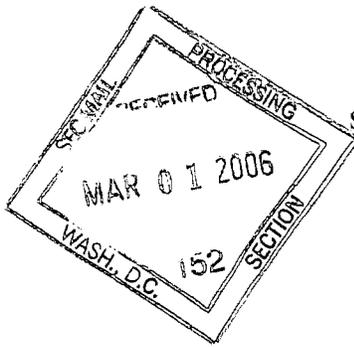


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SECURITIES DIVISION

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

SEC FILE NUMBER  
8-35096

FACING PAGE

## Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Commerce Brokerage Services, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY  
FIRM I.D. NO.

8000 Forsyth

(No. and Street)

Clayton

(City)

Missouri

(State)

63105

(Zip Code)

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

Karen L. Finke

(816) 760-7711

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

KPMG LLP

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

1000 Walnut, Ste 1000

(Address)

Kansas City

(City)

Missouri

(State)

64106

(Zip Code)

CHECK ONE:

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

PROCESSED  
MAY 15 2006  
THOMSON  
FINANCIAL

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)

SEC 1410 (06-02)

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Handwritten initials and date: 6/12/06

OATH OR AFFIRMATION

I, Karen L. Finke, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Commerce Brokerage Services, Inc., as of December 31, 2005, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Karen L. Finke  
Signature

Treasurer  
Title

See Attachment  
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 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 15c3-1 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).





**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Financial Statements and  
Annual Audited Focus Report  
Part III

December 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

**COMMERCE BROKERAGE SERVICES, INC.**  
(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

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KPMG LLP  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## Independent Auditors' Report

The Board of Directors  
Commerce Brokerage Services, Inc.:

We have audited the accompanying balance sheets of Commerce Brokerage Services, Inc. (the Company), a wholly owned subsidiary of Commerce Bank, N.A. (Missouri), as of December 31, 2005 and 2004, and the related statements of earnings, stockholder'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 audits 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. 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 Commerce Brokerage Services, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I through 3 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 Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

**KPMG LLP**

Kansas City, Missouri  
February 27, 2006

**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Balance Sheets

December 31, 2005 and 2004

Assets	<u>2005</u>	<u>2004</u>
Cash	\$ 1,098,928	1,724,875
U. S. government securities	3,166,032	2,088,294
Receivable from clearing organization	177,401	179,169
Furniture, equipment, and leasehold improvements, at cost less accumulated depreciation and amortization of \$604,617 in 2005 and \$555,582 in 2004	371,224	164,431
Other assets	303,105	211,038
Total assets	<u>\$ 5,116,690</u>	<u>4,367,807</u>
<b>Liabilities and Stockholder's Equity</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 494,205	448,638
Current income taxes payable	83,029	50,069
Deferred income taxes payable	57,089	49,036
Total liabilities	<u>634,323</u>	<u>547,743</u>
Stockholder's equity:		
Common stock, \$5 par value. Authorized 6,000 shares; issued and outstanding 5,000 shares	25,000	25,000
Additional paid-in capital	225,000	225,000
Retained earnings	4,232,367	3,570,064
Total stockholder's equity	<u>4,482,367</u>	<u>3,820,064</u>
Total liabilities and stockholder's equity	<u>\$ 5,116,690</u>	<u>4,367,807</u>

See accompanying notes to financial statements.

**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Statements of Earnings

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Commissions	\$ 7,799,592	8,273,695
Interest income	98,256	33,390
Other income	174,013	148,905
Total revenues	<u>8,071,861</u>	<u>8,455,990</u>
Expenses:		
Rent and fees paid to affiliates, net	1,016,412	1,011,941
Salaries and benefits	4,597,599	4,640,354
Advertising	45,860	109,294
Telephone	47,375	43,213
Office supplies and postage	227,732	218,018
Depreciation and amortization	83,369	96,092
Other	978,278	748,547
Total expenses	<u>6,996,625</u>	<u>6,867,459</u>
Earnings before income taxes	<u>1,075,236</u>	<u>1,588,531</u>
Income tax expense:		
Current	404,880	591,800
Deferred	8,053	11,545
Total income tax expense	<u>412,933</u>	<u>603,345</u>
Net earnings	<u>\$ 662,303</u>	<u>985,186</u>

See accompanying notes to financial statements.

**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Statements of Stockholder's Equity

Years ended December 31, 2005 and 2004

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at December 31, 2003	\$ 25,000	225,000	2,584,878	2,834,878
Net earnings	—	—	985,186	985,186
Balance at December 31, 2004	25,000	225,000	3,570,064	3,820,064
Net earnings	—	—	662,303	662,303
Balance at December 31, 2005	<u>\$ 25,000</u>	<u>225,000</u>	<u>4,232,367</u>	<u>4,482,367</u>

See accompanying notes to financial statements.

