



SEC

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**ANNUAL AUDITED REPORT  
FORM X-17A-5**

**PART III**  
Washington, DC

SEC FILE NUMBER
8-28164

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 07/01/2017 AND ENDING 06/30/2018  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **PROSPERA FINANCIAL SERVICES, INC.**

OFFICIAL USE ONLY
FIRM I.D. NO.

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

**5429 LBJ FREEWAY, SUITE 400**

(No. and Street)

**DALLAS**

**TX**

**75240**

(City)

(State)

(Zip Code)

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

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**BRAD A. KINDER, CPA**

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

**815 PARKER SQUARE**

**FLOWER MOUND**

**TEXAS**

**75028**

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

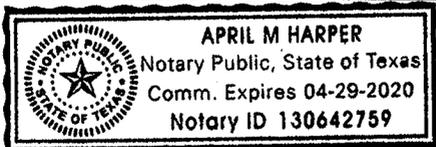
- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

**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, DAVID STRINGER, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PROSPERA FINANCIAL SERVICES, INC. of JUNE 30, 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:



Signature of April M Harper, Notary Public

Signature of David Stringer, PRESIDENT, 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).

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# BRAD A. KINDER, CPA

CERTIFIED PUBLIC ACCOUNTANT

815 PARKER SQUARE • FLOWER MOUND, TX 75028  
972-899-1170 • FAX 972-899-1172

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
Prospera Financial Services, Inc.

### Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Prospera Financial Services, Inc. as of June 30, 2018, the related statements of income, changes in stockholders' equity, and cash flows 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 Prospera Financial Services, Inc. as of June 30, 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 Prospera Financial Services, Inc.'s management. Our responsibility is to express an opinion on Prospera Financial Services, Inc.'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 Prospera Financial Services, Inc. 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.

### Supplemental Information

The supplemental information contained in Schedule I has been subjected to audit procedures performed in conjunction with the audit of Prospera Financial Services, Inc.'s financial statements. The supplemental information is the responsibility of Prospera Financial Services, Inc.'s management. Our audit procedures included determining whether the supplemental information reconciles 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 information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. §240.17a-5. In our opinion, the supplemental information contained in Schedule I is fairly stated, in all material respects, in relation to the financial statements as a whole.

  
BRAD A. KINDER, CPA

We have served as Prospera Financial Services, Inc.'s auditor since 2003.

Flower Mound, Texas  
August 27, 2018

**PROSPERA FINANCIAL SERVICES, INC.**  
**Statement of Financial Condition**  
**June 30, 2018**

**Assets**

Cash and cash equivalents	\$ 10,563,453
Commissions receivable	1,283,266
Receivables and advances - related parties	46,718
Other receivables	224,265
Prepaid expenses	257,224
Clearing deposits	201,156
Forgivable notes receivable	119,670
Non-marketable securities	11,000
	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 12,706,752</b>
	<hr/> <hr/>

**Liabilities and Stockholders' Equity**

Liabilities

Accounts payable	\$ 154,268
Accrued compensation and related costs	3,173,161
Accrued expenses	421,738
Income taxes payable	218,017
	<hr/>
Total Liabilities	3,967,184
	<hr/>

Stockholders' Equity

Preferred stock, 1,000,000 shares authorized, none designated, issued or outstanding	-
Common stock, no par value, 1,000,000 shares authorized, 121,095 shares issued and 87,759 shares outstanding	123,658
Non-voting common stock, no par value, 100,000 shares authorized, 7,278 shares issued and outstanding	394,643
Additional paid-in capital	379,339
Retained earnings	7,865,940
Treasury stock, 33,336 shares at cost	(24,012)
	<hr/>
Total Stockholders' Equity	8,739,568
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**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** **\$ 12,706,752**

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**PROSPERA FINANCIAL SERVICES, INC.**  
**Statement of Income**  
**Year Ended June 30, 2018**

**Revenue**

Securities commissions	\$ 13,054,624
Insurance commissions	7,259,006
Mutual fund commissions	7,058,770
Management and advisory fees	26,437,519
Other revenue	346,519
	<hr/>
Total Revenue	54,156,438
	<hr/>

