

October 8, 1998

The Honorable David M. Beasley, 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, 1998, was issued by Rogers & Laban, PA, 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,

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK  
COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 1998**

**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 South Carolina Transportation Infrastructure Bank (the Bank) as of and for the year ended June 30, 1998 as listed in the table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, the financial statements of the Bank are intended to present the financial position and results of operations of only that portion of the funds and account groups of the State of South Carolina that is attributable to the transactions of the Bank, an agency of the State.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 1998, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Columbia, South Carolina  
September 29, 1998

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**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1998**

	<u>Special Revenue</u>
<b>REVENUES:</b>	
Taxes and fees transferred from South Carolina Department of Transportation	\$ 15,750,000
Federal grant	2,040,000
Contribution from State agency - South Carolina Department of Transportation	13,998,819
Interest/investment income	<u>5,079,284</u>
<b>TOTAL REVENUES</b>	<u>36,868,103</u>
<b>EXPENDITURES:</b>	
General operating	94,754
Grant	<u>13,998,819</u>
<b>TOTAL EXPENDITURES</b>	<u>14,093,573</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	22,774,530
<b>FUND BALANCE</b> , beginning of year	- 0 -
<b>RESIDUAL EQUITY TRANSFER</b>	<u>65,503,760</u>
<b>FUND BALANCE</b> , end of year	<u>\$ 88,278,290</u>

**See accompanying Notes to Financial Statements.**

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## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

##### **Reporting Entity**

The South Carolina Transportation Infrastructure Bank (the Bank) was established effective June 26, 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 funds and account groups of the Bank are included in the Comprehensive Annual Financial Report of the State of South Carolina.

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 those of their appointing authority. The terms for the legislative members are coterminous with their terms of office.

The Bank was initially funded with a transfer from the State General Fund pursuant to Proviso 72.76 of the 1997-98 Appropriations Act which provided that any undesignated surplus from fiscal year 1996-97 should be transferred to the Bank. This transfer has been accounted for as a residual equity transfer.

The primary sources of future funding of the Bank may consist of up to three percent of funds appropriated under Section 11-43-160 of the Code of Laws of South Carolina to the South Carolina Department of Transportation for the construction and maintenance of state highways, however, this contribution must be used to match federal capitalization grants to the Bank and to provide capital for the state accounts of the Bank, federal funds, contributions and donations from government units and private entities, and State appropriations. The Bank is also authorized to issue bonds to finance its activities. Beginning in fiscal year 1998-99, fifty percent of the revenues collected for fees and penalties relating to the registration of trucks pursuant to Sections 56-3-660 and 56-3-670 are to be received by the Bank and are to be used to provide capital. Thereafter, the percentage of revenues from those Sections increases to one hundred percent for the Bank.

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. The Bank has determined it has no 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.



## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

The 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) Determine its budget without another government having the authority to approve and modify that budget;
- (2) Levy taxes or set rates or charges without approval by another government; or,
- (3) Issue bonded debt without approval by another government.

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 colleges 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. In addition, the Governor and/or the General Assembly appoints most of its board members and budgets a significant portion of its funds.

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 that portion of the funds of the State of South Carolina that is attributable to the transactions of the Bank and do not include any other funds of the State of South Carolina.

#### **Basis of Presentation and Description of Funds**

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

The Bank uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

# **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

All of the Bank's funds are classified in the governmental fund type category.

#### **Governmental Fund Types**

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 type.

**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 grant programs, taxes levied with statutorily defined distributions, and any other resources restricted as to purpose.

The funding for expenditures for constructing and improving highway and transportation facilities for the benefit of government units and private entities are recorded as grant expenditures in the special revenue fund.

#### **Account Groups**

**General Fixed Assets Account Group** - This group of accounts is established to account for all fixed assets of the Bank.

**General Long-Term Debt Account Group** - This account group is used to account for the outstanding balance of any unmatured general long-term liabilities that are expected to be financed from governmental funds. These liabilities include compensated absences.

#### **Significant Accounting Policies**

##### **Basis of Accounting**

All governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is utilized for governmental fund types. Under this method, revenue, including taxes, is recognized when it becomes measurable and available to finance expenditures of the current fiscal year. Expenditures are recognized when the related fund liability is incurred except for unmatured interest on general long-term debt, which is recognized when due. Payments for insurance and similar services benefiting more than one period are recognized as an

expenditure in the year of payment.

## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **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 72.9 as follows: Agencies shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the 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.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures. Because the legally prescribed budgetary basis differs materially from generally accepted accounting principles (GAAP), actual amounts in the accompanying budgetary comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary and GAAP bases is presented in Note 2.

The Statement of Expenditures – Budget and Actual – Other Budgeted Funds presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line item expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures" for each fiscal year.

##### **Cash and Cash Equivalents**

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

#### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

Most State agencies including the Bank participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. 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 cash management pool, see the deposits disclosure in Note 3.

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. Investments in 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 by the Bank. Interest earnings are allocated based on the percentage of the Bank's accumulated daily interest receivable to the total income receivable of 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.

#### **Fixed Assets**

General fixed assets acquired or constructed are recorded as expenditures from the applicable governmental fund and are capitalized at cost in the general fixed assets account group. Fixed assets are not depreciated in accordance with generally accepted accounting principles for governmental entities. Equipment costing more than \$500 and having a useful life of more than one year is capitalized. Donated fixed assets are recorded at estimated fair value at the time of acquisition.

#### **Fund Equity**

In accordance with governmental accounting standards, the portions of fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specific use are presented as reserved at year end. Designated fund balances represent tentative plans for future use of financial resources. The portion reserved for long-term receivables represents financial resources not available for current expenditures.

#### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Bank calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the general long-term debt group of accounts.

# SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### 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 and disclosures. Accordingly, actual results could differ from those estimates.

### NOTE 2. BUDGETARY REPORTING BASIS:

The financial statements prepared on the legally enacted basis differ from the generally accepted accounting principles (GAAP) statements. The statement of expenditures – budget and actual – other budgeted funds presents the legal basis budget which was enacted.

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist primarily of reclassification from financial statement fund types to budgetary fund categories and reversals of payroll accruals and the related fringe benefits. The following schedule reconciles the differences.

	Financial Statement Fund Type	Budgetary Fund Category
	Special Revenue	Other Budgeted Funds
Expenditures on GAAP Basis	\$ 14,093,573	\$
Fund reclassification:		
Grant	(13,998,819)	13,998,819
Other	(94,754)	94,754
Net accruals:		
Personal services and employer contributions		(3,896)
Expenditures on legal basis	<u>\$ -</u>	<u>\$ 14,089,677</u>

### NOTE 3. 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 balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash		Deposits Held by	
Equivalents	<u>\$60,071,593</u>	State Treasurer	<u>\$60,071,593</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 cash management pool, all of the State Treasurer's investments are 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 carrying 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.

# **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

### **NOTE 3. DEPOSITS: (CONTINUED)**

Cash and cash equivalents reported on the balance sheet and interest/investment income reported on the statement of revenues, expenditures and changes in fund balance include \$1,959,327 in unrealized gains as of and for the year ended June 30, 1998.

### **NOTE 4. RECEIVABLES:**

The Bank entered into an intergovernmental agreement on March 10, 1998 with Horry County (County) and the South Carolina Department of Transportation (Transportation) to fund \$545,000,000 in project costs for certain highway and road permanent improvement needs of Horry County. The agreement provides that Transportation will fund \$114,000,000 of the project costs, that the Bank will make an interest free loan to the County in the amount of \$300,000,000 to be used for project costs as incurred and that the Bank will make grants to the County for the remaining \$131,000,000 as expenditures are incurred. Also, see Note 10.

Transportation's commitment includes contributing to the Bank \$10,000,000 a year for eleven years and \$4,000,000 in the twelfth year. \$10,000,000 was received from Transportation in the year ended June 30, 1998. The County is to repay the Bank the \$300,000,000 loan over 20 years beginning with a payment of \$15,000,000 on July 1, 1998 and equal payments of \$3,750,000 quarterly thereafter starting October 1, 1998 until paid.

The Bank has recorded a contribution receivable of \$3,998,819 for Transportation's share of costs in excess of the \$10,000,000 that was received prior to June 30, 1998 and a loan receivable from the County of \$21,771,768 for its share of the costs advanced prior to June 30, 1998. Both receivables, except for the \$15,000,000 received from the County on July 1, 1998, are equally offset by a reserved fund balance to reflect that they are not available to pay current expenditures. The Bank has recorded grant expenditures of \$13,998,819 equal to the full amount of Transportation's share of FY 98 project costs funded from Transportation's contributions.

