

SEMI-ANNUAL REPORT (unaudited)

June 30, 2004

# Mosaic

## *Equity Trust*

Mosaic Investors Fund  
Mosaic Balanced Fund  
Mosaic Mid-Cap Fund  
Mosaic Foresight Fund



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

equity trust

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# Letter to Shareholders



*Katherine  
Frank*

Many stock market investors are asking why the 2004 market is so tepid, when it appears that the economy is growing nicely. A number of factors have conspired to bring us to this point in the market.

First of all, 2003 had outstanding returns, and it is only natural to see a period of consolidation after major market moves. Other reasons include geopolitical concerns, the presidential election, rising interest rates, high valuation levels and increasing inflationary pressures. Likely each factor is contributing, but we believe the threat of higher interest rates weighs most heavily on the market. Rising rates not only tend to slow the economy and pressure corporate earnings, but also negatively impact equity valuations.

All of which is a prelude to a brief reexamination of Mosaic's stock selection philosophy. The money management business is increasingly competitive with over 6000 mutual funds and even more hedge funds. Portfolio managers are under significant pressure to outperform their benchmarks on a quarter to quarter basis. Wall Street's focus on quarterly earnings encourages much of corporate America to concentrate on short

term results and "beating the Street." It seems everyone wants instant gratification and reward. We believe this misguided objective works against the interests and the financial goals of most investors evident by studies which indicate sub-par performance for the average investor's portfolio over long time periods.

We believe over the long term a company's share price will follow the success of the company's business. We are not experts at measuring near-term market sentiment or gauging short-term business momentum. Rather we prefer to concentrate on evaluating business models, assessing management teams and analyzing financial statements. In fact, our long-term view often allows us to benefit from the industry's limited focus when a stock is overly punished for not living up to short-term expectations. Benjamin Graham made the observation that, "In the short run, the market is a voting machine, but in the long run it is a weighing machine." Our strength is not in judging a short term popularity contest, but in determining the enduring value of a business.

Thank you for your continued confidence in our management. We invite you to review the rest of this report for details on your fund or funds.

Sincerely,

A handwritten signature in dark ink, appearing to read "Katherine Frank". The signature is fluid and cursive, written over a light background.

Katherine Frank  
President

## Review of Period

The six-month period ended June 30, 2004 showed gains for all four funds in Equity Trust. Mid-Cap was up 6.24% for the six-month period; Balanced rose 2.52%; Investors was up 3.99% and Foresight returned a positive 1.59%. Over the same period, the S&P 500 Index advanced 3.44%.

## Market in Review

Perhaps the most significant market event of the six-month period occurred on its last day, as the Federal Reserve Board raised the Fed Funds rate for the first time in four years.

The Fed suggested it will continue to raise rates "at a pace that is likely to be measured...output is continuing to expand at a solid pace and labor market conditions have improved." After fears of deflation last year, the Fed believes the risks to economic growth and inflation in coming months are balanced. The move was widely anticipated by the markets, as demonstrated by the muted market response to the Fed's actions. Stocks finished little changed for the quarter, increasing just 1.72%, and 3.44% for the six months, as measured by the S&P 500.

While we began the year with skyrocketing growth expectations, it is increasingly evident that the profit cycle is peaking. To begin with, year-over-year earnings comparisons will become increasingly more difficult starting

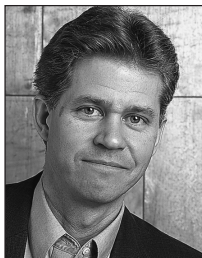
in the second half of 2004. Margins are under pressure from a number of fronts. With 1.2 million new jobs created this year, labor costs are on the rise. In addition, anecdotal evidence suggests that consumer spending is slowly beginning to wane. On top of this, underlying inflation has been mounting as raw materials, commodities, services and energy prices all spiked this year.

Historically, when earnings growth begins to decelerate the market favors higher-quality, more stable growth companies. By comparison, this has not been the case yet in the current market. Instead, the market was led by more cyclical stocks in the industrial and energy sectors, as well as the volatile telecommunications sector. Sectors where we have higher exposure, including financials and health care, were among the trailing sectors.

## Outlook

As we move into the second half of the year, we are encouraged by the strength in the economy and the prospect for continued solid earnings growth, albeit at a slower pace. However, higher interest rates, increasing inflationary pressure, threats of terrorism and continued uncertainty in Iraq will continue to weigh on investors' minds and act as a headwind for the markets. Unlike the late 90s when multiple expansion propelled stock prices higher, basic fundamentals and solid earnings will likely be the driver of stock prices in the months ahead.

## manager Jay Sekelsky



Jay  
Sekelsky

### Can you summarize the performance of the funds in Equity Trust for the first six months of 2004?

In the end, the funds produced solid performance in a market that was oftentimes uncertain. Considering recent market history (three years of negative returns followed by a very strong 2003), it was only natural to

see a period of consolidation and reflection. The trend of smaller stocks performing better than larger companies continued to follow suit in 2004. Mosaic Investors was slightly ahead of its S&P 500 benchmark for the six-month period, while Mid-Cap ended the six months just slightly behind its benchmark, the Russell Mid-Cap Index. Considering that cyclical and more speculative sectors led the market for much of this period, we were pleased to hold our own. With the bond market sliding in response to rising rates, Balanced and Foresight, which hold significant fixed-income positions, had smaller positive returns. Both showed relative strength in their bond holdings due to our active management of these portfolios, which were positioned defensively in anticipation of a rising interest rate environment.

## Mosaic Investors

### How did the fund perform for the first six months of 2004?

Mosaic Investors rose 3.99% for the period ended June 30, 2004. This return was a bit ahead of the broader market as measured by the S&P 500, which was up 3.44%. It was well ahead of its peers, represented by the Lipper Large-Cap Core Index, which gained 2.24%.

### Have you made any significant changes to the portfolio since December 31, 2003?

We seek to buy companies that we can hold for long periods. Our last audited report (December 31, 2003) noted that our turnover rate for the fund in 2003 was 29%, which projects to an average holding of some three years. The average for all domestic equity funds is 108%, a rate which translates into holding stocks an average of less than a year. This stability is reflected in the top-ten

holdings from six months ago, all of which are retained in the portfolio (although in different percentages).

We did have some significant additions to Investors during the period. We added Fiserv, Inc., a Milwaukee-based data and technology firm which provides information management technology to the financial industry. The company also has a significant business in providing claims processing and administration of health care plans for corporations.

Fiserv is a company that we've long admired, and have held in the past. What we believe is temporary price weakness gave us the opportunity to add it to Investors. We also added Intuit, a well-established software company. Intuit Corporation is a provider of small business, tax preparation and personal finance software products and services that simplify complex financial tasks for small businesses, consumers and accounting professionals. The company's most recognizable

## Letter to Shareholders (continued)

offerings are Quicken personal and business financial software and TurboTax tax preparation software. Strong brand recognition of its key products and the ever changing nature of tax laws have created a high barrier to entry in Intuit's niche markets. We believe the valuation has come down to a level that offers attractive potential.

We also took advantage of a dip in stock valuation to purchase Taiwan Semiconductor, one of the world's leading computer chip manufacturers. We keep a keen eye on the Technology Sector, and at times it has been one of our largest areas of investment. Excessive valuations have kept our exposure to technology down for a number of years, but when reasonable pricing is available, we are pleased to take a stake in profitable tech companies, including our second-largest holding, Microsoft.

The market volatility exhibited over the past months presented opportunities to add to various holdings in companies which, in our view, remain attractive long term investments. On price weakness we added to Viacom Inc., Comcast Corporation and Liz Claiborne.

We sold Automatic Data Processing, Inc. as the stock met our upside price expectations. Additionally, Nokia was sold following a disappointing earnings report and outlook, which contrasted with recent management discussions. As a result, confidence in the ongoing investment thesis was significantly reduced as were the future investment merits of continuing to hold the stock.

### What holdings were the strongest contributors to fund performance?

We saw particular strength in our financial holdings, where our stocks soundly outperformed the overall sector. We sold Charter One Financial for a nice gain following an acquisition announcement from Citizens Financial. Another source of strength was MGIC Investment, a mortgage-insurance issuer, which benefited from the strong housing market and employment expansion,

which in turn improves the overall credit-worthiness of the company's loan pool.

Our health care holdings were also positive for the period, led by new purchase Baxter International and long-held Johnson & Johnson. Baxter develops and manufactures medical products related to blood and circulatory systems.

Results from consumer stocks were mixed, as retail spending appeared to soften during the period. Nevertheless, we had solid results from discounter Costco, which reported excellent results, including the first improvement in a number of years in administrative costs (such as salaries, payroll, and commissions).

### What holdings were the largest constraints on performance?

From a sector perspective, our lack of holdings in the hot Energy Sector and our underweighting in the Industrial Sector were relative constraints. We typically do not find the sort of consistency we demand in the

#### FUND-AT-A-GLANCE

**Objective:** Mosaic Investors seeks long-term capital appreciation through investments in large growth companies.

**Net Assets:** \$151.4 million

**Date of Inception:** November 1, 1978

**Ticker:** MINVX

#### TOP TEN STOCK HOLDINGS AS OF JUNE 30, 2004 FOR MOSAIC INVESTORS

|                                | % of net assets |
|--------------------------------|-----------------|
| Pfizer Inc . . . . .           | 4.04%           |
| Microsoft Corp . . . . .       | 3.78%           |
| Johnson & Johnson . . . . .    | 3.68%           |
| Berkshire Hathaway . . . . .   | 3.48%           |
| Comcast Corp . . . . .         | 3.45%           |
| MGIC Investment Corp . . . . . | 3.45%           |
| MBNA Corporation . . . . .     | 3.41%           |
| Liz Claiborne . . . . .        | 3.37%           |
| Freddie Mac . . . . .          | 3.35%           |
| First Data Corp . . . . .      | 3.34%           |

## Letter to Shareholders (continued)

highly cyclical Energy Sector. In terms of areas that we do invest, our consumer discretionary stocks were the greatest drag on performance, with media holdings having particular difficulty, due largely to soft advertising sales. However, this price weakness actually improved the attractiveness of these stocks

and we added to our holdings in Comcast and Viacom.

Although Nokia was a top performer in the first quarter of 2004, a series of negative announcements drove the price down in the second quarter, and we sold our stake in this manufacturer of cell phones.

## Mosaic Balanced

### How did Mosaic Balanced perform for the six-month period?

Mosaic Balanced returned 2.52% for the six months, with positive results from equities offsetting flat returns from the bond side of the portfolio. Over the same period, the average balanced fund, as tracked by the Lipper Balanced Fund Index, rose 2.25%. The fund retains its performance advantage over its peers for three and five years.

### Have you made any significant changes to the portfolio since December 31, 2003?

The stock holdings of Balanced mirror the holdings of Mosaic Investors, as discussed above. These holdings continue to focus on solid, well-established domestic companies that have proven their earning ability through difficult times. One of the factors in our management of Balanced is the mix of stocks and bonds, with 70% being the highest allowable percentage of stocks. We began the period holding 66.4% stocks and finished

the period at 62.9% in stocks. This does not represent a strategic switch, but is largely the result of an increased cash position due to the equity sales, and our patience in reinvesting into a market that appears to be generally fully valued. On the bond side, we are strongly defensive, as we have continued to maintain a short duration to help preserve capital should rates continue to rise.

