

**SOUTH CAROLINA
TRANSPORTATION INFRASTRUCTURE BANK**

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

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STATE AUDITOR

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October 25, 2004

The Honorable Mark Sanford, Governor
and
Members of the Board of Directors
South Carolina Transportation Infrastructure Bank
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Transportation Infrastructure Bank for the fiscal year ended June 30, 2004 was issued by Scott McElveen, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink that reads "Tom Wagner".

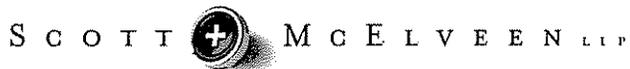
Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

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Independent Auditors' Report

Mr. Thomas L. Wagner, Jr., CPA
 State Auditor
 State of South Carolina
 Columbia, South Carolina

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the South Carolina Transportation Infrastructure Bank (the "Bank") as of and for the year ended June 30, 2004, which collectively comprise the Bank's basic financial statement, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express opinions 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 opinions.

As described in Note 1 to the financial statements, the Bank's financial statements are intended to present the financial position and changes in financial position of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Bank, an agency of the State. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Bank as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

C E R T I F I E D P U B L I C A C C O U N T A N T S

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The combining statement is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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.

Columbia, South Carolina
October 6, 2004

Scott McEwen, L.L.P.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

Management's Discussion and Analysis FY2003-2004

The following discussion and analysis of the financial performance of the South Carolina Transportation Infrastructure Bank (the "Bank") provides a narrative overview of the Bank's financial activities for the state fiscal year ended June 30, 2004. Please read it in conjunction with the Bank's financial statements which follow.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Bank's basic financial statements. The Bank's basic financial statements include three components: 1) bank-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. These components are described below:

Bank-Wide Financial Statements

The *Bank-Wide Financial Statements* provide a broad overview of the Bank's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Bank's financial position, which assists in assessing the Bank's economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The Bank-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the Bank's assets and liabilities with the difference between the two reported as "net assets" or "deficiency". Over time, increases or decreases in the Bank's net assets may serve as a useful indicator of whether the mission of the Bank is successfully being implemented.

The liabilities of the Bank exceeded the assets as of June 30, 2004 resulting in a deficiency of \$399.6 million. The mission of the Bank is to provide financial assistance for major transportation projects. The Bank does not own or maintain any of the projects. The Bank issues bonds and incurs other financing liabilities to construct the projects, which are donated to the South Carolina Department of Transportation ("SCDOT") for ownership and maintenance. As a result, the assets of the Bank are reduced while the debt remains. Conversely, SCDOT will record these projects as construction in progress or capital assets in its financial statements with no related liability. Over \$1.3 billion of the Bank's net assets are restricted to service the outstanding debt and to fund projects under commitment.

The *Statement of Activities* presents information showing how the Bank's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods, such as receivables from state agencies and county governments.

During fiscal year 2004, net program expenses exceeded general revenues by \$250.7 million resulting in a decrease in net assets as of fiscal year end. This is primarily due to the payment of a majority of the expenditures for highway construction from bond proceeds which are not included in the revenue sources on this statement.

The Bank-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bank, like other governmental agencies uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Bank can be divided into two categories, governmental funds and fiduciary funds. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

Governmental Funds - The financial activity related to the mission of the Bank is accounted for in the governmental fund. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Bank-wide financial statements. However, unlike the Bank-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Bank's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Bank's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Bank.

As of June 30, 2004, the fund balance in the Bank's governmental fund was \$1.392 billion. This fund balance is used for providing financial assistance to transportation projects and to service the debt related to providing that assistance. As of June 30, 2003, the fund balance was \$1.326 billion. The increase as of June 30, 2004 of \$66.2 million was primarily due to the issuance of approximately \$335.4 million in new revenue and general obligation bonds during the fiscal year with only a portion of those proceeds expended during the year for financial assistance of transportation projects.

Because the focus of governmental funds is narrower than that of the Bank-wide financial statements, it is useful to compare the information presented in governmental funds with similar information presented for governmental activities in the Bank-wide financial statements. By doing so, readers may better understand the long-term impact of Bank's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the Bank's activities. These reconciliations are presented immediately following each governmental fund financial statement.

The governmental fund financial statements can be found immediately following the Bank-wide financial statements.

Fiduciary Funds - These funds are used to account for resources held for the benefit of parties outside of the Bank. Fiduciary funds are not reflected in the Bank-wide financial statements because the resources of these funds are not available to support the Bank's own programs. Fiduciary funds financial statements use the accrual basis of accounting. The Bank's fiduciary funds are the Horry County Loan Servicing Account and Horry County Loan Reserve Account which contain funds held by the Bank on behalf of Horry County to make loan payments due to the Bank from Horry County.

The fiduciary fund financial statements can be found immediately following the governmental fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Bank-wide and the fund financial statements. The notes to the financial statements can be found immediately following fiduciary fund financial statements.

BANK-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position, or in the case of the Bank, for which liabilities will generally exceed assets, an indicator of whether the mission is successfully being implemented. The Bank's liabilities (all classified as governmental activities) exceeded assets by \$399.6 million at the close of business on June 30, 2004. (See Table 1) The largest portion of the Bank's assets are non-current assets including cash from bond proceeds to be expended in future years and from loans and other contributions receivable from county and state governments. The largest portion of the Bank's liabilities are non-current liabilities which include bonds payable. As the mission of the Bank is to provide financing for transportation projects, but not own or maintain these projects, the Statement of Net Assets will generally reflect a "deficiency". The investment in infrastructure as a result of the projects financed by the Bank will be reflected on the financial statements of the SCDOT or other governmental entity which will own and maintain the roads.

Table 1
Net Assets
(expressed in millions)

	Governmental Activities	
	June 30, 2003	June 30, 2004
Current Assets	\$ 138.6	\$ 152.5
Non-current Assets	1,229.7	1,294.6
Total Assets	<u>1,368.3</u>	<u>1,447.1</u>
Current Liabilities	79.8	90.1
Non-current Liabilities	1,437.4	1,756.6
Total Liabilities	<u>1,517.2</u>	<u>1,846.7</u>
Net Assets:		
Restricted	1,136.2	1,339.0
Unrestricted (deficiency)	<u>(1,285.1)</u>	<u>(1,738.6)</u>
Total Net Assets	<u>(148.9)</u>	<u>(399.6)</u>
Total Liabilities and Net Assets	<u>\$ 1,368.3</u>	<u>\$ 1,447.1</u>

The restricted portion of the Bank's net assets represents amounts required for debt service of bonds and commitments to fund projects from bond proceeds.

Changes in Net Assets

In FY2004, the Bank's net assets decreased by \$ 250.7 million. This is primarily due to a majority of the expenses for highway construction paid from bond proceeds which are not included in the revenue sources on this statement. The primary sources of program revenues are contributions and other payments made by state and county governments pursuant to intergovernmental agreements. The general revenue sources of the Bank in 2004 were truck registration fees (54%); contribution from SCDOT in an amount equivalent to revenues generated from one-cent of gasoline tax (24%); and investment income (22%).

Transportation project costs accounted for 82% of the Bank's expenses and 18% of expenses were interest on debt and other debt related costs.

Table 2 presents a breakdown of the revenues and expenses of the governmental activities.

Table 2
Changes in Net Assets
(expressed in millions)

	Governmental Activities	
	<u>June 30, 2003</u>	<u>June 30, 2004</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 121.8	\$ 126.3
General Revenues:		
Truck registration fees	50.6	54.6
Gasoline tax	23.0	24.4
Investment earnings	55.6	22.6
Total general revenues	<u>129.2</u>	<u>101.6</u>
Total Revenues	<u>251.0</u>	<u>227.9</u>
Expenses:		
Administration	0.5	0.3
Transportation projects assistance	320.5	391.5
Interest and other debt costs	71.2	86.8
Total Expenses	<u>392.2</u>	<u>478.6</u>
Decrease in net assets	(141.2)	(250.7)
Net deficiency, beginning of year	<u>(7.7)</u>	<u>(148.9)</u>
Net deficiency, end of year	<u>\$ (148.9)</u>	<u>\$ (399.6)</u>

FINANCIAL ANALYSIS OF THE BANK'S INDIVIDUAL FUNDS

As noted earlier, the Bank uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Bank's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Bank's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the ending balance in the Bank's governmental fund was \$1.392 billion, an increase of \$ 66.2 million in comparison with the prior year. Of the total fund balance, over \$1.3 billion is reserved for debt service requirements and for bond funded projects.

DEBT ADMINISTRATION

The authority of the Bank to incur debt is pursuant to the act which created the Bank and is found in Sections 11-43-110, etseq. of the South Carolina Code. The Bank has the legal authority to issue general obligation bonds of the state and revenue bonds. The Bank's total amount of revenue bonds issued, net of refundings increased by \$305.6 million during fiscal year 2004 to a total of \$1.8 billion. During fiscal year 2004, the Bank paid \$26.2 million toward principal of outstanding bonds and refunded \$338 million of existing revenue bonds. At year end, the principal balance of outstanding revenue bonds was \$1.74 billion. Also, during fiscal year 2004, the Bank issued \$60 million in general obligation bonds. Additional information on the State's long-term debt obligations can be found in Note 5 of the Notes to the Financial Statements of this report. During FY2004, the Bank entered into a variable-to-fixed interest rate swap agreement on the refunding bonds with projected savings over the life of the bonds in the amount of \$49 million. As of June 30, 2004, the actual savings was \$0.5 million less than expected for the year.