Also, the Bank is due \$250,000 from the County for three months of construction management services. This amount is offset by a payable to Transportation as it is performing these services. The total fee is \$3,000,000 and is payable \$83,333 per month over 36 months.

The \$2,040,000 Federal grant receivable represents initial capital fund that are restricted for a loan program. These funds were received in July, 1998. This grant required a 25% match. \$2,550,000 of the Bank's fund balance is reserved for the loan program.

### **NOTE 5. FIXED ASSETS:**

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year:

	<u>Furniture, and Equipment</u>
Balance, June 30, 1997	\$- 0 -
Additions	<u>4,344</u>
Balance, June 30, 1998	<u><u>\$4,344</u></u>

# **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

### **NOTE 6. GENERAL LONG-TERM DEBT:**

A summary of changes in general long-term debt for the year ended June 30, 1998 is as follows:

	Liability for Compensated Absences
Balances, beginning of year	\$ - 0 -
Increases	<u>11,210*</u>
Balances, end of year	<u>\$ 11,210</u>

\* Change is shown at net since details to support the gross increases and decreases are not available.

### **NOTE 7. RETIREMENT PLAN:**

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The Bank's employee is covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute six percent of all compensation. Effective July 1, 1997, the employer contribution rate became 9.466 percent which included a 1.916 percent surcharge to fund retiree health and dental insurance coverage. The Bank's actual contribution to the SCRS for the year ended June 30, 1998 was approximately \$1,600 and equalled the required contributions of 7.55 percent (excluding the surcharge) for the year. Also, the Bank paid employer group-life insurance contributions of approximately \$30 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by the Bank for pension and group-life benefits are reported as general operating expenditures.



## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

#### **NOTE 7. RETIREMENT PLAN: (CONTINUED)**

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Bank's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Bank's liability under the pension plan is limited to the amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Bank recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS may receive additional service credit for up to 90 days for accumulated unused sick leave.

#### **NOTE 8. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. The employee of the Bank is eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Bank for its active employee and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Bank for its active employee. The State finances health and dental plan benefits on a pay-as-you-go basis. The number of State retirees that meet these eligibility requirements is not available.

The Bank recorded employer contributions expenditures within the general operating expenditure category for these insurance benefits for its active employee of approximately \$1,000 for the year ended June 30, 1998. As discussed in Note 7, the Bank paid approximately \$400 applicable to the 1.916% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

# **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

### **NOTE 8. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)**

Information regarding the cost of insurance benefits applicable to Bank retirees is not available. By State law, the Bank has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

### **NOTE 9. DEFERRED COMPENSATION PLANS:**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. The employee of the Bank has elected not to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k) and 403(b), are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its annual financial report.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

### **NOTE 10. RELATED PARTY TRANSACTIONS:**

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

Services received at no cost from State agencies include legal services from the Attorney General. Also, various divisions of the State Budget and Control Board provided at no cost insurance plan administration, procurement services, retirement plan administration, audit services, personnel management, 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 retirement plan contributions and health insurance premiums, office supplies, printing, telephone, and interagency mail. Payments were also made to other agencies for unemployment insurance and workers' compensation coverage. The amounts of expenditures applicable to related party transactions are not readily available.

The Bank provided no services free of charge to other State agencies during the fiscal year. The Bank participates in the statewide dual employment program.

## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 1998**

#### **NOTE 10. RELATED PARTY TRANSACTIONS: (CONTINUED)**

The Bank received from the South Carolina Department of Transportation \$15,750,000 during fiscal year 1998 which represented the three percent of funds appropriated to the Department for the construction and maintenance of highways from State highway taxes and fees.

The Intergovernmental Agreement referred to in Note 4 provides that the South Carolina Department of Transportation shall be paid a fee of \$3,000,000 payable in thirty-six (36) equal monthly installments to be paid commencing with the execution of the loan agreement with Horry County and the Bank. At June 30, 1998, the Bank recorded a payable to the South Carolina Department of Transportation for \$250,000 and a receivable from Horry County.

Also, see Note 4 regarding receivables.

#### **NOTE 11. RISK MANAGEMENT:**

The Bank is exposed to various risks of loss including theft of, damage to, or destruction of assets and general torts, but does not maintain any State or commercial insurance coverage for those risks. The bank did not incur any losses during the year.

