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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
B- 26476

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 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Southern Farm Bureau Fund Distributor, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

1401 Livingston Lane

(No. and Street)

Jackson

(City)

MS

(State)

39213

(Zip Code)

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

Laurence E. Favreau

601-981-7422

(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)

188 East Capitol Street

(Address)

Jackson

(City)

MS

(State)

39201

(Zip Code)

CHECK ONE:

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

RECEIVED  
FEB 20 2004  
PROCESSED  
MAR 19 2004  
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, Laurence E. Favreau, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Southern Farm Bureau Fund Distributor, Inc., as of December 31, 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:

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

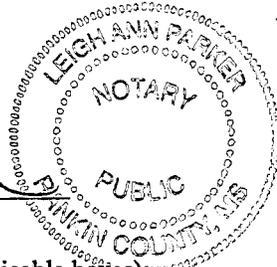
*Laurence E. Favreau*

Signature

President & Treasurer

Title

Notary Public State of Mississippi At Large  
My Commission Expires: December 20, 2004  
Bonded Thru Heiden, Brooks & Garland, Inc.



*Leigh Ann Parker*  
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).



KPMG LLP  
Suite 1100  
One Jackson Place  
188 East Capitol Street  
Jackson, MS 39201

The Board of Directors  
Southern Farm Bureau Fund Distributor, Inc.:

In planning and performing our audit of the financial statements of Southern Farm Bureau Fund Distributor, Inc. (the Company) for the year ended December 31, 2003, we considered its internal control structure, including procedures 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 structure.

Also, as required by rule 17a-5(g)(1) of the Company, we have made a study of the practices and procedures followed by the Company including test of compliance with 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(c). 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 (i) making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13; (ii) 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; and (iii) 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 an internal control structure 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 internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable assurance, 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 any internal control structure or the practices and procedures referred to above, errors or irregularities 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.





The Board of Directors  
Southern Farm Bureau Fund Distributor, Inc.  
Page Two

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure 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 the internal control structure, 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 December 31, 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.

**KPMG LLP**

February 6, 2004



**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
(A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Financial Statements and Schedules

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 1100  
One Jackson Place  
188 East Capitol Street  
Jackson, MS 39201

## Independent Auditors' Report

The Board of Directors  
Southern Farm Bureau Fund Distributor, Inc.:

We have audited the accompanying balance sheets of Southern Farm Bureau Fund Distributor, Inc. (a wholly owned subsidiary of Southern Farm Bureau Life Insurance Company) as of December 31, 2003 and 2002, and the related statements of operations, changes in stockholder's equity and cash flows for the years 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 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 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 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 Southern Farm Bureau Fund Distributor, Inc. at December 31, 2003 and 2002, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules 1, 2 and 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 and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic 2003 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2003 financial statements taken as a whole.

**KPMG LLP**

February 6, 2004



**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
(A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Balance Sheets

December 31, 2003 and 2002

<b>Assets</b>	<u><b>2003</b></u>	<u><b>2002</b></u>
Cash and cash equivalents	\$ 193,816	183,314
Commissions receivable from parent company (note 2)	7,287	3,969
Prepaid expenses	1,018	1,018
	<u>\$ 202,121</u>	<u>188,301</u>
 <b>Liabilities and Stockholder's Equity</b> 		
Liabilities:		
Due to parent company (note 2)	\$ 4,021	966
Federal income taxes payable to parent company	5,711	5,553
Total liabilities	<u>9,732</u>	<u>6,519</u>
Stockholder's equity (note 3):		
Common stock of \$25 par value. Authorized 1,000 shares; issued 600 shares	15,000	15,000
Additional paid-in capital	85,000	85,000
Retained earnings	92,389	81,782
Total stockholder's equity	<u>192,389</u>	<u>181,782</u>
	<u>\$ 202,121</u>	<u>188,301</u>

See accompanying notes to financial statements.

**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
( A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Statements of Operations

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Income:		
Interest	\$ 495	789
Commissions from parent company, net (note 2)	62,834	56,782
	<u>63,329</u>	<u>57,571</u>
Selling, general and administrative expenses (note 2)	47,011	41,705
Income before income taxes	16,318	15,866
Current Federal income tax expense (note 5)	(5,711)	(5,553)
Net income	<u>\$ 10,607</u>	<u>10,313</u>

See accompanying notes to financial statements.

**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
 ( A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Statements of Changes in Stockholder's Equity

Years ended December 31, 2003 and 2002

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total stockholder's equity</u>
Balance at December 31, 2001	\$ 15,000	85,000	71,469	171,469
Net income	—	—	10,313	10,313
Balance at December 31, 2002	15,000	85,000	81,782	181,782
Net income	—	—	10,607	10,607
Balance at December 31, 2003	\$ <u>15,000</u>	<u>85,000</u>	<u>92,389</u>	<u>192,389</u>

See accompanying notes to financial statements.

**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
(A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Statements of Cash Flows  
Years ended December 31, 2003 and 2002

	2003	2002
Reconciliation of net income to net cash (used in) provided by operating activities:		
Net income	\$ 10,607	10,313
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Commissions receivable from parent company	(3,318)	22
Prepaid expenses	—	15,363
Federal income taxes payable to parent company	158	1,334
Due to parent company	3,055	(30,339)
Net cash (used in) provided by operating activities	10,502	(3,307)
Cash and cash equivalents at beginning of year	183,314	186,621
Cash and cash equivalents at end of year	\$ 193,816	183,314

See accompanying notes to financial statements.

