

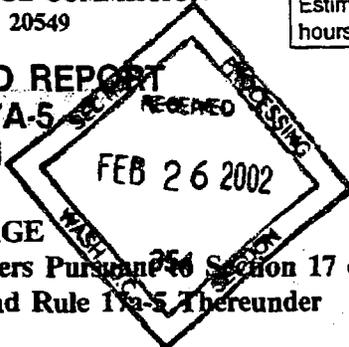


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3-7-02

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

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



SEC FILE NUMBER
8-031175
8-45393

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 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: SENTINEL FINANCIAL SERVICES COMPANY

OFFICIAL USE ONLY
FIRM ID. NO.

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

NATIONAL LIFE DRIVE
(No. and Street)
MONTPELIER VT 05604
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
JOHN M. GRAB (802) 229-3097
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP
(Name - if individual, state last, first, middle name)
NATIONAL LIFE BUILDING, 4TH FLOOR
ONE NATIONAL LIFE DRIVE MONTPELIER VT 05604
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

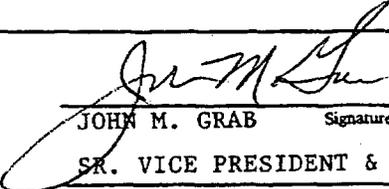
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MAR 22 2002
THOMSON FINANCIAL

*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).

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3-21-02

OATH OR AFFIRMATION

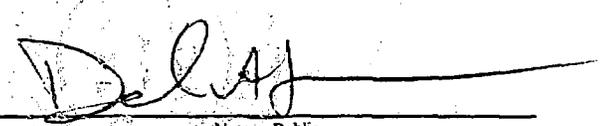
I, JOHN M. GRAB, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SENTINEL FINANCIAL SERVICES COMPANY, as of DECEMBER 31, 2001, are true and correct. I further swear (or affirm) that neither the company 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:



JOHN M. GRAB Signature

SR. VICE PRESIDENT & CFO

Title



Notary Public
My Commission Expires on 2/10/03

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 Proprietor's 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).

Report of Independent Accountants

To the Partners of
Sentinel Financial Services Company

In our opinion, the accompanying statements of financial condition and the related statements of operations, of changes in partners' capital, and of cash flows that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 present fairly, in all material respects, the financial position of Sentinel Financial Services Company (the Company) at December 31, 2001 and 2000, 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. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I (Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission at December 31, 2001) 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 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.


February 18, 2002

Sentinel Financial Services Company
(A Vermont General Partnership)
Statements of Financial Condition

	December 31,	
	2001	2000
Assets		
Cash and cash equivalents	\$ 1,912,280	\$ 2,756,465
Distribution fees receivable	855,889	1,032,617
Commissions receivable	24,000	9,726
Other receivables	33,087	12,144
Deferred commissions, net	8,832,041	8,814,946
Furniture and equipment, net	66,352	70,414
Prepaid expenses and other assets	56,997	16,146
	<hr/>	<hr/>
Total assets	<u>\$ 11,780,646</u>	<u>\$ 12,712,458</u>
Liabilities		
Service fees payable	\$ 484,000	\$ 509,986
Accounts payable and accrued expenses	1,079,294	644,473
	<hr/>	<hr/>
Total liabilities	1,563,294	1,154,459
Partners' capital	<u>10,217,352</u>	<u>11,557,999</u>
Total liabilities and partners' capital	<u>\$ 11,780,646</u>	<u>\$ 12,712,458</u>

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

Sentinel Financial Services Company
(A Vermont General Partnership)
Statements of Operations

	Year ended December 31,	
	2001	2000
Revenue		
Commissions	\$ 4,792,020	\$ 4,727,755
Distribution fee income	10,244,539	10,961,520
Marketing service fees	661,901	610,262
Investment income	55,981	145,191
	<hr/>	<hr/>
Total revenue	15,754,441	16,444,728
	<hr/>	<hr/>
Operating expenses		
Commissions	3,602,092	3,343,387
Salaries	1,212,878	1,084,262
Incentive plan	1,996,835	1,323,569
Service fees	4,456,815	4,720,529
Amortization expense	3,668,010	3,126,758
Other	2,708,458	3,160,939
	<hr/>	<hr/>
Total operating expenses	17,645,088	16,759,444
	<hr/>	<hr/>
Partners' net (loss) income	\$ (1,890,647)	\$ (314,716)

