

# IDAHO TAX-EXEMPT FUND



## SEMI-ANNUAL REPORT MAY 31, 2011

This report is issued for the information of the shareowners of the Idaho Tax-Exempt Fund. It is not authorized for distribution to prospective investors unless it is accompanied or preceded by an effective prospectus or summary prospectus relating to the securities of the Fund, a series of Saturna Investment Trust.

## Performance Summary:

Average Annual Returns as of June 30, 2011:

	10 Years	5 Years	3 Years	1 Year	Expense Ratio <sup>1</sup>
Idaho Tax-Exempt Fund	4.01%	4.34%	4.75%	3.07%	0.74%
S&P Idaho Municipal Bond Index	5.40%	4.83%	5.71%	4.19%	N/A

### Morningstar™ Ratings<sup>2</sup>

"Muni Single State Long" Category	Overall	10 Year	5 Years	3 Years	1 Year
Morningstar Rating™	★★★★	★★★	★★★★	★★★★	n/a
% Rank in category	n/a	59	16	25	23
Funds in category	325	276	298	325	336

Performance data quoted in this report represents past performance, is before any taxes payable by shareowners, and is no guarantee of future results. Current performance may be higher or lower than that stated herein. Performance current to the most recent month-end is available by calling toll-free (800) SATURNA or visiting [www.idahotaxexemptfund.com](http://www.idahotaxexemptfund.com). Average annual total returns are historical and include change in share value as well as reinvestment of dividends and capital gains, if any, and do not include the potential deduction of a 2% redemption fee on shares held less than 90 calendar days. Share price, yield, and return will vary and you may have a gain or loss when you sell your shares.

<sup>1</sup> By regulation, the expense ratio shown in this table is as of the Fund's most recent prospectus which is dated March 25, 2011, and incorporates results for the fiscal year ended November 30, 2010. The ratio presented in this table differs from expense ratios shown elsewhere in this report as they represent different periods. Also by regulation, the performance in this table represents the most recent quarter-end performance rather than performance through the Funds' most recent fiscal period (shown on page 4).

<sup>2</sup> Source: Morningstar June 30, 2011. Morningstar, Inc. is an independent fund performance monitor. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% in each category receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of performance figures associated with its 3, 5, and 10 year (if applicable) Morningstar Rating metrics.

% Rank in Category: This is the fund's total-return percentile rank for the specified time period relative to all funds that have the same Morningstar category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. The top-performing fund in a category will always receive a rank of 1. Percentile ranks within categories are most useful in those categories that have a large number of funds.

Please consider an investment's objectives, risks, charges, and expenses carefully before investing. To obtain the Fund's prospectus or summary prospectus which contains this and other important information, please visit [www.idahotaxexemptfund.com](http://www.idahotaxexemptfund.com) or call toll free 1-800/SATURNA. Please read the prospectus or summary prospectus carefully before investing.



### **Fellow Shareowners:**

For the six months ended May 31, 2011, Idaho Tax-Exempt Fund returned 2.06%. For the twelve months ended May 31, 2011, the Fund returned 3.46%. At May 31, 2011, the net asset value per share was \$5.45 up \$0.02 for the period.

Since November 30, 2010, the Fund's outstanding shares decreased 0.4% to 2.79 million. Net assets declined 0.1% to \$15.2 million.

Idaho's seasonally adjusted unemployment rate remained below the U.S. unemployment rate from October 2001 to December 2010. Today, Idaho's rate is above the national average and the highest in the Pacific Northwest. Despite recent declines in regional unemployment rates over the last year, Idaho's unemployment rose from 9.2% to 9.4%. Idaho job creation is lagging the nation.

Idaho's recession has exposed the quality of Idaho's underlying credit. On March 31, 2011, Standard & Poors upgraded Idaho to an AA+ rating based on the strength of Idaho's annual budgeting results and funding for long-term health care and pension liabilities. Despite periods of significant volatility in other fixed income asset classes over the last six months, Idaho Tax Exempt Fund's price volatility was subdued, remaining in a four percent range from high to low.

Looking ahead, deleveraging will continue to limit economic growth. U.S. growth and inflation will remain modest. Monetary policy will remain accommodative. Idaho's conservative fiscal credentials will persist. Personal income in Idaho hit an annualized record of \$52.3 billion in the first quarter of 2011, led by increases in farming and returns on investments.

We expect Idaho's credit quality to remain solid at the state and local levels.

For those seeking a conservative investment vehicle, the Idaho Tax-Exempt Fund offers a diversified portfolio of high-grade, 100% Idaho issues that provide income exempt from federal income and alternative minimum taxes as well as Idaho state income tax. Idaho municipal bonds should continue to offer real returns for risk-averse, income-oriented investors.

We invite you to review the advantages of the Idaho Tax-Exempt Fund, and we welcome your suggestions. Only with your help can we be certain that we are meeting our primary objective — fulfilling your investment needs.