ECONOMIC FACTORS

Revenues to the Bank continue to meet requirements for covering debt service and providing necessary cash to meet project expenditures. The payouts on the approved transportation projects will peak during FY2004 and FY2005. The continued economic concerns in the U.S. have an effect on the revenue sources of the Bank, resulting in lower than expected revenues from truck registration fees which are one of the sources pledged by the Bank to the repayment of revenue bonds. Due to the conservative financial plan of the Bank, including sufficient coverage ratios, and the overall strength of the Bank's revenue sources, the lower truck registration fees did not affect the Bank's credit rating. Future revenue projections remain optimistic and the Bank plans to issue new revenue bonds in the amount of \$ 229 million during FY2005. The Bank's short-term and long-range financial plans are constantly reviewed and updated to ensure financial sources are available to meet commitments made by the Bank Board.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the South Carolina Transportation Infrastructure Bank's finances for all of the Bank's taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Bank's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Transportation Infrastructure Bank
955 Park Street, Room 203
Columbia, South Carolina 29201

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

ASSETS	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 31,049,157
Accrued interest receivable	859,208
Intergovernmental loans/receivables:	
State agencies	3,000,000
County governments	967,218
Other receivables	281,966
Restricted current assets:	
Cash and cash equivalents	51,109,581
Intergovernmental loans/receivables:	
State agencies	38,582,036
County governments	20,781,688
Other entities	5,900,000
Total current assets	<u>152,530,854</u>
Noncurrent assets:	
Intergovernmental loans/receivables:	
County governments	56,219,917
Restricted assets:	
Cash and cash equivalents	523,604,175
Accrued interest receivable	5,718,155
Intergovernmental loans/receivables:	
State agencies	266,838,486
County governments	422,796,747
Other entities	3,629,659
Unamortized bond issuance costs	15,756,464
Total noncurrent assets	<u>1,294,563,603</u>
Total assets	<u>\$ 1,447,094,457</u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Current liabilities:	
Liabilities payable from restricted current assets:	
Bonds payable - current portion	\$ 29,395,000
Accrued interest payable	21,757,631
Total liabilities payable from restricted current assets	<u>51,152,631</u>
Accounts payable	34,166,410
Accounts payable - State agency	2,659,324
Rebatable arbitrage payable	2,290
Deferred revenue	2,175,253
Total current liabilities	<u>90,155,908</u>
Noncurrent liabilities:	
Bonds payable, net of current portion	1,756,451,684
Rebatable arbitrage payable	120,918
Total noncurrent liabilities	<u>1,756,572,602</u>
Total liabilities	<u>1,846,728,510</u>
 Net Assets:	
Restricted:	
Debt service reserve	128,122,098
Debt service principal and interest	998,996,067
Bond funded projects	211,842,362
Unrestricted:	
Deficiency	(1,738,594,580)
Total deficiency	<u>(399,634,053)</u>
Total liabilities and net assets	<u>\$ 1,447,094,457</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Governmental Activities</u>
Expenses:	
Public transportation facilities development:	
General Operating	\$ 301,378
Financial assistance awards for constructing and improving highway and other transportation facilities and other project costs	391,494,547
Interest	85,506,428
Broker/Dealer Fee	891,873
Amortization of bond issuance costs	<u>458,233</u>
Total program expenses	<u>478,652,459</u>
Program revenues	
Charges for services	<u>(126,320,739)</u>
Net program expenses	<u>352,331,720</u>
General revenues:	
Gasoline tax and truck transportation fees	78,969,113
Interest/investment income	<u>22,660,906</u>
Total general revenues	<u>101,630,019</u>
Decrease in net assets	(250,701,701)
Deficiency - beginning of year	<u>(148,932,352)</u>
Deficiency - end of year	<u><u>\$ (399,634,053)</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2004

ASSETS	Public Transportation Facilities Development
Cash and cash equivalents	\$ 31,049,157
Intergovernmental loans/receivables:	
State agencies	3,000,000
County governments	57,187,135
Accrued interest receivable	859,208
Other receivables	281,966
Restricted assets:	
Cash and cash equivalents	574,713,756
Accrued interest receivable	5,718,155
Intergovernmental loans/receivables:	
State agencies	305,420,522
County governments	443,578,435
Other entities	9,529,659
Total assets	<u>\$ 1,431,337,993</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 34,166,410
Accounts payable - State agency	2,659,324
Deferred revenue	2,175,253
Total liabilities	<u>39,000,987</u>
Fund balance:	
Reserved for :	
Debt service reserve	128,122,098
Debt service	998,996,067
Bond funded projects	211,842,362
Unreserved:	
Designated for financial assistance awards	53,376,479
Total fund balance	<u>1,392,337,006</u>
Total liabilities and fund balance	<u>\$ 1,431,337,993</u>
Reconciliation to the statement of net assets:	
Fund balance - governmental fund	\$ 1,392,337,006
Amounts reported for governmental activities in the statement of net assets are different because:	
Liabilities are not due and payable in the current period, therefore, are not reported in the governmental fund:	
Bonds payable	1,785,846,684
Arbitrage payable	123,208
Accrued interest payable	21,757,631
	<u>(1,807,727,523)</u>
Assets that are capitalized and amortized in statement of net assets are charged to expenditures in the governmental fund:	
Bond issuance cost	16,633,333
Less, amortization	(876,869)
	<u>15,756,464</u>
Deficiency	<u>\$ (399,634,053)</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Public Transportation Facilities Development</u>
Revenues:	
Contribution of gasoline tax revenue for construction projects by the South Carolina Department of Transportation	\$ 24,372,008
Truck registration fees and penalties transferred from South Carolina Department of Public Safety	54,597,105
Contributions pursuant to intergovernmental agreements for specific construction projects	119,918,375
Interest/investment income:	
Deposits and investments	11,836,610
Loans and receivables	10,824,296
Project revenues	<u>6,402,364</u>
TOTAL REVENUES	<u>227,950,758</u>
Expenditures:	
General operating	301,378
Financial assistance awards for constructing and improving highway and other transportation facilities	385,092,183
Debt service:	
Interest	79,076,194
Principal	26,195,000
Bond issuance costs	8,118,156
Project Expenditures	6,402,364
Broker/Dealer Fee	<u>891,873</u>
TOTAL EXPENDITURES	<u>506,077,148</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(278,126,390)</u>
Other financing sources:	
Long-term bonds issued	335,435,000
Revenue refunding bonds	368,300,000
Premium on bonds issued	8,833,028
TOTAL OTHER FINANCING SOURCES	<u>712,568,028</u>
Other financing uses:	
Payment to Refunded Bond Escrow Agent - Principal	<u>368,246,140</u>
TOTAL OTHER FINANCING USES	<u>368,246,140</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	66,195,498
FUND BALANCE, beginning of year	<u>1,326,141,508</u>
FUND BALANCE, end of year	<u>\$ 1,392,337,006</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

Reconciliation to the statement of activities:

Excess of revenues and other financing sources over expenditures for the governmental fund	\$ 66,195,498
Amounts reported for governmental activities in the statement of activities are different because:	
Proceeds from the issuance of bonds are reported as other financing source in the governmental fund and as an increase in liabilities in the statement of net assets	(712,568,028)
Increase in accrued interest payable is reported as an expense in statement of activities	(6,430,234)
Amortization of bond issuance costs is reported as an expense in the statement of activities	(458,233)
Repayment of long-term debt is reported as an expenditure in the governmental fund and as a reduction in liabilities in the statement of net assets	26,195,000
Escrow deposits for advance refunding of long-term debt is reported as other financing use in the governmental fund	368,246,140
Bond issuance costs are reported as an expenditure in the governmental fund and as an addition to assets in the statement of net assets	<u>8,118,156</u>
Increase (decrease) in net assets	<u>\$ (250,701,701)</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004**

ASSETS	<u>Agency Funds</u>
Cash and cash equivalents	\$ 13,709,500
Intergovernmental receivable:	
County government	2,289,796
Interfund transfer receivable	1,929,991
Total assets	<u>\$ 17,929,287</u>
 LIABILITIES	
Due to Special Revenue Fund	\$ 1,475,000
Interfund transfer payable	1,929,991
Funds held for others	<u>14,524,296</u>
Total liabilities	<u>\$ 17,929,287</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of South Carolina Transportation Infrastructure Bank (the "Bank") were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Bank's accounting policies are described below:

Reporting Entity

The Bank was established in 1997 to select and assist in financing major qualified projects by providing loans and other financial assistance to government units and private entities for constructing and improving highway and transportation facilities necessary for public purposes including economic development. The enabling statute is Section 11-43-120 of the Code of Laws of South Carolina (the "Act").

The Bank is governed by its Board of Directors. The Board consists of seven voting directors as follows: the Chairman of the Department of Transportation Commission, ex officio; one director appointed by the Governor who shall serve as chairman; one director appointed by the Governor; one director appointed by the Speaker of the House of Representatives; one member of the House of Representatives appointed by the Speaker, ex officio; one director appointed by the President Pro Tempore of the Senate; and one member of the Senate appointed by the President Pro Tempore of the Senate, ex officio. Directors appointed by the Governor, the Speaker, and the President Pro Tempore shall serve terms coterminous with their terms of office.