**Expenses**

Compensation and related costs	45,177,941
Clearing and platform costs	2,238,446
Communications	1,278,635
Conferences and training	366,149
Errors and bad debts	64,485
Fees paid to money managers	146,071
Management fees paid to related party	163,231
Occupancy and equipment costs	986,174
Promotional costs	156,835
Professional fees and services	746,423
Regulatory fees and expenses	375,300
Other expenses	568,594
	<hr/>
Total Expenses	52,268,284
	<hr/>

Net income before provision for income taxes	1,888,154
	<hr/>
Current income taxes - federal	628,569
- states	156,267
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Total current provision for income taxes	784,836
	<hr/>
<b>NET INCOME</b>	<b>\$ 1,103,318</b>
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**PROSPERA FINANCIAL SERVICES, INC.**  
**Statement of Changes in Stockholders' Equity**  
**Year Ended June 30, 2018**

	Preferred Shares Issued	Common Shares Issued	Non-Voting Common Shares Issued	Treasury Shares	Common Stock	Non-Voting Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balances at June 30, 2017	-	120,000	5,482	33,336	\$ 38,272	\$ 254,594	\$ 379,339	\$ 6,762,622	\$ (24,012)	\$ 7,410,815
Shares issued for stock based compensation		1,095	1,796		85,386	140,049				225,435
Net income								1,103,318		1,103,318
Balances at June 30, 2018	-	121,095	7,278	33,336	\$ 123,658	\$ 394,643	\$ 379,339	\$ 7,865,940	\$ (24,012)	\$ 8,739,568

**PROSPERA FINANCIAL SERVICES, INC.**

**Statement of Cash Flows**

**Year Ended June 30, 2018**

**Cash Flows From Operating Activities:**

Net income	\$ 1,103,318
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization	92,555
Forgivable notes compensation	253,304
Stock based compensation	225,435
Change in assets and liabilities	
Decrease in commissions receivable	566,057
Increase in receivables and advances - related parties	(26,564)
Decrease in other receivables	311,522
Increase in prepaid expenses	(104,837)
Increase in clearing deposits	(698)
Increase in accounts payable	32,215
Decrease in accrued compensation and related costs	(638,676)
Decrease in accrued expenses	(352,131)
Decrease in income taxes payable	(59,749)
	<u>1,401,751</u>
Net cash provided by operating activities	<u>1,401,751</u>
Net increase in cash and cash equivalents	1,401,751
Cash and cash equivalents at beginning of year	<u>9,161,702</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$10,563,453</u></u>

**Non-Cash Investing Activities:**

The Company issued common stock and non-voting common stock as stock based compensation awards totaling \$225,435 during the year.

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the year for:

Income taxes paid - federal	\$ 629,194
- states	\$ 215,391
Interest	\$ -

**PROSPERA FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 1 - Nature of Business and Summary of Significant Accounting Policies**

Nature of Business:

Prospera Financial Services, Inc. (Company) was organized in 1982 as a Texas corporation and is a majority owned subsidiary of Prospera Holdings, LLC (Parent), a Texas limited liability company. The Company is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and as a registered investment advisor. The Company is a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investors Protection Corporation (SIPC). The Company is also registered as an introducing broker with the Commodities Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA).

The Company operates under the exemptive provisions of Rule 15c3-3(k)(2)(ii) of the Securities Exchange Act of 1934, and accordingly, is exempt from the remaining provisions of that Rule. The Company does not hold customer funds or securities, but as an introducing broker-dealer, will clear securities transactions on behalf of customers on a fully disclosed basis through clearing broker-dealers, and promptly transmit customer funds and securities to the clearing broker-dealers. The clearing broker-dealers carry the accounts of the customers and maintain and preserve all related books and records as are customarily kept by a clearing broker-dealer.

The Company is an independent full service broker-dealer, investment advisor and support organization for independent financial representatives. The Company's operations consist primarily of providing securities brokerage, insurance brokerage and management and investment advisory services to individuals located throughout the United States. Insurance brokerage services are provided directly by the Company and through a related party insurance agency. The Company's headquarters are in Dallas, Texas with independent branch offices throughout the United States.

Significant Accounting Policies:

Use of Estimates

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles, which require 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**PROSPERA FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 1 - Nature of Business and Summary of Significant Accounting Policies (continued)**

Fair Value of Financial Instruments

Forgivable notes receivable are valued at the future expected compensation expense, net of compensation expensed, interest, and repayments, which approximates fair value.

Non-marketable securities are valued at cost which approximates fair value.

