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

IF 4-30-03

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	September 30, 1998
Estimated average burden hours per response	12.00

SEC FILE NUMBER
8-382

8-36382

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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 01/01/2002 AND ENDING 12/31/2002  
MM/DD/YY MM/DD/YY

#### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: *Emory Ernest Phillips*

DBA: PHILLIPS FINANCIAL SERVICES, INC.

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

MOUNTVILLE	(No. and Street)	PA	17554
(City)	(State)	(Zip Code)	

OFFICIAL USE ONLY
FIRM ID. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
EMORY E. PHILLIPS (717) 285-3232  
(Area Code - Telephone No.)

#### B. ACCOUNTANT IDENTIFICATION

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

RIDDER NORMA JEANNE  
(Name - If individual, state last, first, middle name)

125 MAIN STREET	LANDISVILLE	PA	17538
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

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

PROCESSED

MAY 01 2003

THOMSON FINANCIAL

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

OATH OR AFFIRMATION

I, EMORY E. PHILLIPS, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PHILLIPS FINANCIAL SERVICES, INC. as of DECEMBER 31, 2002, 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:

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

*Emory E. Phillips*  
\_\_\_\_\_  
Signature

PRESIDENT

Title

*Barbara A. Karmilowicz*  
\_\_\_\_\_  
Notary Public

NOTARIAL SEAL  
Barbara A. Karmilowicz, Notary Public  
Mountville Boro., Lancaster County  
My Commission Expires April 22, 2006

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of ~~Changes in Financial Condition~~ CASH FLOWS.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole 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).

**FINANCIAL STATEMENTS  
OF**

**PHILLIPS FINANCIAL SERVICES, INC.**

**DECEMBER 31, 2002**

**PHILLIPS FINANCIAL SERVICES, INC.**

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Norma J. Ridder  
*Certified Public Accountant*  
125 Main Street  
Landisville, PA 17538  
Phone 717-898-7717 Fax 717-898-3164

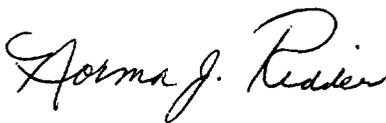
INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Phillips Financial Services, Inc.  
Mountville, Pennsylvania

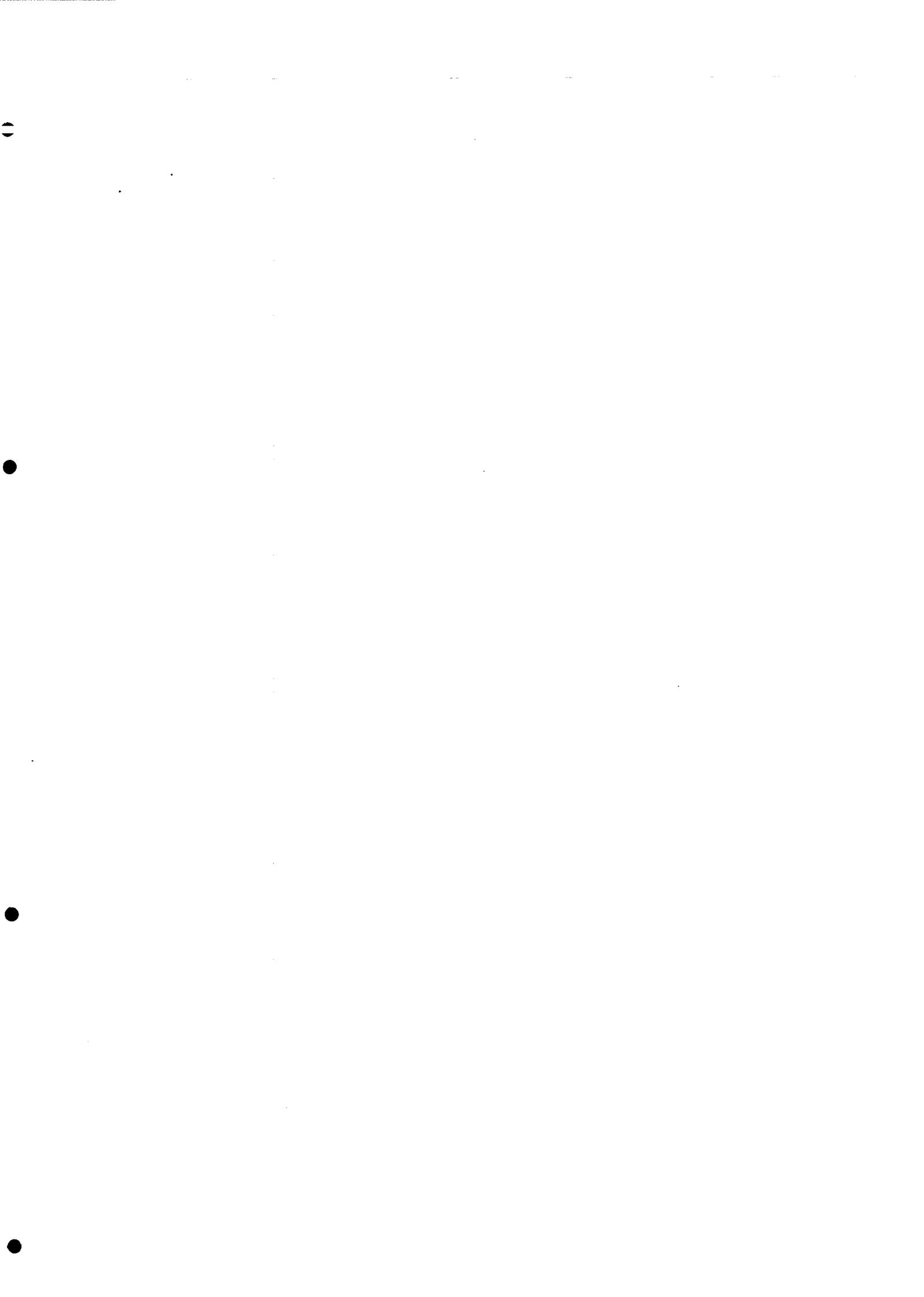
I have audited the accompanying balance sheet of Phillips Financial Services, Inc. as of December 31, 2002 and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phillips Financial Services, Inc. as of December 31, 2002 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.