Respectfully,



**Nicholas Kaiser,**  
President



**Phelps McIlvaine,**  
Vice President, Portfolio Manager

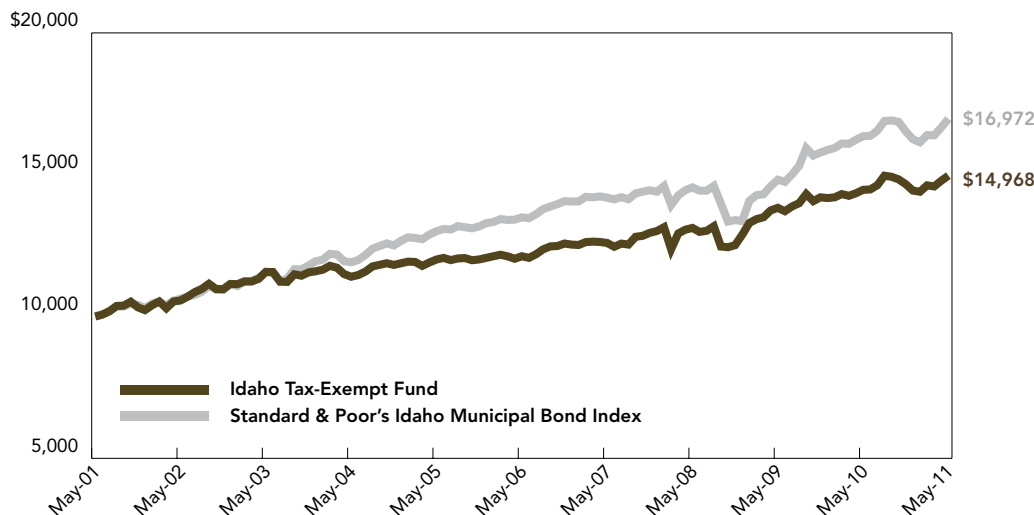
July 8, 2011

## Performance Summary

### Average Annual Returns as of May 31, 2011

	10 Years	5 Years	1 Year	Expense Ratio <sup>1</sup>
Idaho Tax-Exempt Fund	4.12%	4.30%	3.46%	0.74%
S&P Idaho Municipal Bond Index	5.43%	4.69%	3.76%	N/A

### Growth of \$10,000



Comparison of any mutual fund to a market index must be made bearing in mind that the Index is unmanaged, and expense-free. Conversely, the fund will (1) be actively managed; (2) have an objective other than mirroring the index, such as limiting risk; (3) bear transaction and other costs, (4) stand ready to buy and sell its securities to shareowners on a daily basis; and (5) provide a wide range of services. The graph compares \$10,000 invested in the Fund on May 31, 2001 to an identical amount invested in the Standard & Poor's Idaho Municipal Bond Index, which reflects the types of securities in which the Fund invests. The graph shows that an investment in the Fund would have risen to \$14,968 versus \$16,972 in the S&P Idaho Municipal Bond Index.

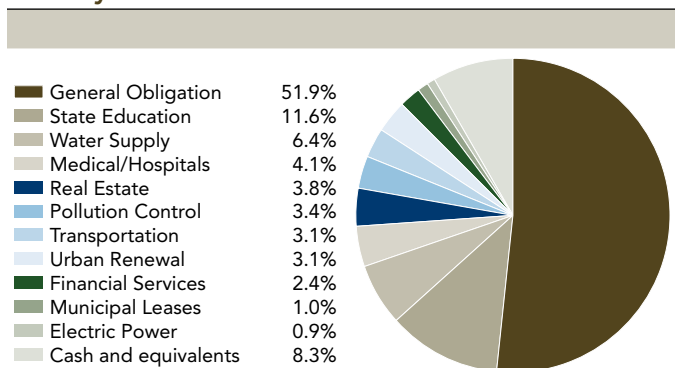
**Past performance does not guarantee future results.** The "Growth of \$10,000" graph and "Average Annual Returns" performance table assume the reinvestment of dividends and capital gains. They do not reflect the deduction of taxes that a shareowner might pay on fund distributions or the redemption of fund shares, nor do they reflect the potential deduction of a 2% redemption fee on shares held less than 90 calendar days.

<sup>1</sup> By regulation, the expense ratio shown in this table is as of the Fund's most recent prospectus which is dated March 25, 2011, and incorporates results for the fiscal year ended November 30, 2010. The ratio presented in this table differs from expense ratios shown elsewhere in this report as they represent different periods.

### Fund Objective

Idaho Tax-Exempt Fund seeks to provide income free from federal income, federal alternative minimum, and Idaho state income taxes, with a secondary objective of capital preservation.

### Industry Allocation



Industry weightings are shown as a percentage of net assets.

### Top Ten Holdings

	% of Fund Assets
Ada & Canyon Cos. JSD #3 Kuna 5.00% due 09/15/2019	3.6%
Madison County SCD #321 Rexburg 4.50% due 08/15/2024	2.8%
Boise State University Revenue 5.00% due 04/01/2034	2.6%
Payette County SCD #373 5.00% due 09/15/2024	2.5%
Owyhee & Elmore Cos. JSD #365 Grand View 4.00% due 08/15/2027	2.5%
Pocatello ID Water Revenue 4.75% due 02/01/2026	2.4%
Canyon County SCD #139 Vallivue 4.35% due 09/15/2025	2.4%
Canyon County SCD #131 Nampa 4.75% due 08/15/2019	2.3%
Valley & Adams Cos. JSD #421 McCall 4.50% due 08/01/2024	2.0%
Bingham County SCD #55 Blackfoot 4.65% due 08/01/2017	2.0%