Substantially all the Company's other financial asset and liability amounts reported in the statement of financial condition are short term in nature and approximate fair value.

Cash Equivalents

Money market funds and highly liquid investments, generally certificates of deposit with an original maturity of three months or less, are reflected as cash equivalents in the accompanying statement of financial condition and for purposes of the statement of cash flows.

Forgivable Notes Receivable

Forgivable notes receivable consist of amounts paid and committed to independent financial representatives of the Company as retention bonuses, net of compensation expensed and amounts forgiven or repaid over the term of the notes. The retention bonuses are considered earned and the notes are forgiven as certain production or asset requirements are achieved. The Company recognizes compensation expense on a straight line basis over the period the retention bonuses are earned and notes forgiven. The notes receivable are required to be repaid with interest on unearned amounts.

Non-Marketable Securities

Non-marketable securities are recorded at the lower of cost or fair value. The increase or decrease in fair value is credited or charged to operations.

Treasury Stock

Treasury stock is accounted for using the cost method.

**PROSPERA FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 1 - Nature of Business and Summary of Significant Accounting Policies (continued)**

Securities Transactions and Securities Commissions

Securities transactions, general securities commissions, and the related expenses are recorded on the trade date as securities transactions occur. Securities commissions also include bond trading, commissions on bonds and alternative products, interest rebates on customer accounts and other revenue related to customer accounts which is recorded on the trade date or is accrued as earned.

Insurance Commissions

Insurance commissions are primarily related to variable annuity products earned through a related party insurance agency. Insurance commissions and the related expenses are recorded on insurance products when the policies are funded by the customer and accepted by the insurance company and on contracts that remain in force, trail fees and renewal commissions are accrued as earned.

Mutual Fund Commissions

Mutual fund commissions and the related expenses are recorded on the trade date. Mutual fund trail fees are accrued as earned.

Management and Advisory Fees

Management and advisory fees are earned based on contractual percentages of customer assets under management. Management and advisory fees and the related expenses are recorded during the period in which the services are rendered.

Stock-Based Compensation

The Company expenses the fair value of stock based compensation awards pursuant to FASB ASC 718. Due to an absence of an active market for the Company's common stock and non-voting common stock, the fair value of stock based compensation awards is determined by the Company at each stock issuance date. 1,095 shares of common stock and 1,796 shares of non-voting common stock were issued as stock based compensation awards during the year. The Company recognized compensation expense of \$85,386 and \$140,049 on the issuance of common stock and non-voting common stock awards, respectively, totaling \$225,435 during the year.

**PROSPERA FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 1 - Nature of Business and Summary of Significant Accounting Policies (continued)**

Retention Bonuses

The Company recognizes compensation expense related to retention bonuses on a straight-line basis over the retention period, subject to the independent financial representatives' continuous registration and affiliation with the Company.

Income Taxes

The Company is included in the consolidated federal income tax return and combined Texas franchise return of its Parent. Federal and Texas income taxes are recorded using the separate company method to comply with financial reporting rules. Any resulting provision or benefit for income taxes realized by the Company is recorded as receivable from or payable to the Parent.

The Company is also subject to various other state income and franchise taxes.

The Company has adopted financial reporting rules regarding recognition and measurement of tax positions taken or expected to be taken on a tax return. The Company has reviewed all open tax years and concluded that there is no impact on the Company's financial statements and no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on a tax return.

As of June 30, 2018, open Federal tax years include the tax years ended June 30, 2016 through June 30, 2017.

**Note 2 - Net Capital Requirements**

The Company is subject to the SEC uniform net capital rule (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. The Company is also subject to the net capital provisions of Regulation 1.10(d)(2) of the Commodities Futures Trading Commission Act of 1974, and is required to maintain a minimum net capital, as defined under such provisions. At June 30, 2018, the Company had net capital of \$7,960,995, which was \$7,696,516 in excess of the required net capital of \$264,479. The Company's ratio of aggregate indebtedness to net capital was 0.50 to 1.

**PROSPERA FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 3 - Forgivable Notes Receivable**

Forgivable notes receivable totaling \$119,670, less any unearned amounts required to be repaid, will be forgiven and recorded as compensation when earned over the next two years ending June 30 as follows:

2019	\$ 117,831
2020	1,839
Thereafter	-
Total	\$ 119,670

Compensation expense related to forgivable notes receivable totaled \$253,304 during the year ended June 30, 2018.

