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

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

SEC

Processing Section

MAR 01 2019

Washington DC

SEC FILE NUMBER
8-13431

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 AND ENDING 12/31/18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Lincoln Financial Distributors, Inc

OFFICIAL USE ONLY
FIRM I.D. NO.

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

130 N. Radnor - Chester Road

(No. and Street)

Radnor

PA

19087

(City)

(State)

(Zip Code)

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

Carl R. Pawsat

(336) 691-3486

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Lincoln Financial Distributors, Inc. claims exemption from this requirement. See  
(Name - if individual, state last, first, middle name)

Duly Authorized Officer Affirmation pursuant to rule 17a-5(e)(2) under SEA 1934.  
(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)

RMS

OATH OR AFFIRMATION

I, Carl R. Pawsat, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Lincoln Financial Distributors, Inc, 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:

Carl R. Pawsat
Signature

AVP, Financial and Operations Principal
Title

Lori C Knibb
Notary Public

LORI C KNIBB
Notary Public, North Carolina
Guilford County
My Commission Expires
7/2/2023

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).

**Lincoln Financial Distributors, Inc.**

**Statement of Financial Condition**

Year Ended December 31, 2018  
With Duly Authorized Officer Affirmation

**You're In Charge<sup>®</sup>**

## Duly Authorized Officer Affirmation

Pursuant to Rule 17a-5 under the Securities Exchange Act of 1934

December 31, 2018

Lincoln Financial Distributors, Inc. (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"). Pursuant to 17 C.F.R. § 240.17a-5(e)(1)(A), the Company is exempt from the requirement to engage an independent public accountant to provide the reports required under 17 C.F.R. § 240.17a-5(d)(1)(i)(C).

This Duly Authorized Officer Affirmation was prepared as required by 17 C.F.R. § 240.17a-5(e)(1) and (2). To the best of its knowledge and belief, the Company states the following:

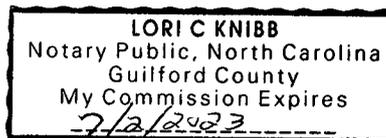
1. The financial report is true and correct.
2. Neither the broker or dealer, nor any partner, office, director or equivalent person, as the case may be, has any proprietary interest in any account classified solely as a customer.

Dated: February 28, 2019



Name: Carl R. Pawsat

Title: AVP, Financial and Operations Principal



Lincoln Financial Distributors, Inc.

Statement of Financial Condition

Year Ended December 31, 2018

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Lincoln Financial Distributors, Inc.

Statements of Financial Condition

	December 31, 2018
<b>Assets</b>	
Cash and invested cash	\$ 4,336,537
Commissions and fees receivable	26,108,757
Due from affiliates	152,555
Other assets	99,329
Total assets	<u>\$ 30,697,178</u>
<b>Liabilities and stockholder's equity</b>	
Liabilities:	
Due to affiliates	\$ 26,100,518
Other liabilities	41,659
Total liabilities	<u>26,142,177</u>
Stockholder's equity:	
Common stock – \$25 par value; 10,000 shares authorized; 8,000 shares issued and outstanding	200,000
Additional paid-in capital	12,632,000
Accumulated deficit	(8,276,999)
Total stockholder's equity	<u>4,555,001</u>
Total liabilities and stockholder's equity	<u>\$ 30,697,178</u>

*See accompanying notes.*

# Lincoln Financial Distributors, Inc.

## Notes to the Statement of Financial Condition

December 31, 2018

### **1. Nature of Operations, Basis of Presentation, Summary of Significant Accounting Policies and New Accounting Standards**

#### **Nature of Operations**

Lincoln Financial Distributors, Inc. (“LFD” or the “Company,” which also may be referred to as “we,” “our” or “us”) is a registered broker-dealer that is engaged in the business of wholesaling and marketing financial services products, such as mutual funds, variable life insurance, and variable annuities through financial intermediaries, such as stock brokerage firms, banks, and independent insurance agencies. LFD also receives commissions from affiliated insurance companies via intercompany transfers. LFD does not solicit or sell products directly to the general public. LFD is licensed to engage in broker-dealer activity throughout the United States. LFD is a wholly owned subsidiary of The Lincoln National Life Insurance Company (“LNL”), which is a wholly owned subsidiary of Lincoln National Corporation (“LNC”).

