

SECURITY



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

SEC FILE NUMBER
8-38383

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 01/01/2010 AND ENDING 12/31/2010  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Cornerstone Financial Services, Inc. OFFICIAL USE ONLY  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

325 EAST MAIN STREET

(No. and Street)

GREENFIELD

(City)

INDIANA

(State)

46140

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
MELVIN C. BREWER 317-463-3310  
(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

Somerset CPAs, P.C.

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

3925 River Crossing Pkwy, 3rd Floor 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.

**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

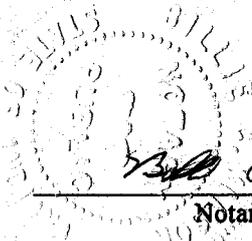
I, BILL C. WILSON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CORNERSTONE FINANCIAL SERVICES, INC., as of FEB. 25TH, 2011, are true and correct. I further swear (or affirm) that neither the company 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:

M. C. BAKER

Signature

PRESIDENT

Title



Bill C. Wilson

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**  
**Year Ended December 31, 2010**

**CORNERSTONE FINANCIAL SERVICES, INC.**

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## Independent Auditors' Report

**To the Board of Directors  
CORNERSTONE FINANCIAL SERVICES, INC.  
Indianapolis, Indiana**

We have audited the accompanying statement of financial condition of CORNERSTONE FINANCIAL SERVICES, INC., as of December 31, 2010, and the related statements of income, changes in shareholders' 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 conducted our audit in accordance with U.S. generally accepted auditing standards. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 aspects, the financial condition of CORNERSTONE FINANCIAL SERVICES, INC., as of December 31, 2010, 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.

*Somerset CPAs PC*

February 21, 2011

Accounting  
Assurance  
Business Consulting  
Construction & A/E  
Dealerships

Dental  
Employee Benefits  
Entrepreneurial  
Health Care  
Information Solutions

Litigation & Valuation  
Manufacturing & Distribution  
Not-for-Profit  
Real Estate  
Tax  
Wealth Management

**CORNERSTONE FINANCIAL SERVICES, INC.**  
**Statement of Financial Condition**  
**December 31, 2010**

**Assets**

**Current Assets**

Cash and cash equivalents	\$ 13,697
Commissions receivable	<u>59,193</u>
Total Current Assets	<u>72,890</u>
Total Assets	<u><u>\$ 72,890</u></u>

**Liabilities and Shareholders' Equity**

**Current Liabilities**

Commissions payable	<u>\$ 40,500</u>
Total Current Liabilities	<u>40,500</u>

**Shareholders' Equity**

Common stock	1,000
Additional paid-in capital	73,360
Retained deficit	<u>(41,970)</u>
	<u>32,390</u>
Total Liabilities and Shareholders' Equity	<u><u>\$ 72,890</u></u>

See accompanying notes.

**CORNERSTONE FINANCIAL SERVICES, INC.**  
**Statement of Income**  
**For the Year Ended December 31, 2010**

Revenues	
Commissions	\$ 231,080
Advisory fees	<u>37,224</u>
Total Revenues	<u>268,304</u>
Expenses	
Commissions	251,365
Advertising	6,150
Professional services	4,500
Licenses and fees	1,045
Insurance	350
Bank fees	<u>29</u>
Total Expenses	<u>263,439</u>
<b>Net Income</b>	<u><u>\$ 4,865</u></u>

See accompanying notes.

**CORNERSTONE FINANCIAL SERVICES, INC.**  
**Statement of Changes in Shareholders' Equity**  
**For the Year Ended December 31, 2010**

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Deficit</u>	<u>Total Shareholders' Equity</u>
Balance at December 31, 2009	\$ 1,000	\$ 73,360	\$ (46,835)	\$ 27,525
Net Income	<u>0</u>	<u>0</u>	<u>4,865</u>	<u>4,865</u>
Balance at December 31, 2010	<u>\$ 1,000</u>	<u>\$ 73,360</u>	<u>\$ (41,970)</u>	<u>\$ 32,390</u>

See accompanying notes.