### How did the stock holdings in Balanced contribute to overall performance?

The stock holdings in Balanced were positive for the period. The holdings mirror the stocks held in Mosaic Investors, discussed at some length above.

### TOP FIVE STOCK AND FIXED INCOME HOLDINGS AS OF JUNE 30, 2004 FOR MOSAIC BALANCED

|  | % of net assets |
|--|-----------------|
| <b>Top Five Stock Holdings</b><br>(62.9% of net assets in stocks)              |                 |
| Pfizer Inc . . . . .   | 2.88%           |
| Microsoft Corp . . . . .   | 2.74%           |
| Johnson & Johnson . . . . .  | 2.62%           |
| First Data Corp . . . . .  | 2.49%           |
| Berkshire Hathaway . . . . .   | 2.47%           |
| <b>Top Five Fixed Income Holdings</b><br>(29.1% of net assets in fixed income) |                 |
| US Treasury Note, 4.625%, 5/15/06 . . . . .                                    | 2.48%           |
| Fannie Mae, 6%, 12/15/05 . . . . .   | 2.09%           |
| Fannie Mae, 3.05%, 7/20/07 . . . . .   | 1.97%           |
| US Treasury Note, 5.875%, 11/15/05 . . . . .                                   | 1.67%           |
| Freddie Mac, 3.5%, 9/15/07 . . . . .   | 1.47%           |

### FUND-AT-A-GLANCE

**Objective:** Mosaic Balanced seeks to provide substantial current dividend income while providing opportunity for capital appreciation by investing in a combination of mid-to-large companies and government agency and investment grade corporate bonds.

**Net Assets:** \$25.1 million

**Date of Inception:** December 18, 1986

**Ticker:** BHBFX

### How did the bond holdings in Balanced contribute to overall performance?

Bond valuations rose in the first quarter of 2004 and then dipped sharply in the second quarter, producing a net negative result for most mutual fund bond investors. We saw only fractional losses from our bond portfolio, due to the defensive positioning

of our holdings. It is worth noting that even with the ups and downs in the bond market, the volatility of the stock market was still considerably greater over this period. A key reason for holding a balanced fund is the decrease in volatility (short-term risk) that bond holdings can provide, a function that we feel is best accomplished by active management of the bond portfolio.

## Mosaic Mid-Cap



*Rich  
Eisinger*

An interview with Rich Eisinger, co-manager of Mosaic Mid-Cap.

### How would you characterize the performance of Mosaic Mid-Cap so far in 2004?

In absolute terms, the fund's 6.24% return for the period was a nice boost after a strong 2003. The fund's performance was generally in line with our benchmark, the Russell Mid-Cap Index, which advanced 6.76% over the same period. We were well ahead of our peer group, as represented by the Lipper Mid-Cap Core Index, which advanced 4.05%. Our three and five year returns continued to handily outpace both the benchmark and our peer average.

### Have you made any significant changes to the portfolio since December 31, 2003?

We added five new names to the portfolio, while we sold all holdings in another six companies. Two of the holdings, Charter One

#### FUND-AT-A-GLANCE

**Objective:** Mosaic Mid-Cap seeks long-term capital appreciation through the investment in mid-sized growth companies.

**Net Assets:** \$77.6 million

**Date of Inception:** July 21, 1983

**Ticker:** GTSGX

Financial and Southtrust Corporation, were sold for nice profits in the wake of announcements of their acquisition. We also sold long-held Edwards Lifesciences Corporation for our favorite reason: reaching our projection for full valuation. We sold supermarket chain Kroger on our analysis that intense competition in this industry was likely to keep profits muted for the foreseeable future. We sold mortgage insurer MGIC Investment as we took profits from the stock's recent run-up. We also sold our position in communication services provider Allstream Inc. after it was acquired by Manitoba Telecom.

The new names in the portfolio are A.G. Edwards, Fiserv Inc., Intuit, IDT Corp., and John Wiley and Sons. Job expansion and an improving economy should be good news for individual-investor oriented broker A.G. Edwards. Fiserv is a Milwaukee-based data and technology firm which provides information management technology to the financial industry. The company also has a significant



## Letter to Shareholders (continued)

business in providing claims processing and administration of health care plans for corporations. Intuit is the software company best known for its well established personal finance titles Quicken and TurboTax. IDT is a diversified telecommunications and media company with low debt and solid revenues from a number of sources, with particular strength in calling cards. Publisher John Wiley is a leader in college textbook publishing and has been growing its international presence steadily. All of these companies share some of the basic qualities we seek in our portfolio: a history of profitability, steady earnings growth, a proven and defensible market niche and excellence in corporate governance and management.

### What holdings were the strongest contributors to fund performance?

The fund's largest weightings remain in the Financial and Consumer Discretionary Sectors. Although financials typically are not favored in a rising interest rate environment, the fund's financial holdings were the largest contributors to the positive performance for the period. Our financial holdings are weighted towards the insurance industry, and we had particularly solid results from our top-ten holdings White Mountains, up 10.88%; Markel, up 9.46%; and Willis Group, up 9.92%. Another top performing stock was Expeditors International of Washington, Inc. whose stock rose 31.20% percent for the period, as the international logistics concern benefited from globalization, particularly the increased shipping of goods between Asia and North America. We actually trimmed our holdings in Expeditors towards the end of the period on valuation concerns.

While consumer stocks were mixed in general, we saw nice positive returns from discounter Costco and YUM! Brands (Taco Bell, KFC and Pizza Hut). The area of the market that showed the greatest decline for

this period was Information Technology, where our underexposure was a relative positive.

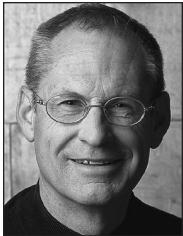
### What holdings were the largest constraints on performance?

Our underweighting in the leading Energy Sector was a hurdle for this period, as soaring energy prices gave this cyclical sector a boost. We tend to avoid cyclical stocks, because few of them demonstrate the sort of dependable earnings we require. An individual holding which had disappointing results was furniture retailer Ethan Allen, whose stock declined 14.26% on weak demand for higher-end furniture. This was compounded by industry-wide pricing pressure, requiring the firm to rely on promotional pricing strategies to move inventory and compete with foreign suppliers. Tiffany & Company, the famous jewelry retailer, which had seen a great run in 2003 (up more than 90%), dropped 18.47% during the first six months of 2004 due to concerns over the sustainability of high-end consumer spending around the world.

### TOP TEN STOCK HOLDINGS AS OF JUNE 30, 2004 FOR MOSAIC MID-CAP

|                             | % of net assets |
|-----------------------------|-----------------|
| White Mountains Ins. ....   | 4.57%           |
| Markel Corp. ....           | 4.41%           |
| Willis Group Holding ....   | 4.20%           |
| Costco Wholesale Corp. .... | 3.86%           |
| Hewitt Assoc. Inc. ....     | 3.80%           |
| Mercury General Corp. ....  | 3.51%           |
| Waste Management Inc. ....  | 3.50%           |
| Odyssey Reinsurance ....    | 3.44%           |
| Liberty Media Corp. ....    | 3.42%           |
| Liz Claiborne ....          | 3.42%           |

## Mosaic Foresight



Frank Burgess

An interview with Foresight manager and Madison Investment Advisors' founder and President, Frank Burgess.

### How would you characterize the performance of Foresight for the period?

With the bond market sliding and the stock market stuck in a relatively flat trendline, we were pleased to report positive returns of 1.59% for the first six months of 2004. Our short-term bonds held up well in the second quarter, and our stock selection avoided the most severe pitfalls of the market, which tended to be in the technology area.

### Have you made any significant changes to the portfolio since December 31, 2003?

From our perspective, the market rise of 2003 brought the stock market as a whole very close to full valuation. Add the tremendous uncertainties and anxieties that exist in the markets today, and you have a sense of why we were comfortable with a 34.6% short-term fixed income exposure at the end of the period. That fixed-income position is quite defensive, concentrated in short to intermediate government agencies. The stock side of the portfolio is concentrated in very solid domestic companies, which we feel can do well in all kinds of economic environments.

Among the notable portfolio changes was our sale of Home Depot in March, after the stock added about 3.6% to its 49% run-up in 2003. We sold Southtrust Corporation

### FUND-AT-A-GLANCE

**Objective:** Mosaic Foresight seeks long-term capital appreciation through investments in large growth companies while pursuing capital preservation through active management of market exposure.

**Net Assets:** \$4.7 million

**Date of Inception:** December 31, 1997

**Ticker:** GEWWX

at a nice gain following its acquisition announcement. We added stakes in Microsoft, Walgreen and insurance broker Willis Group.

### What were the major contributors to performance across the period?

We saw excellent results from a number of our holdings. Our top holding at the end of the period, mortgage insurer MGIC Investment Corp, was up 33.37% for the first six months of 2004. We also saw nice gains from Dover Corporation, which manufactures heavy industry components, data-processor First Data, and Southtrust Corporation, in the wake of its acquisition announcement.

On the down side, we saw negative returns from media conglomerate Liberty Media Corp., which suffered from the generally lackluster advertising environment. Other stocks that drifted down were broker Morgan Stanley, pharmaceutical Pfizer and supermarket chain Kroger.