#### **Basis of Presentation**

The accompanying statement of financial condition is prepared in accordance with United States of America generally accepted accounting principles (“GAAP”). Certain GAAP policies, which significantly affect the determination of financial position are summarized below.

The Company and other affiliated entities that provide services to the Company are under common ownership and management control. The existence of this control could result in the Company’s financial position being significantly different from those that would have been obtained if the Company were autonomous.

The Company operates in one reportable segment given the similarities of all the products and services we provide.

#### **Summary of Significant Accounting Policies**

##### *Accounting Estimates and Assumptions*

The preparation of the statement of financial condition in conformity with GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements. Those estimates are inherently subject to change and actual results could differ from those estimates.

## Lincoln Financial Distributors, Inc.

### Notes to Financial Statements (continued)

#### 1. Nature of Operations, Basis of Presentation, Summary of Significant Accounting Policies and New Accounting Standards (continued)

##### *Cash and Invested Cash*

Cash and invested cash is carried at cost and includes all highly liquid investments purchased with an original maturity of three months or less.

##### *Commission and Fee Revenue and Expense*

LFD is the principal underwriter for the wholesale distribution of all variable life and annuity products of LNL and Lincoln Life & Annuity Company of New York ("LLANY"). We recognize all commission and fee revenue for the distribution of these products. The selling costs related to the distribution of these products are then passed on to LNL who, through the processing and services agreements, pays the commissions on LFD's behalf. An accrual is recorded for fee income, and a corresponding accrual is recorded for the commission expense to be paid based on the fee income.

LFD also recognizes wholesaling revenue on 12b-1 fees received from separate account fund sponsors as compensation for distributing the underlying mutual funds. These 12b-1 fees are passed on to LNL to offset wholesale distribution expenses incurred on LFD's behalf. All other commission and fee revenue amounts are received from affiliates.

Given the similarities of the revenue earned, the company categorizes all revenue in one source: distribution and wholesaling revenue. See Note 2 for more information on revenue recognized from contracts with customers.

##### *Income Taxes*

LNC files a U.S. consolidated income tax return that includes all eligible subsidiaries, including LFD and LNL. Pursuant to an intercompany tax-sharing agreement with LNL, LFD provides for income taxes on a separate return filing basis. The tax-sharing agreement also provides that LFD will receive benefit for net operating losses, capital losses, and tax credits, which may not be usable on a separate return basis to the extent such items may be utilized in the consolidated federal income tax returns of LNC.

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to the extent required. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. See Note 2 for additional information.

Lincoln Financial Distributors, Inc.

Notes to Financial Statements (continued)

**1. Nature of Operations, Basis of Presentation, Summary of Significant Accounting Policies and New Accounting Standards (continued)**

**Adoption of New Accounting Standard**

The following table provides a description of our adoption of new ASUs issued by the FASB and the impact of the adoption on our financial statements. ASUs not listed below were assessed and determined to be either not applicable or not material in presentation or amount.

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers and all related amendments	This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods and services and defines a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity's performance obligation.	January 1, 2018	We adopted the standard and all related amendments using the modified retrospective method. Our primary sources of revenue are within the scope of this standard. There were no changes in the timing or measurement of revenues based upon the guidance. As a result, there is no cumulative effect on retained earnings. See Note 2 for more information.

Lincoln Financial Distributors, Inc.

Notes to Financial Statements (continued)

**1. Nature of Operations, Basis of Presentation, Summary of Significant Accounting Policies and New Accounting Standards (continued)**

**Future Adoption of New Accounting Standards**

The following table provides a description of future adoptions of new accounting standards that may have an impact on our financial statements when adopted:

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases	This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance sheet as a right-of-use asset and a related lease liability. The lease liability is measured as the present value of the lease payments over the lease term with the right-of-use asset measured at the lease liability amount and including adjustments for certain lease incentives and initial direct costs. Lease expense recognition will continue to differentiate between finance leases and operating leases resulting in a similar pattern of lease expense recognition as under current GAAP. This ASU permits a modified retrospective adoption approach that includes a number of optional practical expedients that entities may elect upon adoption. Early adoption is permitted.	January 1, 2019	We do not expect the adoption of this guidance to have a material impact on our Statement of Financial Condition.