**CORNERSTONE FINANCIAL SERVICES, INC.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2010**

<b>Cash Flows from Operating Activities</b>	\$ 4,865
Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
Decrease in deposit with clearing organization	10,000
Increase in commissions receivable	(47,386)
Increase in commissions payable	<u>40,500</u>
Net cash provided by operating activities	<u>7,979</u>
<b>Net Increase in Cash and Cash Equivalents</b>	7,979
Cash and Cash Equivalents, Beginning of Year	<u>5,718</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 13,697</u></u>

See accompanying notes.

**CORNERSTONE FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2010**

**Note A - Nature of Operations and Summary of Significant Accounting Policies:**

**Nature of Operations**

Cornerstone Financial Services, Inc. (the Company), is a registered broker-dealer with the Financial Industry Regulatory Authority (FINRA), (formerly known as the National Association of Securities Dealers (NASD)), the Securities and Exchange Commission (SEC) and various states within the United States.

The Company operates as an introducing broker on a fully disclosed basis, and forwards all transactions to its clearing broker. Accordingly, the Company operates under the exemptive provision of the SEC Rule 15c3-3(k)(2)(ii).

**Revenue Recognition**

The Company recognizes revenue on its variable annuity and mutual funds products when the necessary policy documents have been completed by the customer as well as the premiums associated with the related products have been received by the carrier.

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

Investment advisory fees are received monthly and are recognized as earned on a pro rata basis over the term of the contract.

**Method of Accounting**

The Company's financial statements are presented on the accrual basis method of accounting.

**Commissions Receivable**

The Company carries its commissions receivable at invoiced amounts less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its commissions receivable and establishes an allowance for doubtful accounts, based on history of past write-offs and collections and current credit conditions. The Company considers commissions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is provided. The Company's policy is not to accrue interest on past due receivables.

**Cash Flows**

For purposes of the Statement of Cash Flows, the Company considers all highly liquid instruments purchased within three months or less of an instrument's original maturity date to be cash equivalents.

**CORNERSTONE FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2010**

**Note A - Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires 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.

**Recently Issued Accounting Pronouncements**

In December 2009, the FASB issued an accounting standard update which amends certain requirements for enterprises involved with variable interest entities ("VIE") to improve financial reporting and to provide more relevant and reliable information to users of financial statements. This standard requires a qualitative analysis to determine the primary beneficiary of a VIE. The analysis identifies the primary beneficiary as the enterprise that has both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. The standard also requires additional disclosures about an enterprise's involvement in a VIE. This standard is effective for the Company beginning January 1, 2010. The adoption of this standard did not have a material effect on the Company's financial statements.

**Note B - Income Taxes:**

The Company has elected to be treated as an S Corporation for tax purposes. In lieu of corporation income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for income taxes has been included in these financial statements.

Authoritative accounting standards require the Company to examine its tax positions for uncertain positions. Management is not aware of any tax positions that are more likely than not to change in the next twelve months or that would not sustain an examination by applicable taxing authorities.

The Company's policy is to recognize penalties and interest as incurred in its statement of operations, which totaled \$0 for December 31, 2010.

The Company's federal and various state income tax returns for 2007 through 2010 are subject to examination by the applicable tax authorities, generally for three years after the later of the original or extended due date.

**CORNERSTONE FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2010**

**Note C - Common Stock:**

The Company has one class of common stock that has equal rights, preferences, qualifications, limitations and restrictions.

The following summarizes the Company's shares of common stock at December 31, 2010:

Authorized	1,000
Issued	100
Outstanding	100

**Note D - Concentration of Credit Risk:**

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and commissions receivable. The Company places its cash and cash equivalents with one financial institution. At times, such amounts may be in excess of the FDIC insured limit. The Company has never experienced any losses related to these balances. All non-interest bearing cash balances were fully insured at December 31, 2010 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning January 1, 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and non-interest bearing cash balances may again exceed federally insured limits.

The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its commissions receivable credit risk exposure is limited.

**Note E - Net Capital Requirements:**

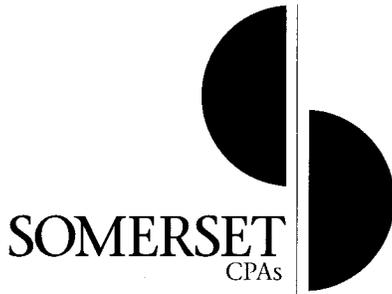
The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of a minimum net capital balance. The minimum dollar amount for the Company is \$5,000. At December 31, 2010, the Company's net capital was \$13,697 which was \$8,697 in excess of its minimum net capital requirement.