### TOP FIVE STOCK HOLDINGS AS OF JUNE 30, 204 FOR MOSAIC FORESIGHT

(65.5% of net assets in stocks)

|                           | % of net assets |
|---------------------------|-----------------|
| MGIC Investment Corp..... | 5.20%           |
| First Data Corp.....      | 4.79%           |
| Morgan Stanley.....       | 4.46%           |
| Microsoft Corp.....       | 4.01%           |
| Washington Mutual.....    | 4.00%           |

# Investors Fund • Portfolio of Investments (unaudited)

|   | <u>NUMBER<br/>OF SHARES</u> | <u>VALUE</u> |  | <u>NUMBER<br/>OF SHARES</u> | <u>VALUE</u>         |
|---|-----------------------------|--------------|--|-----------------------------|----------------------|
| <b>COMMON STOCKS:</b>                             |                             |              |  |                             |                      |
| 88.7% of net assets                               |                             |              |  |                             |                      |
| <b>BANKS: 3.0%</b>                                |                             |              |  |                             |                      |
| Wells Fargo Co.                                   | 80,000                      | \$4,578,400  |  |                             |                      |
| <b>CONSUMER<br/>GOODS: 6.0%</b>                   |                             |              |  |                             |                      |
| Liz Claiborne                                     | 141,995                     | 5,108,980    |  |                             |                      |
| Mohawk Industries Inc.*                           | 53,325                      | 3,910,322    |  |                             |                      |
| <b>CONSUMER<br/>STAPLES: 4.0%</b>                 |                             |              |  |                             |                      |
| Kraft Foods                                       | 66,925                      | 2,120,184    |  |                             |                      |
| Walgreen Co                                       | 107,500                     | 3,892,575    |  |                             |                      |
| <b>FINANCIAL<br/>SERVICES: 8.6%</b>               |                             |              |  |                             |                      |
| Freddie Mac                                       | 80,090                      | 5,069,697    |  |                             |                      |
| MBNA Corp.  | 200,000                     | 5,158,000    |  |                             |                      |
| Morgan Stanley                                    | 52,475                      | 2,769,106    |  |                             |                      |
| <b>HEALTH CARE: 12.3%</b>                         |                             |              |  |                             |                      |
| Baxter International                              | 101,645                     | 3,507,769    |  |                             |                      |
| Johnson & Johnson                                 | 100,000                     | 5,570,000    |  |                             |                      |
| Merck & Co., Inc.                                 | 73,175                      | 3,475,812    |  |                             |                      |
| Pfizer, Inc.                                      | 178,385                     | 6,115,038    |  |                             |                      |
| <b>INDUSTRIAL: 5.1%</b>                           |                             |              |  |                             |                      |
| Dover Corp.                                       | 63,515                      | 2,673,981    |  |                             |                      |
| Waste Management Inc.                             | 164,650                     | 5,046,522    |  |                             |                      |
| <b>INSURANCE: 14.3%</b>                           |                             |              |  |                             |                      |
| AIG US  | 45,755                      | 3,261,416    |  |                             |                      |
| Berkshire Hathaway*                               | 1,785                       | 5,274,675    |  |                             |                      |
| MGIC Investment Corp.                             | 68,780                      | 5,217,651    |  |                             |                      |
| Markel Corp.*                                     | 12,750                      | 3,538,125    |  |                             |                      |
| Willis Group Holding                              | 120,010                     | 4,494,375    |  |                             |                      |
| <b>MEDIA: 12.9%</b>                               |                             |              |  |                             |                      |
| Comcast Corp.                                     | 189,065                     | 5,220,085    |  |                             |                      |
| Interactive Corp.*                                | 110,080                     | 3,317,811    |  |                             |                      |
| Liberty Media Corp.                               | 556,615                     | 5,003,969    |  |                             |                      |
| Liberty Media Int'l*                              | 26,330                      | 976,843      |  |                             |                      |
| Viacom  | 139,280                     | 4,975,082    |  |                             |                      |
| <b>RETAIL &amp;<br/>RESTAURANTS: 7.6%</b>         |                             |              |  |                             |                      |
| Costco Wholesale Corp.                            | 113,185                     | \$4,648,508  |  |                             |                      |
| McDonald's Corp.                                  | 164,870                     | 4,286,620    |  |                             |                      |
| Target Corp.                                      | 60,000                      | 2,548,200    |  |                             |                      |
| <b>TECHNOLOGY: 14.9%</b>                          |                             |              |  |                             |                      |
| First Data Corp                                   | 113,690                     | 5,061,479    |  |                             |                      |
| Fiserv Inc*                                       | 119,585                     | 4,650,661    |  |                             |                      |
| Intuit Inc*                                       | 85,935                      | 3,315,372    |  |                             |                      |
| Microsoft Corp                                    | 200,195                     | 5,717,569    |  |                             |                      |
| Taiwan Semiconductor                              | 456,844                     | 3,796,376    |  |                             |                      |
| <b>TOTAL COMMON STOCKS</b>                        |                             |              |  |                             |                      |
| (Cost \$116,916,619)                              |                             |              |  |                             | \$134,301,203        |
| <b>REPURCHASE AGREEMENT:</b>                      |                             |              |  |                             |                      |
| 11.6% of net assets                               |                             |              |  |                             |                      |
| With Morgan Stanley and                           |                             |              |  |                             |                      |
| Company issued 6/30/04                            |                             |              |  |                             |                      |
| at 1.12%, due 7/1/04,                             |                             |              |  |                             |                      |
| collateralized by \$19,861,165                    |                             |              |  |                             |                      |
| in United States Treasury Notes                   |                             |              |  |                             |                      |
| due 8/15/22. Proceeds at                          |                             |              |  |                             |                      |
| maturity are \$17,519,545                         |                             |              |  |                             |                      |
| (Cost \$17,519,000).                              |                             |              |  |                             | 17,519,000           |
| <b>TOTAL INVESTMENTS:</b>                         |                             |              |  |                             |                      |
| 100.3% of net assets                              |                             |              |  |                             |                      |
| (Cost \$134,435,619)                              |                             |              |  |                             | \$151,820,203        |
| <b>CASH AND RECEIVABLES<br/>LESS LIABILITIES:</b> |                             |              |  |                             |                      |
| (0.3%) of net assets                              |                             |              |  |                             |                      |
|   |                             |              |  |                             | (464,795)            |
| <b>NET ASSETS: 100%</b>                           |                             |              |  |                             |                      |
|   |                             |              |  |                             | <u>\$151,355,408</u> |
| *Non-income producing                             |                             |              |  |                             |                      |

The Notes to Financial Statements are an integral part of these statements.

# Balanced Fund • Portfolio of Investments (unaudited)

|                          | <u>NUMBER<br/>OF SHARES</u> | <u>VALUE</u> |   | <u>NUMBER<br/>OF SHARES</u> | <u>VALUE</u>        |
|--------------------------|-----------------------------|--------------|---|-----------------------------|---------------------|
| <b>COMMON STOCKS:</b>    |                             |              | <b>MEDIA: 8.7%</b>                        |                             |                     |
| 62.9% of net assets      |                             |              | Comcast Corp.                             |                             |                     |
| <b>BANKS: 2.1%</b>       |                             |              | Interactive Corp.*                        |                             |                     |
| Wells Fargo Co           |                             |              | 9,070                                     | \$519,076                   | 20,790 \$574,012    |
| <b>CONSUMER</b>          |                             |              | Liberty Media Corp.                       |                             |                     |
| <b>GOODS: 4.2%</b>       |                             |              | Liberty Media Int'l*                      |                             |                     |
| Liz Claiborne            |                             |              | 16,265                                    | 585,215                     | 12,610 380,065      |
| Mohawk Industries Inc.*  |                             |              | 6,255                                     | 458,679                     | 63,075 567,044      |
| <b>CONSUMER</b>          |                             |              | Viacom                                    |                             |                     |
| <b>STAPLES: 2.9%</b>     |                             |              | Viacom                                    |                             |                     |
| Kraft Foods              |                             |              | 8,300                                     | 262,944                     | 3,153 116,976       |
| Walgreen Co.             |                             |              | 12,625                                    | 457,151                     | 15,405 550,267      |
| <b>FINANCIAL</b>         |                             |              | <b>RETAIL &amp;<br/>RESTAURANTS: 5.6%</b> |                             |                     |
| <b>SERVICES: 5.9%</b>    |                             |              | Costco Wholesale Corp.                    |                             |                     |
| Freddie Mac              |                             |              | 9,575                                     | 606,098                     | 13,935 572,310      |
| MBNA Corp.               |                             |              | 22,535                                    | 581,178                     | 19,115 496,990      |
| Morgan Stanley           |                             |              | 5,835                                     | 307,913                     | 7,610 323,197       |
| <b>HEALTH CARE: 9.0%</b> |                             |              | <b>TECHNOLOGY: 10.6%</b>                  |                             |                     |
| Baxter International     |                             |              | 12,905                                    | 445,351                     | 14,040 625,061      |
| Johnson & Johnson        |                             |              | 11,795                                    | 656,981                     | 13,525 525,987      |
| Merck & Co., Inc.        |                             |              | 8,940                                     | 424,650                     | 10,400 401,232      |
| Pfizer, Inc.             |                             |              | 21,105                                    | 723,479                     | 24,045 686,725      |
| <b>INDUSTRIAL: 3.6%</b>  |                             |              | Taiwan Semiconductor                      |                             |                     |
| Dover Corp.              |                             |              | 7,675                                     | 323,118                     | 49,730 413,261      |
| Waste Management Inc.    |                             |              | 19,295                                    | 591,392                     |                     |
| <b>INSURANCE: 10.3%</b>  |                             |              | <b>TOTAL COMMON STOCKS</b>                |                             |                     |
| AIG US                   |                             |              | 5,600                                     | 399,168                     | (Cost \$13,667,089) |
| Berkshire Hathaway*      |                             |              | 210                                       | 620,550                     | \$15,756,728        |
| MGIC Investment Corp.    |                             |              | 8,170                                     | 619,776                     |                     |
| Markel Corp.*            |                             |              | 1,485                                     | 412,088                     |                     |
| Willis Group Holding     |                             |              | 14,120                                    | 528,794                     |                     |
|                          |                             |              | <b>DEBT INSTRUMENTS:</b>                  |                             |                     |
|                          |                             |              | 29.1% of net assets                       |                             |                     |
|                          |                             |              | <b>CORPORATE</b>                          |                             |                     |
|                          |                             |              | <b>OBLIGATIONS: 19.4%</b>                 |                             |                     |
|                          |                             |              | <b>CONSUMER</b>                           |                             |                     |
|                          |                             |              | <b>GOODS: 1.0%</b>                        |                             |                     |
|                          |                             |              | Target Corp.,                             |                             |                     |
|                          |                             |              | 5.5%, 4/1/07                              |                             |                     |
|                          |                             |              | 725,000                                   | \$250,000                   | \$263,752           |
|                          |                             |              | <b>CONSUMER</b>                           |                             |                     |
|                          |                             |              | <b>STAPLES: 0.6%</b>                      |                             |                     |
|                          |                             |              | Kraft Foods, Inc.,                        |                             |                     |
|                          |                             |              | 4.625%, 11/1/06                           |                             |                     |
|                          |                             |              | 150,000                                   | 153,675                     |                     |

\*Non-income producing

The Notes to Financial Statements are an integral part of these statements.