Norma J. Ridder, C.P.A.  
February 3, 2003



**PHILLIPS FINANCIAL SERVICES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2002**

ASSETS

CURRENT ASSETS

Cash	\$97,447
Investments - Mutual Funds	139,750
Commissions Receivable	917
Prepaid Insurance	1,203
	<hr/>
Total Current Assets	239,317
	<hr/>

PROPERTY, PLANT, AND EQUIPMENT

Office Equipment	107,424
Improvements	74,031
	<hr/>
Less: Accumulated Depreciation	89,364
	<hr/>
Net Property, Plant, and Equipment	92,091
	<hr/>

TOTAL ASSETS \$331,408

**PHILLIPS FINANCIAL SERVICES, INC.  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2002**

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>TOTAL LIABILITIES</u>	<u>\$0</u>
 <u>STOCKHOLDERS' EQUITY</u>	
Common Stock, no par value; Authorized 10,000 shares; Issued 1,000 shares	12,025
Retained Earnings	<u>319,383</u>
Total Stockholders' Equity	<u>331,408</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u><u>\$331,408</u></u>

**PHILLIPS FINANCIAL SERVICES, INC.**  
**STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2002**

REVENUE

Commissions - Variable Annuities	\$270,237
Commissions - Mutual Funds	408,190
Total Revenue	<u>678,427</u>

OPERATING EXPENSES

Advertising	1,866
Computer Expenses	3,454
Contributions	50
Depreciation	11,385
Dues and Subscriptions	1,796
Fees	235
Insurance	17,143
Legal and Professional	700
Licenses and Permits	192
Office Supplies	9,152
Postage	5,459
Professional Development	430
Regulatory Commission Expense	1,339
Rent	24,000
Repairs and Maintenance	20,333
Retirement Benefit	10,543
Salaries	
Officers	332,416
Office	159,729
Taxes	30,712
Telephone	8,495
Travel	198
Utilities	3,417
Total Operating Expenses	<u>643,044</u>
Operating Income	35,383

OTHER INCOME (EXPENSES)

Interest	3,109
Gains (Losses) Unrealized	(8,532)
Gains (Losses) Realized	(11,964)
Total Other Expenses	<u>(17,387)</u>
NET INCOME	<u>\$ 17,996</u>

**PHILLIPS FINANCIAL SERVICES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2002**

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance - January 1, 2002	\$12,025	\$376,387	\$388,412
Less: Distribution to Shareholders		(75,000)	(75,000)
Net Income (Page 4)	<u>          </u>	<u>17,996</u>	<u>17,996</u>
Balance - December 31, 2002	<u>\$12,025</u>	<u>\$319,383</u>	<u>\$331,408</u>

**PHILLIPS FINANCIAL SERVICES, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2002**

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income (Page 4)	\$17,996
Adjustments to Derive Cash Effect	
Depreciation	11,385
Realized and Unrealized Losses on Investments	20,496
Increase in Receivables	(233)
Decrease in Prepaid Expenses	270
Decrease in Accrued and Withheld Expenses	<u>(157)</u>
Net Cash Provided by Operating Activities	<u>49,757</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds From Sale of Investments	112,424
Purchase of Investments	<u>(39,424)</u>
Net Cash Provided by Investing Activities	<u>73,000</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Distribution to Shareholders	<u>(75,000)</u>
Net Cash Used by Financing Activities	<u>(75,000)</u>

Increase in Cash	47,757
Cash at Beginning of Year	<u>49,690</u>
Cash at End of Year	<u><u>\$97,447</u></u>

**PHILLIPS FINANCIAL SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

NOTE 1 – ORGANIZATION AND OPERATIONS

Phillips Financial Services, Inc. is a Pennsylvania Corporation. The registration of the Company as a broker-dealer was approved by the Commonwealth of Pennsylvania on August 20, 1986 and by the National Association of Securities Dealers on October 1, 1986.

