SOUTH CAROLINA
TRANSPORTATION INFRASTRUCTURE
BANK
COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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October 11, 2005

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, 2005 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,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2005

SCOTT + McELVEEN LLP

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, 2005, which collectively comprise the Bank's basic financial statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 accompanying financial statements of the Bank 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, 2005 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 respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Bank as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

CERTIFIED PUBLIC ACCOUNTANTS

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In accordance with *Government Auditing Standards,* we have also issued our report dated September 14, 2005, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information 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 inquiries 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's 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.

Scott McElveen, L.L.P.

Columbia, South Carolina
September 14, 2005

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

Management Discussion and Analysis

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, 2005. 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, 2005 resulting in a deficiency of $601.2 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 states agencies and county governments.

During fiscal year 2005, net program expenses exceeded general revenues by $201.6 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, 2005, the fund balance in the Bank's governmental fund was $1.410 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, 2004, the fund balance was $1.392 billion. The increase as of June 30, 2005 of $18 million was primarily due to the issuance of approximately $228.9 million in new revenue 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 balance 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 $601.2 million at the close of business on June 30, 2005 (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, 2004	June 30, 2005
Current Assets	$ 152.5	$ 199.8
Non-current Assets	1,294.6	1,241.4
Total Assets	$ 1,447.1	$ 1,441.2
Current Liabilities	$ 90.1	$ 75.6
Non-current Liabilities	1,756.6	1,966.8
Total Liabilities	1,846.7	2,042.4
Net Assets:		
Restrictred	1,339.0	1,304.2
Unrestricted (deficiency)	(1,738.6)	(1,905.4)
Total Net Assets	(399.6)	(601.2)
Total Liabilities and Net Assets	$ 1,447.1	$ 1,441.2

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 FY2005, the Bank's net assets decreased by $ 201.6 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 2005 were truck registration fees (51%); contribution from SCDOT in an amount equivalent to revenues generated from one-cent of gasoline tax (21%); and investment income (28%).

Transportation projects accounted for 72% of the Bank's expenses were for transportation projects and 28% 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	
	June 30, 2004	June 30, 2005
Revenues:		
Program Revenues:		
Charges for Services	$ 126.3	$ 63.2
General Revenues:		
Truck registration fees	54.6	58.5
Gasoline tax	24.4	24.4
Investment earnings	22.6	32.8
Total general revenues	101.6	115.7
Total Revenues	227.9	178.9
Expenses:		
Administration	0.3	0.3
Transportation projects assistance	391.5	274.2
Interest and other debt costs	86.8	106.0
Total Expenses	478.6	380.5
Decrease in net assets	(250.7)	(201.6)
Net deficiency, beginning of year	(148.9)	(399.6)
Net deficiency, end of year	$ (399.6)	$ (601.2)

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 $1.41 billion, an increase of $18 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 $224.2 million during fiscal year 2005 to a total of $2 billion. During fiscal year 2005, the Bank paid $29.4 million toward principal of outstanding bonds and refunded $158.2 million of existing revenue bonds. At year end, the principal balance of outstanding revenue bonds was $1.93 billion and outstanding balance on general obligation bonds was $58.5 million. Additional information on the Bank's long-term debt obligations can be found in Note 5 of the Notes to the Financial Statements of this report.

ECONOMIC FACTORS

Revenues to the Bank continue to meet requirements for covering debt service and providing necessary cash to meet project expenditures. In FY2005, the South Carolina General Assembly enacted legislation that provides additional funding to the Bank for financing major transportation projects. The increasing price of motor fuels may have a slight detrimental effect on revenue of the Bank, especially the amount contributed by SCDOT equivalent to revenues from one-cent of gas tax. These revenues are 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 Bank continues to maintain an "A" credit rating on its debt. Future revenue projections remain optimistic, especially due to additional sources and the Bank plans to issue new revenue bonds during fiscal year 2006. 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 102
Columbia, South Carolina 29201

