

\*KH 3/9

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2013
Estimated average burden hours per response.....	12.00



13030532

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

SEC  
Mail Processing  
Section  
MAR 01 2013

SEC FILE NUMBER
8-49711

FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5<sup>405</sup> Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2012 AND ENDING 12/31/2012  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: CUSO FINANCIAL SERVICES, L.P.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
10150 MEANLEY DRIVE, 1ST FLOOR

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

SAN DIEGO

(City)

CA

(State)

92131

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
DAN KILROY (858) 530-4419  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

CROWE HORWATH LLP

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

650 TOWN CENTER DRIVE, SUITE 740

(Address)

COSTA MESA

(City)

CA

(State)

92626

(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)

KH 3/13

OATH OR AFFIRMATION

I, DAN KILROY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CUSO FINANCIAL SERVICES, L.P., as of DECEMBER 31, 20 12, 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

Daniel Kilroy  
Signature

EVP, CHIEF FINANCIAL OFFICER  
Title

Leanne S. Howard  
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).

SEC  
Mail Processing  
Section

MAR 01 2013

Washington DC  
405

---

CUSO FINANCIAL SERVICES, LP

ANNUAL FILING IN ACCORDANCE  
WITH RULE 17a-5

DECEMBER 31, 2012  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT THEREON

---

CUSO FINANCIAL SERVICES, LP

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1-2
FINANCIAL STATEMENT	
Statement of Financial Condition .....	3
Notes to Statement of Financial Condition .....	4-11

## INDEPENDENT AUDITOR'S REPORT

Partners  
CUSO Financial Services, LP  
San Diego, CA

**Report on the Financial Statement**

We have audited the accompanying statement of financial condition of CUSO Financial Services, LP, as of December 31, 2012 that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statement referred to above, based on our audit. We conducted our audit in accordance with auditing standards generally 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Crowe Horwath LLP  
Independent Member Crowe Horwath International

***Opinion***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial condition of CUSO Financial Services, LP as of December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

*Crowe Horwath LLP*  
Crowe Horwath LLP

Costa Mesa, California  
February 26, 2013

CUSO FINANCIAL SERVICES, LP  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2012

	2012
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 19,212,853
Certificates of deposit	2,415,782
Receivables from clearing firm	5,214,823
Other receivables	688,037
Due from Affiliates	45,218
Investments	228,039
Notes receivable from related party	147,539
Other assets and deposits	984,658
Total current assets	28,936,949
Certificates of deposit	1,213,060
Deposits with clearing organizations	255,000
Notes receivable from related party	2,389,962
Property and equipment, net	678,756
Total assets	\$ 33,473,727
 <b>LIABILITIES AND PARTNERS' CAPITAL</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 1,859,725
Accrued commissions	7,077,670
Due to affiliate	62,594
Other accrued liabilities	2,711,328
Total liabilities	11,711,317
Commitments and contingencies (Note 6)	
PARTNERS' CAPITAL	21,762,410
Total liabilities and partners' capital	\$ 33,473,727

The accompanying notes are an integral part of this financial statement.

CUSO FINANCIAL SERVICES, LP  
NOTES TO STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1- ORGANIZATION

CUSO Financial Services, LP (the "Partnership") is a registered broker-dealer and investment advisor licensed by the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). CUSO Financial Services, Inc. ("General Partner") is the general partner of the Partnership. The Partnership provides broker-dealer and investment advisory services exclusively to credit unions and credit union service organizations as an introducing broker-dealer, clearing customer transactions through another broker-dealer on a fully disclosed basis.

NOTE 2- SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Partnership's policy is to use the accrual method of accounting and to prepare and present the financial statements in accordance with accounting principles generally accepted in the United States of America.

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 disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Income Taxes

Income and losses of the Partnership flow through to the partners, and the Partnership is not subject to income taxes.

The Partnership recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. This addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FASB ASC 740, the Partnership may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.



CUSO FINANCIAL SERVICES, LP  
NOTES TO STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

FASB ASC 740 also provides guidance on the de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2012, the Partnership does not have a liability for unrecognized tax uncertainties. As of December 31, 2012, the Partnership has no accrued interest or penalties related to uncertain tax positions. The Partnership is subject to routine audits by taxing jurisdictions. However, currently no audits for any tax periods are in progress. Management believes that the Partnership is no longer subject to income tax examination for years prior to December 31, 2009.

Concentration of Credit Risk

The Partnership maintains cash balances with various financial institutions. At December 31, 2012, accounts at each bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. As scheduled, the unlimited insurance coverage for noninterest-bearing transaction accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. As of December 31, 2012, the Partnership had uninsured cash balances of \$6,978,871. Management performs periodic evaluations of the relative credit standing of these institutions.