The Bank is a funding entity that only provides loans and other financial assistance to approved projects pursuant to the Act. The Bank does not own, construct, manage the construction of, or maintain any of the projects it has approved for funding. The Bank has no financial obligation to fund any portion of any project other than that which is selected by action of its Board, is approved by the Joint Bond Review Committee of the State of South Carolina (the "JBRC"), and is subject to a valid and enforceable intergovernmental agreement or loan agreement. Subject to JBRC approval and, with respect to general obligation bonds, approval of the State Budget and Control Board, the Bank may, in its sole discretion, issue bonded indebtedness in order to finance all or any portion of its obligations to provide approved projects with loans or other financial assistance.

The primary sources of funding of the Bank consist of a specific portion of funds appropriated under Section 11-43-160 of the South Carolina Code of Laws to the South Carolina Department of Transportation for the construction and maintenance of state highways, from federal funds, contributions and donations from government units and private entities, state appropriations and truck registration fees and penalties. The Bank is also authorized to issue bonds to finance its activities. Also, the South Carolina Department of Transportation is committed to make contributions over a period of years to partially fund certain projects. Section 11-43-160 of the South Carolina Code of Laws provides for an annual contribution of revenues by the South Carolina Department of Transportation to the Bank of an amount not to exceed one cent per gallon of tax collected on gasoline which must be used to match federal capitalization grants to the Bank and to provide capital for the state accounts of the Bank. All of the revenues collected for truck registration fees and penalties pursuant to Sections 56-3-660 and 56-3-670 were received by the Bank from the South Carolina Department of Public Safety and were used to provide funding for various capital projects, including debt service on revenue bonds.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Bank (a primary entity). The Bank has determined that it has no component units.

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Bank has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Bank (a primary entity).

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and the results of operations of only the portions of the funds of the State of South Carolina that are attributable to the transactions of the Bank and do not include any other funds, agencies, divisions, instrumentatilies or component units of the State of South Carolina.

The Bank is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Bank. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the state and authorizes expenditures of total funds. The laws of the state and the policies and procedures specified by the state for state agencies and institutions are applicable to the activities of the Bank. Generally, all state departments, agencies, and institutions are included in the state's reporting entity, which is the primary government of the State of South Carolina. These entities are financially accountable to and fiscally dependent on the state. Although the Bank operates somewhat autonomously, it lacks full corporate powers.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Fund Structure

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein. These accounts are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund. The funds of the Bank are classified as governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is fund balance. The Bank has only one governmental fund.

Special Revenue Fund - The special revenue fund generally records the expenditure of revenues that are restricted to specific programs or projects. The special revenue fund accounts for transportation facilities financial assistance programs for construction of capital projects, taxes levied with statutorily defined distributions, and any other resources restricted as to purpose.

The expenditures for constructing and improving highway and transportation facilities for the benefit of government units and private entities are recorded as grant expenditures or project expenditures in the special revenue fund. Grant awards for constructing and improving highway and transportation facilities include those expenditures made pursuant to financial assistance awards for specific projects. Project expenditures include those expenditures for which the Bank will receive project revenue reimbursements.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the Bank in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Bank has only one fiduciary fund.

Agency Funds: Agency funds are custodial (assets equal liabilities) and do not involve the measurement of the results of operations. The Loan Servicing Account and the Loan Reserve Account are held for Horry County, South Carolina in connection with an intergovernmental agreement for debt service security. These funds cannot be used to address activities or obligations of the Bank.

Government-wide and Fund Financial Statements

The financial statements of the Bank are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principals.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

These financial statements are prepared in accordance with GASB statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and No. 37 "Basic Financial Statements and Management's discussion and Analysis for State and Local Governments: Omnibus". The primary impacts of using these statements involved the presentation of the Bank-wide financial statements on an accrual basis of accounting and the inclusion of a "Statement of Activities", which demonstrates the degree to which the direct expenses of the Bank's programs are offset by program revenues, and a "Management's Discussion and Analysis".

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The modified accrual basis of accounting is utilized to present the governmental fund. Under this method, revenue, including taxes, is recognized when it becomes measurable and available to finance expenditures of the current fiscal year. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period. The Bank considers revenues available if they are collected within one year after the current year end. Expenditures are recognized when the related fund liability is incurred except for unmatured interest on general long-term debt, which is recognized when due.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Bank, available means expected to be received within one year of the fiscal year-end.

Nonexchange transactions, in which the Bank receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Bank must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Bank on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Budget Policy

The Bank is granted an annual appropriation for operating purposes by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Bank. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the state and authorizes expenditures of total funds. The "Total Funds" column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, state General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the state's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.14 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal service accounts or from other operating accounts may be restricted to any established standard level set by the Budget and Control Board upon formal approval by a majority of the members of the Budget and Control Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

A budgetary comparison schedule is not presented as required supplementary data since not all revenues and expenses of the Bank are legally budgeted.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on deposit with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the state's internal cash management pool. Most state agencies, including the Bank, participate in the state's internal cash management pool.

Because the internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the state's internal cash management pool, see the deposits disclosures in Note 2.

The state's internal cash management pool consists of a general deposit account and several special deposit accounts. The state records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the state. The Bank records and reports its deposits in the general deposit accounts at cost and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Bank's special deposit accounts is posted to the Bank's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Bank's accumulated daily interest receivable to the total income receivable of the pool. Reported income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

Some State Treasurer accounts are not included in the state's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less at the time of acquisition. At year end, the Bank held no short-term investments.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Bank follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. The Bank capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and intangible assets including software costing in excess of \$100,000. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Bank did not have any capital assets as of June 30, 2004.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Bank incurred \$123,208 of rebatable arbitrage liability as of June 30, 2004.

Bond Discounts, Bond Premiums, Bond Issuance Costs, and Amortization

Bond discounts and bond premiums are amortized over the terms of the bonds using the outstanding method which results in amortization being computed using the percentage of bonds retired to total bonds issued. Costs incurred in connection with the bond issues are deferred and amortized on the straight-line method over the lives of the related issues. Amortization of bond discounts, bond premiums, and gain or loss on refunded debt are included in expenditures as an addition to interest expense. Amortization of bond issuance costs is included in expenditures as a separate line item amount.

Deferred Revenue

Deferred revenue consists of advance payments for construction projects which have not been earned. Revenues are recognized in the period in which the project expenditures are made.

Restricted Assets

Generally, under the applicable bond indentures, the earnings and receipts of loans and certain receivables are required to be used for the related bonds payable debt service payment. Because the assets are generally restricted for this purpose, they have been reflected in the restricted portion of the accompanying statements. The liabilities that are to be paid from these restricted assets are noted as liabilities payable from restricted assets.

Net Assets / Fund Balance

The Bank records reserves for portions of its equity which are legally segregated for specific future uses or which do not represent available expendable resources and, therefore, are not available for expenditures in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity which is available for appropriations in future periods. If restricted and unrestricted resources are available for the same purpose, then restricted resources will be used before the unrestricted resources.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Use of Estimates

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

NOTE 2. DEPOSITS:

All deposits of the Bank are under the control of the State Treasurer who, by law, has sole authority for investing state funds. The following schedule reconciles deposits within the footnotes to the financial statement amounts:

<u>Financial Statements</u>		<u>Footnotes</u>	
Governmental fund:		Deposits held by	
Cash and cash equivalents	\$ 31,049,157	State Treasurer	\$ 619,472,413
Restricted cash and cash equivalents	574,713,756		
Fiduciary fund:			
Cash and cash equivalents	<u>13,709,500</u>		
Total	<u>\$ 619,472,413</u>		<u>\$ 619,472,413</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the state's internal cash management pool, all of the State Treasurer's investments are required to be insured or registered or are investments for which the securities are held by the state or its agent in the state's name. Information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Cash and cash equivalents reported include unrealized appreciation of \$10,109,792 for the governmental fund and \$188,137 for the fiduciary fund as of June 30, 2004 arising from changes in the fair value of investments. Interest/investment income from deposits and investments includes an unrealized loss of \$16,096,336 for the year ended June 30, 2004.

Deposits at fair value at June 30, 2004 held by the State Treasurer include \$206,318,299 of unexpended funds from revenue bond issues which are to be used for projects in progress, \$128,122,098 for funding revenue bond debt service reserve requirements, and \$234,522,118 for funding revenue bond debt service.