## Schedule of Investments

### Tax-Exempt Municipal Bonds

Issuer	Coupon/Maturity	Face Amount	Market Value	Percentage of Assets
<b>Electric Power</b>				
Idaho Falls Electric Revenue	6.75% due 04/01/2019	\$120,000	\$133,969	0.9%
<b>Financial Services</b>				
Boise City General Fund Revenue Series A	5.20% due 12/01/2017	160,000	162,898	1.1%
Boise City General Fund Revenue Series A	5.25% due 12/01/2018	100,000	101,745	0.7%
Idaho Bond Bank Authority <sup>1</sup>	4.00% due 09/15/2019	90,000	97,897	0.6%
		350,000	362,540	2.4%
<b>General Obligation</b>				
Ada & Canyon Cos. JSD #2 Meridian	5.00% due 08/15/2020	165,000	182,804	1.2%
Ada & Canyon Cos. JSD #2 Meridian	5.00% due 08/15/2021	155,000	171,069	1.1%
Ada & Canyon Cos. JSD #2 Meridian <sup>1</sup>	5.50% due 07/30/2015	50,000	58,175	0.4%
Ada & Canyon Cos. JSD #3 Kuna	5.00% due 09/15/2019	500,000	551,900	3.6%
Adams & Washington Cos. JSD #432	4.00% due 08/15/2019	100,000	107,639	0.7%
Bingham County SCD #52 Snake HS	4.00% due 09/01/2020	250,000	273,660	1.8%
Bingham County SCD #52 Snake HS	4.00% due 09/01/2027	200,000	204,668	1.4%
Bingham County SCD #55 Blackfoot	4.65% due 08/01/2017	285,000	299,598	2.0%
Blaine County ID Series A	4.05% due 08/01/2023	150,000	157,932	1.0%
Bonneville & Bingham Cos. JSD #93	4.50% due 09/15/2016	150,000	168,599	1.1%
Boundary County SCD #101	4.00% due 08/15/2021	240,000	255,295	1.7%
Canyon County SCD #131 Nampa	4.75% due 08/15/2019	325,000	346,528	2.3%
Canyon County SCD #131 Nampa	5.00% due 08/15/2023	105,000	111,730	0.7%
Canyon County SCD #134 Middleton	4.65% due 07/31/2016	170,000	185,337	1.2%
Canyon County SCD #139 Vallivue	4.35% due 09/15/2025	350,000	358,446	2.4%
Fremont & Madison Cos. JSD #215	4.00% due 08/15/2019	200,000	219,820	1.4%
Fremont & Madison Cos. JSD #215	4.125% due 09/01/2024	130,000	137,195	0.9%
Jefferson & Madison Cos. SCD #251 Rigby	4.25% due 09/01/2024	100,000	106,320	0.7%
Jerome, Lincoln, & Gooding Cos. JSD #261	3.75% due 09/15/2018	125,000	134,869	0.9%
Jerome, Lincoln, & Gooding Cos. JSD #261	5.00% due 09/15/2022	250,000	275,275	1.8%
Kootenai-Shoshone Area Libraries	4.25% due 08/01/2021	220,000	231,202	1.5%
Latah, Nez Perce & Clearwater JSD #283	4.50% due 08/15/2027	190,000	201,618	1.3%
Lemhi County	4.20% due 08/01/2015	100,000	103,408	0.7%
Madison County SCD #321 Rexburg	4.50% due 08/15/2024	410,000	425,203	2.8%
Madison County SCD #321 Rexburg	4.50% due 08/15/2026	250,000	255,790	1.7%
Meridian Free Library District	5.00% due 08/01/2015	100,000	100,662	0.7%
Minidoka & Jerome Cos. JSD #331	4.375% due 08/15/2024	225,000	230,400	1.5%
Minidoka & Jerome Cos. JSD #331	4.50% due 08/15/2025	160,000	163,563	1.1%
Minidoka & Jerome Cos. JSD #331 <sup>1</sup>	4.50% due 08/15/2018	75,000	80,338	0.5%
Minidoka & Jerome Cos. JSD #331 <sup>1</sup>	4.50% due 08/15/2020	75,000	78,638	0.5%
Nampa ID Series B	5.00% due 08/01/2020	200,000	213,350	1.4%
Owyhee & Canyon Cos. JSD #370 Homedale	4.55% due 08/15/2016	160,000	185,363	1.2%
Owyhee & Elmore Cos. JSD #365 Grand View	4.00% due 08/15/2027	350,000	371,962	2.5%
Payette County SCD #373	5.00% due 09/15/2024	350,000	376,505	2.5%
Twin Falls ID SCD 411	4.30% due 09/15/2025	120,000	124,648	0.8%
Valley & Adams Cos. JSD #421 McCall	4.50% due 08/01/2024	290,000	300,658	2.0%
Valley & Adams Cos. JSD #421 McCall	4.50% due 08/01/2022	135,000	141,708	0.9%
		7,410,000	7,891,875	51.9%
<b>Medical/Hospitals</b>				
Idaho Health Facility Authority Holy Cross Revenue	5.25% due 12/01/2014	110,000	110,365	0.7%
Idaho Health Facility Authority Holy Cross Revenue	5.00% due 12/01/2022	115,000	115,340	0.8%
Idaho Health Facility Authority Holy Cross Revenue <sup>1</sup>	5.00% due 12/01/2028	50,000	49,830	0.3%

Continued on next page.

