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UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

FINANCIAL REPORT  
JUNE 30, 2004

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 **CARNEY,  
ALEXANDER,  
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Certified Public Accountants

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Table of Contents

|  | Page  |
|--|-------|
| Independent Auditors' Report                                     | 1     |
| Financial Statements:  |       |
| Balance Sheet  | 2     |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 3     |
| Notes to Financial Statements                                    | 4 - 9 |

Independent Auditors' Report

To the Members of the Board of Regents, State of Iowa  
and Officials of the University of Northern Iowa

We have audited the accompanying balance sheet of the Academic Building Revenue Bond Funds, of the University of Northern Iowa, as of June 30, 2004, and the related statement of revenues, expenditures and changes in fund balances for the year then ended. These financial statements are the responsibility of University officials. 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.

As discussed in Note 1, the financial statements present only the Academic Building Revenue Bond Funds of the University of Northern Iowa and do not purport to, and do not, present fairly the financial position of the University of Northern Iowa as of June 30, 2004 and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academic Building Revenue Bond Funds, of the University of Northern Iowa, as of June 30, 2004, and the revenues, expenditures and changes in fund balances for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, nothing came to our attention that caused us to believe that the University of Northern Iowa was not in compliance with the accounting requirements of the Board of Regents, State of Iowa Resolution for the issuance of the Academic Building Revenue Bonds, Series 1992, 1993, 1994 Refunding, 1994, 1995, 1996 Refunding, 2002 Refunding, 2003 Refunding and 2003A Refunding. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the University of Northern Iowa, the members of the Board of Regents, citizens of the State of Iowa and other parties to whom the University of Northern Iowa may report. This report is not intended to be and should not be used by anyone other than these specified parties.

October 1, 2004

*Carney, Alexander, Marold & Co., L.L.P.*

## Financial Statements

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Balance Sheet  
As of June 30, 2004

|   | Current Fund |
|---|--------------|
| - ASSETS -                                      |              |
| Current Assets:                                 |              |
| Cash and cash equivalents                       | \$ -         |
| Accrued interest receivable                     | -            |
|   | -            |
| Total Current Assets                            | -            |
| Investments (Note 2)                            | -            |
| Property and equipment (Note 3)                 | -            |
| Less accumulated depreciation                   | -            |
| Net property plant and equipment                | -            |
| Debt issuance costs                             | -            |
| Less accumulated amortization                   | -            |
| Net debt issuance costs                         | -            |
|   | \$ -         |
| - LIABILITIES AND FUND BALANCES -               |              |
| Current Liabilities:                            |              |
| Accounts payable                                | \$ -         |
| Rebate payable, U.S. Government                 | -            |
| Revenue bond interest payable                   | -            |
| Current portion revenue bond principal (Note 4) | -            |
|   | -            |
| Total Current Liabilities                       | -            |
| Long-Term Debt:                                 |              |
| Revenue bonds (Note 4)                          | -            |
| Fund Balances:                                  |              |
| Net investment in plant                         | -            |
| Unreserved, designated for specific purposes    | -            |
| Reserved for debt service                       | -            |
|   | -            |
| Total Fund Balances                             | -            |
|   | \$ -         |

The accompanying notes are an integral part of this statement.