Balanced Fund • Portfolio of Investments • June 30, 2004 (concluded)

|   | <u>PRINCIPAL<br/>AMOUNT</u> | <u>VALUE</u> |   | <u>PRINCIPAL<br/>AMOUNT</u> | <u>VALUE</u>   |
|---|-----------------------------|--------------|---|-----------------------------|----------------|
| <b>FINANCIALS: 6.7%</b>                   |                             |              | <b>US TREASURY<br/>&amp; AGENCY<br/>OBLIGATIONS: 9.7%</b> |                             |                |
| Citigroup Inc,<br>5.75%, 5/10/06          | \$325,000                   | \$340,636    | Fannie Mae,<br>6.0%, 12/15/05                             | \$500,000                   | \$524,176      |
| Countrywide Home<br>Loan, 5.625%, 5/15/07 | 210,000                     | 220,377      | Fannie Mae,<br>3.05%, 7/20/07                             | 500,000                     | 494,947        |
| Goldman Sachs,<br>7.35%, 10/1/09          | 230,000                     | 258,588      | Freddie Mac,<br>3.50%, 9/15/07                            | 370,000                     | 369,225        |
| Household Finance<br>Co., 7.875%, 3/1/07  | 240,000                     | 265,325      | US Treasury Notes,<br>5.875%, 11/15/05                    | 400,000                     | 419,047        |
| Intl Lease Finance,<br>5.625%, 6/1/07     | 315,000                     | 330,788      | US Treasury Notes,<br>4.625%, 5/15/06                     | 600,000                     | <u>621,446</u> |
| MGIC Investment<br>Corp., 6%, 3/15/07     | 250,000                     | 264,655      |   |                             |                |
| <b>INDUSTRIAL: 2.8%</b>                   |                             |              | <b>TOTAL DEBT INSTRUMENTS</b>                             |                             |                |
| Chevron Phillips,<br>5.375%, 6/15/07      | 280,000                     | 291,766      | (Cost \$7,238,817)  |                             | \$7,307,050    |
| Daimler Chrysler;<br>7.2%, 9/1/09         | 250,000                     | 272,433      | <b>REPURCHASE AGREEMENT:</b>                              |                             |                |
| Ford Motor Credit,<br>6.875%, 2/1/06      | 125,000                     | 131,161      | 7.8% of net assets  |                             |                |
| <b>OIL: 2.1%</b>                          |                             |              | With Morgan Stanley and<br>Company issued 6/30/04         |                             |                |
| CONOCO Inc.,<br>6.35%, 4/15/09            | 290,000                     | 315,458      | at 1.12%, due 7/1/04,                                     |                             |                |
| Marathon Oil Corp.,<br>5.375%, 6/1/07     | 200,000                     | 209,041      | collateralized by \$2,233,375                             |                             |                |
| <b>RETAILERS-</b>                         |                             |              | in United States Treasury                                 |                             |                |
| <b>APPAREL: 1.2%</b>                      |                             |              | Notes due 8/15/22.  |                             |                |
| Kohls Corp.,<br>6.7%, 2/1/06              | 280,000                     | 295,782      | Proceeds at maturity                                      |                             |                |
| <b>TECHNOLOGY: 3.0%</b>                   |                             |              | are \$1,970,061   |                             |                |
| Computer Sciences<br>Co., 7.5%, 8/8/05    | 255,000                     | 250,327      | (Cost \$1,970,000).                                       |                             |                |
| Hewlett-Packard Co.,<br>5.5%, 7/1/07      | 200,000                     | 210,578      | <u>1,970,000</u>  |                             |                |
| Lexmark Int'l,<br>6.75%, 5/15/08          | 290,000                     | 305,673      | <b>TOTAL INVESTMENTS:</b>                                 |                             |                |
| <b>TELECOMMUNI-</b>                       |                             |              | 99.8% of net assets                                       |                             |                |
| <b>CATIONS: 2.0%</b>                      |                             |              | (Cost \$22,875,906)                                       |                             |                |
| AT & T Broadband,<br>8.375%, 3/15/13      | 200,000                     | 235,163      | \$25,033,778  |                             |                |
| Sprint Capital Corp.,<br>6.125%, 11/15/08 | 250,000                     | 263,031      | <b>CASH AND RECEIVABLES</b>                               |                             |                |
|   |                             |              | <b>LESS LIABILITIES:</b>                                  |                             |                |
|   |                             |              | 0.2% of net assets  |                             |                |
|   |                             |              | <u>48,619</u>   |                             |                |
|   |                             |              | <b>NET ASSETS: 100%</b>                                   |                             |                |
|   |                             |              | <u>\$25,082,397</u>                                       |                             |                |

The Notes to Financial Statements are an integral part of these statements.

# Mid-Cap Fund • Portfolio of Investments (unaudited)

|   | <u>NUMBER<br/>OF SHARES</u> | <u>VALUE</u> |  | <u>NUMBER<br/>OF SHARES</u> | <u>VALUE</u>        |
|---|-----------------------------|--------------|--|-----------------------------|---------------------|
| <b>COMMON STOCKS:</b>                           |                             |              |  |                             |                     |
| 87.2% of net assets                             |                             |              |  |                             |                     |
| <b>CONSUMER</b>                                 |                             |              |  |                             |                     |
| <b>GOODS:</b> 14.0%                             |                             |              |  |                             |                     |
| John Wiley & Sons Inc.                          | 72,025                      | \$2,304,800  |  |                             |                     |
| Limited Inc.                                    | 129,305                     | 2,418,004    |  |                             |                     |
| Liz Claiborne                                   | 73,595                      | 2,647,948    |  |                             |                     |
| Mohawk Industries, Inc.*                        | 32,450                      | 2,379,559    |  |                             |                     |
| Natuzzi SPA                                     | 107,610                     | 1,155,731    |  |                             |                     |
| <b>CONSUMER</b>                                 |                             |              |  |                             |                     |
| <b>STAPLES:</b> 3.0%                            |                             |              |  |                             |                     |
| Del Monte Foods*                                | 225,950                     | 2,295,652    |  |                             |                     |
| <b>FINANCIAL</b>                                |                             |              |  |                             |                     |
| <b>SERVICES:</b> 2.5%                           |                             |              |  |                             |                     |
| AG Edwards                                      | 56,765                      | 1,931,713    |  |                             |                     |
| <b>HEALTH CARE:</b> 2.1%                        |                             |              |  |                             |                     |
| Laboratory Corp.<br>of America*                 | 40,520                      | 1,608,644    |  |                             |                     |
| <b>INDUSTRIAL:</b> 14.9%                        |                             |              |  |                             |                     |
| Dover Corporation                               | 55,785                      | 2,348,549    |  |                             |                     |
| Expeditors International<br>of Washington, Inc. | 36,075                      | 1,782,466    |  |                             |                     |
| Hewitt Associates, Inc.*                        | 106,845                     | 2,938,238    |  |                             |                     |
| Valassis<br>Communications, Inc.*               | 59,895                      | 1,825,001    |  |                             |                     |
| Waste Management, Inc.                          | 88,385                      | 2,709,000    |  |                             |                     |
| <b>INSURANCE:</b> 20.1%                         |                             |              |  |                             |                     |
| Markel Corp.*                                   | 12,290                      | 3,410,475    |  |                             |                     |
| Mercury General Corp.                           | 54,795                      | 2,720,572    |  |                             |                     |
| Odyssey Reinsurance<br>Holdings                 | 110,905                     | 2,661,720    |  |                             |                     |
| White Mountains<br>Insurance                    | 6,930                       | 3,534,300    |  |                             |                     |
| Willis Group Holding                            | 86,815                      | 3,251,222    |  |                             |                     |
| <b>MEDIA:</b> 6.8%                              |                             |              |  |                             |                     |
| Liberty Media Corp.                             | 294,880                     | \$2,650,971  |  |                             |                     |
| Liberty Media Int'l*                            | 53,091                      | 1,969,676    |  |                             |                     |
| Scripps, Co.                                    | 6,350                       | 666,750      |  |                             |                     |
| <b>RETAIL &amp;<br/>RESTAURANTS:</b> 12.3%      |                             |              |  |                             |                     |
| Costco Wholesale Corp.                          | 72,665                      | 2,984,352    |  |                             |                     |
| Ethan Allen Interiors                           | 37,650                      | 1,352,011    |  |                             |                     |
| Office Depot, Inc.*                             | 120,985                     | 2,166,841    |  |                             |                     |
| Tiffany & Company                               | 51,300                      | 1,890,405    |  |                             |                     |
| YUM! Brands, Inc.                               | 31,215                      | 1,161,822    |  |                             |                     |
| <b>TECHNOLOGY:</b> 8.8%                         |                             |              |  |                             |                     |
| Fiserv, Inc.*                                   | 58,035                      | 2,256,981    |  |                             |                     |
| Intuit, Inc.*                                   | 66,295                      | 2,557,661    |  |                             |                     |
| Kemet Corp.*                                    | 165,820                     | 2,026,320    |  |                             |                     |
| <b>TELECOMMUNI-<br/>CATIONS:</b> 2.7%           |                             |              |  |                             |                     |
| IDT Corporation*                                | 114,110                     | 2,057,403    |  |                             |                     |
| <b>TOTAL COMMON STOCKS</b>                      |                             |              |  |                             |                     |
| (Cost \$59,123,745)                             |                             |              |  |                             | \$67,664,787        |
| <b>REPURCHASE AGREEMENT:</b>                    |                             |              |  |                             |                     |
| 14.8% of net assets                             |                             |              |  |                             |                     |
| With Morgan Stanley and Company                 |                             |              |  |                             |                     |
| issued 6/30/04 at 1.12%, due 7/1/04,            |                             |              |  |                             |                     |
| collateralized by \$12,995,521 in               |                             |              |  |                             |                     |
| United States Treasury Notes due                |                             |              |  |                             |                     |
| 8/15/22. Proceeds at maturity are               |                             |              |  |                             |                     |
| \$11,463,357 (Cost \$11,463,000).               |                             |              |  |                             | 11,463,000          |
| <b>TOTAL INVESTMENTS:</b>                       |                             |              |  |                             |                     |
| 102% of net assets                              |                             |              |  |                             |                     |
| (Cost \$70,586,745)                             |                             |              |  |                             | \$79,127,787        |
| <b>CASH AND RECEIVABLES</b>                     |                             |              |  |                             |                     |
| <b>LESS LIABILITIES:</b>                        |                             |              |  |                             |                     |
| (2.0)% of net assets                            |                             |              |  |                             |                     |
|   |                             |              |  |                             | (1,492,251)         |
| <b>NET ASSETS:</b> 100%                         |                             |              |  |                             |                     |
|   |                             |              |  |                             | <u>\$77,635,536</u> |

\*Non-income producing

The Notes to Financial Statements are an integral part of these statements.