The Partnership maintains accounts at a clearing firm, which is insured by the Securities Investors Protection Corporation ("SIPC") up to \$500,000 (including a maximum of \$250,000 for claims for uninvested cash awaiting reinvestment). As of December 31, 2012, the Partnership had uninsured cash balances of \$5,487,524. Management performs periodic evaluations of the relative credit standing of the clearing firm.

At December 31, 2012, the Partnership had commission and transaction related receivables of approximately 39% with one clearing firm.

Cash and Cash Equivalents

The Partnership considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Certificates of Deposit

Certificates of deposit are investments that are not debt securities. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "certificates of deposit" in current assets. Certificates of deposit with original maturities greater than three months and remaining maturities of greater than one year are classified as "certificates of deposit" in non-current assets.

CUSO FINANCIAL SERVICES, LP  
NOTES TO STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2- SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables from Clearing Firms and Other Receivables

Receivables from clearing firms and other receivables primarily consist of commission and transaction related receivables. The Partnership monitors clearance and settlement of all customer transactions on a daily basis. The allowance for doubtful accounts, if any, is the Partnership's best estimate of the amount of probable credit losses, historical write-off experience, and specific facts.

Investments

The Partnership accounts for its investments in accordance with FASB ASC 323, *Equity Method and Joint Ventures*. Under the equity method, investments are recorded initially at cost. Subsequent adjustments are made through recognition in the statement of operations for the Partnership's share of post-acquisition profits and losses and through recognition in partnership capital for other post-acquisition changes in the investee's net assets. Distributions received reduce the investment account.

As of December 31, 2012, the Partnership's investment consists of a membership interest in an unrelated limited liability company, which is being accounted for under the equity method.

Property and Equipment

It is the Partnership's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed as incurred. Property and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of the depreciable assets, which range from three to seven years. Leasehold improvements are amortized over the shorter of the life of the lease or its useful life. Maintenance costs are considered period costs and are expensed as incurred.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, 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.

CUSO FINANCIAL SERVICES, LP  
NOTES TO STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 2- SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Fair Value Measurements** (continued)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Partnership has the ability to access for assets. (Examples include NYSE, NASDAQ, etc.)

Level 2 - Inputs other than quoted prices that are observable for securities, either directly or indirectly. (Examples include matrix pricing utilizing yield curves, prepayment speeds, credit risks, etc.; quoted prices for similar assets in active markets, and inputs derived from observable market data correlation or other means.)

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement inputs, which contain assumptions by the party valuing those assets. For level 3 inputs, there is no market data or correlations with market assumptions. (Examples include independent valuations of limited partnerships, financial forecast, cash flows or earnings developed using the reporting entity's own data if there is no information reasonably available without undue cost, etc.)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

As of December, 31, 2012, the Partnership has certificates of deposit which are accounted for at fair value based upon Level 2 inputs based upon quoted prices for identical instruments in active markets or matrix pricing on a recurring basis. With the exception of the certificates of deposit, there are no liabilities or other assets that are being measured at fair value on a recurring or nonrecurring basis.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Partnership believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CUSO FINANCIAL SERVICES, LP  
NOTES TO STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 3- PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consists of the following at December 31:

	2012
Furniture and fixtures	\$ -
Software	2,605,255
Computers and equipment	1,387,246
Leasehold improvements	32,805
	4,025,306
Less: Accumulated depreciation and amortization	(3,346,550)
Total property and equipment, net	\$ 678,756

**NOTE 4 - OTHER ACCRUED LIABILITIES**

Other accrued liabilities consist of the following at December 31:

	2012
Employee benefits	\$ 2,031,174
FINRA fees payable	224,375
Other	455,779
	\$ 2,711,328

**NOTE 5 - NET CAPITAL REQUIREMENTS**

The Partnership is subject to Rule 15c3-1(a)(2)(ii) of the Securities Exchange Act of 1934, as amended, 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. Under this rule, equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. The Partnership is also subject to the net capital requirements and is required to maintain minimum net capital of \$250,000 or 6 and 2/3% of aggregated indebtedness, whichever is higher. At December 31, 2012, the Partnership had net capital of \$13,353,983, which was \$12,573,228 in excess of the required minimum net capital of \$780,755. At December 31, 2012, the Partnership's ratio of aggregate indebtedness to net capital was 0.88 to 1.

CUSO FINANCIAL SERVICES, LP  
 NOTES TO STATEMENT OF FINANCIAL CONDITION  
 FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 5 - NET CAPITAL REQUIREMENTS (continued)

The Partnership is exempt from the provisions of Rule 15c3-3 (per Paragraph (k)(2)(ii) of such rule) under the Securities Exchange Act of 1934 as a broker or dealer which carries no customer accounts and does not otherwise hold funds or securities of customers. Due to such exemption, the Partnership is not required to prepare a determination of reserve requirement for brokers or dealers.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Lease Commitment

The Partnership leased its primary facility with a related party, Black Diamond Services, Inc. which was terminated December 31, 2012. Effective January 1, 2013, the Partnership entered into a new lease with a related party, Double Black Diamond Properties, LLC, for a new facility that expires December 31, 2028. The Partnership generally pays taxes, insurance, and maintenance expenses related to the leased facilities. The future minimum lease commitments below reflect the terms of the new lease signed in January 2013.

