

ANNUAL REPORT

December 31, 2002

Mosaic

Income Trust

Mosaic Government Fund

Mosaic Intermediate Income Fund



www.mosaicfunds.com

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Letter to Shareholders



*Katherine
Frank*

Bond investors experienced another strong year in 2002, making it the third straight year of solid returns. These positive returns were easily overlooked in the mire of the bear market in stocks, but investments into bonds and bond funds increased as the bear market in stocks lengthened. This cash flow was certainly a factor in supporting bond valuations over the course of the past year. It remains unclear whether this investor trend is fueled by a simple aversion to stocks, or a new-found awareness of the benefits of diversification across asset classes.

Investors new to fixed income instruments may not have a full grasp of the range of bonds and bond-investment strategies—or the potential risks. For instance, if the interest rate trend of the past few years reverses, holders of longer bonds can be subject to serious erosion of principal. At Mosaic, we believe in the benefits of active bond management. This means we are highly attuned to

the prospective changes in interest rates and the potential impact these changes have on our shareholders.

Surveying the year ahead, we feel that the multi-year bear market in stocks and bull market in bonds could reverse course. Low interest rates, tax cuts, and greater government spending have the potential to improve underlying economic fundamentals. After three strong years of fixed income returns, shareholders in Mosaic Income Trust have seen solid returns through tough times. We feel that economic recovery, accompanied by higher interest rates, is on the way, and that it is prudent to reduce risk as this scenario unfolds. Thus the funds have moved to a lower average maturity to avoid the inherent risks in longer bonds. A correction in rates should ultimately provide opportunities to add higher yielding bonds to your fund's portfolio.

Thank you again for your continued confidence in Mosaic, and we encourage you to visit www.mosaicfunds.com for current performance and updates.

Sincerely,

Katherine Frank
President

Management's Discussion of Fund Performance

Review of Period

While economic measures remained mixed throughout the year, the end result appeared to be a reversal of the mild recession of 2001. Recoveries are often matched to the depths of the preceding economic downturns, so a modest recovery seemed appropriate, particularly on the heels of the bursting of one of the greatest stock bubbles in history. Manufacturing, net exports and business investment were noteworthy weak spots, but the growth has been reasonably broad based with sizeable gains in many consumer spending categories and increasing contributions from government expenditures. The housing market remained strong and is evidence that the Federal Reserve Board's monetary policy can induce desired results.

Just like the economists who sorted through the evidence and came to no consensus, the bond market seemed torn as well. At times it appeared that the market as a whole saw no end to the bond bull market (particularly safe-haven government bonds), while at other times the market showed real jitters about the possibility of economic recovery and rising rates.

Rates on the benchmark 10-Year Treasury began the year just north of 5%, moved upward in March, and then took a steady slide down to a low near 3.6% in early October, which corresponded with the low in the stock market. We saw rates spike upwards from this low later in October and then work their way back down to a close of 3.8%. So from start to finish, the year showed a significant percentage drop in rates, but with considerable volatility within the year.

U.S. interest rates are now the lowest among all developed countries except Japan. At some point the conflict between our need to attract foreign capital and the low nominal level of rates will need to be resolved through some combination of higher rates, less demand for foreign capital, or further devaluation of the dollar. To this end, monetary and fiscal stimulus should improve economic conditions over the coming year, pushing interest rates higher. With a changed political climate in Washington, there is also an increased likelihood of lower taxes and higher government spending.

Outlook

Despite recent soft economic numbers, the economy remains on firm footing. Service sector indicators point to growing demand. The Index of Leading Indicators has turned back up. Housing demand and prices remain buoyant. And U.S. consumers continue to spend at a steady pace, despite a weakened Christmas selling season. Corporate profitability and cash flow continue to improve. De-leveraging of corporate balance sheets and cost cutting have improved creditworthiness, despite downgrades in economically sensitive sectors. We believe corporate credit quality has bottomed and is set to improve as the economy strengthens. While the recovery should continue to be uneven, and could be hindered by geopolitical risks, corporate profits are improving and should lead to growing capital spending — a necessary precursor to sustained economic revival. The environment ahead, as we see it, continues to dictate a defensive posture with regards to rising interest rates, favoring

Management's Discussion of Fund Performance (continued)

principal preservation over further capital gains, and rewarding the patient investor in high quality, investment grade, corporate bonds. In short, we expect corporate profits to improve throughout 2003 and monetary and fiscal policies to remain stimulative, producing a more challenging year for bond investors.

