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

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ANNUAL AUDITED REPORT RECEIVED
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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 04/01/02 AND ENDING 03/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: KC BROKERAGE SERVICES, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

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

816 CAMPUS DRIVE, SUITE A

(No. and Street)

GARDEN CITY

(City)

KS

(State)

67846

(Zip Code)

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

MICHAEL K. HERRMAN

(620) 275-1300

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

VIRCHOW, KRAUSE & COMPANY, LLP

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

7900 XERXES AVENUE SOUTH, SUITE 2400 BLOOMINGTON

(Address)

(City)

MN

(State)

55431

(Zip Code)

CHECK ONE:

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

PROCESSED
JUN 17 2003
THOMSON FINANCIAL

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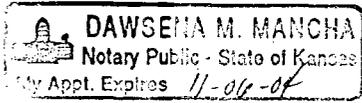
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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SEC 1410 (06-02)

OATH OR AFFIRMATION

I, MICHAEL K. HERRMAN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of KC BROKERAGE SERVICE, LLC, as of MARCH 31, 20 03, 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:



Michael K. Herrman
Signature
President
Title

Dawson M Mancha
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. CASH FLOWS
(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 15c3-3 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).

**KC BROKERAGE SERVICES, LLC
FINANCIAL STATEMENTS
MARCH 31, 2003 AND 2002**

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**Virchow Krause
& company**

INDEPENDENT AUDITORS' REPORT

Board of Governors and Member
KC Brokerage Services, LLC
Garden City, Kansas

We have audited the accompanying statements of financial condition of KC Brokerage Services, LLC (a limited liability company) as of March 31, 2003 and 2002, and the related statements of operations, member's 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 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 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 KC Brokerage Services, LLC as of March 31, 2003 and 2002, 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 in the schedule presented on page 9 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 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.

Virchow, Krause & Company, LLP

Minneapolis, Minnesota
May 15, 2003

Virchow, Krause & Company, LLP

Certified Public Accountants & Consultants • An Independent Member of Baker Tilly International

**KC BROKERAGE SERVICES, LLC
STATEMENTS OF FINANCIAL CONDITION
MARCH 31, 2003 AND 2002**

ASSETS

	<u>2003</u>	<u>2002</u>
Cash	\$ 10,932	\$ 24,777
Commissions receivable	<u>32,157</u>	<u>20,891</u>
	<u>\$ 43,089</u>	<u>\$ 45,668</u>

LIABILITIES AND MEMBER'S EQUITY

Accounts payable	\$ 2,750	\$ 0
Member's equity	<u>40,339</u>	<u>45,668</u>
	<u>\$ 43,089</u>	<u>\$ 45,668</u>

See accompanying notes to financial statements.

KC BROKERAGE SERVICES, LLC
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MARCH 31, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Revenues	\$ 253,038	\$ 160,153
Operating expenses	<u>2,994</u>	<u>181</u>
Income from operations	250,044	159,972
Other income	<u>127</u>	<u>348</u>
Net income	<u>\$ 250,171</u>	<u>\$ 160,320</u>

See accompanying notes to financial statements.

**KC BROKERAGE SERVICES, LLC
STATEMENTS OF MEMBER'S EQUITY
FOR THE YEARS ENDED MARCH 31, 2003 AND 2002**

BALANCE - March 31, 2001	\$ 10,178
Distributions	(124,830)
Net income	<u>160,320</u>
BALANCE - March 31, 2002	45,668
Distributions	(255,500)
Net income	<u>250,171</u>
BALANCE - March 31, 2003	<u><u>\$ 40,339</u></u>

See accompanying notes to financial statements.

KC BROKERAGE SERVICES, LLC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Net income	\$ 250,171	\$ 160,320
Changes in operating assets and liabilities:		
Commissions receivable	(11,266)	(20,891)
Accounts payable	2,750	0
Cash flows from operating activities	241,655	139,429
Cash flows from investing activities:		
Cash flows from investing activities	0	0
Cash flows from financing activities:		
Distributions	(255,500)	(124,830)
Cash flows from financing activities	(255,500)	(124,830)
Increase (decrease) in cash	(13,845)	14,599
Cash, beginning of year	24,777	10,178
Cash, end of year	\$ 10,932	\$ 24,777

See accompanying notes to financial statements.