## Schedule of Investments

### Tax-Exempt Municipal Bonds

Issuer	Coupon/Maturity	Face Amount	Market Value	Percentage of Assets
<b>Medical/Hospitals (continued)</b>				
Idaho Health Facility Authority Revenue	6.00% due 12/01/2023	\$200,000	\$224,580	1.5%
Idaho Health Facility Authority Revenue Group B	6.25% due 12/01/2033	115,000	125,619	0.8%
		590,000	625,734	4.1%
<b>Municipal Leases</b>				
Nez Perce County COP	4.50% due 02/01/2021	150,000	152,541	1.0%
<b>Pollution Control</b>				
Caldwell ID Par Lien Sewer Revenue 2010	4.50% due 09/01/2019	100,000	112,583	0.7%
Idaho Bond Bank Authority Revenue Series A	4.30% due 09/01/2022	135,000	139,790	0.9%
Idaho Bond Bank Authority Revenue Series A <sup>1</sup>	4.125% due 09/15/2023	75,000	78,334	0.5%
Moscow ID Sewer Revenue	4.45% due 05/01/2028	200,000	206,724	1.3%
		510,000	537,431	3.4%
<b>Real Estate</b>				
Idaho Housing & Finance Association	4.80% due 06/01/2017	100,000	104,485	0.7%
Idaho Housing & Finance Association <sup>1</sup>	5.00% due 07/15/2027	50,000	52,749	0.3%
Idaho Housing & Finance Association <sup>1</sup>	5.65% due 07/02/2028	85,000	87,165	0.6%
Idaho State Building Authority Revenue	4.50% due 09/01/2023	110,000	112,612	0.7%
Post Falls LID SPA	5.00% due 05/01/2021	240,000	224,465	1.5%
		585,000	581,476	3.8%
<b>State Education</b>				
Boise State University Revenue	4.50% due 04/01/2027	250,000	257,215	1.7%
Boise State University Revenue	5.00% due 04/01/2034	385,000	396,277	2.6%
Idaho State University Revenue	4.90% due 04/01/2017	150,000	151,958	1.0%
Idaho State University Revenue, Series B	4.625% due 04/01/2024	220,000	227,003	1.5%
University of Idaho Revenue	5.00% due 04/02/2028	225,000	235,948	1.6%
University of Idaho Revenue Series A	5.00% due 04/01/2019	200,000	214,880	1.4%
University of Idaho Revenue Series A	5.00% due 04/01/2020	260,000	277,111	1.8%
		1,690,000	1,760,392	11.6%
<b>Transportation</b>				
Idaho Housing & Finance Association	4.60% due 07/15/2023	250,000	264,920	1.7%
Idaho Housing & Finance Association	5.00% due 07/15/2024	200,000	211,534	1.4%
		450,000	476,454	3.1%
<b>Urban Renewal</b>				
Boise City Urban Renewal Agency Lease Revenue	5.00% due 08/15/2020	160,000	171,944	1.1%
Boise City Urban Renewal Agency Lease Revenue <sup>1</sup>	5.00% due 08/15/2021	90,000	96,126	0.6%
Jerome Urban Renewal District Revenue Series A	5.40% due 09/01/2013	200,000	201,590	1.4%
		450,000	469,660	3.1%
<b>Water Supply</b>				
Blackfoot ID COP	5.80% due 09/01/2018	135,000	135,340	0.9%
Idaho Bond Bank Authority Revenue	4.00% due 09/15/2024	100,000	103,079	0.7%
Idaho Bond Bank Authority Revenue	5.00% due 09/15/2026	250,000	264,960	1.7%
Pocatello ID Water Revenue	4.50% due 02/01/2024	100,000	102,482	0.7%
Pocatello ID Water Revenue	4.75% due 02/01/2026	350,000	361,270	2.4%
		935,000	967,131	6.4%
Total investments	(Cost=\$13,483,136)	\$13,240,000	13,959,203	91.7%
Other assets (net of liabilities)			1,255,949	8.3%
<b>Total net assets (100%)</b>			<b>\$15,215,152</b>	<b>100.0%</b>

<sup>1</sup> Fair valued. See page 9

## Statement of Assets and Liabilities

As of May 31, 2011

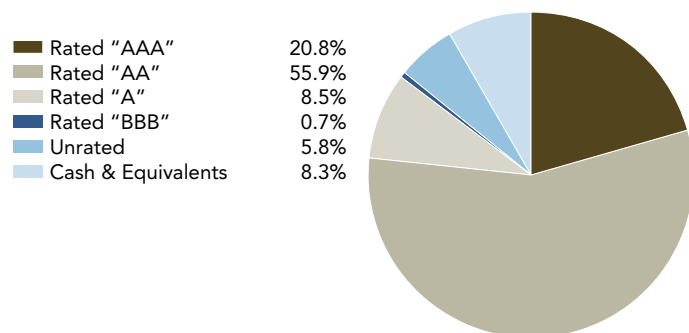
Statement of Assets and Liabilities	
<b>Assets</b>	
Investments in securities, at value (Cost \$13,483,136)	\$13,959,203
Cash	1,105,085
Interest receivable	173,056
Receivable for Fund shares sold	15,200
Insurance reserve premium	801
<b>Total assets</b>	<b>15,253,345</b>
<b>Liabilities</b>	
Payable for Fund shares redeemed	11,791
Accrued expenses	10,788
Distributions payable	8,967
Payable to affiliates	6,647
<b>Total liabilities</b>	<b>38,193</b>
<b>Net assets</b>	<b>\$15,215,152</b>
<b>Analysis of net assets</b>	
Paid-in capital (unlimited shares authorized, without par value)	\$14,723,864
Unrealized net appreciation on investments	476,067
Accumulated net realized gain	11,379
Undistributed tax free income	3,842
<b>Net assets applicable to Fund shares outstanding</b>	<b>\$15,215,152</b>
<b>Fund shares outstanding</b>	<b>2,794,258</b>
<b>Net asset value, offering, and redemption price per share</b>	<b>\$5.45</b>