# Foresight Fund • Portfolio of Investments (unaudited)

|   | <u>NUMBER<br/>OF SHARES</u> | <u>VALUE</u> |                              | <u>PRINCIPAL<br/>AMOUNT</u> | <u>VALUE</u> |
|---|-----------------------------|--------------|------------------------------|-----------------------------|--------------|
| <b>COMMON STOCKS:</b> 65.5% of net assets |                             |              | <b>US GOVERNMENT</b>         |                             |              |
| <b>BANKS:</b> 7.3%                        |                             |              | <b>AGENCY OBLIGATIONS:</b>   |                             |              |
| Marshall & Isley Co.                      | 4,000                       | \$156,360    | 26.6% of net assets          |                             |              |
| Washington Mutual                         | 4,855                       | 187,597      | Fannie Mae,                  |                             |              |
|   |                             |              | 1.44%, 9/15/04               |                             |              |
|   |                             |              | \$250,000                    | \$249,240                   |              |
|   |                             |              | Federal Home Loan            |                             |              |
|   |                             |              | Bank, 1.27%, 8/25/04         |                             |              |
|   |                             |              | 250,000                      | 249,515                     |              |
|   |                             |              | Freddie Mac,                 |                             |              |
|   |                             |              | 1.03%, 7/15/04               |                             |              |
|   |                             |              | 250,000                      | 249,898                     |              |
|   |                             |              | Freddie Mac,                 |                             |              |
|   |                             |              | 1.03%, 7/21/04               |                             |              |
|   |                             |              | 250,000                      | 249,858                     |              |
|   |                             |              | Freddie Mac,                 |                             |              |
|   |                             |              | 1.08%, 7/28/04               |                             |              |
|   |                             |              | 250,000                      | 249,797                     |              |
| <b>CONSUMER GOODS:</b> 2.8%               |                             |              | <b>TOTAL US GOVERNMENT</b>   |                             |              |
| Liz Claiborne                             | 3,610                       | 129,888      | <b>AGENCY OBLIGATIONS</b>    |                             |              |
|   |                             |              | (Cost \$1,248,308)           |                             |              |
|   |                             |              |                              |                             | \$1,248,308  |
| <b>CONSUMER STAPLES:</b> 5.3%             |                             |              | <b>REPURCHASE AGREEMENT:</b> |                             |              |
| Kroger Company*                           | 7,230                       | 131,586      | 7.8% of net assets           |                             |              |
| Walgreen Co.                              | 3,300                       | 119,493      | With Morgan Stanley and      |                             |              |
|   |                             |              | Company issued 6/30/04       |                             |              |
|   |                             |              | at 1.12%, due 7/1/04,        |                             |              |
|   |                             |              | collateralized by \$417,199  |                             |              |
|   |                             |              | in United States Treasury    |                             |              |
|   |                             |              | Notes due 8/15/22.           |                             |              |
|   |                             |              | Proceeds at maturity are     |                             |              |
|   |                             |              | \$368,011 (Cost \$368,000).  |                             |              |
|   |                             |              |                              |                             | 368,000      |
| <b>FINANCIAL SERVICES:</b> 6.5%           |                             |              | <b>TOTAL INVESTMENTS:</b>    |                             |              |
| Freddie Mac                               | 1,500                       | 94,950       | 99.9% of net assets          |                             |              |
| Morgan Stanley                            | 3,960                       | 208,969      | (Cost \$4,445,527)           |                             |              |
|   |                             |              | \$4,685,146                  |                             |              |
| <b>HEALTH CARE:</b> 9.4%                  |                             |              | <b>CASH AND RECEIVABLES</b>  |                             |              |
| Bristol-Myers Squibb                      | 5,850                       | 143,325      | <b>LESS LIABILITIES:</b>     |                             |              |
| Merck & Co., Inc.                         | 2,970                       | 141,075      | 0.1% of net assets           |                             |              |
| Pfizer, Inc.                              | 4,535                       | 155,460      |                              |                             | 5,209        |
| <b>INDUSTRIAL:</b> 2.4%                   |                             |              | <b>NET ASSETS:</b> 100%      |                             |              |
| Dover Corp                                | 2,650                       | 111,565      |                              |                             |              |
|   |                             |              | <u>\$4,690,355</u>           |                             |              |
| <b>INSURANCE:</b> 11.0%                   |                             |              |                              |                             |              |
| MBIA Inc.                                 | 2,250                       | 128,520      |                              |                             |              |
| MGIC Investment Corp.                     | 3,215                       | 243,890      |                              |                             |              |
| Willis Group Holding                      | 3,770                       | 141,187      |                              |                             |              |
| <b>MEDIA:</b> 6.0%                        |                             |              |                              |                             |              |
| Comcast Corp                              | 5,765                       | 159,172      |                              |                             |              |
| Liberty Media Corp                        | 11,185                      | 100,553      |                              |                             |              |
| Liberty Media Int'l                       | 559                         | 20,739       |                              |                             |              |
| <b>TECHNOLOGY:</b> 14.8%                  |                             |              |                              |                             |              |
| Cisco Systems, Inc.*                      | 3,940                       | 93,378       |                              |                             |              |
| First Data Corp.                          | 5,045                       | 224,603      |                              |                             |              |
| Fiserv Inc.*                              | 2,480                       | 96,447       |                              |                             |              |
| Intuit Inc.*                              | 2,385                       | 92,013       |                              |                             |              |
| Microsoft Corp.                           | 6,585                       | 188,068      |                              |                             |              |
| <b>TOTAL COMMON STOCKS</b>                |                             |              |                              |                             |              |
| (Cost \$2,829,219)                        |                             | \$3,068,838  |                              |                             |              |

\*Non-income producing

The Notes to Financial Statements are an integral part of these statements.

# Statements of Assets and Liabilities (unaudited)

June 30, 2004

|  | Investors<br>Fund    | Balanced<br>Fund    | Mid-Cap<br>Fund     | Foresight<br>Fund  |
|--|----------------------|---------------------|---------------------|--------------------|
| <b>ASSETS</b>                                    |                      |                     |                     |                    |
| Investments, at value (Notes 1 and 2)            |                      |                     |                     |                    |
| Investment securities . . . . .                  | \$134,301,203        | \$23,063,778        | \$67,664,787        | \$4,317,146        |
| Repurchase agreements . . . . .                  | 17,519,000           | 1,970,000           | 11,463,000          | 368,000            |
| Total investments* . . . . .                     | 151,820,203          | 25,033,778          | 79,127,787          | 4,685,146          |
| Cash . . . . .                                   | 621                  | 298                 | 411                 | 764                |
| Receivables                                      |                      |                     |                     |                    |
| Dividends and interest . . . . .                 | 127,615              | 94,331              | 42,781              | 5,114              |
| Capital shares sold . . . . .                    | 119,266              | 7,908               | 400,761             | --                 |
| <b>Total assets</b> . . . . .                    | <b>\$152,067,705</b> | <b>\$25,136,315</b> | <b>\$79,571,740</b> | <b>\$4,691,024</b> |
| <b>LIABILITIES</b>                               |                      |                     |                     |                    |
| Payables   |                      |                     |                     |                    |
| Investment securities purchased . . . . .        | 541,225              | --                  | 1,932,848           | --                 |
| Dividends . . . . .                              | --                   | 2,966               | --                  | --                 |
| Capital shares redeemed . . . . .                | 167,189              | 49,680              | 1,214               | --                 |
| Independent trustee and auditor fees . . . . .   | 3,883                | 1,272               | 2,142               | 669                |
| <b>Total liabilities</b> . . . . .               | <b>\$ 712,297</b>    | <b>\$ 53,918</b>    | <b>\$ 1,936,204</b> | <b>\$ 669</b>      |
| <b>NET ASSETS</b> (Note 7) . . . . .             | <b>\$151,355,408</b> | <b>\$25,082,397</b> | <b>\$77,635,536</b> | <b>\$4,690,355</b> |
| <b>CAPITAL SHARES OUTSTANDING</b> . . . . .      | <b>7,745,934</b>     | <b>1,348,095</b>    | <b>6,607,323</b>    | <b>366,586</b>     |
| <b>NET ASSET VALUE PER SHARE</b> . . . . .       | <b>\$ 19.54</b>      | <b>\$ 18.61</b>     | <b>\$ 11.75</b>     | <b>\$ 12.79</b>    |
| <b>*INVESTMENT SECURITIES, AT COST</b> . . . . . | <b>\$134,435,619</b> | <b>\$22,875,906</b> | <b>\$70,586,745</b> | <b>\$4,445,527</b> |

The Notes to Financial Statements are an integral part of these statements.



# Statements of Operations (unaudited)

For the six-months ended June 30, 2004

|   | <u>Investors<br/>Fund</u>  | <u>Balanced<br/>Fund</u> | <u>Mid-Cap<br/>Fund</u>    | <u>Foresight<br/>Fund</u> |
|---|----------------------------|--------------------------|----------------------------|---------------------------|
| <b>INVESTMENT INCOME</b> (Note 1)   |                            |                          |                            |                           |
| Interest income.....  | \$ 62,453                  | \$ 151,239               | \$ 38,195                  | \$ 8,816                  |
| Dividend income.....  | <u>726,787</u>             | <u>91,893</u>            | <u>365,414</u>             | <u>21,619</u>             |
| <b>Total investment income.....</b>   | <b>789,240</b>             | <b>243,132</b>           | <b>403,609</b>             | <b>30,435</b>             |
| <b>EXPENSES</b> (Notes 3 and 5)   |                            |                          |                            |                           |
| Investment advisory fees.....   | 485,549                    | 93,232                   | 245,358                    | 17,490                    |
| Other expenses.....   | 90,153                     | 54,609                   | 161,608                    | 10,981                    |
| Independent trustee and auditor fees....                                    | <u>3,883</u>               | <u>1,272</u>             | <u>2,142</u>               | <u>669</u>                |
| <b>Total expenses.....</b>  | <b><u>579,585</u></b>      | <b><u>149,113</u></b>    | <b><u>409,108</u></b>      | <b><u>29,140</u></b>      |
| <b>NET INVESTMENT INCOME (LOSS).....</b>                                    | <b>\$ 209,655</b>          | <b>\$ 94,019</b>         | <b>\$ (5,499)</b>          | <b>\$ 1,295</b>           |
| <b>REALIZED AND UNREALIZED GAIN (LOSS)<br/>ON INVESTMENTS</b>               |                            |                          |                            |                           |
| Net realized gain on investments.....                                       | 4,232,609                  | 714,673                  | 3,701,930                  | 203,887                   |
| Change in net unrealized appreciation<br>(depreciation) of investments..... | <u>799,171</u>             | <u>(196,563)</u>         | <u>(43,762)</u>            | <u>(126,493)</u>          |
| <b>NET GAIN ON INVESTMENTS.....</b>   | <b><u>\$ 5,031,780</u></b> | <b><u>\$ 518,110</u></b> | <b><u>\$ 3,658,168</u></b> | <b><u>\$ 77,394</u></b>   |
| <b>TOTAL INCREASE IN NET ASSETS<br/>RESULTING FROM OPERATIONS.....</b>      | <b><u>\$ 5,241,435</u></b> | <b><u>\$ 612,129</u></b> | <b><u>\$ 3,652,669</u></b> | <b><u>\$ 78,689</u></b>   |

The Notes to Financial Statements are an integral part of these statements.

# Statements of Changes in Net Assets

For the period indicated

|  | Investors Fund   |                                   | Balanced Fund  |                                   |
|--|--|-----------------------------------|--|-----------------------------------|
|  | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>   |  |                                   |  |                                   |
| <b>RESULTING FROM OPERATIONS</b>   |  |                                   |  |                                   |
| Net investment income . . . . .  | \$ 209,655   | \$ 292,144                        | \$ 94,019  | \$ 245,717                        |
| Net realized gain (loss) on investments ..   | 4,232,609  | 3,283,814                         | 714,673  | 268,700                           |
| Change in net unrealized appreciation<br>(depreciation) on investments . . . . .       | 799,171  | 17,785,081                        | (196,563)  | 2,685,688                         |
| <b>Total increase (decrease) in net assets<br/>resulting from operations . . . . .</b> | <b>5,241,435</b>                                       | <b>21,361,039</b>                 | <b>612,129</b>   | <b>3,200,105</b>                  |
| <b>DISTRIBUTIONS TO SHAREHOLDERS</b>   |  |                                   |  |                                   |
| From net investment income . . . . .   | --   | (292,144)                         | (94,019)   | (245,717)                         |
| From net capital gains . . . . .   | --   | --                                | --   | --                                |
| <b>Total distributions . . . . .</b>   | <b>--</b>  | <b>(292,144)</b>                  | <b>(94,019)</b>  | <b>(245,717)</b>                  |
| <b>CAPITAL SHARE TRANSACTIONS (Note 8) . . .</b>                                       | <b>21,151,054</b>                                      | <b>8,675,185</b>                  | <b>153,804</b>   | <b>570,434</b>                    |
| <b>TOTAL INCREASE (DECREASE)<br/>IN NET ASSETS . . . . .</b>                           | <b>26,392,489</b>                                      | <b>29,744,080</b>                 | <b>671,914</b>   | <b>3,524,822</b>                  |
| <b>NET ASSETS</b>  |  |                                   |  |                                   |
| Beginning of period . . . . .  | \$124,962,919  | \$ 95,218,839                     | \$24,410,483   | \$20,885,661                      |
| End of period . . . . .  | \$151,355,408  | \$124,962,919                     | \$25,082,397   | \$24,410,483                      |
| <b>UNDISTRIBUTED NET INVESTMENT INCOME</b>   | <b>\$ 209,655</b>                                      | <b>\$ --</b>                      | <b>\$ --</b>   | <b>\$ --</b>                      |

The Notes to Financial Statements are an integral part of these statements.

