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

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ANNUAL AUDITED REPORT

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Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-10 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/09 AND ENDING 12/31/09
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CAPITAL FINANCIAL SERVICES, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1 NORTH MAIN STREET

(No. and Street)

MINOT

(City)

ND

(State)

58703-3189

(Zip Code)

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

BRIAN BOPPRE

(701) 837-9600

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BRADY MARTZ AND ASSOCIATES, P.C.

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

24 WEST CENTRAL

(Address)

MINOT

(City)

ND

(State)

58703

(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)

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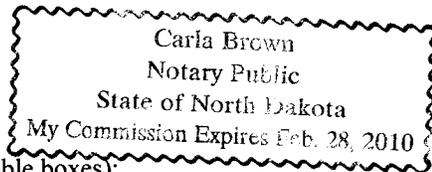
OATH OR AFFIRMATION

I, BRIAN BOPPRE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITAL FINANCIAL SERVICES, INC., as of DECEMBER 31, 2009, 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: NONE

[Signature]
Signature

President
Title

Carla Brown
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 Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors N/A
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3. N/A
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3. N/A
- (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 N/A
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report. N/A
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit N/A

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

CAPITAL FINANCIAL SERVICES, INC.

(A WHOLLY-OWNED SUBSIDIARY OF
CAPITAL FINANCIAL HOLDINGS, INC.)

FINANCIAL STATEMENTS

AS OF

DECEMBER 31, 2009 AND 2008

WITH

INDEPENDENT AUDITOR'S REPORT

CAPITAL FINANCIAL SERVICES, INC.
(A WHOLLY-OWNED SUBSIDIARY OF CAPITAL FINANCIAL HOLDINGS, INC.)

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	2
Statements of Operations	3
Statements of Stockholder's Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6-11
SUPPLEMENTARY INFORMATION	
Schedule I - Computations of Net Capital Under Rule 15c3-1 of the Securities Exchange Act of 1934	12
CLAIM OF EXEMPTION FROM RULE 15c3-3	13
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL REQUIRED BY RULE 17a-5	14-15



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Directors
Capital Financial Services, Inc.
Minot, North Dakota

We have audited the accompanying balance sheets of Capital Financial Services, Inc. (a wholly-owned subsidiary of Capital Financial Holdings, Inc.) as of December 31, 2009 and 2008 and the related statements of operations, stockholders' equity, and cash flows for the years 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Financial Services, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on page 12 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. This information has been subjected to the auditing procedures applied in the audits 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.

BRADY, MARTZ & ASSOCIATES, P.C.
Minot, North Dakota USA

February 23, 2010

CAPITAL FINANCIAL SERVICES, INC.
(A WHOLLY-OWNED SUBSIDIARY OF CAPITAL FINANCIAL HOLDINGS, INC.)
BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

ASSETS

	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 783,565	\$ 2,301,024
Accounts and commissions receivable (net of allowance for doubtful accounts of \$24,000 for 2009 and 2008)	1,238,902	1,340,528
Prepaid assets	7,084	4,057
Total current assets	\$ 2,029,551	\$ 3,645,609
PROPERTY AND EQUIPMENT	\$ 137,525	\$ 128,526
Less accumulated depreciation	59,558	36,203
Net property and equipment	\$ 77,967	\$ 92,323
OTHER ASSETS		
Other Investments	\$ 45,000	\$ -
Clearing deposits	175,279	175,279
Total other assets	\$ 220,279	\$ 175,279
TOTAL ASSETS	\$ 2,327,797	\$ 3,913,211

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Commissions and fees payable	\$ 1,115,134	\$ 1,213,190
Accrued expenses	231,452	232,469
Total current liabilities	\$ 1,346,586	\$ 1,445,659
TOTAL LIABILITIES	\$ 1,346,586	\$ 1,445,659
STOCKHOLDERS' EQUITY		
Common stock - no par value; 2,800 shares authorized, 500 shares issued and outstanding	\$ 5,000	\$ 5,000
Additional paid-in capital	73,392	73,392
Retained earnings	902,819	2,389,160
TOTAL STOCKHOLDERS' EQUITY	\$ 981,211	\$ 2,467,552
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,327,797	\$ 3,913,211

