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

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 04/01/12 AND ENDING 03/31/13
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.)

2725 NW 24th Ave

(No. and Street)

Camas

(City)

WA

(State)

98607

(Zip Code)

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

Steve Callahan

(785) 309-2534

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Baker Tilly Virchow Krause, LLP

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

225 South Sixth Street, Suite 2300

(Address)

Minneapolis

(City)

MN

(State)

55402

(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)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Steve Callahan, 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 Services, LLC, as of March 31, 2013, 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:



Steve Callahan
Signature
Treasurer
Title

Lisa Holliman
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).

KC BROKERAGE SERVICES, LLC

Camas, Washington

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended March 31, 2013 and 2012

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KC BROKERAGE SERVICES, LLC
Camas, Washington

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended March 31, 2013 and 2012

KC BROKERAGE SERVICES, LLC

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Member
KC Brokerage Services, LLC
Camas, Washington

Report on the Financial Statements

We have audited the accompanying statements of financial condition of KC Brokerage Services, LLC as of March 31, 2013 and 2012, and the related statements of operations, member's equity, and cash flows for the years then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.

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

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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplemental information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
May 14, 2013

KC BROKERAGE SERVICES, LLC

STATEMENTS OF FINANCIAL CONDITION As of March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CASH	\$ 179,345	\$ 214,074
COMMISSIONS RECEIVABLE	28,500	19,594
RELATED PARTY RECEIVABLE	3,488	-
DEPOSIT	<u>491</u>	<u>805</u>
TOTAL ASSETS	<u>\$ 211,824</u>	<u>\$ 234,473</u>
LIABILITIES AND MEMBER'S EQUITY		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 13,602	\$ 13,300
FORGIVABLE NOTE PAYABLE	<u>91,559</u>	<u>122,078</u>
Total Liabilities	105,161	135,378
MEMBER'S EQUITY	<u>106,663</u>	<u>99,095</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 211,824</u>	<u>\$ 234,473</u>

See accompanying notes to financial statements.

KC BROKERAGE SERVICES, LLC

STATEMENTS OF OPERATIONS For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES	\$ 320,848	\$ 345,708
OPERATING EXPENSES	<u>88,458</u>	<u>74,269</u>
Operating Income	232,390	271,439
OTHER INCOME (EXPENSE)		
Other expense	(666)	(620)
Other income	<u>30,519</u>	<u>-</u>
Total Other Income (Expense)	<u>29,853</u>	<u>(620)</u>
NET INCOME	<u>\$ 262,243</u>	<u>\$ 270,819</u>

See accompanying notes to financial statements.

KC BROKERAGE SERVICES, LLC

STATEMENTS OF MEMBER'S EQUITY For the Years Ended March 31, 2013 and 2012

BALANCE, March 31, 2011	\$ 81,376
Distributions to member	(253,100)
2012 net income	<u>270,819</u>
BALANCE, March 31, 2012	99,095
Distributions to member	(254,675)
2013 net income	<u>262,243</u>
BALANCE, March 31, 2013	<u>\$ 106,663</u>

See accompanying notes to financial statements.

KC BROKERAGE SERVICES, LLC

STATEMENTS OF CASH FLOWS For the Years Ended March 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 262,243	\$ 270,819
Adjustments to reconcile net income to net cash flows from operating activities:		
Forgiveness of forgivable note payable	(30,519)	-
Changes in operating assets and liabilities:		
Commissions receivable	(8,906)	(10,042)
Related party receivable	(3,488)	3,841
Deposit	314	106
Accounts payable and accrued expenses	<u>302</u>	<u>(235)</u>
Net Cash Flows from Operating Activities	<u>219,946</u>	<u>264,489</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from forgivable note payable	-	122,078
Distributions to member	<u>(254,675)</u>	<u>(253,100)</u>
Net Cash Flows from Financing Activities	<u>(254,675)</u>	<u>(131,022)</u>
Net Change in Cash	(34,729)	133,467
CASH - Beginning of Year	<u>214,074</u>	<u>80,607</u>
CASH - END OF YEAR	<u>\$ 179,345</u>	<u>\$ 214,074</u>

See accompanying notes to financial statements.

KC BROKERAGE SERVICES, LLC

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended March 31, 2013 and 2012

NOTE 1 - Summary of 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 Financial Industry Regulatory Authority, Inc. (FINRA).

The Company is a wholly-owned subsidiary of Kennedy and Coe Wealth Management, LLC (Kennedy and Coe Wealth Management).

Cash

The Company maintains its cash in financial institutions. Balances, at times, may exceed federally insured limits.

Commissions Receivable

Commissions receivable are unsecured and no allowance for doubtful accounts is considered necessary by management as of March 31, 2013 and 2012.

Revenue Recognition and Related Expenses

Commission income and expenses are recorded on a trade-date basis. Commission income from merger and acquisition transactions is recognized at the time of closing.