## Statements of Changes in Net Assets (concluded)

|  | Mid-Cap Fund   |                                   | Foresight Fund   |                                   |
|--|--|-----------------------------------|--|-----------------------------------|
|  | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 |
| <b>INCREASE (DECREASE) IN NET ASSETS<br/>RESULTING FROM OPERATIONS</b>                 |  |                                   |  |                                   |
| Net investment income (loss) . . . . .   | \$ (5,499)   | \$ (165,608)                      | \$ 1,295   | \$ 1,880                          |
| Net realized gain (loss) on investments . .  | 3,701,930  | 1,571,899                         | 203,887  | (185,642)                         |
| Change in net unrealized appreciation<br>(depreciation) on investments . . . . .       | (43,762)   | 8,468,111                         | (126,493)  | 859,888                           |
| <b>Total increase (decrease) in net assets<br/>resulting from operations . . . . .</b> | <b>3,652,669</b>                                       | <b>9,874,402</b>                  | <b>78,689</b>  | <b>676,126</b>                    |
| <b>DISTRIBUTIONS TO SHAREHOLDERS</b>   |  |                                   |  |                                   |
| From net investment income . . . . .   | --   | --                                | --   | (1,880)                           |
| From net capital gains . . . . .   | --   | (531,294)                         | --   | --                                |
| <b>Total distributions . . . . .</b>   | <b>--</b>  | <b>(531,294)</b>                  | <b>--</b>  | <b>(1,880)</b>                    |
| <b>CAPITAL SHARE TRANSACTIONS (Note 8) . . .</b>                                       | <b>19,307,464</b>                                      | <b>19,130,688</b>                 | <b>(129,493)</b>                                       | <b>141,460</b>                    |
| <b>TOTAL INCREASE (DECREASE)<br/>IN NET ASSETS . . . . .</b>                           | <b>22,960,133</b>                                      | <b>28,473,796</b>                 | <b>(50,804)</b>  | <b>815,706</b>                    |
| <b>NET ASSETS</b>  |  |                                   |  |                                   |
| Beginning of period . . . . .  | \$54,675,403   | \$26,201,607                      | \$4,741,159  | \$3,925,453                       |
| End of period . . . . .  | \$77,635,536   | \$54,675,403                      | \$4,690,355  | \$4,741,159                       |
| <b>UNDISTRIBUTED NET INVESTMENT INCOME</b>   | <b>\$ --</b>   | <b>\$ --</b>                      | <b>\$ 1,295</b>  | <b>\$ --</b>                      |

The Notes to Financial Statements are an integral part of these statements.

# Financial Highlights

Selected data for a share outstanding for the periods indicated.

## INVESTORS FUND

|   | (unaudited)                  |                         |          |          |          |
|---|------------------------------|-------------------------|----------|----------|----------|
|   | Six-Months<br>Ended June 30, | Year Ended December 31, |          |          |          |
|   | 2004                         | 2003                    | 2002     | 2001     | 2000     |
| Net asset value, beginning of year                              | \$18.79                      | \$15.42                 | \$18.61  | \$20.06  | \$21.10  |
| <b>Investment operations:</b>                                   |                              |                         |          |          |          |
| Net investment income (loss)                                    | 0.03                         | 0.04                    | 0.04     | 0.04     | 0.01     |
| Net realized and unrealized gain (loss) on investments          | 0.72                         | 3.37                    | (3.19)   | (0.54)   | 2.28     |
| <b>Total from investment operations</b>                         | 0.75                         | 3.41                    | (3.15)   | (0.50)   | 2.29     |
| Less distributions:   |                              |                         |          |          |          |
| From net investment income                                      | --                           | (0.04)                  | (0.04)   | (0.05)   | (0.01)   |
| From net capital gains  | --                           | --                      | --       | (0.90)   | (3.32)   |
| <b>Total distributions</b>                                      | --                           | (0.04)                  | (0.04)   | (0.95)   | (3.33)   |
| Net asset value, end of year                                    | \$19.54                      | \$18.79                 | \$15.42  | \$18.61  | \$20.06  |
| Total return (%)  | 3.99                         | 22.14                   | (16.94)  | (2.52)   | 10.84    |
| <b>Ratios and supplemental data</b>                             |                              |                         |          |          |          |
| Net assets, end of year (in thousands)                          | \$151,355                    | \$124,963               | \$95,219 | \$30,526 | \$27,481 |
| Ratio of expenses to average net assets (%)                     | 0.84 <sup>1</sup>            | 0.88                    | 0.99     | 1.15     | 1.15     |
| Ratio of net investment income (loss) to average net assets (%) | 0.30 <sup>1</sup>            | 0.27                    | 0.44     | 0.26     | 0.05     |
| Portfolio turnover (%)  | 19                           | 29                      | 88       | 63       | 81       |

## BALANCED FUND

|  | (unaudited)                  |                         |          |          |          |
|--|------------------------------|-------------------------|----------|----------|----------|
|  | Six-Months<br>Ended June 30, | Year Ended December 31, |          |          |          |
|  | 2004                         | 2003                    | 2002     | 2001     | 2000     |
| Net asset value, beginning of year                       | \$18.22                      | \$15.98                 | \$17.87  | \$18.68  | \$18.95  |
| <b>Investment operations:</b>                            |                              |                         |          |          |          |
| Net investment income                                    | 0.07                         | 0.19                    | 0.26     | 0.33     | 0.33     |
| Net realized and unrealized gain (loss) on investments   | 0.39                         | 2.24                    | (1.89)   | (0.12)   | 1.69     |
| <b>Total from investment operations</b>                  | 0.46                         | 2.43                    | (1.63)   | 0.21     | 2.02     |
| Less distributions:                                      |                              |                         |          |          |          |
| From net investment income                               | (0.07)                       | (0.19)                  | (0.26)   | (0.33)   | (0.33)   |
| From net capital gains                                   | --                           | --                      | --       | (0.69)   | (1.96)   |
| <b>Total distributions</b>                               | (0.07)                       | (0.19)                  | (0.26)   | (1.02)   | (2.29)   |
| Net asset value, end of year                             | \$18.61                      | \$18.22                 | \$15.98  | \$17.87  | \$18.68  |
| Total return (%)   | 2.25                         | 15.29                   | (9.13)   | 1.17     | 10.79    |
| <b>Ratios and supplemental data</b>                      |                              |                         |          |          |          |
| Net assets, end of year (in thousands)                   | \$25,082                     | \$24,411                | \$20,886 | \$22,856 | \$21,781 |
| Ratio of expenses to average net assets (%)              | 1.19 <sup>1</sup>            | 1.20                    | 1.20     | 1.20     | 1.20     |
| Ratio of net investment income to average net assets (%) | 0.75 <sup>1</sup>            | 1.01                    | 1.56     | 1.81     | 1.70     |
| Portfolio turnover (%)                                   | 18                           | 43                      | 37       | 60       | 66       |

<sup>1</sup>Annualized.

The Notes to Financial Statements are an integral part of these statements.

## Financial Highlights (concluded)

Selected data for a share outstanding for the periods indicated.

### MID-CAP FUND

|  | (unaudited)                  |                         |          |          |         |
|--|------------------------------|-------------------------|----------|----------|---------|
|  | Six-Months<br>Ended June 30, | Year Ended December 31, |          |          |         |
|  | 2004                         | 2003                    | 2002     | 2001     | 2000    |
| Net asset value beginning of year                                  | \$11.06                      | \$8.69                  | \$10.04  | \$9.36   | \$9.57  |
| <b>Investment operations:</b>                                      |                              |                         |          |          |         |
| Net investment income (loss)                                       | --                           | (0.03)                  | (0.03)   | 0.01     | 0.04    |
| Net realized and unrealized gain (loss)<br>on investments          | 0.69                         | 2.51                    | (1.26)   | 1.40     | 1.74    |
| <b>Total from investment operations</b>                            | 0.69                         | 2.48                    | (1.29)   | 1.41     | 1.78    |
| Less distributions:  |                              |                         |          |          |         |
| From net investment income   | --                           | --                      | --       | (0.01)   | (0.04)  |
| From net capital gains   | --                           | (0.11)                  | (0.06)   | (0.72)   | (1.95)  |
| <b>Total distributions</b>   | --                           | (0.11)                  | (0.06)   | (0.73)   | (1.99)  |
| Net asset value, end of year                                       | \$11.75                      | \$11.06                 | \$8.69   | \$10.04  | \$9.36  |
| Total return (%)   | 6.24                         | 28.53                   | (12.87)  | 15.32    | 18.46   |
| <b>Ratios and supplemental data</b>                                |                              |                         |          |          |         |
| Net assets, end of year (in thousands)                             | \$77,636                     | \$54,675                | \$26,202 | \$13,037 | \$9,101 |
| Ratio of expenses to average net assets (%)                        | 1.24 <sup>1</sup>            | 1.25                    | 1.24     | 1.25     | 1.25    |
| Ratio of net investment income (loss)<br>to average net assets (%) | (0.02) <sup>1</sup>          | (0.44)                  | (0.42)   | 0.09     | 0.38    |
| Portfolio turnover (%)   | 26                           | 25                      | 35       | 47       | 75      |

### FORESIGHT FUND

|   | (unaudited)                  |                         |         |         |         |
|---|------------------------------|-------------------------|---------|---------|---------|
|   | Six-Months<br>Ended June 30, | Year Ended December 31, |         |         |         |
|   | 2004                         | 2003                    | 2002    | 2001    | 2000    |
| Net asset value beginning of year                           | \$12.59                      | \$10.79                 | \$12.60 | \$13.41 | \$11.46 |
| <b>Investment operations:</b>                               |                              |                         |         |         |         |
| Net investment income (loss)                                | --                           | 0.01                    | 0.02    | 0.15    | 0.27    |
| Net realized and unrealized gain<br>(loss) on investments   | 0.20                         | 1.80                    | (1.81)  | (0.54)  | 1.68    |
| <b>Total from investment operations</b>                     | 0.20                         | 1.81                    | (1.79)  | (0.39)  | 1.95    |
| Less distributions from net<br>investment income            | --                           | (0.01)                  | (0.02)  | (0.42)  | --      |
| Net asset value, end of year                                | \$12.79                      | \$12.59                 | \$10.79 | \$12.60 | \$13.41 |
| Total return (%)  | 1.59                         | 16.73                   | (14.17) | (2.97)  | 17.02   |
| <b>Ratios and supplemental data</b>                         |                              |                         |         |         |         |
| Net assets, end of year (in thousands)                      | \$4,690                      | \$4,741                 | \$3,925 | \$4,310 | \$2,858 |
| Ratio of expenses to average net assets (%)                 | 1.24 <sup>1</sup>            | 1.25                    | 1.25    | 1.25    | 1.25    |
| Ratio of net investment income<br>to average net assets (%) | 0.06 <sup>1</sup>            | 0.04                    | 0.21    | 1.41    | 2.37    |
| Portfolio turnover (%)                                      | 18                           | 7                       | 8       | 26      | 104     |

<sup>1</sup>Annualized.