| Plant Funds                |                     |                       |                   |                            |
|----------------------------|---------------------|-----------------------|-------------------|----------------------------|
| Retirement of Indebtedness |                     |                       | Unexpended        | Investment                 |
| Sinking Fund               | Reserve Fund        | Arbitrage Rebate Fund | Construction Fund | in Plant Academic Building |
| \$ 4,245,874               | \$ (99,876)         | \$ 3,557              | \$ 53,303         | \$ -                       |
| 40,564                     | -                   | -                     | -                 | -                          |
| <u>4,286,438</u>           | <u>(99,876)</u>     | <u>3,557</u>          | <u>53,303</u>     | <u>-</u>                   |
| -                          | 4,784,575           | -                     | -                 | -                          |
| -                          | -                   | -                     | -                 | 68,809,991                 |
| -                          | -                   | -                     | -                 | 23,419,696                 |
| -                          | -                   | -                     | -                 | <u>45,390,295</u>          |
| -                          | -                   | -                     | -                 | 266,311                    |
| -                          | -                   | -                     | -                 | 84,706                     |
| -                          | -                   | -                     | -                 | <u>181,605</u>             |
| <u>\$ 4,286,438</u>        | <u>\$ 4,684,699</u> | <u>\$ 3,557</u>       | <u>\$ 53,303</u>  | <u>\$45,571,900</u>        |
| \$ -                       | \$ -                | \$ 1,366              | \$ -              | \$ -                       |
| -                          | -                   | 2,191                 | -                 | -                          |
| 1,330,944                  | -                   | -                     | -                 | -                          |
| <u>2,927,128</u>           | <u>-</u>            | <u>-</u>              | <u>-</u>          | <u>-</u>                   |
| <u>4,258,072</u>           | <u>-</u>            | <u>3,557</u>          | <u>-</u>          | <u>-</u>                   |
| -                          | -                   | -                     | -                 | 32,780,054                 |
| -                          | -                   | -                     | -                 | 12,791,846                 |
| -                          | -                   | -                     | 53,303            | -                          |
| 28,366                     | 4,684,699           | -                     | -                 | -                          |
| <u>28,366</u>              | <u>4,684,699</u>    | <u>-</u>              | <u>53,303</u>     | <u>12,791,846</u>          |
| <u>\$ 4,286,438</u>        | <u>\$ 4,684,699</u> | <u>\$ 3,557</u>       | <u>\$ 53,303</u>  | <u>\$45,571,900</u>        |

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Statement of Revenues, Expenditures and Changes in Fund Balances  
As of June 30, 2004

|   | Current Fund  |
|---|---------------|
|   | Revenue Fund  |
| Revenues:   |               |
| Student tuition and fees, net of scholarship allowances of \$5,264,780 (Note 5) | \$ 49,182,004 |
| State appropriation - tuition replacement                                       | -             |
| Investment income   | -             |
|   | -             |
| Total Revenues  | 49,182,004    |
| Expenditures:   |               |
| Other expenses  | -             |
| Interest on indebtedness  | -             |
| Depreciation expense  | -             |
| Amortization of debt issuance costs   | -             |
| Repairs and maintenance buildings & improvements                                | -             |
| Rebate interest expense   | -             |
|   | -             |
| Total Expenditures  | -             |
| Revenues Over (Under) Expenditures  | 49,182,004    |
| Other Financing Sources (Uses):   |               |
| Transfer from revenue fund to general education fund - mandatory                | (49,182,004)  |
| Transfer from rebate fund to sinking fund - mandatory                           | -             |
| Transfer from sinking fund to other bond funds - nonmandatory                   | -             |
| Proceeds of revenue bonds   | -             |
| Issuance of revenue bonds payable   | -             |
| Transfer of revenue bonds payable called  | -             |
| Transfer of revenue bonds payable   | -             |
|   | -             |
| Total Other Financing Sources (Uses)  | (49,182,004)  |
| Net Increase (Decrease) for the Year  | -             |
| Fund Balance at Beginning of Year   | -             |
| Fund Balance at End of Year   | \$ -          |

The accompanying notes are an integral part of this statement.

