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ANNUAL AUDITED REPORT

FORM X-17A-5 PART III

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SECTION

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FACING PAGE
Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/05 AND ENDING 12/31/05
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Mosaic Funds Distributor, LLC

| |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO. |

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

8777 N. Gainey Center Drive

(No. and Street)

Scottsdale

(City)

Arizona

(State)

85258

(Zip Code)

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

W. Richard Mason, Principal

(480) 443-9537

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

McGladrey & Pullen, LLP

(Name - if individual, state last, first, middle name)

191 N. Wacker Drive, Suite 1400 Chicago

(Address)

(City)

Illinois

(State)

60606-1921

(Zip Code)

CHECK ONE:

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

PROCESSED
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THOMSON
FINANCIAL

Handwritten initials and signature

* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant

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| |

must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, **W. Richard Mason**, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of **Mosaic Funds Distributor, LLC**, as of **December 31, 2005**, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.

W. R. Mason

Signature



Notary Public State of Arizona
Maricopa County
Alyssa B. Johnson
Expires September 14, 2007

Principal

Title

Alyssa B. Johnson
Notary Public

This report contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Member's Capital
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent Auditor's Report on Internal Control

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Member
Mosaic Funds Distributor, LLC
Madison, Wisconsin

We have audited the accompanying statement of financial condition of Mosaic Funds Distributor, LLC as of December 31, 2005, and the related statements of operations, changes in member's capital, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mosaic Funds Distributor, LLC as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Chicago, Illinois
January 13, 2006

Mosaic Funds Distributor, LLC

**Statement of Financial Condition
December 31, 2005**

Assets

| | | |
|---|-----------|---------------|
| Cash and cash equivalents | \$ | 28,415 |
| Securities owned, not readily marketable, at estimated fair value | | 15,614 |
| Other assets | | 110 |
| | | <hr/> |
| Total assets | \$ | 44,139 |
| | | <hr/> <hr/> |

Liabilities and Member's Capital

Member's capital,

| | | |
|---|-----------|---------------|
| Total liabilities and member's capital | \$ | 44,139 |
| | | <hr/> <hr/> |

The accompanying notes are an integral part of these financial statements.

Mosaic Funds Distributor, LLC

Statement of Operations
Year Ended December 31, 2005

| | |
|-------------------------------------|------------------|
| Revenue: | |
| Contract revenue | \$ 24,629 |
| Unrealized gain on securities owned | 11,114 |
| Other | 898 |
| | <hr/> |
| | 36,641 |
| Operating expenses | <hr/> |
| | 25,082 |
| Net income | <hr/> |
| | \$ 11,559 |
| | <hr/> |

The accompanying notes are an integral part of these financial statements.

Mosaic Funds Distributor, LLC

**Statement of Changes in Member's Capital
Year Ended December 31, 2005**

| | | |
|------------------------------|----|----------------------|
| Balance at December 31, 2004 | \$ | 32,580 |
| Net income | | <u>11,559</u> |
| Balance at December 31, 2005 | \$ | <u>44,139</u> |

The accompanying notes are an integral part of these financial statements.

Mosaic Funds Distributor, LLC

Statement of Cash Flows
Year Ended December 31, 2005

| | |
|--|-------------------------|
| Cash Flows from Operating Activities | |
| Net income | \$ 11,559 |
| Adjustment to reconcile net income to net cash provided by operating activities: | |
| Change in unrealized gain in securities owned | (11,114) |
| Decrease in other assets | <u>728</u> |
| Net cash provided by operating activities | 1,173 |
| Cash Flows from Investing Activities | |
| Purchase of securities, | |
| Net cash (used in) investing activities | <u>(4,500)</u> |
| Decrease in cash and cash equivalents | (3,327) |
| Cash and cash equivalents: | |
| Beginning | <u>31,742</u> |
| Ending | <u><u>\$ 28,415</u></u> |

The accompanying notes are an integral part of these financial statements.

Mosaic Funds Distributor, LLC

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Mosaic Funds Distributor, LLC (the Company) is a Wisconsin limited liability company formed on December 19, 1997, and is a registered broker dealer with the Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers, Inc (NASD). The Company is a wholly owned subsidiary of Madison Investment Advisors, Inc. The Company's sole business activities are to serve as the marketing agent and distributor of the Mosaic family of no-load mutual funds.