The Notes to Financial Statements are an integral part of these statements.

# Notes to Financial Statements (unaudited)

## 1. Summary of Significant Accounting Policies.

Mosaic Equity Trust (the "Trust") is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 as an open-end, investment management company. The Trust offers shares in four separate diversified funds which invest in differing securities: the Investors Fund, Balanced Fund, Mid-Cap Fund and Foresight Fund whose objectives and strategies are described in the Trust's prospectus.

*Securities Valuation:* Securities traded on a national securities exchange are valued at their closing sale price. Repurchase agreements and other securities having maturities of 60 days or less are valued at amortized cost, which approximates market value. Securities having longer maturities, for which quotations are readily available, are valued at the mean between their closing bid and asked prices. Securities for which current market quotations are not readily available are valued at their fair value as determined in good faith by the Board of Trustees.

*Investment Transactions:* Investment transactions are recorded on a trade date basis. The cost of investments sold is determined on the identified cost basis for financial statement and federal income tax purposes.

*Investment Income:* Interest income is recorded on an accrual basis. Bond premium is amortized and original issue discount and market discount are accreted over the expected life of each applicable security. Dividend income is recorded on the ex-dividend date. Other income is accrued as earned.

*Distribution of Income and Gains:* Net investment income, determined as gross investment income less total expenses, is declared as a regular dividend and distributed to shareholders

at year-end for the Investors, Mid-Cap and Foresight Funds. The Trust intends to declare and pay regular dividends quarterly on the Balanced Fund. Capital gains distributions, if any, are declared and paid annually at year end.

The tax character of distributions paid during 2003 and 2002 was as follows:

|                          | <u>2003</u> | <u>2002</u> |
|--------------------------|-------------|-------------|
| <b>Investors Fund:</b>   |             |             |
| Distributions paid from: |             |             |
| Ordinary Income          | \$292,144   | \$230,999   |
| Long-term capital gains  | --          | --          |
| Short-term capital gains | --          | --          |
| <b>Balanced Fund:</b>    |             |             |
| Distributions paid from: |             |             |
| Ordinary Income          | \$245,717   | \$345,324   |
| Long-term capital gains  | --          | --          |
| Short-term capital gains | --          | --          |
| <b>Mid-Cap Fund:</b>     |             |             |
| Distributions paid from: |             |             |
| Ordinary Income          | --          | --          |
| Long-term capital gains  | \$531,294   | \$97,892    |
| Short-term capital gains | --          | 71,453      |
| <b>Foresight Fund:</b>   |             |             |
| Distributions paid from  |             |             |
| Ordinary Income          | \$1,880     | \$8,798     |

The Investors Fund hereby confirms its designation of \$292,144 (100%) of its ordinary dividend distribution paid during 2003 as qualified dividend income eligible for preferential tax rates for individuals. The Balanced Fund hereby confirms its designation of the following amounts (and %) of its ordinary dividend distribution as qualified dividend income: \$36,061 (46%) paid during 1st quarter 2003; \$30,779 (54%) paid during 2nd quarter 2003; \$39,632 (74%) paid during 3rd quarter 2003 and \$49,317 (88%) paid during 4th quarter 2003 which is eligible for preferential tax rates for individuals. The Mid-Cap Fund hereby confirms its designation of \$531,294 of its dividends paid during 2003 as

**Notes to Financial Statements (continued)**

a capital gain distribution. The Foresight Fund hereby confirms its designation of \$1,880 (100%) of its ordinary dividend distribution paid during 2003 as qualified dividend income eligible for preferential tax rates for individuals.

As of June 30, 2004, the components of distributable earnings on a tax basis were as follows:

|  |                   |
|--|-------------------|
| <b>Investors Fund:</b>                     |                   |
| Accumulated net realized losses            | \$(2,552,174)     |
| Net unrealized appreciation on investments | <u>17,384,584</u> |
|  | \$14,832,410      |

|  |                  |
|--|------------------|
| <b>Balanced Fund:</b>                      |                  |
| Accumulated net realized losses            | \$ (317,942)     |
| Net unrealized appreciation on investments | <u>2,157,872</u> |
|  | \$ 1,839,930     |

|  |                  |
|--|------------------|
| <b>Mid-Cap Fund:</b>                       |                  |
| Accumulated net realized gains             | \$ 3,701,930     |
| Net unrealized appreciation on investments | <u>8,541,042</u> |
|  | \$12,242,972     |

|  |                |
|--|----------------|
| <b>Foresight Fund:</b>                     |                |
| Accumulated net realized losses            | \$ (100,556)   |
| Net unrealized appreciation on investments | <u>239,619</u> |
|  | \$ 139,063     |

Net realized gains or losses may differ for financial and tax reporting purposes as a result of loss deferrals related to wash sales and post-October transactions.

*Income Tax:* No provision is made for Federal income taxes since it is the intention of the Trust to comply with the provisions of the Internal Revenue Code available to investment companies and to make the requisite distribution to shareholders of taxable income which will be sufficient to relieve it from all or substantially all Federal income taxes. As of December 31, 2003, capital loss carryovers available to offset future capital gains for federal income tax purposes and the years they expire are as follows:

|                        |                       |
|------------------------|-----------------------|
| <b>Expiration Date</b> | <b>Investors Fund</b> |
| December 31, 2008      | \$ 343,098            |
| December 31, 2009      | 3,795,163             |
| December 31, 2010      | 2,646,522             |

|                        |                      |
|------------------------|----------------------|
| <b>Expiration Date</b> | <b>Balanced Fund</b> |
| December 31, 2009      | \$525,686            |
| December 31, 2010      | 448,031              |
| December 31, 2011      | 58,898               |

|                        |                       |
|------------------------|-----------------------|
| <b>Expiration Date</b> | <b>Foresight Fund</b> |
| December 31, 2009      | \$ 74,698             |
| December 31, 2010      | 44,103                |
| December 31, 2011      | 185,642               |

A portion of the Investors Fund's capital loss carryovers were acquired through its merger with Mosaic Focus Fund on July 1, 2002 and are subject to certain limitations.

Due to inherent differences in the recognition of income, expenses, and realized gains/losses under generally accepted accounting principles and federal income tax purposes, permanent differences between financial and tax basis reporting for the 2003 fiscal year have been identified and appropriately reclassified. In the Mid-Cap Fund, permanent differences relating to net investment losses which are not deductible for tax purposes totaling \$160,836 were reclassified from accumulated undistributed net investment loss to net paid-in-capital on shares of beneficial interest and \$4,772 of realized gains were reclassified from accumulated net realized gains to net investment loss. In the Foresight Fund, permanent differences relating to the expiration of capital loss carryover totaling \$6,535 were reclassified from accumulated net realized losses to net paid-in-capital on shares of beneficial interest.

*Use of Estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management

## Notes to Financial Statements (continued)

to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities and reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

**2. Investments in Repurchase Agreements.** When the Trust purchases securities under agreements to resell, the securities are held for safekeeping by the custodian bank as collateral. Should the market value of the securities purchased under such an agreement decrease below the principal amount to be received at the termination of the agreement plus accrued interest, the counterparty is required to place an equivalent amount of additional securities in safekeeping with the Trust's custodian bank. Pursuant to an Exemptive Order issued by the Securities and Exchange Commission, the Trust, along with other registered investment companies having Advisory and Services Agreements with the same advisor, transfers uninvested cash balances into a joint trading account. The aggregate balance in this joint trading account is invested in one or more consolidated repurchase agreements whose underlying securities are U.S. Treasury or federal agency obligations. As of June 30, 2004 the Investors Fund has approximately a 53.0% interest, the Balanced Fund approximately a 6.0% interest, the Mid-Cap Fund approximately a 34.7% interest and the Foresight Fund approximately a 1.1% interest in the consolidated repurchase agreement of \$33,038,000 collateralized by \$37,454,943 in United States Treasury Notes. Proceeds at maturity are \$33,039,028.

**3. Investment Advisory Fees and Other Transactions with Affiliates.** The investment advisor to the Trust, Madison Mosaic, LLC, a wholly owned subsidiary of Madison Investment Advisors, Inc. (collectively "the Advisor"), earns an advisory fee equal to 0.75% per annum of the average net assets of the Balanced, Mid-Cap

and Foresight Funds and the first \$100 million in the Investors Fund. The advisory fee paid by the Investors Fund is reduced to 0.60% per annum on assets over \$100 million. The fees are accrued daily and are paid monthly.

**4. Investment Transactions.** Purchases and sales of securities (excluding short-term securities) for the six-months ended June 30, 2004 were as follows:

|                        | Purchases    | Sales        |
|------------------------|--------------|--------------|
| <b>Investors Fund:</b> |              |              |
| U. S. Gov't Securities | --           | --           |
| Other                  | \$34,632,574 | \$22,938,376 |
| <b>Balanced Fund:</b>  |              |              |
| U. S. Gov't Securities | \$501,890    | \$400,000    |
| Other                  | \$3,573,324  | \$4,236,281  |
| <b>Mid-Cap Fund:</b>   |              |              |
| U. S. Gov't Securities | --           | --           |
| Other                  | \$29,567,906 | \$14,648,153 |
| <b>Foresight Fund:</b> |              |              |
| U. S. Gov't Securities | --           | --           |
| Other                  | \$625,395    | \$540,965    |

**5. Other Expenses.** Under a separate Services Agreement, the Advisor will provide or arrange for each fund to have all other necessary operational and support services for a fee based on a percentage of average net assets. Through May 13, 2004, this percentage was 0.45% for the Balanced Fund and 0.50% for the Mid-Cap Fund and Foresight Fund. For the Investors Fund, this fee was 0.25% on the first \$25 million of assets, 0.12% on the next \$25 million of assets and 0.11% on all assets greater than \$50 million. These fees are accrued daily and paid monthly.