Fund Overview

Mosaic Government Fund

Mosaic Government Fund returned 7.45% for the annual period ended December 31, 2002. This return was lower than the fund's peers, as the Lipper Intermediate Government Fund Index advanced 10.00%. This reflects management's defensive positioning of the portfolio at a shorter duration, a strategy that was not rewarded over this past year. However, if the economy continues to recover, investors will begin to react to the prospect of higher rates, and shareholders should see the benefits of this defensive posture.

The period was a strong one for government bonds, as the Federal Reserve Board pushed rates to historic lows. Cash flows from stocks to bonds, with a particular preference for the safety of government issues, were the catalyst for solid returns among government issuances.

Mosaic Government was heavily weighted towards government agency notes, whose added yields over Treasuries (spreads) continued to appeal to management. The fund's largest positions at year-end were intermediate duration bonds issued by Freddie Mac and Fannie Mae.

FUND-AT-A-GLANCE

Objective: Mosaic Government provides investors with monthly dividends by investing in bonds and other securities issued or guaranteed by the U.S. Government.

Net Assets: \$5.9 million

Date of Inception: July 21, 1983

Ticker: GIGVX

Mosaic Intermediate Income Fund

Mosaic Intermediate Income Fund returned 4.56% for the year ended December 31, 2002. Over the same period, the Lipper General Bond Fund Index was up 6.09%. The performance gap had two factors. First, the fund's shorter maturity was not additive over this twelve-month period, as interest rates continued to drop, despite growing evidence of an economic recovery. Secondly, the fund was over-weighted in corporate bonds, which underperformed when compared to governments. In addition, the portfolio was directly impacted by one of the major corporate scandals of the period, as its holdings of Worldcom bonds plummeted following revelations of corporate fraud. These bonds were sold in the wake of this announcement, reflecting our complete loss of faith in the firm's financial position.

The bulk of the fund was invested in high-quality, intermediate corporate bonds throughout the period, with much of the remainder in government agency securities. Intermediate Income can invest as much as 35% in lower-rated securities, but in the wake of the recent recession and in the face of corporate scandals, low-rated bonds were the worst performing category among domestic bonds, with the Lipper High Yield Bond Fund Index sinking -2.41% for the year.

Management's Discussion of Fund Performance (concluded)

Intermediate Income avoided much of this downturn, with an average exposure to Bb-rated bonds of 9% for the period. The fund was also helped by keeping the low-rated bonds in the highest quality category for this sector.

Looking forward, we continue to believe that a recovering economy will be a positive for corporate bonds. Corporate bond yields continue to have a yield advantage as well, which we expect will help overall returns and mitigate the effect of rising rates on our holdings. A rebounding economy will also

buoy the prospects of lower-rated bonds, which we foresee playing a larger role in the fund's portfolio over the next year.

FUND-AT-A-GLANCE

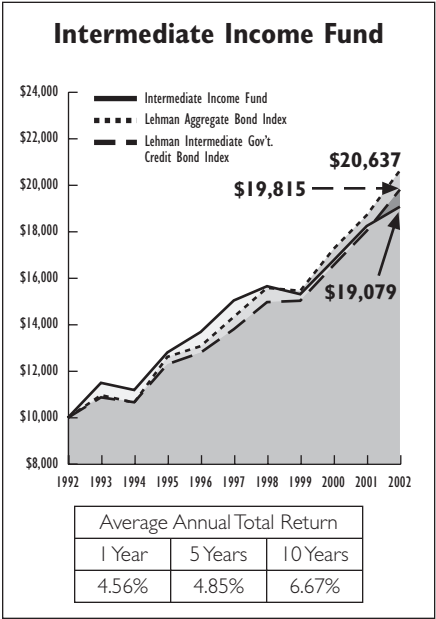
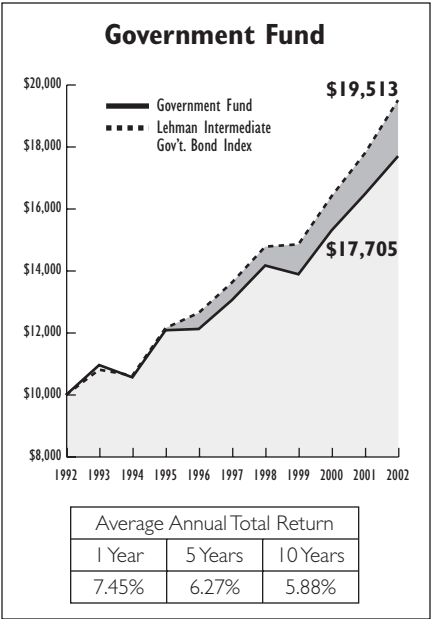
Objective: Mosaic Intermediate Income provides relatively higher income by investing in a mix of higher, medium and lower-rated corporate bonds.

