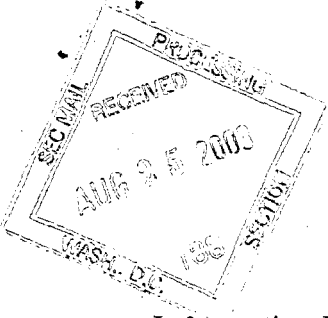


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OMB APPROVAL
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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
~~36588~~
36588

8-36558

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 07/01/02 AND ENDING 6/30/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Saturna Brokerage Services, Inc

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
1300 N. State Street

(No. and Street)

Bellingham

Washington

98225-4730

(City)

(State)

(Zip Code)

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

Phelps McIlvaine

(360) 734-1266 x602

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Tait, Weller & Baker

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

1818 Market Street, Suite 2400 Philadelphia, PA 19103

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

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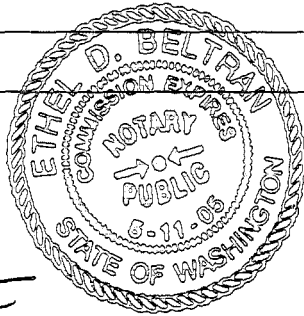
FOR OFFICIAL USE ONLY
THOMSON FINANCIAL

*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)

88
9-8

OATH OR AFFIRMATION

I, Phelps S. McIlvaine, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Saturna Brokerage Services, Inc., as of June 30, 2003, 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:



[Signature]
Signature
CFO
Title

[Signature]
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 15c3-3 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).

TAIT, WELLER & BAKER
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**To the Board of Directors
Saturna Brokerage Corporation, Inc.**

We have audited the accompanying statement of financial condition of Saturna Brokerage Corporation, Inc. as of June 30, 2003, and the related statements of operations, changes in ownership equity, and cash flows for the year then ended. 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 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 audit provides 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 Saturna Brokerage Corporation, Inc. as of June 30, 2003, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The information contained in pages 8, 9, and 10 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 and Exchange Commission. 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.

Tait, Weller & Baker

**Philadelphia, Pennsylvania
July 31, 2003**

TAIT, WELLER & BAKER
Certified Public Accountants

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5**

**To the Board of Directors
Saturna Brokerage Corporation, Inc.**

In planning and performing our audit of the financial statements of Saturna Brokerage Corporation, Inc. for the year ended June 30, 2003, 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 the internal control.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13, or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

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 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 Commission'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 any internal control structure or the practices and procedures referred to above, errors 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 elements does not reduce to a relatively low level the risk that errors or irregularities 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 procedures 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 Commission 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 June 30, 2003, to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, and other regulatory agencies, which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934, and should not be used for any other purpose.

Tait, Weller & Baker

Philadelphia, Pennsylvania
July 31, 2003

SATURNA BROKERAGE CORPORATION, INC.

(A wholly owned subsidiary of
Saturna Capital Corporation)

FINANCIAL STATEMENTS
June 30, 2003 and 2002

SATURNA BROKERAGE SERVICES, INC.
 (A wholly owned subsidiary of Saturna Capital Corporation)

STATEMENT OF FINANCIAL CONDITION

| | <u>June 30,</u> | |
|--|------------------|------------------|
| | <u>2003</u> | <u>2002</u> |
| <u>Assets</u> | | |
| Cash and cash equivalents: | | |
| Demand deposits | \$12,727 | \$24,951 |
| Investment in money market funds | 50,066 | 50,026 |
| Investment in affiliated mutual funds | 361,496 | 384,585 |
| Investment in common stock | 2,415 | 3,300 |
| Receivable from affiliate (12b-1 plan) | 9,129 | 4,238 |
| Receivable from brokers | 6,322 | ----- |
| Other assets | 1,000 | <u>856</u> |
| Total assets | <u>\$443,155</u> | <u>\$467,956</u> |
| <u>Liabilities and Stockholder's Equity</u> | | |
| Accrued expenses | <u>\$7,185</u> | <u>\$9,875</u> |
| Stockholder's equity: | | |
| Common stock, \$10 par value, 5,000 shares authorized, issued and outstanding | 50,000 | 50,000 |
| Additional paid-in capital | 69,716 | 69,716 |
| Retained earnings | <u>310,254</u> | <u>338,365</u> |
| | <u>435,970</u> | <u>458,081</u> |
| Total liabilities and stockholder's equity | <u>\$443,155</u> | <u>\$467,956</u> |

The accompanying notes are an integral part of these financial statements.