Effective May 13, 2004, the Trust began paying the expenses of the Trust's Independent Trustees and auditors ("Independent Service Providers") directly. Therefore, the Trust reduced the amount of fees paid to the Advisor prior to May 13, 2004 by the amounts paid



**Notes to Financial Statements (continued)**

directly to the Independent Service Providers. Through June 30, 2004, the reduced services fee was as follows: 0.41% for the Balanced Fund; 0.48% for the Mid-Cap Fund; and 0.39% for the Foresight Fund. For the Investors Fund for this period, this fee was 0.13% of the first \$25 million of assets; 0.12% on the next \$25 million; and 0.11% on all assets greater than \$50 million. The amounts paid by each fund directly for Independent Service Provider fees was \$3,883, \$1,272, \$2,142 and \$669 for the Investors, Balanced, Mid-Cap and Foresight Funds, respectively.

**6. Aggregate Cost and Unrealized Appreciation**

**(Depreciation).** The aggregate cost for federal income tax purposes and the net unrealized appreciation (depreciation) are as follows as of June 30, 2004:

|                                    | (unaudited)             |                           |
|------------------------------------|-------------------------|---------------------------|
|                                    | Investors<br>Fund       | Balanced<br>Fund          |
| Aggregate Cost                     | <u>\$ 134,435,619</u>   | <u>\$ 22,875,906</u>      |
| Gross unrealized appreciation      | 18,572,222              | 2,583,028                 |
| Gross unrealized depreciation      | <u>(1,187,638)</u>      | <u>(425,156)</u>          |
| <b>Net unrealized appreciation</b> | <u>\$ 17,384,584</u>    | <u>\$ 2,157,872</u>       |
|                                    | <u>Mid-Cap<br/>Fund</u> | <u>Foresight<br/>Fund</u> |
| Aggregate Cost                     | <u>\$ 70,586,745</u>    | <u>\$ 4,445,527</u>       |
| Gross unrealized appreciation      | 9,069,663               | 418,070                   |
| Gross unrealized depreciation      | <u>(528,621)</u>        | <u>(178,451)</u>          |
| <b>Net unrealized appreciation</b> | <u>\$ 8,541,042</u>     | <u>\$ 239,619</u>         |

**7. Net Assets.** At June 30, 2004, net assets include the following:

|  | (unaudited)           |                      |
|--|-----------------------|----------------------|
|  | Investors<br>Fund     | Balanced<br>Fund     |
| Net paid in capital on shares of beneficial interest | \$ 136,313,343        | \$ 23,242,467        |
| Undistributed net investment income                  | 209,655               | --                   |
| Accumulated net realized losses                      | (2,552,174)           | (317,942)            |
| Net unrealized appreciation on investments           | <u>17,384,584</u>     | <u>2,157,872</u>     |
| <b>Total Net Assets</b>                              | <u>\$ 151,355,408</u> | <u>\$ 25,082,397</u> |

|  | Mid-Cap<br>Fund      | Foresight<br>Fund   |
|--|----------------------|---------------------|
| Net paid in capital on shares of beneficial interest | \$ 65,398,063        | \$ 4,549,997        |
| Undistributed net investment income                  | (5,499)              | 1,295               |
| Accumulated net realized gains (losses)              | 3,701,930            | (100,556)           |
| Net unrealized appreciation on investments           | <u>8,541,042</u>     | <u>239,619</u>      |
| <b>Total Net Assets</b>                              | <u>\$ 77,635,536</u> | <u>\$ 4,690,355</u> |

**8. Capital Share Transactions.** An unlimited number of capital shares, without par value, are authorized. Transactions in capital shares were as follows:

|  | (unaudited)                             |                                   |
|--|---|-----------------------------------|
|  | Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 |
| <b>Investors Fund</b>                      |   |                                   |
| <b>In Dollars</b>                          |   |                                   |
| Shares sold                                | \$ 27,950,912                           | \$ 29,279,134                     |
| Shares issued in reinvestment of dividends | <u>--</u>                               | <u>118,695</u>                    |
| Total shares issued                        | 27,950,912                              | 29,397,829                        |
| Shares redeemed                            | <u>(6,799,858)</u>                      | <u>(20,722,644)</u>               |
| <b>Net increase</b>                        | <u>\$ 21,151,054</u>                    | <u>\$ 8,675,185</u>               |

## Notes to Financial Statements (continued)

|  | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 |
|--|--|-----------------------------------|
| <b>Investors Fund<br/>(continued)</b>            |  |                                   |
| <b>In Shares</b>                                 |  |                                   |
| Shares sold                                      | 1,448,146  | 1,733,222                         |
| Shares issued<br>in reinvestment<br>of dividends | <u>          --</u>                                    | <u>          6,340</u>            |
| Total shares issued                              | 1,448,146  | 1,739,562                         |
| Shares redeemed                                  | <u>(353,058)</u>                                       | <u>(1,262,174)</u>                |
| <b>Net increase</b>                              | <u>1,095,088</u>                                       | <u>477,388</u>                    |

|  | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 |
|--|--|-----------------------------------|
| <b>Balanced Fund</b>                             |  |                                   |
| <b>In Dollars</b>                                |  |                                   |
| Shares sold                                      | \$ 1,310,098   | \$ 2,742,659                      |
| Shares issued in<br>reinvestment<br>of dividends | <u>          87,770</u>                                | <u>         228,378</u>           |
| Total shares issued                              | 1,397,868  | 2,971,037                         |
| Shares redeemed                                  | <u>(1,244,064)</u>                                     | <u>(2,400,603)</u>                |
| <b>Net increase</b>                              | <u>\$ 153,804</u>                                      | <u>\$ 570,434</u>                 |

|  |                        |                        |
|--|------------------------|------------------------|
| <b>In Shares</b>                                 |                        |                        |
| Shares sold                                      | 70,482                 | 161,758                |
| Shares issued in<br>reinvestment<br>of dividends | <u>          4,715</u> | <u>         13,589</u> |
| Total shares issued                              | 75,197                 | 175,347                |
| Shares redeemed                                  | <u>(66,860)</u>        | <u>(142,505)</u>       |
| <b>Net increase</b>                              | <u>8,337</u>           | <u>32,842</u>          |

|  | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 |
|--|--|-----------------------------------|
| <b>Mid-Cap Fund</b>                              |  |                                   |
| <b>In Dollars</b>                                |  |                                   |
| Shares sold                                      | \$23,704,414   | \$22,555,986                      |
| Shares issued<br>in reinvestment<br>of dividends | <u>          --</u>                                    | <u>         521,067</u>           |
| Total shares issued                              | 23,704,414   | 23,077,053                        |
| Shares redeemed                                  | <u>(4,396,950)</u>                                     | <u>(3,946,365)</u>                |
| <b>Net increase</b>                              | <u>\$19,307,464</u>                                    | <u>\$19,130,688</u>               |

|  |                     |                         |
|--|---------------------|-------------------------|
| <b>In Shares</b>                                 |                     |                         |
| Shares sold                                      | 2,044,290           | 2,289,892               |
| Shares issued<br>in reinvestment<br>of dividends | <u>          --</u> | <u>          47,155</u> |
| Total shares issued                              | 2,044,290           | 2,337,047               |
| Shares redeemed                                  | <u>(381,345)</u>    | <u>(407,077)</u>        |
| <b>Net increase</b>                              | <u>1,662,945</u>    | <u>1,929,970</u>        |

|  | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 |
|--|--|-----------------------------------|
| <b>Foresight Fund</b>                            |  |                                   |
| <b>In Dollars</b>                                |  |                                   |
| Shares sold                                      | \$197,986  | \$ 608,291                        |
| Shares issued<br>in reinvestment<br>of dividends | <u>          --</u>                                    | <u>         1,828</u>             |
| Total shares issued                              | 197,986  | 610,119                           |
| Shares redeemed                                  | <u>(327,479)</u>                                       | <u>(468,659)</u>                  |
| <b>Net increase<br/>(decrease)</b>               | <u>\$(129,493)</u>                                     | <u>\$ 141,460</u>                 |

## Notes to Financial Statements (concluded)

| Foresight Fund<br>(continued)                    | (unaudited)<br>Six-Months<br>Ended<br>June 30,<br>2004 | Year<br>Ended<br>Dec. 31,<br>2003 |
|--|--|-----------------------------------|
| <b>In Shares</b>                                 |  |                                   |
| Shares sold                                      | 15,492   | 53,2758                           |
| Shares issued<br>in reinvestment<br>of dividends | --   | 145                               |
| Total shares issued                              | 15,492   | 53,420                            |
| Shares redeemed                                  | (25,607)   | (40,405)                          |
| <b>Net increase<br/>(decrease)</b>               | <u>(10,115)</u>  | <u>13,015</u>                     |

**Forward-Looking Statement Disclosure.** One of our most important responsibilities as mutual fund managers is to communicate with shareholders in an open and direct manner. Some of our comments in our letters to shareholders are based on current management expectations and are considered “forward-looking statements.” Actual future results, however, may prove to be different from our expectations. You can identify forward-looking statements by words such as “estimate,” “may,” “will,” “expect,” “believe,” “plan” and other similar terms. We cannot promise future returns. Our opinions are a reflection of our best judgment at the time this report is compiled, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise.

**Proxy Voting Information.** The Trust adopted policies that provide guidance and set forth parameters for the voting of proxies relating to securities held in any fund’s portfolios. These policies are available to you upon request and free of charge by writing to Mosaic Funds, 550 Science Drive, Madison, WI 53711 or by calling toll-free at 1-800-368-3195. You can also call this number to obtain, without charge, upon request, information regarding how any fund voted proxies relating to a portfolio security during the most recent 12-month period ended June 30. Both the Trust’s proxy voting policies and the information about how any fund voted proxies may also be obtained by visiting the Securities and Exchange Commission web site at <http://www.sec.gov>. The Trust will respond to shareholder requests for copies of our proxy voting policies and each fund’s proxy voting record within three business days of request by first-class mail or other means designed to ensure prompt delivery.

equity trust

## The Mosaic Family of Mutual Funds

### *Mosaic Equity Trust*

Mosaic Investors Fund  
Mosaic Balanced Fund  
Mosaic Mid-Cap Fund  
Mosaic Foresight Fund

### *Mosaic Income Trust*

Mosaic Government Fund  
Mosaic Intermediate Income Fund  
Mosaic Institutional Bond Fund

### *Mosaic Tax-Free Trust*

Mosaic Arizona Tax-Free Fund  
Mosaic Missouri Tax-Free Fund  
Mosaic Virginia Tax-Free Fund  
Mosaic Tax-Free National Fund

### *Mosaic Government Money Market*

For more complete information on any Mosaic fund, including charges and expenses, request a prospectus by calling 1-800-368-3195. Read it carefully before you invest or send money. This document does not constitute an offering by the distributor in any jurisdiction in which such offering may not be lawfully made. Mosaic Funds Distributor, LLC.

#### TRANSFER AGENT

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c/o US Bancorp Fund Services, LLC  
P.O. Box 701  
Milwaukee, WI 53201-0701

#### TELEPHONE NUMBERS

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**Mosaic Tiles** (24 hour automated information)  
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[www.mosaicfunds.com](http://www.mosaicfunds.com)

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SEC File Number 811-03615