**Note 4 - Transactions with Clearing Broker-Dealers**

The Company has clearing agreements with two national clearing broker-dealers, First Clearing (FC), a trade name of Wells Fargo Clearing Services, LLC and Pershing LLC (Pershing), to provide clearing, execution and other related securities services. There is a minimum clearing and execution fee of \$10,000 per month under the FC clearing agreement and \$25,000 per quarter under the Pershing clearing agreement. The agreements also require the Company to maintain a minimum of \$100,000 in a deposit account with each of the two clearing broker-dealers. There are annual decreasing termination fees (\$100,000 at June 30, 2018) to the Company if the FC agreement is terminated by the Company before September 30, 2018.

**Note 5 - Commitments and Contingencies**

Operating Lease

The Company leases its corporate headquarters office space under a non-cancelable operating lease expiring November 2019. Future minimum lease commitments for each of the years ending June 30 are as follows:

2019	\$ 256,289
2020	107,715
Thereafter	-
	\$ 364,004

Rent expense for the year totaled \$259,032.

**PROSPERA FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 5 – Commitments and Contingencies (continued)**

Operating Lease (continued)

The Company has a number of branch offices throughout the United States. The branches provide for their own office space, therefore, the Company has no commitments nor any guarantees related to branch office leases.

Retention Bonuses

The Company has committed to pay retention bonuses to certain independent financial representatives over the next five years ending June 30 as follows:

2019	\$ 498,239
2020	281,402
2021	193,275
2022	68,631
2023	34,143
Thereafter	-
Total	<u>\$1,075,690</u>

Compensation expense related to retention bonuses totaled \$348,531 during the year ended June 30, 2018.

Contingencies

The Company's business subjects it to various claims, regulatory examinations, and other proceedings in the ordinary course of business. As of June 30, 2018, the Company had two open arbitration claims filed against it. One arbitration claim is for a nominal amount and the other arbitration claim is for unspecified damages. The nature of these claims are related to the Company's activities in the securities industry. No evaluation of the likelihood of an outcome or reasonable estimate of range or potential loss can be made by legal counsel on the open claims. The Company intends to vigorously defend itself against these actions; however, the ultimate outcome of these and any other actions against the Company could have an adverse impact on the financial condition, results of operations, or cash flows of the Company.

**PROSPERA FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 6 - Profit Sharing Plan**

Prospera Financial Services 401(k) Profit Sharing Plan (Plan), to which both the Company and eligible employees may contribute, was established effective April 1, 2000. The Plan is on a calendar year with employee entrance dates after the completion of 1,000 hours of service on January 1 and July 1. Company contributions are voluntary and at the discretion of the board of directors.

Employee salary deferral contributions and earnings on such contributions are 100% vested. Company matching and profit sharing contributions are subject to a vesting schedule over a six year period.

For the year ended June 30, 2018, Company matching and profit sharing contributions totaled \$49,126 and \$205,614, respectively, and the Company incurred \$4,644 in expenses related to the Plan. These contributions and expenses are recorded as compensation and related costs in the accompanying statement of income.

**Note 7 - Stock Appreciation Rights Plan**

The Company has a Stock Appreciation Rights Plan which allows the board of directors to grant units to employees and/or independent financial representatives of the Company. The units, if granted, have a vesting schedule and if a triggering event, as defined, occurs, the employees and/or independent financial representatives will be entitled to up to a maximum of 10% of the net proceeds, as defined, realized as a result of the triggering event. No triggering events have occurred as of June 30, 2018.

**Note 8 - Income Taxes**

The Company is included in the consolidated federal income tax return and combined Texas franchise return of its Parent. Federal and Texas income taxes are recorded using the separate company method to comply with financial reporting rules. Any resulting provision or benefit for income taxes realized by the Company is recorded as a receivable from or payable to the Parent. At June 30, 2018, \$185,716 and \$0 totaling \$185,716 is payable to Parent for separate federal and Texas income taxes, respectively, and is included in income taxes payable.

The Company is also subject to various other state income and franchise taxes as a separate company. At June 30, 2018, \$32,301 is payable for these other state taxes and is included in income taxes payable.

The current federal income tax provision differs from the expense that would result from applying current year federal blended statutory rates to net income before income taxes primarily due to permanent non-deductible expenses, book amortization in excess of tax amortization and certain accruals that are deductible when paid. There are no material deferred tax assets or liabilities.