Lincoln Financial Distributors, Inc.

Notes to Financial Statements (continued)

1. Nature of Operations, Basis of Presentation, Summary of Significant Accounting Policies and New Accounting Standards (continued)

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	These amendments adopt a new model to measure and recognize credit losses for most financial assets. The amendments require credit losses to be recognized through an allowance with the impacts to be adopted through a cumulative effect adjustment to the beginning balance of retained earnings as of the first reporting period in which the amendments are effective. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein.	January 1, 2020	We are still evaluating the impact of the adoption of this ASU.

# Lincoln Financial Distributors, Inc.

## Notes to Financial Statements (continued)

### 2. Revenues from Contracts with Customers

As discussed in Note 1, we adopted ASU 2014-09, Revenue from Contracts with Customers, as of January 1, 2018. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

### 3. Income Taxes

The SEC previously issued rules that allow for a one-year measurement period after the enactment of the Tax Act to finalize calculations and recording of the related tax impacts. Subsequent to the enactment date, we have completed our review of the provisions of the Tax Act, including the impact of the reduction in the U.S. federal corporate income tax rate and the impact of specific life insurance provisions on our financial statements.

The federal income tax asset was as follows:

	December 31, 2018
Current	\$ 1,230
Deferred	-
Total federal income tax asset	<u>\$ 1,230</u>

Current federal income taxes receivable of \$1,230 at December 31, 2018, is included in due from affiliates on the Statement of Financial Condition.

Current state income taxes receivable of \$99,329 at December 31, 2018, is included in other assets on the Statement of Financial Condition.

The Company is required to establish a valuation allowance for any gross deferred tax assets that are unlikely to reduce taxes payable in future years' tax returns. As of December 31, 2018, our deferred tax asset was \$0.

The LNC consolidated group is subject to examination by U.S. federal, state, local and non-U.S. income authorities. We are currently not under examination by the Internal Revenue Service; however, tax years 2015 and forward remain open.

There are no uncertain tax positions related to the Company in the current year.

# Lincoln Financial Distributors, Inc.

## Notes to Financial Statements (continued)

### 3. Agreements and Transactions with Affiliates

In order to be compliant with the Financial Industry Regulatory Authority (“FINRA”) rules regarding proper expense recognition and expense-sharing agreements, LFD has entered into various cost-sharing agreements with affiliates. Amounts due from affiliates primarily represent amounts due to LFD for the settlement of general and administrative expenses, and taxes and fees, as stipulated in the Master Services Agreement. Amounts due to affiliates primarily represent amounts due to LNL related to separate account 12b-1 fees as well as intercompany cost and tax-sharing agreements.

### 4. Contingencies

#### *Regulatory and Litigation Matters*

Regulatory bodies, such as the Securities and Exchange Commission (“SEC”) and FINRA, regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, securities laws, and laws governing the activities of broker-dealers. While LFD is involved in various pending or threatened legal proceedings arising from the conduct of business either in the ordinary course or otherwise, such legal expenses are a part of our affiliate cost-sharing agreements. Based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LFD’s financial position.

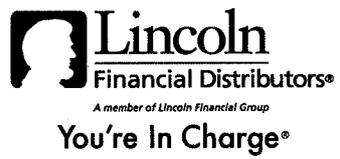
### 5. Net Capital Requirements

LFD has elected to operate under the alternative standard provisions of the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the minimum net capital to be the greater of \$250,000 or 2% of aggregate debit items computed in accordance with the SEC Customer Protection Rule (Rule 15c3-3) reserve requirements. Our operations do not include the physical handling of securities or the maintenance of open customer accounts; therefore, there are no reserve provisions pursuant to Rule 15c3-3. Accordingly, our minimum net capital requirement is \$250,000.

	December 31, 2018
Minimum net capital requirement	\$ 250,000
Net capital	4,303,117
Excess net capital	<u>\$ 4,053,117</u>

### 6. Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through the date the financial statements were issued.



Lincoln Financial Distributors, Inc.  
130 N. Radnor-Chester Road  
Radnor, PA 19087