Net Assets: \$6.8 million

Date of Inception: July 21, 1983

Ticker: GITMX

Comparison of Changes in the Value of a \$10,000 Investment



Past performance is not predictive of future performance. The above graphs and tables do not reflect the deduction of taxes that a shareholder would pay on fund distributions or redemption of fund shares.

Prior to July 1, 1999, the Intermediate Income Fund was known as the Mosaic High Yield Fund. On this date, the new fund, which includes merged assets from the Mosaic Bond Fund, changed its name and investment policies.

Independent Auditors' Report

To the Board of Trustees and Shareholders of Mosaic Income Trust:

We have audited the accompanying statements of assets and liabilities, including the portfolios of investments, of Mosaic Government Fund and Mosaic Intermediate Income Fund (collectively, the "Funds"), two series of Mosaic Income Trust, as of December 31, 2002, the related statements of operations for the year then ended, statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights.

Our procedures included confirmation of securities owned as of December 31, 2002, by correspondence with the Funds' custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of each of the Funds as of December 31, 2002, the results of their operations, the changes in their net assets, and the financial highlights for the respective stated periods, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Chicago, Illinois
January 27, 2003

Government Fund • Portfolio of Investments

CREDIT RATING* MOODY'S	S&P		PRINCIPAL AMOUNT	VALUE
U.S. GOVERNMENT & AGENCY OBLIGATIONS:				
96.1% of net assets				
US TREASURY NOTES: 14.0%				
Aaa	AAA	US Treasury Notes, 7.875%, 11/15/04	\$250,000	\$279,248
Aaa	AAA	US Treasury Notes, 5.875%, 11/15/05	500,000	554,609
U.S. GOVERNMENT AGENCY NOTES: 59.1%				
Aaa	AAA	Fannie Mae, 6.5%, 8/15/04	250,000	269,605
Aaa	AAA	Fannie Mae, 7.125%, 2/15/05	550,000	610,301
Aaa	AAA	Fannie Mae, 5.75%, 6/15/05	350,000	381,873
Aaa	AAA	Fannie Mae, 6%, 12/15/05	300,000	332,415
Aaa	AAA	Fannie Mae, 6.42%, 3/9/09	300,000	315,554
Aaa	AAA	Fannie Mae, 6.375%, 6/15/09	175,000	202,767
Aaa	AAA	Federal Home Loan Bank, 6.08%, 7/10/12	350,000	357,592
Aaa	AAA	Freddie Mac, 6.25%, 7/15/04	250,000	267,905
Aaa	AAA	Freddie Mac, 6.875%, 1/15/05	230,000	253,218
Aaa	AAA	Freddie Mac, 5.125%, 10/15/08	250,000	272,992
Aaa	AAA	Freddie Mac, 5.5%, 9/15/11	225,000	246,926
MORTGAGE BACKED SECURITIES: 23.0%				
Aaa	AAA	Fannie Mae, Mortgage Pool #636758, 6.5%, 5/1/32	265,630	276,784
Aaa	AAA	Fannie Mae, Mortgage Pool #254346, 6.5%, 6/1/32	253,472	264,115
Aaa	AAA	Fannie Mae, Mortgage Pool #254405, 6%, 8/1/32	284,352	294,439
Aaa	AAA	Freddie Mac, Mortgage Pool, Gold Pass Through Certificates #E57247, 6.5%, 3/1/09	129,056	137,158
Aaa	AAA	Freddie Mac, Mortgage Pool, Gold Pass Through Certificates #C01364, 6.5%, 6/1/32	252,774	263,497
Aaa	AAA	Government National Mortgage Association II, Guaranteed Pass Through Certificates #2483, 7%, 9/20/27	116,702	123,384
TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS				
(cost \$5,437,868)				\$5,704,382
REPURCHASE AGREEMENT: 2.7% of net assets				
Morgan Stanley and Company issued 12/31/02 at				
0.80%, due 1/2/03, collateralized by \$164,245 in				
United States Treasury Notes due 3/31/04.				
Proceeds at maturity are \$161,007. (cost \$161,000)				
				161,000
TOTAL INVESTMENTS: 98.8% of net assets (cost \$5,598,868)				\$5,865,382
CASH AND RECEIVABLES LESS LIABILITIES: 1.2% of net assets				73,550
NET ASSETS: 100%				\$5,938,932