**Note F - Statements of Changes in Liabilities Subordinated to Claims of General Creditors:**

For the year ended December 31, 2010, the Company did not have any subordinated liabilities subject to claims of general creditors. Therefore, no statements have been prepared.

**Note G - Subsequent Events:**

The Company has evaluated subsequent events through February 21, 2011, the date on which the financial statements were available to be issued.



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**Independent Auditors' Report  
on the Supplementary Information Required by Rule 17a-5  
of the Securities and Exchange Commission**

**To the Board of Directors  
CORNERSTONE FINANCIAL SERVICES, INC.  
Indianapolis, Indiana**

Our report on our audit of the 2010 basic financial statements of CORNERSTONE FINANCIAL SERVICES, INC., appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary information 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 under the Securities 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.

*Somerset CPAs PC*

February 21, 2011

Accounting  
Assurance  
Business Consulting  
Construction & A/E  
Dealerships

Dental  
Employee Benefits  
Entrepreneurial  
Health Care  
Information Solutions

Litigation & Valuation  
Manufacturing & Distribution  
Not-for-Profit  
Real Estate  
Tax  
Wealth Management

**CORNERSTONE FINANCIAL SERVICES, INC.**  
**Computation of Net Capital Under Rule 15c3-1 of**  
**the Securities and Exchange Commission**  
**As of December 31, 2010**

**Net Capital**

Total Shareholder's Equity	\$ 32,390
Other Deductions	<u>(18,693)</u>
Net Capital	<u><u>\$ 13,697</u></u>

**Aggregate Indebtedness**

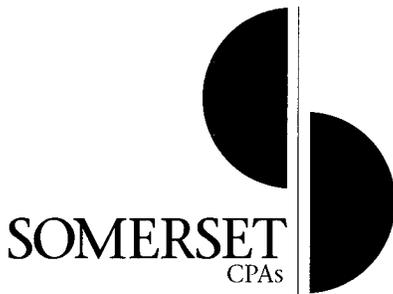
Items Included in Statement of Financial Condition	
Commissions payable	<u>\$ 40,500</u>
Total Aggregate Indebtedness	<u><u>\$ 40,500</u></u>

**Computation of Basic Net Capital Requirement**

Minimum Net Capital Required	<u><u>\$ 5,000</u></u>
Excess Net Capital	<u><u>\$ 8,697</u></u>
Excess Net Capital at 1000%	<u><u>\$ 7,697</u></u>
Ratio: Aggregate Indebtedness to Net Capital	<u><u>2.96 to 1</u></u>

**Reconciliation with Company's Computation (Included in Part II of**  
**Form X-17A-5 as of December 31, 2010)**

Net Capital, as Reported in Company's Part II (Unaudited) FOCUS Report	<u><u>\$ 13,697</u></u>
Net Capital per Above	<u><u>\$ 13,697</u></u>



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**Independent Auditors' Report on Internal Control Required  
by SEC Rule 17a-5(g)(1) for a Broker-Dealer Claiming an  
Exemption from SEC Rule 15c3-3**

**To the Board of Directors  
CORNERSTONE FINANCIAL SERVICES, INC.  
Indianapolis, Indiana**

In planning and performing our audit of the financial statements of CORNERSTONE FINANCIAL SERVICES, INC., (the Company), as of and for the year ended December 31, 2010, 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 opinion 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 the 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 an internal control structure 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 U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Accounting  
Assurance  
Business Consulting  
Construction & A/E  
Dealerships

Dental  
Employee Benefits  
Entrepreneurial  
Health Care  
Information Solutions

Litigation & Valuation  
Manufacturing & Distribution  
Not-for-Profit  
Real Estate  
Tax  
Wealth Management

**To the Board of Directors  
CORNERSTONE FINANCIAL SERVICES, INC.  
Page 2**

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.

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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected 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, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., 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.

*Somerset CPAs PC*

February 21, 2011