## Statement of Operations

Period ended May 31, 2011

Statement of Operations	
<b>Investment income</b>	
Interest income	\$294,875
<b>Gross investment income</b>	<b>294,875</b>
<b>Expenses</b>	
Investment adviser fees	36,937
Audit fees	2,258
Printing and postage	1,814
Other expenses	1,454
Trustee fees	960
Shareholder servicing	865
Filing and registration fees	846
Chief Compliance Officer expenses	845
Custodian fees	354
Retirement plan custodial fees	37
Legal fees	6
<b>Total gross expenses</b>	<b>46,376</b>
Less custodian fees credits	(354)
<b>Net expenses</b>	<b>46,022</b>
<b>Net investment income</b>	<b>\$248,853</b>
<b>Net realized gain from investments</b>	<b>\$11,379</b>
<b>Net increase in unrealized appreciation on investments</b>	<b>17,531</b>
<b>Net gain on investments</b>	<b>\$28,910</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$277,763</b>

## Bond Quality Diversification



Based on net assets as of May 31, 2011.

Source: Moody's Investors Services. When ratings are not available from Moody's, Standard and Poor's ratings are used as a supplemental source.

## Statements of Changes of Net Assets

Period ended May 31, 2011

Year ended Nov. 30, 2010

Increase (decrease) in net assets from operations:		
<b>From operations</b>		
Net investment income	\$248,853	\$485,264
Net realized gain on investments	11,379	-
Net increase (decrease) in unrealized appreciation	17,531	(10,068)
Net increase in net assets	277,763	475,196
<b>Distributions to shareholders from</b>		
Net investment income	(248,853)	(481,474)
Capital gains distributions	-	(2,357)
Total distributions	(248,853)	(483,831)
<b>Capital share transactions</b>		
Proceeds from sales of shares	1,347,740	1,740,420
Value of shares issued in reinvestment of dividends	196,150	375,933
Early redemption fees retained	-	106
Cost of shares redeemed	(1,587,470)	(1,487,732)
Net increase (decrease) in net assets	(43,580)	628,727
<b>Total increase (decrease) in net assets</b>	<b>(14,670)</b>	<b>620,092</b>
<b>Net assets</b>		
Beginning of period	15,229,822	14,609,730
End of period	15,215,152	15,229,822
Undistributed tax free income	\$3,842	\$3,842
<b>Shares of the Fund sold and redeemed</b>		
Number of shares sold	252,294	319,277
Number of shares issued in reinvestment of dividends	36,572	68,783
Number of shares redeemed	(300,034)	(271,856)
<b>Net increase (decrease) in number of shares outstanding</b>	<b>(11,168)</b>	<b>116,204</b>

## Financial Highlights

Selected data per share of outstanding capital stock throughout each period:

	Period ended	For Year Ended November 30,				
	May 31, 2011	2010	2009	2008	2007	2006
<b>Net asset value at beginning of period</b>	<b>\$5.43</b>	<b>\$5.43</b>	<b>\$4.94</b>	<b>\$5.30</b>	<b>\$5.32</b>	<b>\$5.27</b>
<b>Income from investment operations</b>						
Net investment income	0.09	0.17	0.17	0.18	0.18	0.18
Net gains (losses) on securities (both realized & unrealized)	0.02	-	0.49	(0.36)	(0.02)	0.06
<b>Total from investment operations</b>	<b>0.11</b>	<b>0.17</b>	<b>0.66</b>	<b>(0.18)</b>	<b>0.16</b>	<b>0.24</b>
<b>Less distributions</b>						
Dividends (from net investment income)	(0.09)	(0.17)	(0.17)	(0.18)	(0.18)	(0.18)
Distributions (from capital gains)	-	0.00 <sup>1</sup>	-	-	-	(0.01)
<b>Total distributions</b>	<b>(0.09)</b>	<b>(0.17)</b>	<b>(0.17)</b>	<b>(0.18)</b>	<b>(0.18)</b>	<b>(0.19)</b>
Paid-in capital from early redemption fees	-	0.00 <sup>1</sup>	0.00 <sup>1</sup>	0.00 <sup>1</sup>	0.00 <sup>1</sup>	0.00 <sup>1</sup>
<b>Net asset value at end of period</b>	<b>\$5.45</b>	<b>\$5.43</b>	<b>\$5.43</b>	<b>\$4.94</b>	<b>\$5.30</b>	<b>\$5.32</b>
<b>Total return</b>	<b>2.06%</b>	<b>3.26%</b>	<b>13.46%</b>	<b>(3.36)%</b>	<b>3.02%</b>	<b>4.66%</b>
<b>Ratios / supplemental data</b>						
Net assets (\$000), end of period	\$15,215	\$15,230	\$14,610	\$11,774	\$10,016	\$8,783
Ratio of expenses to average net assets						
Before custodian credits	0.31%	0.74%	0.85%	0.77%	0.89%	0.87%
After custodian credits	0.31%	0.73%	0.84%	0.76%	0.87%	0.83%
Ratio of net investment income after custodian credits to average net assets	1.68%	3.23%	3.19%	3.51%	3.35%	3.40%
<b>Portfolio turnover rate</b>	<b>0%</b>	<b>2%</b>	<b>3%</b>	<b>7%</b>	<b>6%</b>	<b>24%</b>