Deposits at fair value at June 30, 2004 held by the State Treasurer include \$5,524,063 of unexpended funds from general bond issues which are to be used for projects in progress and \$227,178 for funding general obligation bond debt service.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3. LOANS/RECEIVABLES/DEFERRED REVENUE:

A summary of intergovernmental loans/receivables and deferred revenue at June 30, 2004 is as follows:

<u>Detail</u>	<u>State Agencies</u>	<u>County Governments</u>	<u>Other Entities</u>
<u>Contribution Receivables:</u>			
Horry County RIDE Project			
S.C. Department of Transportation			
Phase I	\$ 44,000,000 *	\$ -	\$ -
Phase II	79,832,468 *	-	-
Horry County RIDE II	-	1,297,662	-
Charleston County Project			
S.C. Department of Transportation	155,402,449 *	-	-
S.C. Ports Authority	17,565,479 *	-	-
Charleston County	-	61,275,991 *	-
Lexington County Project			
S C Electric & Gas Company	-	-	9,529,659
Aiken County Project			
Aiken County	-	7,781,488	-
<u>Intergovernmental loans:</u>			
Horry County RIDE Project			
Horry County			
Loan I	-	195,000,000 *	-
Loan II - Pledged portion	-	187,302,444 *	-
Loan II - Unpledged portion	-	40,107,985	-
York County Project			
York County	-	8,000,000	-
<u>Other Receivables:</u>			
Truck registration fees and penalties -			
S.C. Department of Public Safety	4,407,640 *	-	-
SCDOT reimbursement RIDE I	3,000,000	-	-
Gas tax revenues - SCDOT	4,212,486 *	-	-
	<u>\$ 308,420,522</u>	<u>\$ 500,765,570</u>	<u>\$ 9,529,659</u>
<u>Deferred Revenue:</u>			
Beaufort County Project			<u>\$ 2,175,253</u>

* These receivables are pledged pursuant to the bond covenants to secure the payment of bonds outstanding and are classified as restricted for debt service in the net assets section of the statement of net assets and as reserved for debt service in the fund balance section of the governmental fund balance sheet

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

CONTRIBUTION RECEIVABLES:

Each fiscal year the Bank records revenues from contributions pursuant to intergovernmental agreements in amounts equal to the project expenditures made in the fiscal year that are applicable to the contribution share of the project costs. A summary of changes in the contribution receivables for the fiscal year ended June 30, 2004 is as follows:

Horry County RIDE Project

	<u>Balances 6/30/03</u>	<u>Current Expenditures</u>	<u>Contributions Received</u>	<u>Balances 6/30/04</u>
SCDOT Phase I (a)	\$ 54,000,000	\$ -	\$ 10,000,000	\$ 44,000,000
SCDOT Phase II (b)	83,408,850	-	3,576,382	79,832,468
Horry County RIDE II (c)	1,377,305	-	79,643	1,297,662
	<u>\$ 138,786,155</u>	<u>\$ -</u>	<u>\$ 13,656,025</u>	<u>\$ 125,130,130</u>

- (a) Project costs have been advanced for the \$114,000,000 contribution obligation for Phase I of which \$70,000,000 was collected on this receivable through June 30, 2004.
- (b) Project costs have been advanced for the \$95,000,000 contribution obligation for Phase II of which \$15,167,532 was collected on this receivable through June 30, 2004.
- (c) The project costs to be contributed total \$2,279,000 and were advanced as of June 30, 2004 of which \$981,338 was collected on this receivable through June 30, 2004.

Charleston County Project

	<u>Balances 6/30/03</u>	<u>Current Expenditures</u>	<u>Contributions Received</u>	<u>Balances 6/30/04</u>
SCDOT Phase I (d)	\$ 98,042,346	\$ 65,360,103	\$ 8,000,000	\$ 155,402,449
SC Ports Authority (e)	10,859,456	14,706,023	8,000,000	17,565,479
Charleston County (f)	39,765,952	24,510,039	3,000,000	61,275,991
	<u>\$ 148,667,754</u>	<u>\$ 104,576,165</u>	<u>\$ 19,000,000</u>	<u>\$ 234,243,919</u>

- (d) The total contribution obligation is \$200,000,000 of which \$171,402,449 was advanced through June 30, 2004 and \$16,000,000 was collected on this receivable through June 30, 2004.
- (e) The total contribution obligation is \$45,000,000 of which \$38,565,479 was advanced through June 30, 2004 and \$21,000,000 was collected on this receivable through June 30, 2004.
- (f) The total contribution obligation is \$75,000,000 of which \$64,275,991 was advanced through June 30, 2004 and \$3,000,000 was collected on this receivable through June 30, 2004.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Lexington County Project

	<u>Balances 6/30/03</u>	<u>Current Expenditures</u>	<u>Contributions Received</u>	<u>Balances 6/30/04</u>
SCE&G (g)	\$ 148,029	\$ 9,381,630	\$ -	\$ 9,529,659
	<u>\$ 148,029</u>	<u>\$ 9,381,630</u>	<u>\$ -</u>	<u>\$ 9,529,659</u>

(g) The total contribution obligation of SC Electric and Gas Company is \$59,000,000 of which \$9,529,659 was advanced through June 30, 2004. No payments were collected on this receivable through June 30, 2004.

Aiken County Project

	<u>Balances 6/30/03</u>	<u>Current Expenditures</u>	<u>Contributions Received</u>	<u>Balances 6/30/04</u>
Aiken County (h)	\$ 1,820,908	\$ 5,960,580	\$ -	\$ 7,781,488
State of Georgia (i)	3,226,457	5,418,423	8,644,880	-
	<u>\$ 5,047,365</u>	<u>\$ 11,379,003</u>	<u>\$ 8,644,880</u>	<u>\$ 7,781,488</u>

(h) The total contribution obligation is \$15,000,000 of which \$7,781,488 was advanced through June 30, 2004. No payments were collected on this receivable through June 30, 2004.

(i) The total contribution obligation from the State of Georgia is 50% of the cost of the Savannah River Bridge in which \$8,644,880 was advanced and collected through June 30, 2004.

INTERGOVERNMENTAL LOANS

The Bank has also entered into intergovernmental agreements with various local governments whereby the Bank will make loans for all or partial funding for certain permanent highway and transportation facilities projects. Details of the loan balances and changes thereto are as follows:

Horry County RIDE Project

	<u>Balances 6/30/03</u>	<u>Current Expenditures</u>	<u>Contributions Received</u>	<u>Balances 6/30/04</u>
Phase I & II (j)	\$ 210,000,000	\$ -	\$ 15,000,000	\$ 195,000,000
Table I & III project (k)	227,068,553	1,605,606	1,263,730	227,410,429
	<u>\$ 437,068,553</u>	<u>\$ 1,605,606</u>	<u>\$ 16,263,730</u>	<u>\$ 422,410,429</u>

(j) The original loan amount was for \$300 million and was fully advanced as of June 30, 2004 and \$105 million was collected on this loan through June 30, 2004.

(k) The original loan amount was for \$247,577,664 of which \$244,599,675 was advanced through June 30, 2004. Payments on principal through June 30, 2004 totaled \$17,189,246. The loan was restructured during fiscal year 2004 with the total repayment amount remaining the same, but extending the repayment timeframe up to five years. The agreed payments on this loan total \$348,690,000, including principal and interest.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

York County Project

	<u>Balances 6/30/03</u>	<u>Current Expenditures</u>	<u>Contributions Received</u>	<u>Balances 6/30/04</u>
York County (l)	\$ -	\$ 8,000,000	\$ -	\$ 8,000,000
	<u>\$ -</u>	<u>\$ 8,000,000</u>	<u>\$ -</u>	<u>\$ 8,000,000</u>

(l) Total loan amount is \$8,000,000 with repayment due by March 31, 2006 from York County sales tax collections.

The loan covenants for the \$300 million loan and the \$247,577,644 loan for the Horry County RIDE Project required the County to establish a Loan Reserve Account by depositing the entire balance it was holding in the Road Special Revenue Fund and to deposit all future receipts of the 1.5% Road Special Revenue Fund portion of the Hospitality Fee into a Loan Servicing Account. The Bank pays itself from the Loan Servicing Account the scheduled loan payments for the \$300,000,000 loan and the \$247,577,664 loan. Unspent funds in the Loan Servicing Account are to be transferred to the Loan Reserve Account as of each year end. As quarterly payments become due, if the balance of the Loan Servicing Account is not sufficient to make the loan payments, the Bank will cause the State Treasurer to pay the deficiency from the balance in the Loan Reserve Account. If the balance in the Reserve Account is not sufficient to make the loan payment, the Bank shall have the option, in its sole discretion, of instructing the State Treasurer, pursuant to section 11-43-210 of the South Carolina Code of Laws, to withhold any pay over the amount due from other funds held by the state and allotted or appropriated to Horry County or utilize those remedies provided by paragraph 4.2 of the Series 1999A Master Loan Agreement. Upon the expiration or earlier termination of this agreement, the balance of the Loan Reserve Account, if any, after satisfying all remaining payments due on outstanding agreements or loans, shall be paid to Horry County. During fiscal year 2004, South Carolina Department of Transportation made a commitment to guarantee Horry County up to \$10,000,000 if needed to prevent a shortfall in its loan payments to the Bank.

DEFERRED REVENUE:

The intergovernmental agreement with Beaufort County provided for the county to fund \$30,795,265 of the project costs and the Bank to provide \$64,300,000 with a financial assistance award. In FY2001, Beaufort County advanced the entire portion of its project contribution to the Bank in the amount of \$30,795,265. Costs are prorated and allocated between the county and the Bank based on the agreed-upon funding ratio by each. Project expenditures for the fiscal year ended June 30, 2004 totaled \$19,770,152 of which \$6,402,364 was allocated to the county and \$13,367,788 to the Bank. Project costs allocated to the county through June 30, 2004 total \$28,620,012. The remaining balance of the county's payment in the amount of \$2,175,253 as deferred revenue as of June 30, 2004. The \$6,402,364 that was allocated the county is reflected as project costs for the year ended June 30, 2004.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4. LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2004 are as follows:

	June 30, 2003	Additions	Reductions	June 30, 2004	
				Total	Due Within One Year
Revenue bonds payable	\$ 1,457,485,000	\$ 643,735,000	\$ (364,310,000)	\$ 1,736,910,000	\$ 27,855,000
General obligation bonds payable	-	60,000,000	-	60,000,000	1,540,000
Unamortized premiums	7,558,602	8,833,028	(32,732)	16,358,898	-
Unamortized discounts	(1,461,246)	-	1,146,551	(314,695)	-
Unamortized loss on refunded debt	-	(30,131,140)	3,023,621	(27,107,519)	-
Total bonds payable	\$ 1,463,582,356	\$ 682,436,888	\$ (360,172,560)	\$ 1,785,846,684	\$ 29,395,000
Rebatable arbitrage	\$ 611,106	\$ 123,208	\$ (611,106)	\$ 123,208	\$ 2,290

