees**

Asset-based fees include amounts earned related to client sweep account deposits, and allowances from product providers. The Company accrues fees based on either historical receipts or estimated asset values and contractual earnings rates.

**Transaction Fees and Other Revenues**

Transaction fees and other revenues consist of varying revenue charges which require the Company to make significant judgments in determining whether the Company acts in the capacity of principal versus an agent. Most relate to when the Company has the ability to make decisions on billings through third parties to the Company's customer and when the Company maintains substantial risk related to those revenues.

Management considers the nature of the Company's contractual agreements in determining whether to recognize certain types of revenue on the basis of the gross amount billed or net amount retained after payments are made to providers of certain services related to the product or service offering.

When client fees include a portion of charges that are paid to another party and the Company is primarily responsible for providing the service to the client, revenue is recognized on a gross basis in an amount equal to the fee paid by the client. The cost of revenue recognized is the amount due to the other party and is recorded as commission and advisory expense in the consolidated statements of income.

In instances in which another party is primarily responsible for providing the service to the client, revenue is recognized in the net amount retained by the Company. The portion of the fees that are collected from the client by the Company and remitted to the other party are considered pass-through amounts and accordingly are not a component of revenues or expenses.

**Arrangements with Multiple Performance Obligations**

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged to customers.

**Deferred Revenue**

The Company records unearned income when cash payments are received or due in advance of its performance, including amounts which are refundable.

**Contract Acquisition Costs**

The Company identifies all significant costs to obtain or fulfill a contract with a customer. These costs generally fall within referral costs, financial advisor related costs, and transfer costs incurred by underlying customers of the acquired financial advisor. Transfer costs related to customers are recognized as assets and are amortized over the estimated customer relationship life on a straight-line basis. Referral costs and other financial advisor related costs are recognized as assets and are amortized over the estimated financial advisor relationship life on a straight-line basis. These assets are presented in the deferred charges line of the Company's Statement of Financial Condition. To the extent that these costs are initially estimated and accrued for, adjustments are made based on actual costs incurred. See Deferred Charges above.

**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 and GC Two. The Company recognizes income tax expense in its financial statements using the separate return method. Generally, the separate return method results in profitable companies recognizing tax expense and unprofitable companies recognizing a tax benefit to the extent of their losses as if the individual company filed a separate return. As part of the Company's tax sharing agreement with Cetera Holdings, the Company does not separately record deferred income taxes in its financial statements.

As of December 31, 2018, the Company determined that it had no uncertain tax positions that affected its financial position and its results of operations or its cash flows, and will continue to evaluate for uncertain tax positions in the future. See Note 6 for more information.

**Recently Adopted Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," to supersede nearly all existing revenue recognition guidance under U.S. GAAP. ASU 2014-09 also required new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. Effective January 1, 2018, the Company adopted the revenue recognition guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. See Note 3 for additional information.

In November 2016, the FASB issued ASU 2016-18, "Statements of Cash Flows (Topic 230): Classification and Presentation of Restricted Cash in the Statements of Cash Flows," which requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents in the Statement of Cash Flows. The Company adopted the provisions of this guidance on January 1, 2018 and began presenting cash segregated under federal regulations and related cash activity as a component of cash and cash equivalents on the Statement of Cash Flows.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will use forward-looking information to better form their credit loss estimates. The ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. ASU 2016-13 becomes effective beginning after December 15, 2019. The Company will evaluate the impact of this ASU on our financial statements and related disclosures.

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. ASU 2018-13 becomes effective beginning after December 15, 2019. The Company will evaluate the impact of this ASU on our financial statements and related disclosures.

**NOTE 3 - ADOPTION OF ASC TOPIC 606, "REVENUE FROM CONTRACTS WITH CUSTOMERS"**

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results from reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605. The Company recorded an increase to opening retained earnings of $135,971, net of tax, as of January 1, 2018, due to the cumulative effect of accounting change from the adoption of Topic 606, with the impact primarily related to our incremental costs to obtain contracts. These costs were previously expensed.