SEE NOTES TO FINANCIAL STATEMENTS

CAPITAL FINANCIAL SERVICES, INC.
(A WHOLLY-OWNED SUBSIDIARY OF CAPITAL FINANCIAL HOLDINGS, INC.)
STATEMENTS OF OPERATIONS
FOR YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
INCOME		
Commission and underwriting income	\$ 16,339,940	\$ 25,898,802
Advisory fee income	1,062,492	1,551,245
Other income	<u>472,648</u>	<u>963,357</u>
Total income	\$ <u>17,875,080</u>	\$ <u>28,413,404</u>
EXPENSES		
Commission expense	\$ 15,250,340	\$ 24,420,438
Professional fees	219,651	275,201
Advertising and promotion	5,526	18,548
Printing and postage	34,132	43,232
Dues, fees, and registrations	59,479	17,983
Compensation and benefits	1,345,288	1,555,833
Rent	84,898	82,453
Travel	59,392	34,481
Phone	47,365	47,544
Office and computer supplies	30,232	34,220
Depreciation	24,983	19,757
Overhead	92,076	86,640
Other expenses	<u>53,837</u>	<u>100,301</u>
Total expenses	\$ <u>17,307,199</u>	\$ <u>26,736,631</u>
INCOME BEFORE INCOME TAX EXPENSE	\$ 567,881	\$ 1,676,773
INCOME TAX EXPENSE	<u>(222,600)</u>	<u>(657,300)</u>
NET INCOME	\$ <u>345,281</u>	\$ <u>1,019,473</u>

SEE NOTES TO FINANCIAL STATEMENTS

CAPITAL FINANCIAL SERVICES, INC.
(A WHOLLY-OWNED SUBSIDIARY OF CAPITAL FINANCIAL HOLDINGS, INC.)
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, January 1, 2008	\$ 5,000	\$ 73,392	\$ 1,914,387	\$ 1,992,779
Net income	-	-	1,019,473	1,019,473
Dividends	-	-	<u>(544,700)</u>	<u>(544,700)</u>
Balance, December 31, 2008	\$ <u>5,000</u>	\$ <u>73,392</u>	\$ <u>2,389,160</u>	\$ <u>2,467,552</u>
Net income	-	-	345,281	345,281
Dividends	-	-	<u>(1,831,622)</u>	<u>(1,831,622)</u>
Balance, December 31, 2009	\$ <u>5,000</u>	\$ <u>73,392</u>	\$ <u>902,819</u>	\$ <u>981,211</u>

SEE NOTES TO FINANCIAL STATEMENTS

CAPITAL FINANCIAL SERVICES, INC.
(A WHOLLY-OWNED SUBSIDIARY OF CAPITAL FINANCIAL HOLDINGS, INC.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 345,281	\$ 1,019,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	24,983	19,757
Loss on investment	31,876	-
Effects on operating cash flows due to changes in:		
Prepaid assets	(3,028)	(699)
Accounts and commissions receivable	101,626	374,872
Other assets	-	1,430
Commissions and fees payable	(98,056)	(695,308)
Other liabilities	(1,017)	(58,186)
Net cash provided by operating activities	<u>\$ 401,665</u>	<u>\$ 661,339</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	\$ (10,626)	\$ (50,370)
Purchase of investment	<u>(76,876)</u>	<u>-</u>
Net cash used by investing activities	<u>\$ (87,502)</u>	<u>\$ (50,370)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends	<u>\$ (1,831,622)</u>	<u>\$ (544,700)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,517,459)	\$ 66,269
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,301,024</u>	<u>2,234,755</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 783,565</u>	<u>\$ 2,301,024</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	<u>\$ 222,600</u>	<u>\$ 657,300</u>

SEE NOTES TO FINANCIAL STATEMENTS

CAPITAL FINANCIAL SERVICES, INC.
(A WHOLLY-OWNED SUBSIDIARY OF CAPITAL FINANCIAL HOLDINGS, INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The nature of operations and significant accounting policies of Capital Financial Services, Inc. are presented to assist in understanding the Company's financial statements.