NOTE 5. BONDS PAYABLE:

A summary of the bonds payable as of June 30, 2004 is as follows:

Issue Date	Series	Original Face Amount	Final Maturity Date	Interest Rate (%)	Unpaid Principal Balance
October 21, 1998	1998A	\$ 275,000,000	10/01/17	4.00-6.00	\$ 221,105,000
July 27, 1999	1999A	308,900,000	10/01/24	5.00-5.50	303,070,000
November 9, 2000	2000A	268,810,000	10/01/30	5.00-6.00	110,515,000
November 28, 2001	2001A	249,140,000	10/01/31	5.00-5.75	53,655,000
Less unamortized discount					(314,695)
November 28, 2001	2001B	121,880,000	10/01/31	5.00-5.75	119,635,000
Plus unamortized premium					1,744,297
October 30, 2002	2002A	285,195,000	10/01/33	5.00-5.75	285,195,000
Plus unamortized premium					5,781,572
December 16, 2003	2003A	275,435,000	10/01/33	3.00-5.00	275,435,000
Plus unamortized premium					8,500,123
September 22, 2003	2003B Refunding	368,300,000	10/01/31	Auction Rate	368,300,000
Less unamortized loss on refunded debt					(27,107,519)
Subtotal Revenue Bonds					1,725,513,778
April 13, 2004	2004A GO	60,000,000	10/01/28	3.00-5.00	60,000,000
Plus unamortized premium					332,906
Subtotal GO Bonds					60,332,906
Total bonds payable including unamortized premiums and discounts and loss on refunded debt					\$ 1,785,846,684

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

A summary of the components of bonds payable at June 30, 2004 is as follows:

Face value of revenue bonds outstanding	\$ 1,736,910,000
Face value of general obligation bonds outstanding	60,000,000
Unamortized premium	16,358,898
Unamortized discount	(314,695)
Unamortized loss on refunded debt	(27,107,519)
Total	<u>\$ 1,785,846,684</u>

On September 22, 2003, the Bank issued Series 2003B revenue refunding bonds for \$368,300,000. The purpose of the Series 2003B Bonds is for advance refunding of \$142,630,000 of Series 2000A revenue bonds and \$195,485,000 of Series 2001A revenue bonds. Proceeds from the refunding bond issue consisted of the following:

Face amount of bonds	\$ 368,300,000
Excess debt service reserve fund monies	3,868,514
	<u>\$ 372,168,514</u>

Bond issuance costs of the Series 2003B bonds consist of the following:

Guaranty insurance premium	\$ 2,071,175
Issuance costs	1,851,198
Total	<u>\$ 3,922,373</u>

Amortization of bond issuance costs for the current fiscal year totaled \$108,955.

The Bank deposited \$368,246,140 in an escrow account with Bank of New York pursuant to an irrevocable trust agreement for the future retirement of the refunded bonds. The deposited funds were invested in U.S. governmental securities. As a result of the escrow deposit, \$142,630,000 of Series 2000A bonds are considered to be defeased and \$195,485,000 of Series 2001A bonds are considered to be defeased. The liability of those bonds has been removed from the Bank-wide statement of net assets. The outstanding balance of the 2000A bonds was \$110,515,000 at June 30, 2004 and the outstanding balance of the 2001A bonds was \$53,655,000 at June 30, 2004.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of \$30,185,000. This difference is reported in the accompanying financial statements as a reduction of bonds payable and is being amortized on a straight-line basis and will be charged to operations through the fiscal year ending June 30, 2012. The bonds are expected to be redeemed on October 1, 2011. The Bank completed the advance refunding to reduce its total service payments over the next 27 fiscal years by approximately \$53 million and to obtain an economic gain of approximately \$28 million (the difference between the present values of the debt service payments on the old debt and the new debt).

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

The following summarizes the deferred loss on advance refunding of the Series 2000A and 2001A bonds:

Escrow deposit	\$ 368,246,140
Less: Principal amount refunded	<u>338,115,000</u>
Deferred loss on refunding bonds payable	30,131,140
Accumulated amortization of deferred loss	<u>(3,023,621)</u>
Balance on unamortized deferred loss	<u><u>\$ 27,107,519</u></u>

Amortization of the deferred loss on refundings of the bonds payable for the year ended June 30, 2004 was \$3,023,621.

In connection with the issuance of the Series 2003B Bonds, the Bank authorized the execution and delivery of Interest Rate Exchange Agreements with Bank of America, Citibank, N.A., and Wachovia Bank, N.A. The Interest Rate Exchange Agreements will provide for payments by the Bank of a fixed rate of interest on a notional amount of each tranche of the Series 2003B bonds. In return, the respective counterparties will pay the Bank a variable rate of interest on the same notional amount that approximates the interest rates on the Series 2003B Bonds.

On December 16, 2003, the Bank issued Series 2003A Revenue Bonds. The net bond proceeds consisted of the following:

Face amount of bonds	\$ 275,435,000
Original issue premium	<u>8,500,123</u>
Net bond proceeds	<u><u>\$ 283,935,123</u></u>
Underwriters discount	\$ 798,431
Guaranty insurance premium	2,457,853
Issuance costs	<u>530,674</u>
Total	<u><u>\$ 3,786,958</u></u>

Amortization of bond issuance costs for the current fiscal year totaled \$63,646.

The purpose of the Series 2003A Bonds is to fund a portion of the costs of the Aiken County Project, the Beaufort County Project, the Charleston County Project, the Horry County RIDE I Project, Horry County RIDE II Project, the Upstate GRID Project (Anderson, Greenville and Spartanburg Counties), the York County Project, and any future approved projects for which an executed intergovernmental agreement is obtained.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Principal and interest payments are due on the bonds outstanding and are being paid semiannually.

Details of the future revenue bond debt service payments, including interest, are as follows:

Revenue Bond Debt Service		Principal	Interest	Totals
Year Ending:	6/30/05	\$ 27,855,000	\$ 83,410,859	\$ 111,265,859
	6/30/06	35,150,000	78,783,837	113,933,837
	6/30/07	37,135,000	77,013,609	114,148,609
	6/30/08	42,805,000	75,030,268	117,835,268
	6/30/09	39,230,000	72,999,399	112,229,399
Five years ending:	6/30/14	247,700,000	330,988,708	578,688,708
	6/30/19	245,560,000	260,709,502	506,269,502
	6/30/24	213,910,000	213,107,185	427,017,185
	6/30/29	358,330,000	143,550,672	501,880,672
	6/30/34	489,235,000	69,600,368	558,835,368
Total debt service obligations		<u>\$ 1,736,910,000</u>	<u>\$ 1,405,194,407</u>	<u>\$ 3,142,104,407</u>

The payment of the principal and interest on the bonds outstanding is secured by liens on and pledges of certain of the Bank's revenues and collections of certain receivables. The Bank does not charge any fees to external users for goods or services. Pledged revenues are defined as all payments payable to the Bank pursuant to any agreement between the Bank and the United States government, the state, any county, municipality, political subdivision, public body or their government entity or under any law, statute, ordinance, resolution or other authorizing instrument. The master revenue bond resolution also requires the establishment and maintenance of various debt service reserve bank accounts. The reserve requirement is the lesser of 10% of bonds outstanding, the maximum annual aggregate debt service; or 125% of the aggregate average annual debt service. Funds on deposit to meet the reserve requirements are as follows:

Reserve Requirements	Actual Funding at Fair Value
\$124,469,999	\$128,122,098

Also, the Bank purchased bond insurance at the time of issuance to guarantee the payments of all of the bonds outstanding to the bondholders.

On April 13, 2004, the Bank issued Series 2004A General Obligation Bonds. The net bond proceeds consisted of the following:

Face amount of bonds	\$ 60,000,000
Original issue premium	332,906
Net bond proceeds	<u>\$ 60,332,906</u>

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Issuance costs for the Series 2004A bonds totaled to \$408,825.

Amortization of issuance costs for the current fiscal year totaled \$4,259.

The purpose of the Series 2004A General Obligation Bonds is to fund a portion of the costs of the Charleston County Project.