The Partnership leases other facilities and equipment on a short-term basis.

Future minimum lease commitments under the non-cancelable operating leases are as follows:

<u>Year Ending December 31</u>	<u>Total</u>
2013	\$ 346,413
2014	613,110
2015	629,160
2016	648,420
2017	667,680
Thereafter	8,819,510
	<u>\$ 11,724,293</u>

Litigation

The Partnership is occasionally involved in legal proceedings in the ordinary course of business, including arbitration claims and other claims. The Partnership's legal proceedings are generally initiated by its customers' clients and involve the purchase or sale of investment securities. In addition, the Partnership, along with other industry participants, is subject to risks related to litigation and settlements arising from market events.

In the opinion of the Partnership's management, based on current available information, review with outside legal counsel, insurance coverage and consideration of \$75,742 accrued liabilities in the accompanying financial statements with respect to these matters, ultimate resolution of pending legal matters will not have a material adverse impact on the financial position or results of operations of the Partnership. However, no assurance can be given that future legal proceedings would not have an adverse effect on the Partnership's financial condition.

CUSO FINANCIAL SERVICES, LP  
NOTES TO STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 7 - PARTNERSHIP AGREEMENT

The Partnership Agreement ("Agreement") sets forth the rights and obligations of the general and limited partners. The Partnership commenced on January 1, 1997 and shall terminate, unless the partners agree otherwise, ninety days following the Partnership's withdrawal as a broker-dealer from the FINRA. Under the Agreement, the General Partner shall receive 25% and the limited partners, in aggregate, shall receive 75% of any distributions and allocations. However, any portion of such allocations that would cause a negative capital account balance shall be allocated proportionally among those partners with positive balances. The Partnership first, then the limited partners and finally, the General Partner shall have the right of first refusal relating to the sale of any limited partnership interest to a qualified party. Limited partners shall not be required to make additional capital contributions.

NOTE 8 - RELATED PARTY TRANSACTIONS

Expense Agreements

The Partnership has an expense agreement with the General Partner, which provides that the General Partner shall pay certain overhead costs for the benefit of the Partnership. The Partnership is in no way obligated to repay the General Partner; but, at its sole discretion, it may repay the General Partner providing that such repayment would not result in the Partnership falling below 120% of its minimum net capital requirement. As of December 31, 2012, the Partnership owed the General Partner \$62,593, and was included within due to affiliate on the statements of financial condition. Additionally, as of December 31, 2012, the General Partner owed the Partnership \$0, and was included within due from affiliates on the accompanying statements of financial condition.

The Partnership is involved in certain related party transactions with Sorrento Pacific Financial, LLC (SPF), an entity related through common ownership. As of December 31, 2012, intercompany receivable with SPF was \$45,218, and was included within due from affiliates on the accompanying statements of financial condition.

Notes Receivable

During September 2012, the Partnership loaned a total of \$2,500,000 to two officers of the General Partner. The unsecured loans bear interest at 4.50% per annum, require an annual payment including principal and interest and have a term of 16 years. As of December 31, 2012, the balance of these loans amounted to \$2,537,501.

CUSO FINANCIAL SERVICES, LP  
NOTES TO STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2012

**NOTE 9 - DEFERRED COMPENSATION BONUS AGREEMENT**

On January 1, 2005, the Partnership created a deferred compensation bonus agreement ("Bonus") to reward long-term employees for their long-term dedication and as a competitive edge over other firms. Under this agreement, the Bonus would be paid out only if the employee severs employment due to normal retirement, voluntary resignation, termination without cause, death, or an asset sale of the Partnership. As of December 31, 2012, the balance for the deferred compensation bonus agreement was \$355,148, and is included in other accrued liabilities.

A/R Bank Deposit Slips (BKDPST02)

From Deposit Number [12528] To [12528]

Reprint Previously Printed Deposit Slips [Yes]

Bank ID: UNION Account: 0020 Date: 2/27/2013

Deposit Number: 12528 Currency: USD

<u>Customer No.</u>	<u>Payer</u>	<u>Check/Remittance No.</u>	<u>Batch-Entry</u>	<u>Amount</u>
<u>Check</u>				
	MARGARY S HANSEN TRUST	1026	12,647-1	10.00
	NAVY FEDERAL ASSET MANAGEMENT LLC	1536	12,647-2	4,145.49
			<b>Total Check:</b>	<b>4,155.49</b>



Cash		
_____	X 1	_____
_____	X 2	_____
_____	X 5	_____
_____	X 10	_____
_____	X 20	_____
_____	X 50	_____
_____	X 100	_____
	Coins	
	Total Check:	4,155.49
	Total Deposit:	4,155.49