<sup>1</sup>Amount is less than \$0.01

## Notes To Financial Statements

### Note 1 — Organization

Saturna Investment Trust (the "Trust") was established under Washington State Law as a Business Trust on February 20, 1987. The Trust is registered as a no-load, open-end series investment company under the Investment Company Act of 1940, as amended. Five portfolios have been created to date in addition to Idaho Tax-Exempt Fund (the "Fund"). The other five portfolios are offered through a separate prospectus and the results of those funds are contained in a separate report.

The Idaho Tax-Exempt Fund was first authorized to sell shares of beneficial interest on September 4, 1987. The investment objective of the Fund is to provide income free from federal income, federal alternative minimum, and Idaho state income taxes, with a secondary objective of capital preservation.

### Note 2 — Unaudited Information

The information in this interim report has not been subjected to independent audit.

### Note 3 — Significant Accounting Policies

The following is a summary of the significant accounting policies, in conformity with accounting principles generally accepted in the United States of America, which are consistently followed by the Fund in preparation of its financial statements.

#### Security valuation:

Debt securities are valued using bid-side valuations provided by an independent service. The service determines valuations using a matrix. This technique considers such factors as yields or prices of bonds of comparable quality, type of issue, coupon maturity, ratings, trading activity, and general market conditions. In the absence of a valuation from an independent service for a security, a fair value for such security is determined in good faith by or under the direction of the Board of Trustees.

#### Share valuation:

The net asset value ("NAV") per share of the Fund is calculated by dividing the sum of the value of the securities held by the Fund, plus cash or other assets, minus all liabilities (including estimated accrued expenses) by the total number of shares outstanding for the Fund, rounded to the nearest cent. The Fund's shares are not priced or traded on days the New York Stock Exchange is closed. The NAV is the offering and redemption price per share.

The Trustees have adopted certain policies and procedures with respect to frequent trading of Fund shares. The Fund is intended for long-term investment and does not permit rapid trading of its shares. To discourage speculation, shares held less than 90 calendar days, including those held in omnibus accounts at intermediaries, may be assessed a 2% early-redemption fee (payable to the Fund) when redeemed. These fees are

deducted from the redemption proceeds otherwise payable to the shareowner and retained by the Fund as paid-in capital and included in the daily NAV calculation. The Fund cannot always identify all intermediaries, or detect or prevent trading that violates the Frequent Trading Policy.

#### Fair value measurements:

The Fund has adopted authoritative fair valuation accounting standards which establish an authoritative definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value and a discussion in changes in valuation techniques and related inputs during the period. These inputs are summarized in the three broad levels listed below.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access.

Level 2 – Observable inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Trust's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the market place, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

## Notes To Financial Statements (continued)

The following table is a summary of the inputs used as of May 31, 2011 in valuing the Fund's investments carried at value:

Fair Value Inputs	Total	Level 1 Quoted Price	Level 2 Significant Observable Input	Level 3 Significant Unobservable Input
Municipal Bonds	\$13,959,203	\$-	\$13,279,951	\$679,252
<b>Total Assets</b>	<b>\$13,959,203</b>	<b>\$-</b>	<b>\$13,279,951</b>	<b>\$679,252</b>

During the period ended May 31, 2011, the Fund had no transfers between Level 1 and Level 2.

Level 3 Roll-Forward Municipal Securities	
Beginning balance	\$683,176
Total unrealized gains or losses	1,076
Purchases	-
Maturity/call	(5,000)
Transfers in to and/or out of level 3	-
<b>Ending balance</b>	<b>\$679,252</b>

Total Face Value	Adjustment to Price
Under 10,000	-0.750%
10,000-24,999	-0.625%
25,000-49,999	-0.500%
50,000-74,999	-0.375%
75,000-99,999	-0.250%
100,000 and up	none

### New accounting pronouncement:

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06 "Improving Disclosures about Fair Value Measurements." ASU No. 2010-06 amends FASB Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures*, to require additional disclosures regarding fair value measurements. Effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, entities will need to disclose information about purchases, sales issuances and settlements of Level 3 securities on a gross basis rather than a net basis as currently required. Management is currently evaluating the impact ASU No. 2010-06 will have on the Funds' financial statement disclosures.

In May 2011, FASB issued ASU No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements" in GAAP and the International Financial Reporting Standards ("IFRSs"). ASU No. 2011-04 amends FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, to establish common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. ASU No. 2011-04 is effective for fiscal years beginning after December 15, 2011, and for interim periods within those fiscal years. Management is currently evaluating the impact these amendments may have on the Funds' financial statements.