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

Sentinel Financial Services Company
(A Vermont General Partnership)
Statements of Changes in Partners' Capital

	National Life	Provident Mutual	Penn Mutual	Sentinel Management Company	Total
Balance, January 1, 2000	\$ 7,543,195	\$ 4,068,198	\$ 146,595	\$ 114,727	\$ 11,872,715
Partners' net loss	(196,859)	(103,924)	(10,786)	(3,147)	(314,716)
Partners' drawings	-	-	-	-	-
Partners' contributions	-	-	-	-	-
Balance, December 31, 2000	<u>\$ 7,346,336</u>	<u>\$ 3,964,274</u>	<u>\$ 135,809</u>	<u>\$ 111,580</u>	<u>\$ 11,557,999</u>
Balance, January 1, 2001	\$ 7,346,336	\$ 3,964,274	\$ 135,809	\$ 111,580	\$ 11,557,999
Partners' net loss	(1,285,629)	(505,457)	(80,655)	(18,906)	(1,890,647)
Partners' drawings	(500,829)	(264,004)	(27,167)	(8,000)	(800,000)
Partners' contributions	<u>893,666</u>	<u>388,163</u>	<u>54,671</u>	<u>13,500</u>	<u>1,350,000</u>
Balance, December 31, 2001	<u>\$ 6,453,544</u>	<u>\$ 3,582,976</u>	<u>\$ 82,658</u>	<u>\$ 98,174</u>	<u>\$ 10,217,352</u>

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

Sentinel Financial Services Company
(A Vermont General Partnership)
Statements of Cash Flows

	Year ended December 31,	
	2001	2000
Cash flows from operating activities		
Net loss	\$ (1,890,647)	\$ (314,716)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	57,642	68,614
Changes in assets and liabilities:		
Distribution fees receivable	176,728	(103,064)
Commissions receivable	(14,274)	(930)
Deferred commissions, net	(17,095)	(447,225)
Other receivables	(20,943)	161,370
Prepaid expenses and other assets	(40,851)	(11,331)
Service fees payable	(25,986)	85,919
Accounts payable and accrued expenses	434,821	(493,900)
Net cash (used) provided by operating activities	(1,340,605)	(1,055,263)
Cash flows from investing activities		
Purchase of furniture and equipment	(53,580)	-
Cash flows from financing activities		
Partners' contributions, net	550,000	-
Net decrease in cash and cash equivalents	(844,185)	(1,055,263)
Cash and cash equivalents		
Beginning of the year	2,756,465	3,811,728
End of year	\$ 1,912,280	\$ 2,756,465

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

Sentinel Financial Services Company
(A Vermont General Partnership)
Notes to Financial Statements

1. Organization and operations

Sentinel Financial Services Company (the Company or the Partnership), a Vermont General Partnership, was formed on December 11, 1992 and commenced operations on March 1, 1993. The Company is a broker-dealer, owned by Sentinel Management Company, affiliates of National Life Insurance Company (National Life), Provident Mutual Life Insurance Company (Provident Mutual) and Penn Mutual Life Insurance Company (Penn Mutual). The Company earns fees from the distribution of shares of the Sentinel Group Funds, Inc. and Sentinel Pennsylvania Tax-Free Trust (the Funds), which are registered investment companies. The Company distributes such shares through non-affiliate broker-dealers and registered representatives who are also insurance agents of National Life, Provident Mutual and Penn Mutual. Commissions are earned only on distribution of shares of the Funds. The Company also earns fees for marketing services related to the Sentinel Advantage Variable Insurance Contract distributed by Equity Services, Inc., a registered broker-dealer, which is a wholly-owned subsidiary of National Life Investment Company. The Sentinel Advantage Variable Insurance Contract is sponsored by National Life.

Under the partnership agreement dated March 1, 1993 and amended effective March 27, 1995, each partner's share of profit or loss is based on a formula which gives effect to the changes in certain blocks of managed net assets contributed to the Partnership. The formula also provides for certain factors to be applied to the net assets of shareholders introduced to the Funds and other assets managed by the Partnership since the inception of the Partnership. The factors used in determining each respective partner's profit or loss percentage depend primarily upon the origin of the net assets under management of the Partnership and its affiliates.