Plant Funds

| Retirement of Indebtedness |                     |                          | Unexpended           | Investment                       |
|----------------------------|---------------------|--------------------------|----------------------|----------------------------------|
| Sinking<br>Fund            | Reserve<br>Fund     | Arbitrage<br>Rebate Fund | Construction<br>Fund | in Plant<br>Academic<br>Building |
| \$ -                       | \$ -                | \$ -                     | \$ -                 | \$ -                             |
| 4,559,528                  | -                   | -                        | -                    | -                                |
| 196,479                    | (243,787)           | -                        | 7,986                | -                                |
| <u>4,756,007</u>           | <u>(243,787)</u>    | <u>-</u>                 | <u>7,986</u>         | <u>-</u>                         |
| 7,170                      | -                   | -                        | -                    | -                                |
| 2,059,745                  | -                   | -                        | -                    | -                                |
| -                          | -                   | -                        | -                    | 1,720,250                        |
| -                          | -                   | -                        | -                    | 69,161                           |
| -                          | -                   | -                        | 1,418,256            | -                                |
| -                          | -                   | (14,333)                 | -                    | -                                |
| <u>2,066,915</u>           | <u>-</u>            | <u>(14,333)</u>          | <u>1,418,256</u>     | <u>1,789,411</u>                 |
| <u>2,689,092</u>           | <u>(243,787)</u>    | <u>14,333</u>            | <u>(1,410,270)</u>   | <u>(1,789,411)</u>               |
| -                          | -                   | -                        | -                    | -                                |
| 14,333                     | -                   | (14,333)                 | -                    | -                                |
| 206,581                    | (206,581)           | -                        | -                    | -                                |
| 4,194,785                  | -                   | -                        | -                    | 30,215                           |
| -                          | -                   | -                        | -                    | (4,225,000)                      |
| (4,190,000)                | -                   | -                        | -                    | 4,190,000                        |
| (2,927,128)                | -                   | -                        | -                    | 2,927,128                        |
| <u>(2,701,429)</u>         | <u>(206,581)</u>    | <u>(14,333)</u>          | <u>-</u>             | <u>2,922,343</u>                 |
| (12,337)                   | (450,368)           | -                        | (1,410,270)          | 1,132,932                        |
| 40,703                     | 5,135,067           | -                        | 1,463,573            | 11,658,914                       |
| <u>\$ 28,366</u>           | <u>\$ 4,684,699</u> | <u>\$ -</u>              | <u>\$ 53,303</u>     | <u>\$ 12,791,846</u>             |

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

These statements do not include any of the funds of the University of Northern Iowa which are not related to the issuance of the Academic Building Revenue Bonds, Series 1992, 1993, 1994 Refunding, 1994, 1995, 1996 Refunding, 2002 Refunding, 2003 Refunding and 2003A Refunding, and are not intended to present the financial position and results of operations of the University of Northern Iowa as a whole in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for governmental colleges and universities.

Fund Accounting

In order to ensure the observance of limitations and restrictions placed on the use of available resources, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified, for accounting and reporting purposes, into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund. Funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the University retains control to use in achieving any of its institutional purposes.

Current Funds are used to account for the student tuition and fees and state appropriations allocated to the Academic Building Revenue Bond Funds in accordance with the bond resolutions.

Plant funds are used to account for the transactions relating to investment in University properties. They include (1) Retirement of Indebtedness, (2) Unexpended Plant Fund and (3) Investment in Plant. Retirement of Indebtedness represents bond sinking, reserve and arbitrage rebate funds to provide for payment of principal, interest, and rebated interest. The Unexpended Plant Fund is comprised of a construction fund. Investment in Plant represents the total of buildings, improvements and equipment and related liabilities.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates fair value due to their short-term nature. Cash and cash equivalents represent amounts in cash accounts or the Funds' share of the investment pool of the University entitled "Treasurer's Temporary Investments." Any negative balances are the result of timing differences. The General Fund of the University is responsible for any negative balances until the timing differences are resolved.

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (continued)

Investments and Investment Income

Investments are stated at fair value. With the exception of funds specifically invested for bond issues and endowment funds, all other monies are pooled in an investment pool entitled "Treasurer's Temporary Investments." Investment income on the investment pool is allocated to the activities that participate in the pool.

Plant Assets

Property and buildings are stated at cost at the date of acquisition or fair market value at date of donation. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets and recorded in the Plant Accounts. The University also does not capitalize interest costs during the construction period.

Summer Session

Summer educational sessions begin and end at varying intervals that do not correspond to the University of Northern Iowa's fiscal year. Revenues and expenditures for summer sessions are matched to the appropriate fiscal year. Tuition and fees are allocated based on the load study distributions for all sessions, taking into consideration the number of undergraduate and graduate students and the total billings for the summer sessions.