Principal and interest payments are due on the bonds outstanding and are being paid semiannually. Details of the future general obligation bond debt service payments, including interest, are as follows:

General Obligation Bond Debt Service

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Year Ending: 6/30/05	1,540,000	\$ 2,743,900	\$ 4,283,900
6/30/06	1,605,000	2,697,700	4,302,700
6/30/07	1,670,000	2,617,450	4,287,450
6/30/08	1,740,000	2,533,950	4,273,950
6/30/09	1,810,000	2,446,950	4,256,950
Five years ending:			
6/30/14	10,225,000	10,801,000	21,026,000
6/30/19	12,505,000	8,025,500	20,530,500
6/30/24	15,275,000	4,633,500	19,908,500
6/30/29	13,630,000	1,046,600	14,676,600
Total debt service obligations	<u>\$ 60,000,000</u>	<u>\$ 37,546,550</u>	<u>\$ 97,546,550</u>

The Series 1998A bonds maturing on or after October 1, 2009 are redeemable at the option of the Bank on and after October 1, 2008, in whole or in part at any time in any order of maturity to be determined by the Bank by payment of the respective redemption prices, expressed as percentages set forth below of the principal amount of the bonds to be redeemed together with accrued interest to the redemption date:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption Price</u>
October 1, 2008 through September 30, 2009	101%
October 1, 2009 and thereafter	100%

The Series 1999A Bonds maturing on or after October 1, 2010 are redeemable at the option of the Bank on and after October 1, 2009, in whole or in part, at any time, in any order of maturity to be determined by the Bank by payment of the respective redemption prices, expressed as percentages of the principal amount of the Series 1999A Bonds to be redeemed together with accrued interest to the redemption date:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption Price</u>
October 1, 2009 through September 30, 2010	101%
October 1, 2010 and thereafter	100%

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

The Series 2000A Bonds maturing on or after October 1, 2010 are redeemable at the option of the Bank, on or after October 1, 2009, in whole or in part, at any time, in any order or maturity to be determined by the Bank by payment of the respective redemption prices, expressed as percentages of the principal amount of the Series 2000A Bonds to be redeemed together with accrued interest to the redemption date:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption Price</u>
October 1, 2009 through September 30, 2010	101%
October 1, 2010 and thereafter	100%

The Series 2001A Bonds maturing on or after October 1, 2012 are redeemable at the option of the Bank, on and after October 1, 2011, in whole or in part, at any time in any order of maturity selected by the Bank, at the principal amount of the Series 2001 A Bonds to be redeemed, together with interest accrued to the redemption date. The Series 2001A Bonds maturing on October 1, 2021, October 1, 2027, October 1, 2029 and October 1, 2031, shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on October 1, of each year set forth below:

October 1, 2021 Term Bond		October 1, 2027 Term Bond	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2020	\$ 6,505,000	2025	\$ 20,945,000
2021	7,200,000	2026	20,615,000
		2027	25,320,000
October 1, 2029 Term Bond		October 1, 2031 Term Bond	
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2028	\$ 25,155,000	2030	\$ 30,245,000
2029	30,220,000	2031	35,135,000

The Bank shall receive credit on any redemption date against its mandatory obligation to redeem Series 2001A Bonds of a maturity subject to mandatory redemption for Series 2001A Bonds of the same maturity previously purchased or redeemed by the Bank delivered to the paying agent for cancellation.

The Series 2001B Bonds maturing on or after October 1, 2012, are redeemable prior to maturity, at the option of the Bank, on and after October 1, 2011, in whole or in part, at any time, in any order of maturity selected by the Bank, at the principal amount of the Series 2001B Bonds to be redeemed, together with interest accrued to the redemption date. The Series 2001 B Bonds maturing on October 1, 2021, October 1, 2026 and October 1, 2031, shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on October 1, of each year set forth below:

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

October 1, 2021 Term Bond		October 1, 2025 Term Bond		October 1, 2031 Term Bond	
Year	Principal Amount	Year	Principal Amount	Year	Principal Amount
2019	\$ 4,315,000	2023	\$ 5,270,000	2027	\$ 6,440,000
2020	4,535,000	2024	5,540,000	2028	6,775,000
2021	4,765,000	2025	5,825,000	2029	7,130,000
		2026	6,125,000	2030	7,505,000
				2031	7,900,000

The Bank shall receive credit on any redemption date against its mandatory obligation to redeem Series 2001B Bonds of a maturity subject to mandatory redemption for Series 2001B Bonds (Junior Lien) of the same maturity previously purchased or redeemed by the Bank delivered to the paying agent for cancellation.

The Series 2002A Bonds maturing on or after October 1, 2013, are redeemable prior to maturity, at the option of the Bank, on and after October 1, 2012, in whole or in part, at any time, in any order of maturity selected by the Bank, at the principal amount of the Series 2002A Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption. The Series 2002A Bonds maturing October 1, 2029 and October 1, 2033, shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on October 1 of each year set forth below:

October 1, 2029 Term Bond		October 1, 2027 Term Bond	
Year	Principal Amount	Year	Principal Amount
2027	\$ 13,165,000	2030	\$ 15,695,000
2028	13,430,000	2031	17,760,000
2029	15,335,000	2032	44,525,000
		2033	46,975,000

The Bank shall receive credit on any redemption date against its mandatory obligation to redeem Series 2002A Bonds of a maturity subject to mandatory redemption for Series 2002A Bonds of the same maturity previously purchased or redeemed (otherwise than through the operation of the mandatory redemption requirement) by the Bank delivered to the paying agent for cancellation.

The Series 2003A Bonds maturing on or after October 1, 2014, are redeemable prior to maturity, at the option of the Bank, on and after October 1, 2013, in whole or in part, at any time, in any order of maturity selected by the Bank, at the principal amount of the Series 2003A Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption. The Series 2003A Bonds maturing October 1, 2030 and October 1, 2033, shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on October 1 of each year set forth below:

October 1, 2030 Term Bond		October 1, 2033 Term Bond	
Year	Principal Amount	Year	Principal Amount
2029	\$ 9,890,000	2031	\$ 37,685,000
2030	11,275,000	2032	47,935,000
		2033	52,280,000

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

The Bank shall receive credit on any redemption date against its mandatory obligation to redeem Series 2003A Bonds of a maturity subject to mandatory redemption for Series 2003A Bonds of the same maturity previously purchased or redeemed (otherwise than through the operation of the mandatory redemption requirement) by the Bank delivered to the paying agent for cancellation.

The Series 2003B Refunding Bonds were issued in three Tranches and bear interest at an Auction Rate and are subject to redemption on the first day of any Auction Period, in whole or in part, at the option of the Bank, at a price equal to one hundred percent of the principal amount thereof plus interest accrued to the redemption date without any premium or penalty.

The Series 2003B-1 Bonds, Series 2003B-2 Bonds, and Series 2003B-3 Bonds shall be subject to mandatory sinking fund redemption and will be redeemed at a price equal to 100% of the principal amount of the bonds so redeemed, plus accrued interest to the date of redemption, on the date and in the amounts set forth below:

October 1	Principal Amount Redeemed			Total
	2003B-1	2003B-2	2003B-3	
2004	\$ 300.000	\$ 300.000	\$ 325.000	\$ 925.000
2005	325.000	300.000	325.000	950.000
2006	325.000	300.000	300.000	925.000
2007	675.000	675.000	700.000	2,050.000
2008	325.000	350.000	325.000	1,000.000
2009	375.000	375.000	375.000	1,125.000
2010	350.000	350.000	375.000	1,075.000
2011	400.000	400.000	400.000	1,200.000
2012	400.000	425.000	425.000	1,250.000
2013	400.000	400.000	425.000	1,225.000
2014	450.000	450.000	450.000	1,350.000
2015	125.000	100.000	100.000	325.000
2016	500.000	500.000	475.000	1,475.000
2017	475.000	500.000	475.000	1,450.000
2018	550.000	525.000	525.000	1,600.000
2019	550.000	550.000	550.000	1,650.000
2020	550.000	550.000	550.000	1,650.000
2021	1,725.000	1,700.000	1,700.000	5,125.000
2022	3,850.000	3,850.000	3,850.000	11,550.000
2023	2,275.000	2,250.000	2,275.000	6,800.000
2024	1,800.000	1,800.000	1,800.000	5,400.000
2025	13,800.000	13,800.000	13,775.000	41,375.000
2026	13,875.000	13,875.000	13,850.000	41,600.000
2027	15,650.000	15,675.000	15,675.000	47,000.000
2028	15,825.000	15,825.000	15,825.000	47,475.000
2029	17,725.000	17,725.000	17,725.000	53,175.000
2030	17,950.000	17,975.000	17,975.000	53,900.000
2031	11,225.000	11,225.000	11,225.000	33,675.000
	<u>\$ 122,775.000</u>	<u>\$ 122,750.000</u>	<u>\$ 122,775.000</u>	<u>\$ 368,300.000</u>

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The Series 2004A General Obligation Bonds maturing on or after April 1, 2015 are redeemable, at the option of the Bank, in whole or in part, at any time in any order of maturity to be determined by the state, on and after April 1, 2014 at par plus accrued interest to the date fixed for redemption.

NOTE 6. TRANSACTIONS WITH STATE ENTITIES:

The Bank has significant transactions with the State of South Carolina and various state agencies.

Services received at no cost from state agencies include maintenance of certain records by the Comptroller General; check preparation, banking, bond trustee and investment services from the State Treasurer; and legal services from the Attorney General. Other services received at no cost from various divisions of the State Budget and Control Board include: insurance plans administration, procurement services, audit services, assistance in the preparation of the State Budget, review and approval of certain budget amendments, and other centralized functions.

The Bank had financial transactions with various state agencies during the fiscal year. Payments were made to divisions of the State Budget and Control Board for telephone and insurance plans premiums and to the State Accident Fund for workers' compensation insurance.

The South Carolina Department of Transportation provided the Bank certain project management and other related services during fiscal year 2004 in the total amount of \$15,099,156 of which \$2,506,684 was payable at June 30, 2004.

The South Carolina Department of Transportation provided the Bank certain administrative services and clerical assistance during fiscal year 2004 for which \$152,640 was payable at June 30, 2004.

The Bank provided no services free of charge to other State agencies during the fiscal year.

The Bank recorded \$24,372,008 as revenue contributions of gas tax from the South Carolina Department of Transportation during fiscal year 2004. The gas tax represented an amount not to exceed the one cent per gallon collected in accordance with Section 11-43-160 of the South Carolina Code of Laws for the ongoing funding of construction and maintenance of highways.