The Company is required to make quarterly distributions of its net cash flow as defined in the Agreement within 90 days after the end of each calendar quarter. Although the agreement provides that the distribution may be an amount equal to the estimated total amount of taxes on income of the partner having the highest total rate of taxation, cash distributions are generally made to each partner in the same proportion as profit and losses of the Company are allocated to the partners.

In the event of liquidation, but after satisfaction of all partnership obligations, the Company will distribute the net proceeds from any sales of assets in the same ratio of profits and losses allocated to the partners for the six full months preceding the completion of sale.

2. Significant accounting policies

Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Sentinel Financial Services Company
(A Vermont General Partnership)
Notes to Financial Statements

2. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents are comprised of funds on deposit and investments in the Sentinel U.S. Treasury money market fund.

Deferred commissions

Deferred commissions are commissions paid by the Company to broker-dealers on certain sales of mutual fund shares. These commissions are recorded as deferred costs which are recovered by ongoing monthly distribution fees received from the Funds or through charges upon redemption of the shares by the shareholders. Deferred costs on outstanding shares are being amortized on a straight-line basis, generally over a one to six year period.

Furniture and equipment

Depreciation is provided on the straight-line method based upon estimated useful lives of the assets ranging principally from five to seven years.

Revenue and expense recognition

Customers' security transactions and the related commission income and expenses are recorded on a trade date basis.

Distribution fee income

Under the terms of an agreement with the Funds, the Company is reimbursed monthly for certain distribution expenses, deferred commissions and dealer service fees under distribution plans pursuant to Rule 12b-1 of the Investment Company Act of 1940.

Income taxes

Under current tax regulations no taxes are levied at the partnership level.

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.

Sentinel Financial Services Company
(A Vermont General Partnership)
Notes to Financial Statements

3. Net capital and reserve information

The Company, as a registered broker-dealer, is subject to the provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, as amended which requires minimum net capital of the greater of \$25,000 or 6 2/3% of "aggregate indebtedness", subject to a maximum allowable ratio of "aggregate indebtedness" to "net capital" (as the terms are defined) of 15.0 to 1.0.

Aggregate indebtedness, net capital, and the ratio of aggregate indebtedness to net capital at December 31, 2001 are as follows:

Aggregate indebtedness	<u>\$ 1,562,242</u>
Net capital	<u>\$ 799,989</u>
Ratio of aggregate indebtedness to net capital	<u>1.95</u>

The Company's business is limited to only mutual funds and variable annuities. Accordingly, the reserve provisions of Rule 15c3-3 of the Act do not apply under the Exemption allowed by paragraph (k)(1) of such rule.

4. Furniture and equipment

Furniture and equipment owned by the Company at December 31, 2001 and 2000 comprise:

	2001	2000
Furniture and equipment	\$ 370,845	\$ 317,265
Accumulated depreciation	<u>(304,493)</u>	<u>(246,851)</u>
Net furniture and equipment	<u>\$ 66,352</u>	<u>\$ 70,414</u>

Sentinel Financial Services Company
(A Vermont General Partnership)
Notes to Financial Statements

5. Related party transactions

Pursuant to its agreement to serve as the principal underwriter for the Funds, the Company receives a sales charge on the sales of the Funds' Class A-shares. During 2001 and 2000 the Company received \$3,817,694 and \$3,539,628, respectively, on the sale of these shares. Commissions paid on A-shares totaled \$3,600,907 and \$3,343,387 in 2001 and 2000, respectively. Deferred commissions paid on A-shares, B-shares and C-shares totaled \$3,685,105 and \$3,444,230 in 2001 and 2000, respectively. These commissions were paid to Equity Services, Inc., an affiliate of National Life, 1717 Capital Management Company, an affiliate of Provident Mutual, Horner Townsend & Kent, Inc. and Janney Montgomery Scott, Inc., affiliates of Penn Mutual and outside broker-dealers in the form of dealer reallowances.

Under the terms of an agreement dated June 20, 1997, the Company receives fees from Equity Services, Inc. as compensation for its marketing services rendered in connection with the sale of National Life's Sentinel Advantage Variable Insurance contracts. Equity Services, Inc. is the principal underwriter for these Contracts. During 2001 and 2000, the Company received \$661,901 and \$610,262 in marketing services fees under this agreement. During 2001 and 2000, National Life paid the fees under this agreement to the Company on behalf of Equity Services, Inc.