Debt Issuance Costs

Debt issuance costs of \$266,311 are being amortized by the straight-line method over the terms of the revenue bond issues. Amortization expense for 2004 was \$69,161 resulting in unamortized debt issuance costs of \$181,605 at June 30, 2004.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Notes to Financial Statements

Note 2: Cash and Cash Equivalents and Investments

(1) Cash and Cash Equivalents:

The deposits of the University were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. In the unlikely event a bank fails, the State Treasurer first determines the amount of the loss and validates the amount of applicable FDIC insurance. He is empowered by this chapter to cover the remaining loss from the state sinking fund for public deposits in banks. If the balance in that sinking fund is inadequate to pay the entire loss, he is empowered to make assessments against other banks to insure that there will be no loss of public funds. The \$4,202,858 cash and cash equivalents balance of the Academic Building Revenue Bond Funds is combined with other University funds and consists of cash of \$0, pooled investments of \$4,007,355 and money market accounts of \$195,503. The money market accounts are not subject to risk categorization.

(2) Investments:

The Academic Building Revenue Bond Funds investments at June 30, 2004, are categorized below by credit risk. As defined by GASB Statement No. 3, the three types of credit risk are:

- Category 1 - Insured or registered securities or securities held by the University or by the University's agent in the University's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name.
- Category 3 - Uninsured and unregistered, with securities held by a counterparty in the University's name.

|                            | Category |             |      | Fair<br>Value |
|----------------------------|----------|-------------|------|---------------|
|                            | 1        | 2           | 3    |               |
| U.S. Government Securities | \$ -     | \$4,784,575 | \$ - | \$ 4,784,575  |
|                            |          |             |      | \$ 4,784,575  |

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Notes to Financial Statements

Note 3: Property and Equipment

The property and equipment is carried at cost and at June 30, 2004 consisted of the following:

|           | Balance<br>June 30, 2003 | Additions   | Disposals   | Balance<br>June 30, 2004 | Accumulated<br>Depreciation | Net Balance          |
|-----------|--------------------------|-------------|-------------|--------------------------|-----------------------------|----------------------|
| Buildings | \$ 68,809,991            | \$ -        | \$ -        | \$ 68,809,991            | \$ 23,419,696               | \$ 45,390,295        |
|           | <u>\$ 68,809,991</u>     | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 68,809,991</u>     | <u>\$ 23,419,696</u>        | <u>\$ 45,390,295</u> |

The cost of land used for the academic buildings is not shown on the balance sheet. This land is included in the general books and records of the University of Northern Iowa.

Note 4: Revenue Bonds

As provided in the various bond resolutions, the University has the right to redeem certain bonds prior to the maturity dates, under stated conditions.

The principal and interest due July 1, 2004, has been recorded as bonds payable and accrued interest in Retirement of Indebtedness Funds. This meets the bond resolution requirement that the funds for the Sinking Fund's payment of bonds and interest due July 1 be deposited in the Retirement of Indebtedness Funds during the current fiscal year even though actual payment will not occur until July 1 of the subsequent fiscal year.

The bonds outstanding bear interest at rates ranging from 2.00% to 8.25% per year.

Bond principal matures as follows:

| For Year Ended June 30, | Principal           | Interest             | Total                |
|-------------------------|---------------------|----------------------|----------------------|
| 2005                    | \$ 2,927,128        | \$ 1,948,151         | \$ 4,875,279         |
| 2006                    | 2,882,306           | 1,654,112            | 4,536,418            |
| 2007                    | 2,873,621           | 1,541,638            | 4,415,259            |
| 2008                    | 2,743,066           | 1,315,494            | 4,058,560            |
| 2009                    | 2,957,302           | 1,825,385            | 4,782,687            |
| 2010 - 2014             | 15,020,897          | 5,613,298            | 20,634,195           |
| 2015 - 2019             | 5,352,862           | 2,647,758            | 8,000,620            |
| 2020                    | 950,000             | 59,830               | 1,009,830            |
| Total                   | <u>\$35,707,182</u> | <u>\$ 16,605,666</u> | <u>\$ 52,312,848</u> |

Long-term debt activity for the year ended June 30, 2004 is summarized as follows:

|                                    |                      |
|------------------------------------|----------------------|
| Bonds payable, June 30, 2003       | \$ 46,962,718        |
| Bonds retired on July 1, 2003      | (11,290,536)         |
| Bonds retired on September 1, 2003 | (4,190,000)          |
| Bonds issued on August 1, 2003     | 4,225,000            |
| Bonds payable, June 30, 2004       | <u>\$ 35,707,182</u> |

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Notes to Financial Statements

Note 4: Revenue Bonds (continued)

Academic Building Revenue Bonds were issued primarily for the construction, renovation, and equipping of academic buildings, libraries, and administrative and service buildings. The bond issues included funding for a pre-funded debt service reserve and for issuance costs. A number of the bond issues re-financed previous issues to take advantage of lower interest rates.