SATURNA BROKERAGE SERVICES, INC.
(A wholly owned subsidiary of Saturna Capital Corporation)

STATEMENT OF OPERATIONS

| | <u>Year Ended June 30,</u> | |
|---|----------------------------|-------------------|
| | <u>2003</u> | <u>2002</u> |
| Revenues: | | |
| Brokerage commission income, affiliated mutual funds | \$25,516 | \$16,647 |
| Brokerage commission income, other accounts | 82,667 | 100,268 |
| Fund distribution fee, 12b-1 plan | 88,065 | 58,395 |
| Dividend & interest income on investments | 16,111 | 16,686 |
| Other income | <u>18,204</u> | <u>21,228</u> |
| | <u>230,563</u> | <u>213,224</u> |
| Expenses: | | |
| Clearing & trading firm charges | 75,007 | 73,410 |
| Fund distribution expenses, 12b-1 | 69,542 | 53,652 |
| Market information services | 46,641 | 43,115 |
| Registration and filing fees | 20,547 | 20,392 |
| Occupancy | 13,878 | 15,998 |
| Brokerage marketing expenses | 5,639 | 15,016 |
| Communications | 6,113 | 7,398 |
| Other operating expenses | <u>20,222</u> | <u>8,722</u> |
| | <u>257,589</u> | <u>237,703</u> |
| Net operating income (loss) | (27,026) | (24,479) |
| Income taxes | <u>0</u> | <u>0</u> |
| Net operating income (loss) after taxes | (27,026) | (24,479) |
| Other Income and Expenses | | |
| Unrealized gain(loss) on investments | <u>4,915</u> | <u>(9,273)</u> |
| Net income (loss) | <u>\$(22,111)</u> | <u>\$(33,752)</u> |

The accompanying notes are an integral part of these financial statements.

SATURNA BROKERAGE SERVICES, INC.
 (A wholly owned subsidiary of Saturna Capital Corporation)

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
 For the Years Ended June 30, 2003 and 2002

| | <u>Capital Stock</u> | | Additional paid-in capital | Retained earnings | Total stockholder's equity |
|---------------------------|-----------------------------|-----------------|----------------------------------|----------------------|----------------------------------|
| | <u>Number of shares</u> | <u>Amount</u> | | | |
| Balance, June 30, 2001 | 5,000 | \$50,000 | \$69,716 | \$372,117 | \$491,833 |
| Net loss | — | — | — | (33,752) | (33,752) |
| Balance, June 30, 2002 | 5,000 | \$50,000 | \$69,716 | \$338,365 | \$458,081 |
| Net loss | — | — | — | (22,111) | (22,111) |
| Balance, June 30, 2003 | <u>5,000</u> | <u>\$50,000</u> | <u>\$69,716</u> | <u>\$316,254</u> | <u>\$435,970</u> |

The accompanying notes are an integral part of these financial statements.

SATURNA BROKERAGE SERVICES, INC.
 (A wholly owned subsidiary of Saturna Capital Corporation)

STATEMENT OF CASH FLOWS

| | <u>Year Ended June 30,</u> | |
|--|----------------------------|-----------------|
| | 2003 | 2002 |
| Cash flows from operating activities: | | |
| Net income (loss) | (\$22,111) | (\$33,752) |
| Dividends reinvested | (16,111) | (17,284) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities- | | |
| (Increase) decrease in commissions receivable | (6,322) | 8,168 |
| (Increase) decrease in other assets | (144) | (73) |
| (Increase) in fund distribution fee receivable | (4,891) | (4,238) |
| (Decrease) increase in accrued expenses | <u>(2,690)</u> | <u>979</u> |
| Net cash (used in) operating activities | (52,269) | (46,200) |
| Cash flows from financing activities | | |
| Sale of investments | <u>40,085</u> | ----- |
| Decrease in cash | (12,184) | (46,200) |
| Cash and equivalents at beginning of year | <u>74,977</u> | <u>121,177</u> |
| Cash and equivalents at end of year | <u>\$62,793</u> | <u>\$74,977</u> |

The accompanying notes are an integral part of these financial statements.

SATURNIA BROKERAGE SERVICES, INC.
(A wholly owned subsidiary of Saturna Capital Corporation)

NOTES TO FINANCIAL STATEMENTS
June 30, 2003 and 2002

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

Saturna Brokerage Services, Inc. (SBS), formerly Investors National Corporation, was organized under the laws of the state of Washington on September 2, 1986 as a broker/dealer. The company is a wholly owned subsidiary of Saturna Capital Corporation (Saturna).

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Investment in affiliated mutual funds

SBS holds an investment in four affiliated mutual funds, consisting of short-term taxable bonds, long-term taxable bonds and equities. The investments are carried at market value.

Cash and cash equivalents

For purposes of the statements of financial condition and cash flows, SBS considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Income taxes

SBS will file a consolidated income tax return with Saturna. For financial statement purposes, income tax expense is calculated as if SBS filed a separate return.

SBS accounts for income taxes on an asset and liability approach which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of other assets and liabilities.

Advertising costs

SBS currently expenses advertising and marketing costs when incurred.

Amana 12b-1 Distribution

SBS, as underwriter for the Amana funds and at no profit to itself, is authorized to spend up to 0.25% of Amana's daily net assets annually for various marketing and distribution expenses. For the period from September 1, 2001 through June 30, 2002, SBS was paid \$58,395 by Amana Mutual Funds Trust, and made \$53,651 in payments for Amana's distribution. For the year from July 1, 2002 through June 30, 2003, SBS was paid \$88,065 by Amana Mutual Funds Trust, and made \$69,542 in payments for Amana's distribution.