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 sole member's income tax returns. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements.

With few exceptions, the Company is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2009. The Company is not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, the Company has elected to record the income taxes and any related interest and penalties as income tax expense on the Company's statements of operations.

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.

KC BROKERAGE SERVICES, LLC

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended March 31, 2013 and 2012

NOTE 2 - Forgivable Note Payable

On October 14, 2011, the Company entered into a forgivable note payable with Securities America Financial Corporation (SAFC) for \$122,078. The note is collateralized by future commissions and other compensation due to the Company from SAFC and certain of its affiliates. A portion of the principal of the note was forgiven on October 14, 2012. A portion of the principal of the note will be forgiven in three (3) increments as of October 14, 2013, October 14, 2014, and October 14, 2015, provided the Company and its affiliates KC Investment Advisors, LLC and KC Insurance Agency, LLC, meet revenue targets and other terms as set forth in the promissory note. Interest on the outstanding principal is imputed by the Company and calculated at the mid-term IRS Applicable Rate (1.09% and 1.08% as of March 31, 2013 and 2012, respectively). The imputed interest was \$1,414 and \$663 as of March 31, 2013 and 2012, and is part of accounts payable and accrued expenses on the statements of financial condition.

NOTE 3 - Related Party Transactions

The Company has an affiliate agreement with Kennedy and Coe, LLC, the parent of Kennedy and Coe Wealth Management, to pay \$2,000 per month to lease office space, furnishings and equipment and to pay an hourly rate for the use of Kennedy and Coe, LLC employees for accounting and marketing services.

Shared expenses were \$55,484 and \$46,113 for the years ended March 31, 2013 and 2012. The balance due to Kennedy and Coe, LLC is \$2,790 and \$1,780 as of March 31, 2013 and 2012, and is included in accounts payable and accrued expenses on the statements of financial condition. The Company will pay the following expenses directly: audit and legal fees, bank charges and federal and state registration fees. The balance due to Kennedy and Coe Wealth Management was \$10,246 as of March 31, 2012, is due on demand and non-interest bearing. The balance due from Kennedy and Coe Wealth Management was \$3,488 as of March 31, 2013, is due on demand and non-interest bearing.

NOTE 4 - 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. As of March 31, 2013 and 2012, the Company had net capital of \$102,684 and \$98,290 which was \$95,763 and \$89,265 in excess of its required net capital of \$7,011 and \$9,025. The Company's net capital ratio was 1.02 to 1 and 1.38 to 1 as of March 31, 2013 and 2012.

No material differences exist between the net capital calculated above and the net capital computed and reported in the Company's March 31, 2013 FOCUS filing. Per Rule 15c3-3 of the Securities and Exchange Commission Uniform Net Capital Rule, the Company is exempt under the (k)(2)(i) exemption.

NOTE 5 - Subsequent Events

The Company has evaluated subsequent events occurring through May 14, 2013, which is the date that the financial statements were available to be issued, for events requiring recording or disclosure in the Company's financial statements.

SUPPLEMENTAL INFORMATION

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, 2013

COMPUTATION OF NET CAPITAL

Total member's equity	\$ 106,663
Non-allowable assets:	
Related party receivable	3,488
Deposit	<u>491</u>
Total non-allowable assets	<u>3,979</u>
Net capital before haircuts on securities positions	102,684
Haircuts on securities positions	<u>-</u>
Net capital	<u>\$ 102,684</u>

COMPUTATION OF AGGREGATE INDEBTEDNESS

Total liabilities from statement of financial condition	<u>\$ 105,161</u>
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COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital requirement	<u>\$ 7,011</u>
Excess net capital at 1,500 percent	<u>\$ 95,673</u>
Excess net capital at 1,000 percent	<u>\$ 92,168</u>
Ratio: Aggregate indebtedness to net capital	<u>1.02 to 1</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

Net capital as reported in Company's Part II FOCUS report Form X-17a-5 (unaudited) as of March 31, 2013	\$ 102,685
Rounding	(1)
Net capital per above	<u>\$ 102,684</u>

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

Board of Directors and Member
KC Brokerage Services, LLC
Camas, Washington

In planning and performing our audit of the financial statements of KC Brokerage Services, LLC (the Company), as of and for the year ended March 31, 2013, 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 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 previously 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.

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 deficiency in internal control 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 and correct, 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, 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. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency. There is a lack of segregation of duties in the accounting department. Additionally, there are no controls in place to compensate for the lack of segregation of duties. Without appropriate segregation of duties, or compensating controls within the accounting department, it is possible the company may not be able to successfully prevent an error or misstatement from occurring. We communicated this in writing to management and the sole member on May 14, 2013.

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 March 31, 2013, to meet the SEC's objectives.

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

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
May 14, 2013



an independent member of

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