**PROSPERA FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 9 - Off-Balance-Sheet Risk and Concentration of Credit Risk**

In the normal course of business, the Company's customer activities involve the execution and settlement of customer securities transactions on a fully disclosed basis with its clearing broker-dealers. The clearing broker-dealers carry accounts of the Company's customers and are responsible for execution, collection and payment of funds, and receipt and delivery of securities relative to customer transactions. These transactions may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill their contractual obligations wherein the clearing broker-dealers may charge any losses they incur to the Company. The Company seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers and that customer transactions are executed properly by the clearing broker-dealers.

The Company has cash and cash equivalents held at national banks, totaling approximately \$9.6 million or 76% of the Company's total assets. Cash held in three banks are in excess of the FDIC insurance of \$250,000 creating a credit risk of approximately \$6.5 million at June 30, 2018. Cash balances fluctuate on a daily basis.

The Company has cash and cash equivalents, commissions receivable, and a clearing deposit held by and due from FC, its primary clearing broker-dealer, of \$160,355, \$633,623, and \$101,155, respectively, totaling \$895,133 or approximately 7% of total assets at June 30, 2018. The Company has cash and cash equivalents, commissions receivable and a clearing deposit held by and due from Pershing of \$701,385, \$16,217, and \$100,001, respectively, totaling \$817,603 or approximately 6% of total assets at June 30, 2018.

**Note 10 - Related Party Transactions**

The Company, its Parent, and other related companies are under common control and the existence of that control creates operating results and financial position significantly different than if the companies were autonomous.

Receivables and advances – related parties totaling \$46,718 are unsecured, non-interest bearing, and primarily due from related party entities and independent financial representatives of the Company.

Included in income taxes payable at June 30, 2018, is \$185,716 and \$0 totaling \$185,716 due to its Parent for separate Company federal and Texas income taxes; respectively.

The Company has eight forgivable notes receivable totaling \$119,670 from certain independent financial representatives of the Company (see Note 3).

**PROSPERA FINANCIAL SERVICES, INC.**

**Notes to Financial Statements**

**June 30, 2018**

**Note 10 - Related Party Transactions (continued)**

The Company has committed to pay retention bonuses to certain independent financial representatives of the Company totaling \$1,075,690 (see Note 5).

The Company earned \$7,259,006 in insurance commissions on the sale and marketing of customer insurance policies sold and trail fees on policies that remain in force through independent financial representatives dually licensed with a related party insurance agency. \$4,128 is due from this related party at June 30, 2018 and is included in commissions receivable in the accompanying statement of financial condition.

Management fees incurred and paid by the Company during the year to the related party insurance agency totaled \$163,231. The management fees are incurred at the discretion of the Company primarily for insurance agency management services and office equipment provided by the other related party. Management fees incurred for these services and transactions are not consummated on terms equivalent to those in arms-length transactions.

The Company entered into an Asset Rental Agreement with its Parent, effective December 31, 2016. The Agreement is automatically extended an additional year, unless either party provides notice. The Parent provides the use of property to the Company at \$10,000 per month. Substantially all of the property used by the Company, consisting of office furniture and equipment, not directly leased by the Company is provided by Parent under this Agreement. The Company incurred and paid rental expense under these Agreements totaling \$120,000 for the year.

**Note 11 - Subsequent Events**

Management has evaluated the Company's events and transactions that occurred subsequent to June 30, 2018, through August 27, 2018, the date which the financial statements were available to be issued.