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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments

The carrying amount of cash, investments, receivables and accrued expenses approximate fair value.

Note 2 - NET CAPITAL REQUIREMENTS

SBS is subject to the Securities and Exchange Commission uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital, so that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At June 30, 2003 and 2002, SBS's net capital of \$398,437 and \$415,627 was \$298,437 and \$315,627 in excess of its required net capital, respectively. The ratio of SBS's aggregate indebtedness to net capital was .018 to 1 and .024 to 1 at June 30, 2003 and 2002, respectively.

Note 3 - TRANSACTIONS WITH AFFILIATED PERSONS

SBS is a wholly owned subsidiary of Saturna. Due to his common stock ownership, the president of Saturna is deemed to be Saturna's controlling person. The president of Saturna is also president of SBS, and is president, a trustee and a shareholder of both Amaria Mutual Funds Trust and Saturna Investment Trust (the Trusts).

Among other customers, SBS provides brokerage execution services to the Trusts. For the years ended June 30, 2003 and 2002, SBS received \$25,515 and \$16,647, respectively, in gross commissions from these affiliated Trusts.

SBS shares its principal executive offices with Saturna, and all employees of SBS are employees of Saturna. For the year ended June 30, 2002, Saturna waived management fees for services provided by Saturna personnel on behalf of SBS.

Note 4 - PROVISION FOR INCOME TAXES

No deferred tax assets or liabilities were recorded at June 30, 2003 and 2002 as there were no temporary differences between the carrying amounts and tax bases of other assets and liabilities.

SATURNA BROKERAGE SERVICES, INC.
(A wholly owned subsidiary of Saturna Capital Corporation)

Schedule I

COMPUTATION OF NET CAPITAL under RULE 15c3-1 of
THE SECURITIES AND EXCHANGE COMMISSION
As of June 30, 2003

Net capital

| | |
|---|-----------|
| Total stockholder's equity | \$435,970 |
| Less - Stockholder's equity not allowable for net capital | <u>0</u> |
| Total stockholder's equity qualified for net capital | |
| Add: | |
| Liabilities subordinated to claims of general creditors allowable in computations of net capital | 0 |
| Other deductions or allowable credits | <u>0</u> |
| Total capital and allowable subordinated liabilities | |
| Deductions and/or charges: | |
| Nonallowable assets | 881 |
| Secured demand note deficiency | 0 |
| Commodity futures contracts and spot commodities | 0 |
| Other deductions and/or charges | |
| Other additions and/or allowable credits | <u>0</u> |
| Net capital before haircuts on securities positions | \$435,970 |

(Continued on next page)

SATURNA BROKERAGE SERVICES, INC.
(A wholly owned subsidiary of Saturna Capital Corporation)
Schedule I (continued)

COMPUTATION of NET CAPITAL under RULE 15c3-1 of
THE SECURITIES AND EXCHANGE COMMISSION

As of June 30, 2003

| | |
|---|------------------|
| Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(f)): | |
| Contractual securities commitments | 0 |
| Subordinated securities borrowings | 0 |
| Trading and investment securities: | |
| Exempted securities | 0 |
| Debt securities | 0 |
| Options | 0 |
| Other securities | 0 |
| Undue concentrations | 0 |
| Other | 36,661 |
| Net capital | <u>\$398,437</u> |

Aggregate indebtedness

| | |
|--|-----------------|
| Total aggregate indebtedness liabilities from statement of financial condition | \$7,184 |
| Add: | |
| Drafts from immediate credit | 0 |
| Market value of securities borrowed for which no equivalent value is paid or credited | 0 |
| Other unrecorded amounts | 0 |
| Total aggregate indebtedness | <u>\$ 7,184</u> |

Computation of basic net capital requirement

| | |
|------------------------------|------------------|
| Minimum net capital required | <u>\$100,000</u> |
| Excess net capital | <u>\$298,437</u> |

Ratio: Aggregate indebtedness to net capital 0.0180 to 1

Reconciliation with Investor National's computation

A difference of \$0 exists between the computation of net capital, per this report, and that filed by the Company in its unaudited FOCUS II report as of June 30, 2003 (the excess net capital was reported as \$298,437 per the FOCUS II report as of June 30, 2003).

SATURNA BROKERAGE SERVICES, INC.
(A wholly owned subsidiary of Saturna Capital Corporation)

Schedule II

COMPUTATION for DETERMINATION of RESERVE
REQUIREMENTS
for BROKERS AND DEALERS PURSUANT to RULE 15c3-3 of
THE SECURITIES AND EXCHANGE COMMISSION

June 30, 2003

SBS is exempt from Rule 15c3-3 of the Securities and Exchange Commission under exemptive provision (K)(2)(i), because all customer transactions are cleared through other broker-dealers on a fully disclosed basis.