The Bank recorded \$54,597,105 of revenues from truck registration fees and penalties from the South Carolina Department of Public Safety during fiscal year 2004.

NOTE 7. RISK MANAGEMENT:

The Bank is exposed to various risks of loss including theft of, damage to, or destruction of assets, general torts, and board member breach, theft or misappropriation but does not maintain any state or commercial insurance coverage for those risks except for non-owned motor vehicles and general torts. The bank did not incur any losses during the year.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

The Bank and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities and/or events:

1. Motor vehicles (non-owned); and
2. Torts

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

The Department has not transferred the risk of loss for employee theft or misappropriation of assets and the portion of the risks of loss related to insurance policy deductibles for non-owned motor vehicles and torts to a state or commercial insurer. The Bank has not reported an estimated claims loss expenditure or the related liability at June 30, 2004 based on the requirements of GASB Statements No. 10 and No. 30 which state that liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2004 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claim liabilities, when recorded, are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claim losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the Bank's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded, and, therefore, no loss accrual has been recorded.

NOTE 8. COMMITMENTS/INTERGOVERNMENTAL AGREEMENTS:

The Bank entered into various intergovernmental agreements to provide financial assistance for highway and transportation facilities projects. Details of the agreements and their status as of June 30, 2004 are as follows:

Horry County RIDE I Project. The total costs for this project are estimated to be \$888,000,000. Funding consists of a \$340 million financial assistance award by the Bank of which a \$114 million contribution is being paid to the Bank by the South Carolina Department of Transportation (SCDOT) in annual installments of \$10 million each for eleven years and \$4 million in the 12th year and an additional \$95 million contribution is being paid to the Bank by SCDOT in annual installments of \$7.6 million including 5% interest per annum for 20 years; a \$300 million interest free loan (Loan I) that is being paid by Horry County over 20 years at \$15 million per year; and a \$247,577,664 loan that is being paid by Horry County over 22 years at agreed-upon amounts including interest.

Horry County Ride II Project. The total estimated costs for this project are \$198 million which are to be funded by the Bank as a financial assistance award and \$2,279,000 of contributions are to be paid by Horry County from Admissions Tax District revenues. The county and the Bank have executed an Intergovernmental Agreement and construction is in progress.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Beaufort County Project. The total costs are estimated to be approximately \$104.7 million. Funding for the project consists of a \$64.7 million financial assistance award by the Bank, a \$29.9 million contribution by Beaufort County that has already been paid and \$10.1 million of expenditures to be paid by SCDOT and claimed by SCDOT as federal expenditures. The county and the Bank have executed an Intergovernmental Agreement and construction of the project is in progress.

Charleston County Project. The total estimated project costs are \$650 million. Funding for the Charleston County Project consists of a \$540 million financial assistance award by the Bank and \$110 million of expenditures to be paid by SCDOT and claimed as federal expenditures. The Bank is to be paid contributions for this project as follows:

<u>Contributor</u>	<u>Amount</u>	<u>Terms</u>
• SCDOT	\$ 200,000,000	\$8 million per year for 25 years commencing in fiscal year 2003
• Charleston County	75,000,000	\$3 million per year for 25 years commencing in fiscal year 2004
• SC Ports Authority	45,000,000	\$20 million by July 1, 2003 and \$1 million per year for 25 years commencing in fiscal year 2003 (\$12 million of the \$20 million was paid as of June 30, 2003 and \$8 million was paid after June 30, 2003.

Lexington County Project The total project costs are estimated to be \$115 million. Funding for the project consists of a \$107 million financial assistance award by the Bank, a \$2 million in-kind services contribution by Lexington County and \$6 million of expenditures to be paid by SCDOT and claimed as federal expenditures. Contributions to be paid to the Bank in connection with this project include \$59 million by South Carolina Electric and Gas Company ("SCE&G"). Lexington County, SCDOT and the Bank have executed an Intergovernmental Agreement. Also the Bank has entered into an agreement with SCE&G. Construction on the project is in progress.

Upstate GRID Project (Anderson, Greenville and Spartanburg Counties) The project costs are estimated to be \$617 million. Funding for the Upstate GRID project consists of a \$406 million financial assistance award by the Bank and a \$211 million in-kind contribution by Anderson, Greenville and Spartanburg Counties. The counties, SCDOT, and the Bank have executed an Intergovernmental Agreement and construction is in progress.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

York County Project The project consists of four component projects which have a total estimated cost of \$257 million. Funding for the York County Project consists of a \$158 million financial assistance award by the Bank and a \$99 million contribution by York County. The Bank and York County have executed an Intergovernmental Agreement and construction is in progress.

Aiken County Project The project consists of construction of a new bridge over the Savannah River and the extension into South Carolina of Interstate 520 from Georgia. Total project costs are estimated to be \$200 million. Funding consists of a financial assistance award of approximately \$197,650,000 of which contributions are to be paid by the State of Georgia for one-half of the cost of the new bridge of approximately \$16 million and Aiken County in the amount of approximately \$16 million (includes a \$1 million in-kind contribution) and \$2.35 million to be paid by SCDOT and claimed as federal expenditures.

Median Barrier Project The project is a statewide project with a total estimated cost of \$34 million. Funding for the project consists of a \$30 million financial assistance award by the Bank and \$4 million to be paid by SCDOT and claimed as federal expenditures.

Outstanding commitments as of June 30, 2004 are as follows:

	Total Award	Expenditures		Outstanding Commitments 6/30/2004
		Prior	Current	
Horry County - RIDE II Project	\$ 198,000,000	\$ 5,846,078	\$ 58,336,990	\$ 133,816,932
Beaufort County Project - Route 170 Improvement	64,300,000	46,389,220	13,367,788	\$ 4,542,992
Charleston County Project Replacement of Cooper River Bridges	540,000,000	286,314,622	176,472,279	\$ 77,213,099
Lexington County Project - Lake Murray Dam	107,000,000	268,460	28,316,397	\$ 78,415,143
Upstate GRID Project (Anderson, Spartanburg, and Greenville)	406,000,000	182,446,981	70,400,323	\$ 153,152,696
York County Project - Improvement of Metropolitan Road Corridors	158,000,000	63,185,735	13,247,360	\$ 81,566,905
Aiken County Project - Extension of I-520 into SC	197,650,000	24,834,479	19,253,100	\$ 153,562,421
Median Barrier Project - Guardrails	30,000,000	14,033,586	5,697,946	\$ 10,268,468
Total	\$ 1,700,950,000	\$ 623,319,161	\$ 385,092,183	\$ 692,538,656

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 9. OTHER MATTERS/SUBSEQUENT EVENT:

Through June 30, 2004, the Joint Bond Review Committee of the State of South Carolina has approved the issuance of \$2,638,346,342 Bank General Obligation and/or Revenue Bonds. \$2,043,485,000 in Revenue Bonds and \$60,000,000 in General Obligation Bonds have been issued through June 30, 2004.

The Board of Directors approved the issuance of Revenue Bonds, Series 2004A on April 1, 2004. These bonds were sold on July 14, 2004, in the amount of \$228,940,000.

The Series 2004A Bonds maturing on or after October 1, 2015, are redeemable prior to maturity, at the option of the Bank, on and after October 1, 2014, in whole or in part, at any time, in any order of maturity selected by the Bank, at the principal amount of the Series 2004A Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption. The Series 2004A Bonds maturing October 1, 2033 shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on October 1 of each year set forth below:

October 1, 2033 Term Bond			
<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2030	\$ 2,000,000	2032	\$ 2,670,000
2031	2,000,000	2033	2,000,000

The Bank shall receive credit on any redemption date against its mandatory obligation to redeem Series 2004A Bonds of a maturity subject to mandatory redemption for Series 2004A Bonds of the same maturity previously purchased or redeemed (otherwise than through the operation of the mandatory redemption requirement) by the Bank delivered to the paying agent for cancellation.

The Board of Directors approved the issuance of Revenue Refunding Bonds, Series 2004B on August 23, 2004. These bonds were sold on September 1, 2004 in the amount of \$153,450,000. The following bonds are to be advance refunded by placing proceeds into an escrow account:

Series 1999A

\$13,595,000 Serial Bond maturing October 1, 2011 (5.50%)
\$15,565,000 Serial Bond maturing October 1, 2012 (5.50%)
\$17,830,000 Serial Bond maturing October 1, 2013 (5.50%)
\$20,135,000 Serial Bond maturing October 1, 2014 (5.50%)
\$22,845,000 Serial Bond maturing October 1, 2015 (5.50%)
\$24,965,000 Serial Bond maturing October 1, 2016 (5.50%)
\$ 8,740,000 Serial Bond maturing October 1, 2017 (5.50%)

Series 2000 A

\$ 6,245,000 Serial Bond maturing October 1, 2012 (5.75%)
\$ 9,020,000 Serial Bond maturing October 1, 2013 (5.75%)
\$ 8,495,000 Serial Bond maturing October 1, 2014 (5.75%)
\$10,790,000 Serial Bond maturing October 1, 2015 (5.75%)

The Series 2004B Bonds are not subject to redemption prior to maturity.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENT:

The Bank entered into an interest rate swap agreement with a termination date of October 1, 2013. The Bank's objective for entering into the interest rate swap agreement is to reduce net interest costs. Under this fixed to variable interest rate swap, the Bank receives a fixed rate of 3.595% semi-annually while paying a variable rate monthly based on the TBMA Municipal SWAP Index. The notional amount for this agreement is \$49,440,000. Through June 30, 2004 the Bank had interest income of \$2,522,875 and interest expense of \$716,390 attributable to this swap agreement. The June 30, 2004 mark to market value of this swap was (\$239,656). By using a derivative instrument, the Bank exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of the derivative contract is positive, the counterparty owes the Bank which creates repayment risk for the Bank. When the fair value of a derivative contract is negative, the Bank owes the counterparty and, therefore, does not possess repayment risk. The Bank can minimize the credit or repayment risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of financial instruments that results from a change in interest rates. The market risk associated with an interest-rate contract is managed by establishing and monitoring parameters that limit the types and degree of market risk.