The Company deals in the distribution of shares of registered open-end investment trust, the sale of variable annuities and the sale of insurance; accordingly, the entity qualifies for exclusion from the Securities Investor Protection Corporation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

METHOD OF ACCOUNTING

Assets and liabilities, and revenues and expenditures, are recognized on the accrual basis of accounting. Specifically, income is recognized when earned, and expenses are recorded when incurred.

FIXED ASSETS AND DEPRECIATION

Fixed assets are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the prescribed useful life.

INCOME TAXES

The Company has elected to be taxed as a Small Business Corporation. Profits, losses and certain tax credits are passed through to the stockholder; therefore, no provision has been made for corporate income taxes.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (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 “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, 2002, the Company had net capital of \$231,505, which was \$206,505 in excess of its required net capital of \$25,000. The Company’s net capital ratio was 0, due to no indebtedness as of December 31, 2002.

NOTE 4 – EXEMPTION FROM RULE 15C3-3

Phillips Financial Services, Inc. claims an exemption from Rule 15c3-3 by maintaining a “Special Account for exclusive Benefit of Customers” according to Rule Section (K) (2) (i).

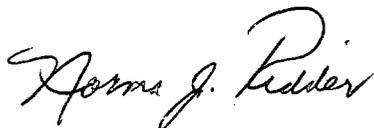
NOTE 5 – RENT

The Company pays rent to Emory E. Phillips, 100% shareholder of the corporation. Rent for the year ended December 31, 2002 totaled \$24,000.

**NORMA J. RIDDER  
CERTIFIED PUBLIC ACCOUNTANT  
125 MAIN STREET  
LANDISVILLE, PA 17538  
(717) 898-7717**

Phillips Financial Services, Inc.  
Mountville, Pennsylvania

My examination of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The supplementary information, contained on the following pages, is presented and prepared in accordance with the requirements of the Securities and Exchange Commission and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Norma J. Ridder, C.P.A.  
February 3, 2003

**PHILLIPS FINANCIAL SERVICES, INC.**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**YEAR ENDED DECEMBER 31, 2002**

NET CAPITAL

Total Stockholders' Equity	\$331,408
Deduct: Non-Allowable Assets	94,311
Haircuts - Other Investment Securities	<u>5,592</u>
NET CAPITAL	<u><u>\$231,505</u></u>

**PHILLIPS FINANCIAL SERVICES, INC.**  
**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**  
**AS OF DECEMBER 31, 2002**

Net Capital	\$231,505
Minimum Net Capital Required	0
Minimum Dollar Net Capital Requirement of Reporting Broker or Dealer	25,000
Net Capital Requirement	<u>25,000</u>
Excess Net Capital	<u>206,505</u>
Excess Net Capital at 1000%	<u>\$231,505</u>

**COMPUTATION OF AGGREGATE INDEBTEDNESS**  
**AS OF DECEMBER 31, 2002**

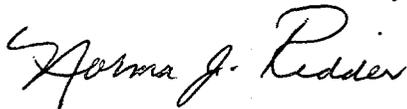
Total Liabilities	0
Total Aggregate Indebtedness	0
Percentage of Aggregate Indebtedness to Net Capital	0.00%
Percentage of Debt to Debt-Equity Total	0.00%

**NORMA J. RIDDER  
CERTIFIED PUBLIC ACCOUNTANT  
125 MAIN STREET  
LANDISVILLE, PA 17538  
(717) 898-7717**

Board of Directors  
Phillips Financial Services, Inc.  
Mountville, Pennsylvania

I have examined the financial statements of Phillips Financial Services, Inc. for the year ended December 31, 2002 and have issued my report thereon dated February 3, 2003. As part of my examination, I made certain inquiries, determined to be necessary under the existing circumstances, concerning the system of internal accounting control and the practices and procedures being used.

The type of operations and limited number of transactions processed by Phillips Financial Services, Inc. do not at this time require a formal system of internal accounting control, and I do not discern any material inadequacies.

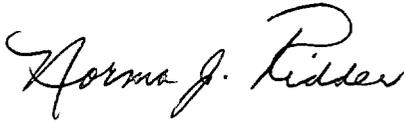


Norma J. Ridder, C.P.A.  
February 3, 2003

**NORMA J. RIDDER  
CERTIFIED PUBLIC ACCOUNTANT  
125 MAIN STREET  
LANDISVILLE, PA 17538  
(717) 898-7717**

Board of Directors  
Phillips Financial Services, Inc.  
Mountville, Pennsylvania

I have examined the financial statements of Phillips Financial Services, Inc. for the year ended December 31, 2002 and have issued my report thereon dated February 3, 2003. I have found that no material differences existed between the audited computation of net capital and computation of 15c3-3 reserve requirements and the broker/dealer's corresponding unaudited Part IIA.



Norma J. Ridder, C.P.A.  
February 3, 2003