The Company operates under the provisions of paragraph (k)(1) of rule 15c3-3 of the SEC and, accordingly, is exempt from the remaining provisions of rule 15c3-3. Essentially, the requirements of paragraph (k)(1) provide that the Company limits its transactions to the purchase, sale, and redemption of redeemable securities of mutual funds and promptly transmits all funds received and delivers securities to customers.

The following is a summary of the Company's significant accounting policies:

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

Revenue recognition: Contract revenue represents amounts earned for services related to its marketing and distribution of mutual funds. Contract revenue is earned as such services are provided.

Cash equivalents: Cash equivalents include a certificate of deposit with a maturity date within 90 days.

Income tax status: The Company is organized as a limited liability company. Accordingly, the member separately accounts for the Company's items of taxable income, deductions, losses, and credits. As a result, no income taxes have been recognized in the accompanying financial statements.

Securities owned, not readily marketable: Securities owned, not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the issuer or Company.

Not readily marketable investments owned by the Company consist of equity and warrant securities. Equity and warrant securities, which are not readily marketable, are recorded at estimated fair value based upon other market sources which are believed to provide a reasonable value for such investments.

Mosaic Funds Distributor, LLC

Notes to Financial Statements

Note 2. Securities Owned, Not Readily Marketable, at Estimated Fair Value

Securities owned at December 31, 2005 consist of:

| | | |
|--------------------------|----|---------------|
| Common stock | \$ | 10,524 |
| Warrants on common stock | | <u>5,090</u> |
| | \$ | <u>15,614</u> |

Note 3. Net Capital Requirements

The Company is a broker-dealer subject to the SEC Uniform Net Capital Rule (rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn if the resulting net capital ratio would exceed 10 to 1. At December 31, 2005, the Company had net capital of \$28,415, which was \$23,415 in excess of its required net capital of \$5,000. The Company had no indebtedness at December 31, 2005.

Note 4. Significant Business Relationships

The Company relies entirely on the operational support of Madison Mosaic, LLC, another wholly owned subsidiary of Madison Investment Advisors, Inc., for its day-to-day staffing and operations. All persons associated with the Company are employees of Madison Mosaic, LLC (or another Madison Investment Advisors, Inc. affiliate) and such firms share office space and supplies. The relationship between the Company and Madison Mosaic, LLC is documented in a Services Agreement between the companies dated January 29, 1998 and in a Distributor Services Compensation Agreement dated July 1, 2000 (Service Agreements). The Service Agreements will terminate in the event Madison Mosaic, LLC or Madison Investment Advisors, Inc. ceases to serve as the investment advisor to the Mosaic family of mutual funds. The Company earned contract revenue from Madison Mosaic, LLC in the amount of \$24,629 for the year ended December 31, 2005.

Mosaic Funds Distributor, LLC

**Computation of Net Capital Under Rule 15c3-1
December 31, 2005**

| | Schedule I |
|--|-------------------|
| Computation of net capital: | |
| Total member's capital | \$ 44,139 |
| Deductions and/or charges: | |
| Securities owned, not readily marketable | \$ 15,614 |
| Other assets | 110 |
| | <u>15,724</u> |
| Net capital | 28,415 |
| Minimum net capital | <u>5,000</u> |
| Capital in excess of minimum requirement | <u>\$ 23,415</u> |
| Aggregate indebtedness | <u>\$ -</u> |

Statement pursuant to paragraph (d) of rule 17a-5:

There are no material differences between the amounts presented in the computations of net capital set forth above and the amounts as reported in the Company's unaudited Part IIA Quarterly FOCUS report as of December 31, 2005.

Mosaic Funds Distributor, LLC

**Computation for Determination of Reserve Requirements
Under Rule 15c3-3
December 31, 2005**

Schedule II

None, the Company is exempt from rule 15c3-3 pursuant to the provisions of subparagraph (k)(1) thereof.

**Information Relating to Possession or Control Requirements
Under Rule 15c3-3
December 31, 2005**

Schedule III

None, the Company is exempt from rule 15c3-3 pursuant to the provisions of subparagraph (k)(1) thereof.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Internal Control

To the Member
Mosaic Funds Distributor, LLC
Madison, Wisconsin

In planning and performing our audit of the financial statements and supplemental schedules of Mosaic Funds Distributor, LLC (the "Company") for the year ended December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

- (1) Making quarterly securities examinations, counts, verifications, and comparisons.
- (2) Recordation of differences required by Rule 17a-13.
- (3) Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

This report is intended solely for the information and use of the managing member, management, the SEC, the National Association of Securities Dealers, Inc. and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Chicago, Illinois
January 13, 2006