Note 5: Student Tuition and Fees

Under the provisions of the bond resolutions all student fees and charges received by the University shall be deposited to a special fund which is designated as the "Academic Building Revenue Fund". Specific amounts are to be retained by these funds to retire outstanding bonds and for the payment of interest. The balance of the receipts is to be transferred to the University of Northern Iowa for its general operations.

Note 6: Rebate Payable, U.S. Government

Interest paid to bondholders is not includable in their gross income for Federal or Iowa income tax purposes. In order to maintain this exemption, the University must comply with certain provisions of the Internal Revenue Code and the bond resolutions arbitrage certificate. These provisions require that the excess of the actual investment earnings of the bond funds over the allowable earnings be set aside in a rebate fund to provide for a liability to the United States government.

As of June 30, 2004, the amount of this liability was \$2,191 and was related to the 1996 Refunding bond issue. The liability is periodically recalculated to provide the best estimate of its amount. The latest calculation of this liability resulted in a decrease of \$18,400 from the prior amount. The reduction included \$4,067 remitted by the University to the Internal Revenue Service with arbitrage rebate returns filed for the Series 1993 and 1994 Refunding bonds. Funding of any future liability will be provided by the tuition replacement appropriations as the liability becomes payable.

Another provision in the bond resolution arbitrage certificate requires that the proceeds from the bonds be spent according to a fixed time table in the arbitrage certificate. If these spending requirements are not met, the University would have a liability to the United States government that is based on the actual amount that was underspent.

Note 7: Risk Management

It is the general policy of the University of Northern Iowa not to purchase commercial insurance for the risks of certain losses to which it is exposed. Instead, management believes it is more economical to manage certain risks internally. It is also the policy of the Board of Regents, State of Iowa and the State of Iowa not to purchase commercial insurance for the risks of certain losses to which they are exposed.

UNIVERSITY OF NORTHERN IOWA  
ACADEMIC BUILDING REVENUE BOND FUNDS

Notes to Financial Statements

Note 7: Risk Management (continued)

Losses are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The University is exposed to various risks of loss related to a number of matters enumerated below.

Business Interruption. The University self-funds business interruption insurance with the exception of purchased commercial insurance on the Field House, Residence System and the Performing Arts Center.

Errors and Omissions. The University self-funds errors and omissions insurance.

General Liability and Property Loss. The State of Iowa self-funds on behalf of the University losses related to general liability (tort claims), and property (casualty losses) with the exception of property belonging to auxiliary enterprises. Claims for torts are filed with the State Appeal Board, while casualty losses are filed with the Executive Council.

The Board of Regents, State of Iowa entered into an agreement with the Department of Management, the State Appeal Board, and the Attorney General for resolution of tort claims of \$4,000 or less. The University is authorized to approve claims of \$4,000 or less, paying for the claims from institutional funds up to an annual limit of \$50,000. When a tort claim is filed against the State, the State Appeal Board has the authority to approve or reject ordinary claims less than ten years from occurrence and tort claims not over \$5,000. Tort claims settled or allowed in excess of \$5,000 must have the unanimous approval of all the members of the State Appeal Board, the Attorney General, and the District Court of the State of Iowa for Polk County. Torts may be paid without limit from the State's general fund.

The University has purchased commercial property insurance, including earthquake and flood coverage, for its facilities. There is a \$2,000,000 deductible on general University buildings.

In all the above instances of commercial insurance, claims settled have not exceeded coverage for the last three years.

Note 8: Other Commitments, Claims, and Contingencies

Commitments: At June 30, 2004, the University had outstanding plant fund contract commitments for construction of \$66,155 in the Academic Building Revenue Bond Funds.

There were no other material claims or contingencies outstanding as of June 30, 2004. Also, there were no known contingent liabilities of a material nature at the date of this report.