### Odd Lots:

The bid-side valuations provided by the independent pricing service are for institutional "round-lot" holdings ("Round Lots"). Round Lots consist of 100 bonds (approximately \$100,000 each). Some of the Fund's holdings consist of less than a Round Lot and are considered "Odd Lots." Odd Lots trade at a discount to Round Lots to compensate for the effect of the fixed costs associated with any trade. To reflect this discount, the Fund applies a discount to the valuation of Odd Lot holdings as shown in the following chart.

### Income taxes:

As a qualified investment company under Subchapter M of the Internal Revenue Code, the Fund is not subject to income taxes to the extent that it distributes all of its investment income. It is the Fund's policy to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all its taxable and tax-exempt income to its shareowners. As the Fund intends to meet requirements for tax-free income dividends, and the requirements of the Idaho Department of Revenue for income dividends free of Idaho state income tax, no income tax provisions are required.

There is no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken on the tax return for the fiscal year-end November 30, 2010, or for any other tax years which are open for exam. As of May 31, 2011, open tax years include the tax years ended November 30, 2008, through 2010. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the period, the Fund did not incur any interest or penalties.

### Derivative instruments and hedging activities:

The Funds have adopted the financial reporting rules and regulations that require enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position.

During the period ended May 31, 2011, the Fund did not hold any derivative instruments.

### Distributions to shareowners:

The Fund's dividends to shareowners from net investment income are paid daily and distributed on the last business day of each month.

## Notes To Financial Statements (continued)

Distributions of capital gains, if any, are made at least annually, and as required to comply with federal excise tax requirements. Distributions to shareowners are determined in accordance with income tax regulations, and are recorded on the ex-dividend date. When distributed at month-end, dividends are normally reinvested without charge in additional shares of the Fund, although shareowners may elect to take dividends in cash.

### 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 increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

### Other:

The ability of issuers of debt securities held by the Fund to meet their obligations may be affected by economic and political developments in the State of Idaho.

Interest income is recognized on an accrual basis. Discounts on securities purchased are accreted and premiums are amortized over the lives of the respective securities.

Security transactions are recorded on trade date. Realized gains and losses on sales of securities are recorded on the identified cost basis.

### Note 4 — Transactions with Affiliated Persons

Under a contract approved annually by the Fund's independent trustees, Saturna Capital provides investment advisory services and certain other administrative and distribution services to conduct the Fund's business. For such services, the Fund pays an annual fee equal to 0.50% of its average daily net assets. For the period ended May 31, 2011, the Fund incurred advisory fee expenses of \$36,937. Expenses incurred by the Trust on behalf of the Fund (e.g., legal fees) are allocated to the Fund and the other Funds of the Trust on the basis of relative daily average net assets.

Saturna Capital also acts as transfer agent for the Fund, for which it was paid \$865 for the period ended May 31, 2011. Recently, Saturna Capital voluntarily elected to waive the transfer agent fee for an indefinite period, which may cease at Saturna Capital's election, to reduce the Fund's operating expenses.

Saturna Brokerage Services, Inc. ("SBS"), a discount brokerage and subsidiary of Saturna Capital, is registered as a broker-dealer and acts as distributor for the Fund.

Saturna Trust Company ("STC"), a subsidiary of Saturna Capital, acts as a retirement plan custodian for Fund shareowners. For the six months ended May 31, 2011, the Fund incurred retirement plan custodial fees of \$37.

Nicholas Kaiser serves as a trustee and president of the Trust. Also a director and the chairman of Saturna Capital, he is not compensated by the Trust. For the period ended May 31, 2011, the Trust incurred compensation expenses of \$15,000 for the four independent Trustees. Idaho Tax-Exempt Fund paid \$960 of these total expenses.

The officers are paid by Saturna Capital, and not the Trust, except for Mr. James D. Winship, who is partially compensated by the Trust. Regulations require the Trust to designate a Chief Compliance Officer; Mr. James Winship was retained by the Trust during the period ended May 31, 2011. For the period, the Fund compensated Mr. Winship \$845 for his services.

On May 31, 2011, the trustees, officers, and their immediate families as a group directly or indirectly owned 7.22% of the outstanding shares of the Fund.

### Note 5 — Investments

During the period ended May 31, 2011, the Fund purchased \$0 of securities and sold/matured \$636,847 of securities.

### Note 6 — Distributions to Shareowners

The tax characteristics of distributions paid during the period ended May 31, 2011, and the fiscal year ended November 30, 2010 were as follows:

	Period ended May 31, 2011	2010
Tax-exempt income	\$248,853	\$480,495
Taxable income	-	679
Capital gain <sup>1</sup>	\$ -	\$2,357

<sup>1</sup>Long-Term Capital Gain dividend designated pursuant to Section 852(b)(3) of the Internal Revenue Code.

The cost basis of investments for federal income tax purposes at May 31, 2011, were as follows:

Cost of investments	\$13,483,136
Gross unrealized appreciation	508,770
Gross unrealized depreciation	32,703
Net unrealized appreciation	\$476,067

As of November 30, 2010, the components of distributable earnings on a tax basis were as follows:

Net unrealized appreciation	\$458,536
Undistributed tax free income	3,842
Total distributable earnings	3,842
Total accumulated earnings	\$462,378

## **Notes To Financial Statements (continued)**

### **Note 7 — Custodian**

Under the agreement in place with the trust's custodian, BNY Mellon, custody fees are reduced by credits for cash balances. Such reduction for the period ended May 31, 2011, amounted to \$354.