Nature of operations - Capital Financial Services, Inc. ("CFS") is a wholly-owned subsidiary of Capital Financial Holdings, Inc. (the "Parent"), formerly known as Integrity Mutual Funds, Inc. Integrity Funds Distributor, Inc. was also a wholly-owned subsidiary of the Parent; however Integrity Funds Distributor, Inc. was sold on July 30, 2009. CFS is registered with the SEC as an investment advisor and broker-dealer and also with FINRA as a broker-dealer. The Company's primary operations are as a broker dealer on an agency basis for brokerage of customer securities transactions, private placement of securities, sales of variable annuities, distribution of shares of various unaffiliated mutual funds and investment banking activities. The Company also earns investment advisory fees as a registered investment advisor.

Cash and cash equivalents - Cash and cash equivalents are distinguished based on liquidity. Liquid investments with maturities greater than three months, if any, are recorded as investments.

Accounts and commissions receivable - Management evaluates the need for an allowance for doubtful accounts by using historical experience. Accounts receivable are written off when management deems them uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The Company does not charge interest on its receivables.

Commissions - Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

12b-1 Revenue - 12b-1 revenue is recognized in the period earned.

Advisory Fee Revenue - Advisory fee revenue is recognized in the period the services are provided.

Property and equipment - Property and equipment consists of various computers and office equipment. These assets are depreciated over their estimated useful lives (5 to 7 years) using straight-line depreciation methods.

Income taxes - The Company is included in the consolidated income tax returns filed by the Parent. Income taxes are calculated at 39.2% of the Company's pre-tax book income. The Company's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence. It is the opinion of management that the Company has no significant uncertain tax positions that would be subject to change upon examination.

The consolidated federal income tax returns of the Parent Company are subject to examination by the IRS, generally for three years after they were filed.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Impact of Newly Issued and Proposed Accounting Standards – The Financial Accounting Standards Board (“FASB”) has issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not believe the adoption of ASU No. 2010-06 will have a significant effect on the Company’s financial statements and note disclosures.

NOTE 2 - RULE 15c3-3

The Company operates under the provision of Paragraph (k)(2)(ii) of Rule 15c3-3 of the Securities and Exchange Commission and, accordingly, is exempt from the remaining provisions of that rule.

NOTE 3 - INCOME TAXES

The Company is included in the consolidated income tax return of its Parent. The tax provisions consisted of the following:

	<u>2009</u>	<u>2008</u>
Federal	\$ 193,100	\$ 570,100
State	29,500	87,200
Total	<u>\$ 222,600</u>	<u>\$ 657,300</u>

A reconciliation of the differences between the expected income tax expense as computed at the U.S. Statutory income tax rate and the Company's income tax expense is shown in the following table:

	<u>2009</u>	<u>2008</u>
Expected income tax expense at the U.S. Statutory rate	\$ 193,100	\$ 570,100
The affect of:		
Increase due to state taxes, net of U.S. Federal income tax effects	<u>29,500</u>	<u>87,200</u>
Income tax expense	<u>\$ 222,600</u>	<u>\$ 657,300</u>

NOTE 4 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2009, the Company had net capital of \$479,353, which was \$389,581 in excess of its minimum required net capital of \$89,772. The Company's net capital ratio was to 2.81 to 1.

NOTE 5 - ADVERTISING COSTS

Advertising costs are expensed as incurred. Total advertising expenses were \$5,526 and \$18,548 for the years ended December 31, 2009 and 2008, respectively.

NOTE 6 - SIGNIFICANT ESTIMATES

The Company's receivables as of December 31, 2009 and 2008 included 12b-1 receivables of \$880,764 and \$935,744, respectively. The Company's receivables as of December 31, 2009 and 2008 also included investment advisory receivables of \$149,778 and \$167,323, respectively. These receivable balances have been estimated by management based on past experience and consideration of the Company's current sales/volume activity and current levels of assets under management. Because of the inherent uncertainties in estimating the 12b-1 revenues and investment advisory revenues due to the Company, it is at least reasonably possible that the estimate used could change in the near term.