See the Notes to Portfolio of Investments.

Intermediate Income Fund • Portfolio of Investments

CREDIT RATING*			PRINCIPAL	VALUE
MOODY'S	S&P		AMOUNT	
CORPORATE DEBT SECURITIES: 60.5% of net assets				
CONSUMER STAPLES: 5.4%				
A2	A	Coca-Cola Enterprises, 5.25%, 5/15/07	\$150,000	\$161,430
Baa2	BBB	Safeway Inc, 4.8%, 7/16/07	200,000	206,554
ENERGY: 5.1%				
Baa2	BBB	Occidental Petroleum, 7.375%, 11/15/18	200,000	234,030
Baa2	BBB	Oryx Energy Company, 8.125%, 10/15/05	100,000	113,172
FINANCIALS: 17.9%				
A3	BBB	Ford Motor Credit, 6.875%, 2/1/06	150,000	150,365
A2	BBB	GMAC, 5.75%, 11/10/03	200,000	203,357
A2	A-	Household Finance Co, 7.875%, 3/1/07	200,000	223,608
A1	AA-	International Lease Finance, 5.75%, 10/15/06	200,000	209,867
A1	A1	MGIC Investment Corp, 6%, 3/15/07	200,000	214,843
Aa3	A+	Morgan Stanley Dean Witter, 6.875%, 3/1/07	200,000	225,264
INDUSTRIAL: 15.2%				
Ba3	BB+	American Standard, 7.375%, 2/1/08	175,000	183,750
A3	BBB+	Daimler Chrysler, 7.2%, 9/1/09	150,000	166,983
Baa1	A-	Equifax, 6.3%, 7/1/05	200,000	214,085
A2	A	Gannett, Inc., 4.95%, 4/1/05	200,000	211,772
Ba1	BBB-	Watson Pharmaceutical, 7.125%, 5/15/08	100,000	104,986
Ba1	BB	YUM! Brands Inc, 8.5%, 4/15/06	150,000	160,125
RETAILERS-APPAREL: 3.0%				
A3	A-	Kohl's Corporation, 6.7%, 2/1/06	185,000	203,873
TECHNOLOGY: 7.5%				
A2	A	Computer Sciences Co, 7.5%, 8/8/05	175,000	191,527
Baa1	BBB	Lexmark International, 6.75%, 5/15/08	200,000	215,257
Baa2	BBB	Motorola Inc., 6.75%, 2/1/06	100,000	103,586
TELECOMMUNICATIONS: 3.0%				
Baa3	BBB	AT&T Broadband, 8.375%, 3/15/13	181,000	206,035

See the Notes to Portfolio of Investments.