### **Note 8 — Subsequent Events**

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued. There were no events or transactions during the period that materially impacted the amounts or disclosures in the Fund's financial statements.

## Expenses

All mutual funds have operating expenses. As an Idaho Tax-Exempt Fund shareowner, you incur ongoing costs, including management fees and other fund expenses such as shareowner reports (like this one). Operating expenses, which are deducted from a fund's gross earnings, directly reduce the investment return of a fund. All mutual funds (unlike some other financial investments) only report their results after deduction of operating expenses.

With the Idaho Tax-Exempt Fund, unlike many mutual funds, you do not incur sales charges (loads) on investments, reinvested dividends, or other distributions. You do not incur redemption fees, exchange fees, or fees related to Saturna Individual Retirement Accounts. However, to discourage speculation, you may incur a 2% fee for redemption of shares held less than 90 calendar days. You may incur fees related to extra services requested by you for your account, such as a checkbook to use for redemptions or bank wires. The examples below are intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

### Example

The following example is based on an investment of \$1,000 invested at the beginning of the semi-annual period and held for six months (December 1, 2010, to May 31, 2011).

### Actual Expenses

The first line provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you have invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account

value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period. The Fund also charges the following fees for extra services rendered on request, which you may need to add to determine your total expenses: \$10 per checkbook, \$25 per domestic bank wire, \$35 per international bank wire, or overnight courier delivery charges.

### Hypothetical Example for Comparison Purposes

The second line provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio (based on the last six months) and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other mutual funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareowner reports of other mutual funds. You may wish to add other fees that are not included in the expenses shown in the table, such as charges for extra services like check writing and bank wires.

Please note that the expenses shown are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads), or exchange fees (note that Idaho Tax-Exempt Fund does not have any such transactional costs). Therefore, the "Hypothetical" line is useful in comparing ongoing costs only, and may not help you determine the relative total costs of owning different funds.

	Beginning Account Value [December 1, 2010]	Ending Account Value [May 31, 2011]	Expenses Paid During Period <sup>1</sup>
Actual	\$1,000.00	\$1,020.60	\$3.12
Hypothetical (5% annual return before expenses)	\$1,000.00	\$1,021.84	\$3.13

<sup>1</sup> Expenses are equal to Idaho Tax-Exempt Bond Fund's annualized expense ratio of 0.62% (based on the most recent semi-annual period of December 1, 2010, through May 31, 2011), multiplied by the average account value over the period, multiplied by 182/365 (to reflect the one-half year period).

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## Availability of Fund Portfolio Information

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- (1) The Fund files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q.
- (2) The Fund's Form N-Q is available on the SEC's website at [www.sec.gov](http://www.sec.gov) and at [www.idahotaxexemptfund.com](http://www.idahotaxexemptfund.com).
- (3) The Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800/SEC-0330.
- (4) The Fund makes a complete schedule of portfolio holdings after the end of each month available to investors at [www.idahotaxexemptfund.com](http://www.idahotaxexemptfund.com).

## Availability of Proxy Voting Information

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- (1) A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (a) without charge, upon request, by calling Saturna Capital at 1-800-728-8762; (b) on the Funds' website at [www.idahotaxexemptfund.com](http://www.idahotaxexemptfund.com); and (c) on the SEC's website at [www.sec.gov](http://www.sec.gov).
- (2) Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (a) without charge, upon request, by calling Saturna Capital at 1-800-728-8762; (b) on the Funds' website at [www.idahotaxexemptfund.com](http://www.idahotaxexemptfund.com); and (c) on the SEC's website at [www.sec.gov](http://www.sec.gov).

## Privacy Statement

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At Saturna Capital, we understand the importance of maintaining the privacy of your financial information. We want to assure you that we protect the confidentiality of any personal information that you share with us. In addition, we do not sell information about our current or former customers.

In the course of our relationship, we gather certain nonpublic information about you, including your name, address, investment choices, and account information. We do not disclose your information to unaffiliated third parties unless it is necessary to process a transaction; service your account; deliver your account statements, shareowner reports, and other information; or as required by law. When we disclose information to unaffiliated third parties, we require a contract to restrict the companies' use of customer information and from sharing or using it for any purposes other than performing the services for which they were required.

We may share information within the Saturna Capital family of companies in the course of informing you about products or services that may address your investing needs.

We maintain our own technology resources to minimize the need for any third party services, and restrict access to information within Saturna. We maintain physical, electronic, and procedural safeguards to guard your personal information. If you have any questions or concerns about the security or privacy of your information please call us at 1-800/SATURNA (1-800-728-8762).

## Householding Policy

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To reduce expenses, we may mail only one copy of the Fund's prospectus, and each annual and semi-annual report, and proxy statements when necessary, to those addresses shared by two or more accounts. If you wish to receive individual and/or more copies of these documents, please call us at 800/SATURNA or write to us at Saturna Capital/Idaho Tax-Exempt Fund, P.O. Box N, Bellingham, WA 98227. We will begin sending you individual copies 30 days after receiving your request.

If you are currently receiving multiple copies and wish to receive only one copy, please call us at 800/SATURNA or write to us at Saturna Capital/Idaho Tax-Exempt Fund, P.O. Box N, Bellingham, WA 98227. We will begin sending you a single copy with subsequent report mailings.

[www.idahotaxexemptfund.com](http://www.idahotaxexemptfund.com)



Saturna Brokerage Services, Distributor