NOTE 7 - RISKS AND UNCERTAINTIES

The Company has a concentration of credit risk for cash deposits at various financial institutions. These deposits may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The maximum loss that could have resulted from that risk totaled approximately \$546,700 as of December 31, 2009.

NOTE 8 – RELATED PARTY TRANSACTIONS

The transactions between Capital Financial Services, Inc., Capital Financial Holdings, Inc., and Integrity Funds Distributor, Inc. are summarized below:

	2009	2008
Commission and other fees received from Integrity Funds Distributor, Inc.	\$ 35,903	\$ 40,919
Commission and other fees paid to Integrity Funds Distributor, Inc.	\$ 2,540	\$ 6,014
Compensation and benefits received from Integrity Funds Distributor, Inc.	\$ 2,870	\$ 4,260
Compensation and benefits paid to Capital Financial Holdings, Inc.	\$ 205,438	\$ 398,512
Corporate overhead paid to Capital Financial Holdings, Inc.	\$ 92,076	\$ 86,640
*Rent paid to Capital Financial Holdings, Inc.	\$ 60,238	\$ 63,960
Other expenses paid to Capital Financial Holdings, Inc.	\$ 12,670	\$ 20,160

* CFS has a lease agreement with Capital Financial Holdings, Inc. to pay a monthly rent payment of \$4,000. This amount represents CFS's use of office space and utilities.

NOTE 9 – FAIR MARKET VALUE

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value in three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

The application of valuation techniques applied to similar assets and liabilities has been consistently applied. The following is a description of the valuation methodologies used for instruments measured at fair value:

On February 12, 2009, the company entered into a settlement agreement with a client, which resulted in the company purchasing the client's investment in the Omega 2007 Drilling Program 1, LP. This limited partnership carries a "presentment" feature which will allow the company to sell the investment to the General Managing Partner of the limited partnership; and this feature will become available three years from the date of the first income distribution, which was December of 2007. The fair market value of this \$76,876 investment is estimated to be \$45,000; however this amount could fluctuate with the prices of oil and natural gas. The company will continue to carry the investment on its books at the \$45,000 value until the "presentment" feature can be utilized.

	Carrying Value at December 31, 2009				Year ended December 31, 2009
	Total	Level 1	Level 2	Level 3 Other Investment	Total Losses
Beginning Balance	\$ -	\$ -	\$ -	\$ -	-
Purchases: Other Investment	76,876	-	-	76,876	
Loss impairment included in net earnings	(31,876)	-	-	(31,876)	
Total	\$ 45,000	\$ -	\$ -	\$ 45,000	\$ 31,876

The loss of \$31,876 represents the original purchase price of the investment minus its current fair market value.

NOTE 10 – LITIGATION

The Company operates in a legal and regulatory environment that exposes it to potentially significant litigation risks. As a result, the Company is involved in various disputes and legal proceedings, including litigation, arbitration and regulatory investigations, including a number of investigatory matters and legal proceedings arising out of customer allegations related to past commissioned sales of alternative investment products. In 2007 through the first quarter of 2009 a substantial amount (approximately 10% to 20%) of the Company's sales of commissioned products were in private placements of alternative products, two of which as of December 31, 2009 (Medical Capital Corporation and related issuer entities and Provident Royalties, LLC. and related issuer entities) were placed in receivership by action of the United States Securities and Exchange Commission and issuers of certain other alternative products sold by the Company are in Chapter 11 Bankruptcy or may have financial difficulties. Additionally, difficult economic conditions in general and the stock market decline have contributed to decline in broker-dealer subsidiary client portfolio values. As a result of such alleged failings of alternative products and the uncertainty of client recovery from the various product issuers, the Company is subject to regulatory scrutiny and a number of recently instituted legal or arbitration proceedings, including two recently instituted proceedings seeking certification as class actions which name the Company as one of a number of defendants and allege various securities or conduct violations, one with respect to private placements of Medical Capital Corporation and related issuer entities and the other with regard to

private placements of Provident Royalties, LLC and related issuer entities. The Company intends to vigorously contest the allegations of the various proceedings and believes that there are multiple meritorious legal and fact based defenses in these matters. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. The Company makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reasonably estimated. The current proceedings are subject to uncertainties and as such, the Company is unable to estimate the possible loss or a range of loss that may result.