**NOTE 4 - FAIR VALUE MEASUREMENTS**

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, 2018, there were no transfers between Levels 1, 2 and 3.

The Company's fair value hierarchy for those assets measured at fair value on a recurring basis by product category as of December 31, 2018 is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash equivalents - money market funds | $ 174,802 | $ - | $ - | $ 174,802 |
| Securities owned - recorded in other assets: | | | | |
| Equity securities | 595 | - | - | 595 |
| Mutual funds | 2,453 | - | - | 2,453 |
| Certificate of deposits | - | 59,020 | - | 59,020 |
| Total securities owned | 3,048 | 59,020 | - | 62,068 |
| Total | $ 177,850 | $ 59,020 | $ - | $ 236,870 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| Securities sold, not yet purchased - recorded in other liabilities: | | | | |
| Equity securities | $ 7,505 | $ - | $ - | $ 7,505 |
| Certificate of deposits | - | 5,049 | - | 5,049 |
| Total | $ 7,505 | $ 5,049 | $ - | $ 12,554 |

Cash equivalents include money market mutual fund instruments, which are short term in nature with readily determinable values derived from active markets. Publicly traded equity securities and mutual funds 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. Certificate of deposits are fair valued by management using third-party pricing services, and are also classified within Level 2.

The net realized and unrealized gains and losses are included in clearing expense in the Statement of Income.

## NOTE 5 - 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, 2018:

| | |
|---|---|
| **Receivables:** | |
| Omnibus account receivable | $ 1,731,516 |
| Fails to deliver | 185,572 |
| Securities borrowed | 17,300 |
| Total | $ 1,934,388 |
| **Payables:** | |
| Clearing organization | $ 941,078 |
| Fails to receive | 147,965 |
| Total | $ 1,089,043 |

## NOTE 6 - INCOME TAXES

Income tax expense for the year ended December 31, 2018:

| | |
|---|---|
| **Income tax expense:** | |
| U.S. Federal | $ 7,630,983 |
| State and local | 2,387,508 |
| Total | $10,018,491 |

The Company recognizes income tax expense in its financial statements using the separate return method and settles balances through an intercompany account with Cetera Financial. The Company had no unsettled liability with Cetera Holdings for income taxes as of December 31, 2018.

The reconciliation of the U.S. federal statutory income tax rate to the Company's effective tax rate for the year ended December 31, 2018 is as follows:

| | |
|---|---|
| **U.S. federal statutory income tax rate** | 21.0% |
| Increase in tax rate resulting from: | |
| State and local income taxes net of federal benefit | 4.9% |
| Other | 0.1% |
| Effective income tax rate | 26.0% |

The Company believes that, as of December 31, 2018, it had no material uncertain tax positions. Interest and penalties relating to unrecognized tax expenses (benefits) are recognized in income tax expense, when applicable. There was no liability for interest or penalties accrued as of December 31, 2018.

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 2015. The Company's state income tax returns are open to audit under the statute of limitations for 2014 to 2017.

## NOTE 7 - 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 2018 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. For the year ended December 31, 2018, the Company recorded expenses of $1,680,733 in employee compensation and benefits expense in the Statement of Income.

## NOTE 8 - 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. During the year ended December 31, 2018, Cetera Financial charged the Company expenses of $34,844,895 included in related party expense allocations in the Statement of Income. Such expenses include compensation and benefits, overhead services related to marketing and communication, IT, finance and administration, operations, office space and risk management. In 2018 Cetera Investment Services ("CIS") allocated expenses to its related parties: Cetera Investment Advisor ("CIA") and Cetera Advisory Services ("CAS"), per an expense sharing agreement. The related party allocations from CIS to CIA of $9,024,078 and CIS to CAS of $567,061 are included in related party expense allocations in the Statement of Income. These consist of compensation and benefits, overhead services related to finance and administration, operations, and IT.