Intermediate Income Fund • Portfolio of Investments • December 31, 2002 (concluded)

CREDIT RATING*			PRINCIPAL	VALUE
MOODY'S	S&P		AMOUNT	
TRANSPORTATION - ROAD & RAIL: 3.4%				
Baa1	BBB	Norfolk Southern Corp, 7.35%, 5/15/07	\$200,000	\$ 229,882
TOTAL CORPORATE DEBT SECURITIES				
(cost \$3,857,279)				\$4,134,351
COLLATERALIZED MORTGAGE OBLIGATIONS:				
5.7% of net assets				
Aaa	AAA	Fannie Mae, Mortgage Pool #636758, 6.5%, 5/1/32	354,174	369,045
Aaa	AAA	Ryland Acceptance Corp., Class Four, Series 76, 9%, 8/1/18	19,408	19,834
TOTAL COLLATERALIZED MORTGAGE OBLIGATIONS				
(cost \$376,983)				\$ 388,879
U.S. GOVERNMENT & AGENCY OBLIGATIONS:				
27.0% of net assets				
Aaa	AAA	Federal Home Loan Bank, 6.08%, 7/10/12	250,000	255,423
Aaa	AAA	Freddie Mac, 6.25%, 7/15/04	450,000	482,229
Aaa	AAA	Freddie Mac, 6.05%, 2/7/06	500,000	502,014
Aaa	AAA	Fannie Mae, 7.125%, 2/15/05	250,000	277,410
Aaa	AAA	Fannie Mae, 6%, 12/15/05	300,000	332,415
TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS				
(cost \$1,810,970)				\$1,849,491
REPURCHASE AGREEMENT: 5.1% of net assets				
Morgan Stanley and Company issued 12/31/02 at 0.80%, due 1/2/03, collateralized by \$359,095 in United States Treasury Notes due 3/31/04.				
Proceeds at maturity are \$352,016. (cost \$352,000)				352,000
TOTAL INVESTMENTS: 98.3% of net assets			(cost \$6,397,232)	\$6,724,721
CASH AND RECEIVABLES LESS LIABILITIES: 1.7% of net assets				114,643
NET ASSETS: 100%				<u>\$6,839,364</u>

Notes to the Portfolio of Investments:

* – Unaudited

Moody's – Moody's Investors Services, Inc.

S&P – Standard & Poor's Corporation

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

Statements of Assets and Liabilities

	GOVERNMENT FUND	INTERMEDIATE INCOME FUND
ASSETS		
Investments, at value (Note 1 and 2)		
Investment securities	\$5,704,382	\$6,372,721
Repurchase agreements	161,000	352,000
Total investments*	5,865,382	6,724,721
Cash	6	466
Receivables		
Interest	73,544	112,677
Capital shares sold	—	1,500
Total assets	\$5,938,932	\$6,839,364
NET ASSETS (Note 7)	\$5,938,932	\$6,839,364
CAPITAL SHARES OUTSTANDING	561,499	1,026,960
NET ASSETS VALUE PER SHARE	\$ 10.58	\$ 6.66
*INVESTMENT SECURITIES, AT COST	\$5,598,868	\$6,397,232

Statements of Operations

For the year ended December 31, 2002

	GOVERNMENT FUND	INTERMEDIATE INCOME FUND
INVESTMENT INCOME (Note 1)		
Interest income	\$ 282,174	\$ 381,682
EXPENSES (Notes 3 and 5)		
Investment Advisory Fees	34,759	41,843
Other expenses	28,919	30,127
Total Expenses	63,678	71,970
NET INVESTMENT INCOME	\$ 218,496	\$ 309,712
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain (loss) on investments	121,793	(243,364)
Change in net unrealized appreciation (depreciation) of investments	57,851	234,731
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$ 179,644	\$ (8,633)
TOTAL INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 398,140	\$ 301,079

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

Statements of Changes in Net Assets

For the years indicated

	GOVERNMENT FUND		INTERMEDIATE INCOME FUND	
	Year Ended December 31,		Year Ended December 31,	
	2002	2001	2002	2001
INCREASE IN NET ASSETS				
RESULTING FROM OPERATIONS				
Net investment income	\$218,496	\$242,517	\$309,712	\$303,242
Net realized gain (loss) on investments	121,793	57,366	(243,364)	(12,901)
Change in net unrealized appreciation (depreciation) on investments	57,851	83,970	234,731	127,031
Total increase in net assets resulting from operations	398,140	383,853	301,079	417,372
DISTRIBUTION TO SHAREHOLDERS				
From net investment income	(218,496)	(242,517)	(309,712)	(303,242)
CAPITAL SHARE TRANSACTIONS (Note 8)	477,058	(8,597)	580,526	1,867,314
TOTAL INCREASE IN NET ASSETS	656,702	132,739	571,893	1,981,444
NET ASSETS				
Beginning of year	<u>\$5,282,230</u>	<u>\$5,149,491</u>	<u>\$6,267,471</u>	<u>\$4,286,027</u>
End of year	<u>\$5,938,932</u>	<u>\$5,282,230</u>	<u>\$6,839,364</u>	<u>\$6,267,471</u>