**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Statements of Cash Flows

Years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating activities:		
Net earnings	\$ 662,303	985,186
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Accretion of discounts on investments	(85,848)	(27,513)
Depreciation and amortization	83,369	96,092
Deferred income taxes	8,053	11,545
Current income taxes	32,960	57,202
Decrease (increase) in receivable from clearing organization	1,768	(241)
Increase (decrease) increase in accounts payable and accrued expenses	45,567	(24,466)
Increase in other assets	(120,068)	(89,518)
Net cash provided by operating activities	<u>628,104</u>	<u>1,008,287</u>
Investing activities:		
Proceeds from maturities of U. S. government securities	5,100,000	5,300,000
Purchases of U. S. government securities	(6,091,890)	(5,266,750)
Purchases of furniture, equipment, and leasehold improvements	(262,161)	(55,974)
Net cash used in investing activities	<u>(1,254,051)</u>	<u>(22,724)</u>
Increase (decrease) in cash	(625,947)	985,563
Cash at beginning of year	<u>1,724,875</u>	<u>739,312</u>
Cash at end of year	<u>\$ 1,098,928</u>	<u>1,724,875</u>
Cash payments (net of refunds) of income taxes	\$ 371,920	534,598

See accompanying notes to financial statements.

**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Notes to Financial Statements

December 31, 2005 and 2004

**(1) Summary of Significant Accounting Policies**

**(a) *Organization and Purpose of Company***

Commerce Brokerage Services, Inc. (the Company) is a wholly owned subsidiary of Commerce Bank, N.A. (Missouri) (the Parent). The Company is registered with the Securities and Exchange Commission to conduct a general securities business. Current activities consist of providing investment services to their customers for a variety of securities including mutual funds, exchange listed and OTC equity securities, options, municipal bonds, corporate bonds, and U. S. government debt issues. The Company also sells fixed and variable annuities, which are investment products provided by insurance companies.

Transactions for equities, options, and a substantial portion of the Company's mutual fund sales are executed and cleared through National Financial Services LLC, a clearing organization that also maintains customer brokerage accounts on a fully disclosed basis.

**(b) *Investment Securities***

Investment securities are stated at amortized cost, which approximates fair value. The fair value of investment securities is based on bid prices published in financial newspapers. Investments consist of U. S. government securities with initial maturities of six months.

**(c) *Furniture, Equipment, and Leasehold Improvements***

Furniture, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives, ranging from 4 to 10 years, of the assets for financial reporting purposes.

**(d) *Income Taxes***

The Company files consolidated income tax returns with Commerce Bancshares, Inc. Deferred income taxes result primarily from the use of accelerated methods of depreciation and amortization for tax purposes.

**(e) *Use of Estimates***

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Notes to Financial Statements

December 31, 2005 and 2004

**(2) Related Party Transactions**

A significant portion of the Company's expenses represents payments to the Parent and affiliated companies for rent on the Company's offices, various administrative services provided to the Company, and fees under revenue-sharing arrangements. For the years ended December 31, 2005 and 2004, amounts paid by the Company to the Parent and affiliates were as follows:

	<u>2005</u>	<u>2004</u>
Rent	\$ 537,192	541,483
Fees paid to affiliates	<u>479,220</u>	<u>470,458</u>
	<u>\$ 1,016,412</u>	<u>1,011,941</u>

The Company leases office space from the Parent under month-to-month arrangements. Rent expense aggregated approximately \$44,800 per month in 2005 and \$45,100 per month in 2004.

**(3) 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, 2005, the Company had net capital of \$2,966,545, which was \$2,716,545 in excess of its required net capital of \$250,000.

**COMMERCE BROKERAGE SERVICES, INC.**(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

## Computation of Net Capital Requirement—Rule 15c3-1

December 31, 2005

Total stockholder's equity per balance sheet	\$ 4,482,367
Nonallowable assets	593,519
Haircuts on securities	8,500
Other adjustment	<u>913,803</u>
Net capital	2,966,545
Minimum net capital requirement	<u>250,000</u>
Excess of net capital over minimum net capital requirement	<u>\$ 2,716,545</u>
Aggregate indebtedness	\$ 577,234
Ratio: Aggregate indebtedness to net capital	0.19 to 1

A reconciliation is not necessary pursuant to Rule 17a-5(d)(4), as the above calculation does not differ materially from the computation for determination of the net capital requirement for broker-dealers under Rule 15c3-1 as of December 31, 2005.

See accompanying independent auditors' report.

**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3

December 31, 2005

The Company is exempt from Rule 15c3-3 pursuant to the provisions of subparagraphs (k)(2)(i) and (k)(2)(ii) of that rule.

See accompanying independent auditors' report.

**COMMERCE BROKERAGE SERVICES, INC.**

(A Wholly Owned Subsidiary of  
Commerce Bank, N.A. (Missouri))

Information for Possession or Control Requirements under Rule 15c3-3

December 31, 2005

The Company is exempt from Rule 15c3-3 pursuant to the provisions of subparagraphs (k)(2)(i) and (k)(2)(ii) of that rule.

See accompanying independent auditors' report.



KPMG LLP  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

### **Independent Auditors' Report on Internal Accounting Control Required by SEC Rule 17a-5**

The Board of Directors  
Commerce Brokerage Services, Inc.:

In planning and performing our audit of the financial statements and supplemental schedule of Commerce Brokerage Services, Inc. (the Company), a wholly owned subsidiary of Commerce Bank, N.A. (Missouri), for the year ended December 31, 2005, 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 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.
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining 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 practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with 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 the design and operation of policies and procedures 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 one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by 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 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 and Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives, in all material respects, indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, and other regulatory agencies that rely on Rule 17a-5(a) under the Securities and 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.

KPMG LLP

Kansas City, Missouri  
February 27, 2006