NOTE 11 – SUBSEQUENT EVENTS

No significant events have occurred subsequent to the Company's year end. Subsequent events have been evaluated through February 23, 2010, which is the date these financial statements were subject to be issued.

Supplementary Information

CAPITAL FINANCIAL SERVICES, INC.
(A WHOLLY-OWNED SUBSIDIARY OF CAPITAL FINANCIAL HOLDINGS, INC.)
SCHEDULE I
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
AS OF DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
NET CAPITAL		
Total stockholders' equity	\$ 981,211	\$ 2,467,552
Less non-allowable assets:		
Prepaid assets	(7,085)	(4,057)
Property and equipment	(77,966)	(92,323)
Other deductions	(38,655)	(32,017)
Other assets	(45,000)	-
Clearing deposits	(100,000)	(100,000)
Accounts and commissions receivable	(233,152)	(214,482)
Net capital	<u>\$ 479,353</u>	<u>\$ 2,024,673</u>
AGGREGATE INDEBTEDNESS		
Commissions and fees payable	\$ 1,115,134	\$ 1,213,190
Accrued expenses	231,452	232,469
Total aggregate indebtedness	<u>\$ 1,346,586</u>	<u>\$ 1,445,659</u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT		
Minimum net capital requirements ₁	<u>\$ 89,772</u>	<u>\$ 96,377</u>
Excess net capital at 1500% ₂	<u>\$ 389,581</u>	<u>\$ 1,928,296</u>
Excess net capital at 1000% ₂	<u>\$ 344,694</u>	<u>\$ 1,880,107</u>
Ratio: Aggregate indebtedness to net capital	<u>2.81 to 1</u>	<u>.71 to 1</u>
RECONCILIATION WITH COMPANY'S COMPUTATION		
Net capital, as reported in Company's Part II (Unaudited)	\$	\$
FOCUS report	479,353	2,024,673
Net audit adjustments to allowable assets	-	-
Net capital per above	<u>\$ 479,353</u>	<u>\$ 2,024,673</u>

1. Minimum net capital requirements for the Company are the greater of 6 2/3% of aggregate indebtedness or \$50,000.
2. Excess net capital figures at 1500% and 1000% are based on calculated minimum net capital requirements of:

1500%	\$ <u>89,772</u>	\$ <u>96,377</u>
1000%	\$ <u>134,658</u>	\$ <u>144,566</u>

CAPITAL FINANCIAL SERVICES, INC.
(A WHOLLY-OWNED SUBSIDIARY OF CAPITAL FINANCIAL HOLDINGS, INC.)
CLAIM OF EXEMPTION FROM RULE 15c3-3
DECEMBER 31, 2009 AND 2008

The Company claims exemption from Rule 15c3-3 under Section 15c3-3(k)(2)(ii), which states that all customer transactions are cleared through another broker-dealer on a fully disclosed basis. Therefore, a schedule showing the Computation for Determination of Reserve Requirements under Rule 15c3-3 of the Securities and Exchange Commission and the Schedule of Information Relating to Possession or Control Requirements under Rule 15c3-3 of the Securities and Exchange Commission, are not required.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL REQUIRED BY RULE 17a-5

To the Stockholders and Directors
Capital Financial Services, Inc.
Minot, North Dakota

In planning and performing our audits of the financial statements and supplemental schedules of Capital Financial Services, Inc. (the Company), as of and for the years ended December 31, 2009 and 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. 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

The management of the Company is responsible for establishing and maintaining internal control and the practices 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 the 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.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL REQUIRED BY RULE 17a-5 (CONTINUED)

Because of inherent limitations in internal control and 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.

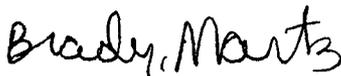
A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and 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, as described in the second paragraph of this report, were adequate at December 31, 2008 and 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, State Securities Commission, and other regulatory agencies that 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.



BRADY, MARTZ & ASSOCIATES, P.C.
Minot, North Dakota USA

February 23, 2010