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

Financial Highlights

(Selected data for a share outstanding throughout each period indicated)

GOVERNMENT FUND

		Year Ended December 31,			
	2002	2001	2000	1999	1998
Net asset value, beginning of period	\$10.24	\$9.97	\$9.54	\$10.22	\$9.89
Investment operations:					
Net investment income	0.41	0.48	0.51	0.48	0.49
Net realized and unrealized gain (loss) on investments	0.34	0.27	0.43	(0.68)	0.33
Total from investment operations	0.75	0.75	0.94	(0.20)	0.82
Less distributions from net investment income	(0.41)	(0.48)	(0.51)	(0.48)	(0.49)
Net asset value, end of period	\$10.58	\$10.24	\$9.97	\$9.54	\$10.22
Total return (%)	7.45	7.62	10.19	(1.99)	8.52
Ratios and supplemental data					
Net assets, end of period (thousands)	\$5,939	\$5,282	\$5,149	\$5,206	\$5,763
Ratio of expenses to average net assets (%)	1.14	1.15	1.15	1.14	1.15
Ratio of net investment income to average net assets (%)	3.92	4.67	5.31	4.86	4.93
Portfolio turnover (%)	44	34	33	12	46

INTERMEDIATE INCOME FUND

		Year Ended December 31,			
	2002	2001	2000	1999	1998
Net asset value, beginning of period	\$6.67	\$6.48	\$6.31	\$6.92	\$7.21
Investment operations:					
Net investment income	0.30	0.37	0.40	0.46	0.58
Net realized and unrealized gain (loss) on investments	(0.01)	0.19	0.17	(0.61)	(0.29)
Total from investment operations	0.29	0.56	0.57	(0.15)	0.29
Less distributions from net investment income	(0.30)	(0.37)	(0.40)	(0.46)	(0.58)
Net asset value, end of period	\$6.66	\$6.67	\$6.48	\$6.31	\$6.92
Total return (%)	4.56	8.81	9.49	(2.20)	4.07
Ratios and supplemental data					
Net assets, end of period (thousands)	\$6,839	\$6,267	\$4,286	\$5,195	\$6,154
Ratio of expenses to average net assets (%)	1.07	1.07	1.08	1.11	1.16
Ratio of net investment income to average net assets (%)	4.61	5.61	6.43	6.97	8.11
Portfolio turnover (%)	54	28	18	63	43

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

Notes to Financial Statements

For the year ended December 31, 2002

1. Summary of Significant Accounting Policies.

Mosaic Income Trust (the "Trust") is registered with the Securities and Exchange Commission under the Investment Company Act of 1940 as an open-end, diversified investment management company. This report contains information about two separate funds (the "Funds") whose objective is to receive and distribute bond income. The Government Fund invests in securities of the U. S. Government and its agencies. The Intermediate Income Fund invests in investment grade corporate, government and government agency fixed income securities. The Intermediate Income Fund may also invest a portion of its assets in securities rated as low as "B" by Moody's Investors Service, Inc. or Standard & Poor's Corporation. A third Mosaic Income Trust portfolio, available to certain institutional investors (as defined in the fund's prospectus) presents its financial information in a separate report.

Securities Valuation: 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 market quotations are readily available, are valued at the mean between their 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 is

accreted over the expected life of each applicable security. 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 monthly. Capital gains distributions, if any, are declared and paid annually at year end.