Several State funds accumulate assets and the State itself assumes substantially all risks for the following type risks:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees may elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund.

Since the Bank does not maintain any State or commercial insurance coverage, claims liabilities for uninsured risks of loss are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities when recorded include a provision for claims in the process of review and an amount for claims that have been incurred but not reported which are reported separately. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated using past experience adjusted for current trends and are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and societal factors. There is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at June 30, 1998; therefore, no loss accrual has been recorded for uninsured losses.

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 1998**

**NOTE 12. COMMITMENTS AND SUBSEQUENT EVENTS:**

On April 30, 1998, the Bank entered into an intergovernmental agreement with Horry County to fund an interest bearing loan for \$199,415,526 for other construction projects. No funds have been advanced as of June 30, 1998 for these projects.

On July 1, 1998, the Board of Directors of the Bank approved applications for the following projects:

<u>Project</u>	<u>Bank's Estimated Share of Cost</u>
Charleston County – Replacement of the Cooper River Bridges	\$312,000,000
Lexington County – Widening of Lake Murray Dam and portions of SC60 and SC6	48,000,000
Upstate GRID Plan (Greenville area)	350,000,000
Beaufort County – SC170 improvements	86,500,000
York County – Metropolitan Road Corridor Project	<u>130,000,000</u>
Total	<u>\$926,500,000</u>

Also, the Board of Directors approved on September 21, 1998, the issuance of \$250,000,000 of general obligation bonds (Series 1998A) to be used for Bank purposes.

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL**

Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
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, 1998, 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 matter as detailed on the following page 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 the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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 irregularities in amounts that would be material 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. We believe the condition noted is a material weakness.

We also noted one other matter involving internal control and its operation as detailed on the following page.

This report is intended solely for the information and use of the Bank's Board of Directors, management and others within the agency. This restriction is not intended to limit the distribution of this report which, upon acceptance by the State Auditor's Office, is a matter of public record.

Columbia, South Carolina  
September 29, 1998

## **MANAGEMENT LETTER COMMENTS**

### **MATERIAL REPORTABLE WEAKNESS**

#### **GENERAL LEDGER NOT MAINTAINED**

The Bank did not maintain a general ledger during the year but instead utilized the Comptroller General's reports as its books. These reports provide only detail cash transactions and do not include any accruals or adjustments to transactions that are required to support the account balances that are included in the Bank's financial statements in accordance with generally accepted accounting principles.

We recommend that the Bank establish and maintain a general ledger which accurately records the financial activity of the Bank in accordance with generally accepted accounting principles.

### **OTHER WEAKNESS**

#### **INSURANCE COVERAGE NOT OBTAINED**

Our audit disclosed the Bank did not have any commercial, tort and fidelity insurance coverage in force during fiscal year 1998. Good business practices dictate that various types of insurance coverage be obtained to protect the Bank and its Directors from claims and losses.

We recommend that the overall needs for insurance coverage be reviewed, and, to the extent coverage is required, it be obtained.

**South Carolina  
Transportation Infrastructure Bank**

October 8, 1998

Mr. Barry S. Laban  
Rogers & Laban, CPA's  
P.O. Box 124  
Columbia, South Carolina 29202

Dear Mr. Laban:

The following is provided in response to the Material Reportable Weaknesses and recommendations contained in the FY98 audit of the South Carolina Transportation Infrastructure Bank.

**MATERIAL REPORTABLE WEAKNESSES**

**GENERAL LEDGER NOT MAINTAINED**

**RECOMMENDATION:**

We recommend that the Bank establish and maintain a general ledger, which accurately records the financial activity of the Bank in accordance with generally accepted principles:

**RESPONSE:**

Beginning in FY99, the Bank's financial activity will be recorded through an accounting software program. The setup and entries into the program will be accomplished by the DOT Finance Office. The Transportation Infrastructure Bank will approve all financial transactions. The general ledger balances will be reconciled with the Comptroller General's reports on a regular basis.

**RECOMMENDATION:**

We recommend that the overall needs for insurance coverage be reviewed, and, to the extent coverage is required, it be obtained.

**RESPONSE:**

The Bank will review insurance needs and procure and insurance deemed necessary.

Very truly yours,

Howard W. "Champ" Covington, Jr.  
Chairman