Under the terms of its distribution plans with the Funds, the Company received a combined \$10,244,538 and \$10,961,520 in 2001 and 2000, respectively, from the Funds for providing distribution and other services. Of these amounts, \$4,456,815 and \$4,720,529 in 2001 and 2000, respectively, were paid to Equity Services, Inc., 1717 Capital Management Company, Horner Townsend & Kent, Inc., Janney Montgomery Scott, Inc. and outside broker-dealers for services rendered in the form of service fees. Amounts due to the Company from the Funds for 12b-1 fees at December 31, 2001 and 2000 are \$855,889 and \$1,032,617, respectively.

The Company's cash equivalents balance includes \$1,686,532 and \$2,507,115 at December 31, 2001 and 2000, respectively, an investment in the Sentinel U.S. Treasury Money Market Fund.

National Life provides the Company with certain administrative services and occupancy, the cost of which is determined in accordance with their respective administrative cost allocation system. Expenses allocated to the Company for 2001 and 2000 were \$62,330 and \$59,470, respectively. Accounts payable and accrued expenses include \$129,441 and \$109,198 due to National Life at December 31, 2001 and 2000, respectively, for such allocated costs as well as reimbursement due for direct charges paid by National Life on behalf of the Company.

The Company also shares employees and facilities with other affiliated companies. The Company is both billed and reimbursed for these costs. Other receivables include \$32,035 and \$7,081, respectively, at December 31, 2001 and 2000 related to these costs. Accounts payable and accrued expenses include \$136,325 and \$112,286 at December 31, 2001 and 2000, respectively, also related to these costs.

SCHEDULE I
SENTINEL FINANCIAL SERVICES COMPANY
(a Vermont General Partnership)

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION

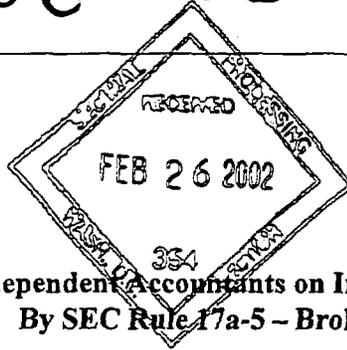
DECEMBER 31, 2001

Net capital:	
Total partners' capital	<u>\$ 10,217,352</u>
Deduct:	
Other receivables	
Furniture and equipment, net of accumulated depreciation	66,352
Prepaid expenses and other assets	<u>9,317,280</u>
	<u>9,383,632</u>
Net capital before haircuts on securities positions	833,720
Haircut on cash equivalents	<u>33,731</u>
Net capital	<u>\$ 799,989</u>
Aggregate indebtedness:	
Service fees payable	\$ 484,000
Accounts payable and accrued expenses	<u>1,078,242</u>
Total aggregate indebtedness	<u>\$ 1,562,242</u>
Computation of basic net capital requirement	
Minimum net capital requirement (greater of \$25,000 or 6 2/3% of aggregate indebtedness of \$1,562,242)	<u>\$ 104,149</u>
Excess net capital	<u>\$ 695,840</u>
Excess net capital at 1000%	<u>\$ 643,765</u>
Ratio of aggregate indebtedness to net capital	<u>1.95 to 1</u>

There are no material differences between the amounts presented above and the amounts reported on the Company's unaudited Focus Report as of December 31, 2001, which are presented on a parent company only basis.

**Sentinel Financial
Services Company**

**Report of Independent Accountants
on Internal Control Required
By SEC Rule 17a-5 – Broker/Dealer
December 31, 2001**



PricewaterhouseCoopers LLP
160 Federal Street
Boston MA 02110-9862
Telephone (617) 428 8400
Facsimile (617) 439 7393

**Report of Independent Accountants on Internal Control Required
By SEC Rule 17a-5 - Broker/Dealer**

To the Partners of
Sentinel Financial Services Company:

In planning and performing our audit of the financial statements and supplemental schedules of Sentinel Financial Services Company (the "Company") for the year ended December 31, 2001, 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.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g) in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and
2. 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 the quarterly securities examinations, counts, verifications, and comparisons, and the 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; and
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3;

To the Partners of
Sentinel Financial Services Company
Page 2

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 control 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 accordance 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 or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls 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 one or more 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 internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

To the Partners of
Sentinel Financial Services Company
Page 3

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 December 31, 2001 to meet the SEC's objectives.

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

PricewaterhouseCoopers LLP

February 18, 2002