The tax character of distributions paid during 2002 and 2001 was as follows:

	<u>2002</u>	<u>2001</u>
Government Fund:		
Distributions paid from		
Ordinary Income	\$218,496	\$242,517

Intermediate Income Fund:		
Distributions paid from		
Ordinary Income	\$309,712	\$303,242

As of December 31, 2002, the components of distributable earnings on a tax basis were as follows:

Government Fund:	
Accumulated net realized losses	\$(205,626)
Net unrealized appreciation	
on investments	259,859
	\$ 54,233

Intermediate Income Fund:	
Accumulated net realized losses	\$(1,166,454)
Net unrealized appreciation	
on investments	327,490
	\$ (838,964)

Net realized gains or losses may differ for financial and tax reporting purposes as a result of loss deferrals related to wash sale 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

Notes to Financial Statements (continued)

December 31, 2002, the Government and Intermediate Income Funds had available for federal income tax purposes the following unused capital loss carryovers:

Expiration Date	Government Fund	Intermediate Income Fund
December 31, 2003	\$81,483	\$ 94,831
December 31, 2004	44,628	—
December 31, 2005	64,210	293
December 31, 2006	—	239,050
December 31, 2007	9,847	486,268
December 31, 2008	5,458	89,747
December 31, 2009	—	12,901
December 31, 2010	—	243,364

A portion of the Intermediate Income Fund's capital loss carryovers were acquired through its merger with Mosaic Bond Fund on July 1, 1999, 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 2002 fiscal year have been identified and appropriately reclassified. In the Intermediate Income Fund, permanent differences relating to the expiration of capital loss carryover totaling \$928,917 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 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 Trust's 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.

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 0.625% per annum of the average net assets of each of the Funds; the fees are accrued daily and are paid monthly.

4. Investment Transactions. Purchases and sales of securities (excluding short-term securities) for the year ended December 31, 2002 were as follows:

	Purchases	Sales
Government Fund:		
U.S. Gov't Securities	\$3,012,881	\$2,268,777
Other	—	—
Intermediate Income Fund:		
U.S. Gov't Securities	\$1,609,491	\$944,108
Other	\$2,292,896	\$2,426,519

Notes to Financial Statements (continued)

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. This percentage is 0.52% for the Government Fund and 0.45% for the Intermediate Income Fund. These fees are accrued daily and paid monthly.

The Advisor is also responsible for the fees and expenses of Trustees and for certain promotional expenses.

6. Aggregate Cost and Unrealized Appreciation (Depreciation). The aggregate cost for federal income tax purposes and the net unrealized appreciation (depreciation) are stated as follows as of December 31, 2002:

	Government Fund	Intermediate Income Fund
Aggregate Cost	\$ 5,598,868	\$ 6,397,232
Gross unrealized appreciation	266,514	336,209
Gross unrealized depreciation	—	(8,720)
Net unrealized appreciation	\$ 266,514	\$ 327,489

7. Net Assets. At December 31, 2002, net assets include the following:

	Government Fund	Intermediate Income Fund
Net paid in capital on shares of beneficial interest	\$ 5,884,698	\$ 7,678,329
Accumulated net realized losses	(212,280)	(1,166,454)
Net unrealized appreciation (depreciation) on investments	266,514	327,489
Total net assets	<u>\$ 5,938,932</u>	<u>\$ 6,839,364</u>

8. Capital Share Transactions. An unlimited number of capital shares, without par value, are authorized. Transactions in capital shares for the following periods were:

	Year Ended December 31,	
Government Fund	2002	2001
In Dollars		
Shares sold	\$ 742,989	\$ 446,633
Shares issued in reinvestment of dividends	203,056	220,258
Total shares issued	946,045	666,891
Shares redeemed	(468,987)	(675,488)
Net increase (decrease)	<u>\$ 477,058</u>	<u>\$ (8,597)</u>

In Shares		
Shares sold	71,612	43,981
Shares issued in reinvestment of dividends	19,563	21,648
Total shares issued	91,175	65,629
Shares redeemed	(45,294)	(66,545)
Net decrease (decrease)	<u>45,881</u>	<u>(916)</u>

Notes to Financial Statements (concluded)