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, 2018, there were $155,771 and $105,974 of outstanding receivable to CIS from CAS and CIA, respectively. As of December 31, 2018, there were $664,075 of outstanding payables to Cetera Financial in connection with these services.

Related party payable of $403,607, net of $681,967 related party payable and $278,360 related party receivable, is reflected in accrued expenses and accounts payable on the Statement of Financial Condition.

The Company provides custodial services for certain customer retirement accounts of two affiliated companies, Cetera Advisors LLC and Cetera Advisor Networks LLC. During the year ended December 31, 2018, the Company recognized revenue for services provided to these parties of $539,960.

## NOTE 9 - 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 10 - COMMITMENTS AND CONTINGENCIES

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

| | Year Ended December 31 |
|---|---|
| 2019 | $ 2,700,000 |
| 2020 | 2,700,000 |
| 2021 | 2,700,000 |
| Total | $ 8,100,000 |

**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, 2018.

**Legal and regulatory proceedings related to business operations** - The Company is involved in legal proceedings from time to time arising out of 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.

The Company has determined no estimated losses. Management does not believe, based on currently available information, that the outcomes of such other matters will have a material adverse effect on the Company's financial condition.

## NOTE 11 - 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, 2018, the Company had net capital of $24,449,981, which was $24,199,981 in excess of required net capital of $250,000.

## NOTE 12 - SUBSEQUENT EVENTS

The Company has evaluated activity through the date the Financial Statements were issued and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements.

* * * * * *

# SUPPLEMENTAL SCHEDULES

**COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS**
**PURSUANT TO RULE 15C3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934**
**AS OF DECEMBER 31, 2018**

| | | |
|---|---|---|
| **NET CAPITAL** | | |
| Member's equity | | $ 45,315,800 |
| Nonallowable assets and deductions and charges: | | |
| Nonallowable assets: | | |
| Other receivables | $ 8,070,670 | |
| Commissions receivable | 2,054,577 | |
| Deferred charges | 6,885,798 | |
| Other assets | 3,816,763 | |
| Total nonallowable assets | | 20,827,808 |
| Other deductions and charges - other deductions | | 31,078 |
| Net capital before haircuts | | 24,456,914 |
| Haircuts on securities | | |
| Money market and other securities | 6,933 | |
| Total securities haircuts | | 6,933 |
| **NET CAPITAL** | | $ 24,449,981 |
| COMPUTATION OF ALTERNATIVE NET CAPITAL REQUIREMENT - Minimum net capital requirement (greater of $250,000 or 2% of aggregate debit items as shown in the reserve requirement computation) | | $ 250,000 |
| **EXCESS NET CAPITAL** | | $ 24,199,981 |
| **NET CAPITAL IN EXCESS OF 5% OF AGGREGATE DEBIT ITEMS** | | $ 23,938,885 |

NOTE: There were no material differences between the computation of net capital under Rule 15c3-1 included in this supplemental schedule and the Company's corresponding Form X-17A-5, Part IIA as of December 31, 2018, filed on January 25, 2019.

**COMPUTATION FOR DETERMINATION OF RESERVE**
**REQUIREMENT FOR BROKERS AND DEALERS PURSUANT TO SEC RULE 15c3-3**
**AS OF DECEMBER 31, 2018**

| | | |
|---|---|---|
| **CREDIT BALANCES:** | | |
| Free credit balances and other credit balances in customers' security accounts | $ | 59,240,807 |
| Customers' securities failed to receive | | 1,089,043 |
| Credit balances in firm accounts which are attributable to principal sales to customers | | 13,131 |
| Market value of short security count differences over 30 calendar days old | | 442 |
| Total credit balances | | 60,343,423 |
| **DEBIT BALANCES:** | | |
| Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection | | 9,401,890 |
| Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver | | 17,300 |
| Failed to deliver of customers' securities not older than 30 calendar days | | 28,391 |
| Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts | | 774,347 |
| Aggregate debit balances | | 10,221,928 |
| Less 3% | | (306,658) |
| Total debit balances | | 9,915,270 |
| **RESERVE COMPUTATION - Excess of total credits over debits** | $ | 50,428,153 |
| **Amount held on deposit in "Reserve Bank Account" at end of reporting period** | $ | 65,497,551 |

NOTE: There were no material differences between the computation of net capital under Rule 15c3-1 included in this supplemental schedule and the Company's corresponding Form X-17A-5, Part IIA as of December 31, 2018, filed on January 25, 2019.

