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

FEB 27 2006

SEC FILE NUMBER
8- 38383

DIVISION OF MARKET REGULATION

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 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: CONERSTONE FINANCIAL SERVICES, INC.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
1345 BROOKVILLE WAY, SUITE C

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

INDIANAPOLIS IN 46239  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
MELVIN C. BREWER (317) 354-3312  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

PRICE & GARTRELL, P.C.  
(Name - if individual, state last, first, middle name)

8465 KEYSTONE CORSSING, SUITE 195 INDIANAPOLIS IN 46240  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED  
MAY 01 2006

<b>FOR OFFICIAL USE ONLY</b>

\*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)

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OATH OR AFFIRMATION

I, MELVIN C. BREWER, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CONERSTONE FINANCIAL SERVICES, INC., as of DECEMBER 31, 20 05, 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:

Melvin C. Brewer

Signature

PRESIDENT

Title

[Signature]

Notary Public

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).

CORNERSTONE FINANCIAL SERVICES, INC.  
FINANCIAL STATEMENTS

DECEMBER 31, 2005

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# PRICE & GARTRELL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Cornerstone Financial Services, Inc.  
Indianapolis, Indiana

## Independent Auditor's Report

We have audited the accompanying statement of financial condition of Cornerstone Financial Services, Inc. as of December 31, 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial condition of Cornerstone Financial Services, Inc. as of December 31, 2005, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The information contained on page 8 through 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



PRICE & GARTRELL, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

February 1, 2006

Stephen D. Price, C.P.A.  
H. Lynn Gartrell, C.P.A.

Frank T. Crislip, Jr., C.P.A.  
Jason C. Lowe, C.P.A.

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CORNERSTONE FINANCIAL SERVICES, INC.  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2005

ASSETS

Cash	\$ 2,408
Cash - money market account	10,332
Commissions receivable	16,419
Investment - Warrants (300) of National Association of Securities Dealers, Inc., at cost	<u>3,300</u>
 Total assets	 <u>\$ 32,459</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable	<u>\$ -</u>
 Stockholders' equity	
Common stock, no par value	
Authorized - 1,000 shares	
Issued and outstanding - 100 shares	1,000
Additional paid-in capital	73,360
Retained earnings (deficit)	<u>(41,901)</u>
	 <u>32,459</u>
	 <u>\$ 32,459</u>

See accompanying notes to financial statements.

CORNERSTONE FINANCIAL SERVICES, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2005

REVENUE	
Commissions and fees	\$ 177,722
Advisory fees	6,021
Interest	234
	<u>183,977</u>
EXPENSES	
Commissions	175,197
Other operating expense	3,095
	<u>178,292</u>
Net income	<u>\$ 5,685</u>

See accompanying notes to financial statements.

CORNERSTONE FINANCIAL SERVICES, INC.  
 STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	Common <u>Stock</u>	Additional Paid-In <u>Capital</u>	Retained Earnings <u>(Deficit)</u>
Balance at January 1, 2005	\$ 1,000	\$ 73,360	\$ (47,586)
Net gain	<u>-</u>	<u>-</u>	<u>5,685</u>
Balance at December 31, 2005	<u>\$ 1,000</u>	<u>\$ 73,360</u>	<u>\$ (41,901)</u>

See accompanying notes to financial statement.

CORNERSTONE FINANCIAL SERVICES, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities:

Net income	\$ 5,685
Adjustments to reconcile per income to net cash provided by operating activities:	
Increase in accounts receivable	<u>(6,592)</u>
Net cash provided by operating activities	(907)
Net increase in cash	(907)
Cash at beginning of year	<u>13,647</u>
Cash at end of year	<u>\$ 12,740</u>

See accompanying notes to financial statements.

CORNERSTONE FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company is a registered broker-dealer. All trades are cleared on a fully disclosed basis.

2. CAPITAL REQUIREMENTS

Pursuant to the Securities and Exchange Commission Uniform Net Capital Rule, the Company is required to maintain minimum net capital (\$ 5,000), as defined under Rule 15c3-1. At December 31, 2005, the Company had net capital of \$ 28,849.

3. EXEMPTION FROM RULE 15c3-3

The Company does not collect any customer funds. The Company does not hold any securities for its customers and it clears all transactions with a clearing broker or dealer. Accordingly, the Company meets the exemptive provisions of Rule 15c3-3.

4. RELATED PARTY TRANSACTIONS

The Company utilizes office space, equipment and the personnel of a related party (the common stockholders) and, accordingly, incurred expenses paid to these parties amounting to approximately \$ 174,700 for the year.

CORNERSTONE FINANCIAL SERVICES, INC.  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
DECEMBER 31, 2005

Net Capital

Ownership equity per financial statements	\$ 32,459
Haircuts - assets held by clearing broker	(310)
- other securities	<u>(3,300)</u>
 Net capital	 <u>\$ 28,849</u>

CORNERSTONE FINANCIAL SERVICES, INC.  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
DECEMBER 31, 2005

Reconciliation with Company's Computation (included in Part IIA of  
Form X-17A-5 as of December 31, 2005 )

Net capital, as reported in Company's Part II FOCUS report	\$ 12,429
Audit adjustment - increase in accounts receivable	<u>16,420</u>
Net capital per page 7	<u>\$ 28,849</u>

CORNERSTONE FINANCIAL SERVICES, INC.  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
DECEMBER 31, 2005

Aggregate indebtedness	
Included in statement of financial condition	
Accounts payable	<u>\$ -</u>
Computation of basis net capital requirement	
Minimum net capital required	<u>\$ -</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 5,000</u>
Net capital requirement	<u>\$ 5,000</u>
Excess net capital	<u>\$ 23,849</u>
Excess net capital at 1000%	<u>\$ 28,849</u>
Ratio: aggregate indebtedness to net capital	<u>0 to 1</u>

# PRICE & GARTRELL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of  
Cornerstone Financial Services, Inc.  
Indianapolis, Indiana

In planning and performing our audit of the financial statements of Cornerstone Financial Services, Inc. for the year ended December 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

As required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15c3-3.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practice and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Stephen D. Price, C.P.A.  
H. Lynn Gartrell, C.P.A.

Frank T. Crislip, Jr., C.P.A.  
Jason C. Lowe, C.P.A.

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Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, and the SEC, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



PRICE & GARTRELL, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

February 1, 2006