Intermediate Income Fund	Year Ended December 31,	
	2002	2001
In Dollars		
Shares sold	\$1,614,253	\$2,807,437
Shares issued in reinvestment of dividends	265,769	249,844
Total shares issued	1,880,022	3,057,281
Shares redeemed	(1,299,496)	(1,189,967)
Net increase	<u>\$ 580,526</u>	<u>\$1,867,314</u>
In Shares		
Shares sold	244,360	429,728
Shares issued in reinvestment of dividends	40,452	37,396
Total shares issued	284,812	467,124
Shares redeemed	(197,486)	(188,785)
Net increase	<u>87,326</u>	<u>278,339</u>

Management Information

Independent Trustees

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen	Other Directorships Held
Philip E. Blake 550 Science Drive Madison, WI 53711 Born 11/07/1944	Trustee	Indefinite Term since May 2001	Retired investor; formerly publisher of Madison's Wisconsin State Journal newspaper.	All 13 Mosaic Funds	Madison Newspapers, Inc. of Madison, WI
James R. Imhoff, Jr. 550 Science Drive Madison, WI 53711 Born 5/20/1944	Trustee	Indefinite Term since July 1996	Chairman and CEO of First Weber Group, Inc. (real estate brokers) of Madison, WI.	All 13 Mosaic Funds	None
Lorence D. Wheeler 550 Science Drive Madison, WI 53711 Born 1/31/1938	Trustee	Indefinite Term since July 1996	Retired investor; formerly Pension Specialist for CUNA Mutual Group (insurance) and President of Credit Union Benefits Services, Inc. (a provider of retirement plans and related services for credit union employees nationwide).	All 13 Mosaic Funds	None

Interested Trustees*

Frank E. Burgess 550 Science Drive Madison, WI 53711 Born 8/04/1942	Trustee and Vice President	Indefinite Terms since July 1996	Founder, President and Director of Madison Investment Advisors, Inc.	All 13 Mosaic Funds	None
Katherine L. Frank 550 Science Drive Madison, WI 53711 Born 11/27/1960	President	Indefinite Terms since July 1996,	Principal and Vice President of Madison Investment Advisors, Inc. and President of Madison Mosaic, LLC	President of all 13 Mosaic Funds and Trustee of all Mosaic Funds except Mosaic Equity Trust	None

Officers*

Jay R. Sekelsky 550 Science Drive Madison, WI 53711 Born 9/14/1959	Vice President	Indefinite Term since July 1996	Principal and Vice President of Madison Investment Advisors, Inc. and Vice President of Madison Mosaic, LLC	All 13 Mosaic Funds	None
Christopher Berberet 550 Science Drive Madison, WI 53711 Born 7/31/1959	Vice President	Indefinite Term since July 1996	Principal and Vice President of Madison Investment Advisors, Inc. and Vice President of Madison Mosaic, LLC	All 13 Mosaic Funds	None

Management Information (concluded)

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen	Other Directorships Held
W. Richard Mason 8777 N. Gainey Center Drive, #220 Scottsdale, AZ 85258 Born 5/13/1960	Secretary and General Counsel	Indefinite Terms since November 1992	Principal of Mosaic Funds Distributor, LLC; General Counsel for Madison Investment Advisors, Madison Scottsdale, LC and Madison Mosaic, LLC	All 13 Mosaic Funds	None
Greg Hoppe 550 Science Drive Madison, WI 53711 Born 4/28/1969	Chief Financial Officer	Indefinite Term since August 1999	Vice President of Madison Mosaic, LLC; formerly CFO of Amcore Bank-South Central and auditor for McGladrey & Pullen accounting firm.	All 13 Mosaic Funds	None

*All interested Trustees and Officers of the Trust are employees and/or owners of Madison Investment Advisors, Inc. Since Madison Investment Advisors, Inc. serves as the investment advisor to the Trust, each of these individuals is considered an "interested person" of the Trust as the term is defined in the Investment Company Act of 1940.

The Statement of Additional Information contains more information about the Trustees and is available upon request. To request a free copy, call Mosaic Funds at 1-800-368-3195.

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 Tax-Free Money Market

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

Shareholder Service
Toll-free nationwide: 888-670-3600

Mosaic Tiles (24 hour automated information)
Toll-free nationwide: 800-336-3600



www.mosaicfunds.com

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