**CETERA INVESTMENT SERVICES LLC**
**SUPPLEMENTAL SCHEDULE (i)**

**INFORMATION RELATING TO THE POSSESSION OR CONTROL REQUIREMENTS FOR BROKERS AND DEALERS PURSUANT TO SEC RULE 15C3-3 UNDER THE SECURITIES AND EXCHANGE ACT OF 1934**
**AS OF DECEMBER 31, 2018**

| | Number of items | Amount |
|---|---|---|
| 1. Customer's fully paid securities and excess margin securities not in the Company's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by the Company within the timeframes specified under Rule 15c3-3 | None | $ - |
| 2. Customer's fully paid securities and excess margin securities for which instructions to reduce to possession or control had been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations", as permitted under Rule 15c3-3 | None | $ - |

Deloitte.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have examined Cetera Investment Services LLC's (the "Company") statements, included in the accompanying Cetera Investment Services LLC Compliance Report, that (1) the Company's internal control over compliance was effective during the year ended December 31, 2018; (2) the Company's internal control over compliance was effective as of December 31, 2018; (3) the Company was in compliance with 17 **§§** C.F.R. 240.15c3-1 (the "net capital rule") and 240.15c3-3(e) (the "reserve requirements rule") as of December 31, 2018; and (4) the information used to state that the Company was in compliance with the net capital rule and reserve requirements rule was derived from the Company's books and records. The Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing the Company with reasonable assurance that non-compliance with the net capital rule, 17 C.F.R. **§** 240.15c3-3, 17 C.F.R. **§** 240.17a-13, or NASD Rule 2340 of the Financial Industry Regulatory Authority that requires account statements to be sent to the customers of the Company will be prevented or detected on a timely basis. Our responsibility is to express an opinion on the Company's statements based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Company's internal control over compliance was effective as of and during the year ended December 31, 2018; the Company complied with the net capital rule and reserve requirements rule as of December 31, 2018; and the information used to assert compliance with the net capital rule and reserve requirements rule as of December 31, 2018 was derived from the Company's books and records. Our examination includes testing and evaluating the design and operating effectiveness of internal control over compliance, testing and evaluating the Company's compliance with the net capital rule and reserve requirements rule, determining whether the information used to assert compliance with the net capital rule and reserve requirements rule was derived from the Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Company's statements referred to above are fairly stated, in all material respects.

Deloitte & Touche LLP

March 1, 2019

**Cetera Investment Services LLC's**
**Compliance Report**

Cetera Investment Services LLC (the "Company"} is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"}. As required by 17 C.F.R. § 240.17a-5(d}(1} and {3}, the Company states as follows:

(1} The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d}(3}(ii} of Rule 17a-5;

(2} The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31,2018;

(3} The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31,2018;

(4} The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3{e} as of the end of the most recent fiscal year ended December 31,2018; and

(5} The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

For purposes of this assertion, Internal Control Over Compliance is defined as internal controls that have the objective of providing the broker-dealer with reasonable assurance that non-compliance with the financial responsibility rules will be prevented or detected on a timely basis. The Financial Responsibility Rules are defined as 17 C.F.R. §240.15c3-1, 17 C.F.R. §240.15c3-3, 17 C.F.R. §240.17a-13, or Rule 2340 of the Financial Industry Regulatory Authority that requires account statements to be sent to the customers of the Company.

Cetera Investment Services, LLC

I, Mark Paul Shelson, affirm that, to my best knowledge and belief, this Compliance Report is true and correct.

By: Mark Shelson

Title: Chief Financial Officer

March 1,2019