The Bank's \$368,300,000 Revenue Refunding Bonds, Series 2003B, were issued in three tranches: Series 2003B-1 in the principal amount of \$122,775,000, Series 2003B-2 in the principal amount of \$122,750,000, and Series 2003B-3 in the principal amount of \$122,775,000. The Bank entered into an Interest Rate Exchange Agreement with Bank of America, N.A., relating to the Series 2003B-1 Bonds, an Interest Rate Exchange Agreement with Citibank, N.A., relating to the Series 2003B-2 Bonds, and an Interest Rate Exchange Agreement with Wachovia Bank, National Association, relating to the Series 2003B-3 Bonds. The three Interest Rate Exchange Agreements are collectively referred to herein as the "2003B Interest Rate Exchange Agreements" and together with the 1998A Interest Rate Exchange Agreement as the "Interest Rate Exchange Agreements."

The 2003B Interest Rate Exchange Agreements provide for payment by the Bank of a 3.825% fixed rate on a notional amount, having an amortization schedule equal to that of each tranche of Series 2003B Bonds. In return, the respective 2003B Interest Rate Exchange Agreement counterparties will pay the Bank a variable rate equal to 67% of the one-month LIBOR rate on such notional amount. As a result of these hedge transactions, the payments received by the Bank from the counterparties pursuant to the 2003B Interest Rate Exchange Agreements are expected to approximate the interest payments on the Series 2003B Bonds resulting in net fixed rate debt service. There can be no assurance that the actual payments received by the Bank from the counterparties will match the actual interest payments.

The Bank's obligations to make regularly scheduled interest payments ("Regularly Scheduled Payments") under the 2003B Interest Rate Exchange Agreements are insured by XL Capital Assurance Inc. (the "2003B Swap Insurer"). In addition, in the event that the 2003B Swap Insurer directs early termination of any 2003B Interest Rate Exchange Agreement, pursuant to the terms thereof, any termination payment due from the Bank to the counterparty as a result of such termination shall be insured by the 2003B Swap Insurer.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The obligation of the Bank to make regularly scheduled payments under the Interest Rate Exchange Agreements ranks on a parity with the Bank's obligation to make debt service payments on its outstanding bonds. Under certain circumstances, the Interest Rate Exchange Agreements are subject to termination prior to their respective scheduled expiration dates and prior to the maturity of the bonds to which each such Interest Rate Exchange Agreement relates, in which event the Bank may be obligated to make a substantial payment to the respective counterparty ("Termination Payments"). The obligation of the Bank to make any Termination Payments under the Interest Rate Exchange Agreements is junior and subordinate to the obligation to make debt service payments on bonds. Under the Interest Rate Exchange Agreements, the counterparties have certain limited rights to consent to modifications to the master resolution, which modifications would affect the rights of the counterparties under the Interest Rate Exchange Agreements.

During fiscal year 2004, the Bank made variable bond interest payments in the amount of \$1,905,338 and fixed rate payments on the swap in the amount of \$7,043,737. The Bank received variable swap payments on the swap in the amount of \$1,406,367. The net of payments and receipts was \$7,542,708. The estimated net payments were \$7,043,737. Through fiscal year 2004, the swap was underperforming but still resulted in a savings over interest payments on the bonds prior to the refunding/swap transactions. The mark to market value of this swap was (\$4,535,723) at June 30, 2004.

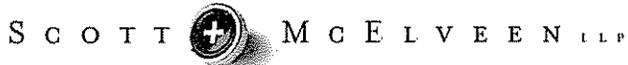
SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Balances June 30, 2003		Additions	Deductions	Balances June 30, 2004	
Horry County Loan Servicing Account						
Cash and cash equivalents (1)	\$	9,840	\$ 25,044,382	\$ 21,589,409	\$	3,464,813
Intergovernmental receivable - County government		2,115,862	23,930,042	23,756,108		2,289,796
Total assets	\$	2,125,702	\$ 48,974,424	\$ 45,345,517	\$	5,754,609
Due to Special Revenue Fund		-	1,475,000	-		1,475,000
Interfund transfer payable		-	1,929,991	-		1,929,991
Funds held for others		2,125,702	45,569,433	45,345,517		2,349,618
Total liabilities	\$	2,125,702	\$ 48,974,424	\$ 45,345,517	\$	5,754,609
Horry County Loan Reserve Account						
Cash and cash equivalents (2)	\$	10,673,628	\$ 487,464	\$ 916,405	\$	10,244,687
Interfund transfer receivable		-	1,929,991	-		1,929,991
Total assets	\$	10,673,628	\$ 2,417,455	\$ 916,405	\$	12,174,678
Funds held for others	\$	10,673,628	\$ 2,417,455	\$ 916,405	\$	12,174,678
Totals						
Cash and cash equivalents	\$	10,683,468	\$ 25,531,846	\$ 22,505,814	\$	13,709,500
Intergovernmental receivable - County government		2,115,862	23,930,042	23,756,108		2,289,796
Interfund transfer receivable		-	1,929,991	-		1,929,991
Total assets	\$	12,799,330	\$ 51,391,879	\$ 46,261,922	\$	17,929,287
Due to Special Revenue Fund		-	1,475,000	-		1,475,000
Interfund transfer payable		-	1,929,991	-		1,929,991
Funds held for others		12,799,330	47,986,888	46,261,922		14,524,296
Total liabilities	\$	12,799,330	\$ 51,391,879	\$ 46,261,922	\$	17,929,287

(1) Includes fair value adjustment of \$47,548 at June 30, 2004.

(2) Includes fair value adjustment of \$140,589 at June 30, 2004 and \$484,285 at June 30, 2003.



South Carolina Office of the State Auditor and
Board of Directors
South Carolina Transportation Infrastructure Bank
Columbia, South Carolina

In planning and performing our audit of the financial statements of the South Carolina Transportation Infrastructure Bank (the "Bank"), for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Bank's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Implement a Double Entry Accounting System

The accounting system in use at the time of the audit was not appropriate for the Bank's type and level of transaction activity. The absence of an appropriate accounting system required the Bank's accounting staff to make a greater number of adjusting entries than if a more suitable accounting system were in place. A double entry accounting system appropriate for the complexity of the Bank's normal transactions should be considered by the Bank that includes a general ledger, subsidiary ledgers, and reports that can be routinely updated.

A material weakness is a reportable 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 errors 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.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition described above is not believed to be a material weakness.

This report is intended solely for the information and use of the Bank's Board of Directors, management, and South Carolina State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

October 6, 2004

Scott McElveen, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Member: AICPA, SCACPA, SEC Practice Section
An Independent Member of the BDO Seidman Alliance

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South Carolina Transportation Infrastructure Bank

BOARD OF DIRECTORS

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Debra R. Rountree
*Director, Infrastructure
Bank Operations*

955 Park Street
Columbia, SC 29201
P: (803) 737-1243
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November 9, 2004

Thomas L Wagner, Jr. CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner

The South Carolina Transportation Infrastructure Bank respectfully submits the following Corrective Action Plan for the year ended June 30, 2004. This Plan outlines actions taken, or to be taken, to address the "reportable condition" contained in the audit report prepared by Scott McElveen, LLP dated October 6, 2004.

Reportable Condition:

Improve Accounting System

We noted the Bank did not have an accounting system in use at the time of the audit that was appropriate for the Bank's type and level of transaction activity. However, the Bank has "manually" maintained and summarized its transactions by the use of spreadsheets. The absence of an appropriate accounting system requires the Bank's Director of Operations to prepare a greater number of adjusting entries than if a more suitable accounting system were in place.

It is recommended that the Bank consider obtaining a double entry accounting system that can appropriately record, summarize and report the Bank's normal transactions and include a general ledger, subsidiary ledgers, and reports that can be routinely prepared and updated.

Thomas L. Wagner, Jr.

November 9, 2004

Corrective Action Plan:

SCTIB concurs with the recommendation. SCTIB purchased an “off-the-shelf” accounting system several years ago. This system did not meet the need to record on-going expenditures covering the life of a construction project, so for the past few years, SCTIB has utilized the Comptroller General’s system for generating monthly and annual reports and has maintained spreadsheets which provide more detailed subsidiary information, including expenditures by project. The spreadsheets are reconciled monthly and annually to the Comptroller General’s balances. Over the past two years, the SCTIB has inquired about contracting with SCDOT for accounting system services. SCDOT has been in the process of modifying and upgrading its accounting system and is now in position to consider processing SCTIB transactions and provide recommended ledgers and reports. Initial planning meetings and assessment have begun and the SCTIB expects to contract with SCDOT for accounting services during fiscal year 2005.

If you need additional information, please do not hesitate to contact me.

Respectfully yours,



Debra R. Rountree
Director of SCTIB Operations

DRR:pbg