**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
(A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Notes to Financial Statements

December 31, 2003 and 2002

**(1) Organization, Business and Summary of Significant Accounting Policies**

**(a) Organization and Business**

Southern Farm Bureau Fund Distributor, Inc. (the Company) was organized for the purpose of engaging in the buying, selling, and dealing in or with various securities or any interest therein. The Company is a wholly-owned subsidiary of Southern Farm Bureau Life Insurance Company. The Company currently acts as a broker and dealer of variable life and annuity products offered by Southern Farm Bureau Life Insurance Company.

**(b) Commissions**

Commission revenues in excess of commission expense to individual salespersons are paid to the Company by its parent and recognized on a trade-date basis as transactions occur. Commission revenues and associated receivables are recognized on a net basis by the Company consistent with an underwriting agreement entered into between the Company and its parent in October 1999.

**(c) Income Taxes**

The Company's results of operations are included in the consolidated Federal income tax return filed by the Company's parent and its subsidiaries. Taxes are allocated to each subsidiary member of the consolidated group at the maximum Federal statutory rate for each subsidiary's income or loss.

**(d) Cash Equivalents**

For financial reporting purposes, the Company considers only cash and money market mutual funds to be cash equivalents.

**(e) 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.

**(2) Related Party Transactions**

Certain operating expenses incurred by the Company are reimbursed by the Company's parent and certain professional expenses are paid by the Company's parent and allocated to the Company. Additionally, Commission revenues in excess of commission expense to individual salespersons are paid to the Company by its parent and recognized on a trade-date basis as transactions occur. At December 31, 2003 and 2002, the parent was liable to the Company for \$3,266 and \$3,003, respectively.

**(3) Net Capital Requirements**

In accordance with regulations of the Securities and Exchange Commission, the Company must maintain minimum net capital, as defined, such that the ratio of aggregate indebtedness, as defined, to net capital

**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
(A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Notes to Financial Statements

December 31, 2003 and 2002

does not exceed 15 to 1. At December 31, 2003 and 2002, the Company's net capital exceeded required capital by \$175,448 and \$168,168, respectively. The ratio of aggregate indebtedness to net capital was 0.4 to 1 at December 31, 2003 and .04 to 1 at December 31, 2002.

**(4) Subordinated Debt**

The Company had no subordinated debt at December 31, 2003 or 2002 or at any time during the years then ended.

**(5) Income Taxes**

Income tax expense for the years ended December 31, 2003 and 2002, represents the Company's allocation of Federal income tax expense at the maximum Federal statutory rate of 35% of the Company's income before income taxes for those years. Such expense is paid to the Company's parent.

At December 31, 2003 and 2002, the Company had tax benefits of \$253,909 and 269,775, respectively, arising from net operating loss carryforwards for state income tax purposes. The Company has provided a valuation allowance at December 31, 2003 and 2002 of \$253,909 and 269,775, respectively, to fully offset the net operating loss carryforwards. Management believes that such benefits will not be realized because the ultimate realization of such carryforwards is dependent upon the Company's generation of future taxable income during the carryforward periods.

**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
 ( A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Computation of Net Capital, Aggregate Indebtedness and  
 Ratio of Aggregate Indebtedness to Net Capital  
 Under Rule 15c3-1

December 31, 2003

Net capital:		\$	192,389
Stockholder's equity			
Less nonallowable assets:			
Prepaid expenses	\$	1,018	
Commissions receivable		<u>7,287</u>	
			8,305
Less haircuts - money market mutual funds			<u>3,636</u>
Net capital		\$	<u>180,448</u>
Net capital requirement		\$	5,000
Net capital in excess of required amount			<u>175,448</u>
Net capital		\$	<u>180,448</u>
Aggregate indebtedness		\$	<u>71,622</u>
Ratio of aggregate indebtedness to net capital			<u>0.4 to 1</u>

Note: The above computation does not differ materially from the computation of net capital under Rule 15c3-1 as of December 31, 2003, filed by the Company in January 2004.

See accompanying independent auditors' report.

**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
(A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Information for Possession or Control  
Requirement Under Rule 15c3-3

December 31, 2003

The Company is exempt from the reserve requirements and the related computations for the determination thereof under paragraph (k)(1) of Rule 15c3-3 under the Securities and Exchange Act of 1934, as the Company's broker and dealer transactions are limited to the purchase, sale and redemption of redeemable securities of registered investment companies, and the Company promptly transmits all funds and delivers all securities received in connection with its activities as a broker or dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers.

During the year ended December 31, 2003, the Company has maintained compliance with the conditions for exemption specified in paragraph (k)(1) of Rule 15c3-3.

See accompanying independent auditors' report.

Schedule 3

**SOUTHERN FARM BUREAU FUND DISTRIBUTOR, INC.**  
 ( A Wholly Owned Subsidiary of Southern Farm Bureau Life Insurance Company)

Information for Possession or Control  
 Requirement Under Rule 15c3-3

December 31, 2003

	<u>Market value</u>	<u>Number of items</u>
Information for possession or control requirements: Customers' fully-paid and excess-margin securities not in the Company's possession or control as of December 31, 2003 for which instructions to reduce to possession or control had been issued as of December 31, 2003 for which the required action was not taken within the time frames specified under Rule 15c3-3.	<u>None</u>	<u>None</u>
Customers' fully paid and excess-margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2003, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3; subsequently reduced to possession or control by the Company.	<u>None</u>	<u>None</u>

See accompanying independent auditors' report.