## Schedule I

### PROSPERA FINANCIAL SERVICES, INC. Supplemental Information Pursuant to Rule 17a-5 June 30, 2018

#### Computation of Net Capital

Total stockholders' equity qualified for net capital	<u>\$ 8,739,568</u>
Deductions and/or charges	
Non-allowable assets:	
Commissions receivable	114,497
Receivables and advances - related parties	46,718
Other receivables	224,265
Prepaid expenses	257,224
Forgivable notes receivable	119,670
Non-marketable securities	<u>11,000</u>
Total deductions and/or charges	<u>773,374</u>
Net capital before haircuts on securities positions	<u>7,966,194</u>
Haircuts on securities:	
Cash equivalents	<u>5,199</u>
Total haircuts on securities	<u>5,199</u>
Net Capital	<u><u>\$ 7,960,995</u></u>
Aggregate indebtedness	
Accounts payable	\$ 154,268
Accrued compensation and related costs	3,173,161
Accrued expenses	421,738
Income taxes payable	<u>218,017</u>
Total aggregate indebtedness	<u><u>\$ 3,967,184</u></u>
Computation of basic net capital requirement	
Minimum net capital required (greater of \$100,000 or 6 2/3% of aggregate indebtedness)	<u><u>\$ 264,479</u></u>
Net capital in excess of minimum requirement	<u><u>\$ 7,696,516</u></u>
Ratio of aggregate indebtedness to net capital	<u><u>0.50 to 1.00</u></u>

**Schedule I (Continued)**

**PROSPERA FINANCIAL SERVICES, INC.  
Supplemental Information Pursuant to Rule 17a-5  
June 30, 2018**

**Reconciliation of Computation of Net Capital and Aggregate Indebtedness**

The Company's computation of net capital does not differ from the computation of net capital under Rule 15c3-1 as of June 30, 2018 as filed by Prospera Financial Services, Inc. on Form X-17A-5. Accordingly, no reconciliation is necessary.

**Statement Regarding Changes in Liabilities Subordinated to Claims of General Creditors**

No statement is required as no subordinated liabilities existed at any time during the year.

**Statement Regarding the Reserve Requirements and Possession or Control Requirements**

The Company operates pursuant to section (k)(2)(ii) exemptive provisions of Rule 15c3-3 of the Securities Exchange Act of 1934. Under these exemptive provisions, the Computation for Determination of the Reserve Requirements and Information Relating to the Possession and Control

# BRAD A. KINDER, CPA

CERTIFIED PUBLIC ACCOUNTANT

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
Prospera Financial Services, Inc.

We have reviewed management's statements, included in the accompanying Exemption Report, in which (1) Prospera Financial Services, Inc. identified the following provisions of 17 C.F.R. § 15c3-3(k) under which Prospera Financial Services, Inc. claimed an exemption from 17 C.F.R. § 240.15c3-3:(2)(ii) (exemption provisions) and (2) Prospera Financial Services, Inc. stated that Prospera Financial Services, Inc. met the identified exemption provisions throughout the most recent fiscal year except as described in its Exemption Report Summary of Exceptions. Prospera Financial Services, Inc.'s management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Prospera Financial Services, Inc.'s compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

  
BRAD A. KINDER, CPA

Flower Mound, Texas  
August 27, 2018



**PROSPERA**  
FINANCIAL SERVICES

## **EXEMPTION REPORT**

**Prospera Financial Services, Inc., (Company) is a registered broker-dealer subject to Rule 17-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. §240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:**

- 1. The Company claimed an exemption from 17 C.F.R. §240.15c3-3 under the following provisions of 17 C.F.R. §240.15c3-3 (k):(2)(ii)**
- 2. The Company met the identified exemption provisions in 17 C.F.R. §240.15c3-3(k) throughout the most recent fiscal year, except as described in the following summary of exceptions.**

**Prospera Financial Services, Inc.**

**I, David Stringer, swear (or affirm) that, to my best knowledge and belief, this Exemption Report is true and correct.**

**By:**

\_\_\_\_\_

**Title: President**

**August 24, 2018**

Prospera Financial Services, Inc.  
Exemption Report  
June 30, 2018

Summary of Exceptions

1. Customer funds received in a branch office on September 21, 2017 were not forwarded to the custodian until September 25, 2017.
2. Customer funds received in a branch office on December 7, 2017 were not forwarded to the custodian until December 12, 2017
3. Customer funds received in a branch office on January 8, 2018 were not forwarded to the custodian until January 11, 2018.
4. Customer funds received in a branch office on January 8, 2018 were not forwarded to the custodian until January 11, 2018.
5. Customer funds received in a branch office on January 31, 2018 were not forwarded to the custodian until February 7, 2018.
6. Customer funds received in a branch office on March 1, 2018 were not forwarded to the custodian until March 9, 2018.
7. Customer funds received in a branch office on March 1, 2018 were not forwarded to the custodian until March 9, 2018.
8. Customer funds received in a branch office on March 1, 2018 were not forwarded to the custodian until March 5, 2018.
9. Customer funds received in a branch office on March 22, 2018 were not forwarded to the custodian until March 29, 2018.