KC BROKERAGE SERVICES, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2003 AND 2002

NOTE 1 – Nature of Business and Significant Accounting Policies

Nature of business

KC Brokerage Services, LLC (the Company) was organized as a limited liability company in Kansas on March 28, 2000. The Company became a registered broker dealer under the Securities Exchange Act of 1934 on March 20, 2001 and is a member of the National Association of Securities Dealers.

The Company is a wholly-owned subsidiary of KC Advisors, LLC (KC Advisors).

Income taxes

The Company is not a taxpaying entity for federal and state income tax purposes. The Company's taxable income or loss is taxed on the member's income tax returns. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements.

Management's 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 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.

NOTE 2 – Related Party Transactions

The Company had entered into an affiliate agreement with KC Advisors. Under the agreement, KC Advisors paid all fixed and variable expenses for the Company. These costs were not reimbursed and there was no accounting recognition on the financial statements of the Company.

In May 2003, a new agreement was signed. Under this agreement, the Company pays \$1,000 per month to KC Advisors for shared facilities, supplies and services provided. The Company will pay the following expenses directly: audit and legal fees, bank charges and federal and state registration fees. KC Advisors will pay all other fixed and variable expenses for the Company.

NOTE 3 – Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital 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. Net capital and the related net capital ratio fluctuate on a daily basis. At March 31, 2003 and 2002, the Company had net capital of \$40,339 and \$45,668 which was \$35,339 and \$40,668 in excess of its required net capital of \$5,000. The Company's net capital ratio was .07 to 1 and 0 to 1 at March 31, 2003 and 2002.

**KC BROKERAGE SERVICES, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2003 AND 2002**

NOTE 3 – Net Capital Requirements (cont.)

An audit adjustment was made to adjust commissions receivable to actual to reconcile the net capital calculated above and the net capital computed and reported in the Company's March 31, 2003 FOCUS filing. Per Rule 15c3-3 of the Securities and Exchange Commission Uniform Net Capital Rule, the Company is exempt under the (k)(1) exemption.

KC BROKERAGE SERVICES, LLC

**COMPUTATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS UNDER RULE 15C3-1
OF THE SECURITIES AND EXCHANGE COMMISSION
As of March 31, 2003**

COMPUTATION OF NET CAPITAL

Total member's equity	\$ 40,339
Non-allowable assets	<u>0</u>
Net capital before haircuts on securities positions	40,339
Haircuts on securities positions	<u>0</u>
Net capital	<u><u>\$ 40,339</u></u>

COMPUTATION OF AGGREGATE INDEBTEDNESS

Total liabilities from statement of financial condition	<u><u>\$ 2,750</u></u>
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COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital requirement	<u><u>\$ 5,000</u></u>
Excess net capital at 1,500 percent	<u><u>\$ 35,339</u></u>
Excess net capital at 1,000 percent	<u><u>\$ 40,064</u></u>
Ratio: Aggregate indebtedness to net capital	<u><u>.07 to 1</u></u>

RECONCILIATION WITH COMPANY'S COMPUTATION

Net capital, as reported in Company's Part II Focus report, Form X-17A-5 (unaudited):	\$ 44,219
Audit adjustment - change in commissions receivable	<u>(3,880)</u>
Net capital per above	<u><u>\$ 40,339</u></u>



**Virchow Krause
& company**

**INDEPENDENT AUDITORS' SUPPLEMENTARY REPORT
ON INTERNAL ACCOUNTING CONTROL**

Board of Governors and Member
KC Brokerage Services, LLC
Garden City, Kansas

In planning and performing our audits of the financial statements and supplemental schedule of KC Brokerage Services, LLC (the Company) for the years ended March 31, 2003 and 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on 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 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
2. 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.

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 internal 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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 internal control would not necessarily disclose all matters in 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 March 31, 2003, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Governors, management, 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.

Vuchow, Krause & Company, LLP

Minneapolis, Minnesota
May 15, 2003