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

STATEMENT OF NET ASSETS
JUNE 30, 2005
(expressed in thousands)

		Governmental Activities
ASSETS		
Current assets:		
Cash and cash equivalents	$	64,279
Accrued interest receivable		708
Intergovernmental loans/receivables:		
State agencies		884
County governments		11,303
Other receivables		133
Restricted current assets:		
Cash and cash equivalents		63,622
Intergovernmental loans/receivables:		
State agencies		32,839
County governments		20,117
Other entities		5,900
Total current assets		199,785
Noncurrent assets:		
Intergovernmental loans/receivables:		
County governments		40,333
Restricted assets:		
Cash and cash equivalents		460,248
Accrued interest receivable		3,873
Intergovernmental loans/receivables:		
State agencies		285,154
County governments		415,415
Other entities		17,049
Unamortized bond issuance costs		19,383
Total noncurrent assets		1,241,455
Total assets	$	1,441,240
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Liabilities payable from restricted current assets:		
Bonds payable - current portion	$	39,545
Accrued interest payable		24,077
Total liabilities payable from restricted current assets		63,622
Accounts payable		11,789
Accrued interest payable		98
Deferred revenue		126
Total current liabilities		75,635
Noncurrent liabilities:		
Bonds payable, net of current portion		1,966,633
Rebatable arbitrage payable		187
Total noncurrent liabilities		1,966,820
Total liabilities		2,042,455
Net Assets:		
Restricted:		
Debt service reserve		140,761
Debt service principal and interest		992,160
Bond funded projects		171,296
Unrestricted:		
Deficiency		(1,905,432)
Total deficiency		(601,215)
Total liabilities and net assets	$	1,441,240

See accompanying Notes to Financial Statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	Governmental Activities
Expenses:	
Transportation facilities development:	
General Operating	$ 274
Financial assistance awards for constructing and improving highway and other transportation facilities and other project costs	274,236
Interest	104,399
Bond Related Expenditures	833
Amortization of bond issuance costs	774
Total program expenses	380,516
Program revenues	
Charges for services	(63,205)
Net program expenses	317,311
General revenues:	
Gasoline tax and truck registration fees	82,880
Interest/investment income	32,850
Total general revenues	115,730
Decrease in net assets	(201,581)
Deficiency - beginning of year	(399,634)
Deficiency - end of year	$ (601,215)

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2005
(expressed in thousands)

ASSETS			Transportation Facilities Development
Cash and cash equivalents		$	64,279
Intergovernmental loans/receivables:			
State agencies			884
County governments			51,636
Accrued interest receivable			708
Other receivables			133
Restricted assets:			
Cash and cash equivalents			523,870
Accrued interest receivable			3,873
Intergovernmental loans/receivables:			
State agencies			317,993
County governments			435,532
Other entities			22,949
Total assets		$	1,421,857
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable		$	11,789
Deferred revenue			126
Total liabilities			11,915
Fund balance:			
Reserved for :			
Debt service reserve			140,761
Debt service			992,160
Bond funded projects			171,296
Unreserved:			
Designated for financial assistance awards			105,725
Total fund balance			1,409,942
Total liabilities and fund balance		$	1,421,857

Reconciliation to the statement of net assets:

Fund balance - governmental fund		$	1,409,942
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	2,006,178		
Arbitrage payable	187		
Accrued interest payable - beyond one year	24,175		(2,030,540)
Assets that are capitalized and amortized in statement of net assets are charged to expenditures in the governmental fund:			
Bond issuance cost	$ 21,034		
Less, amortization	(1,651)		19,383
Deficiency		$	(601,215)

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, 2005

(expressed in thousands)

	Transportation Facilities Development
Revenues:	
One-cent of gasoline tax revenue transferred by the South Carolina Department of Transportation	$ 24,357
Truck registration fees and penalties transferred from South Carolina Department of Motor Vehicles	58,523
Contributions pursuant to intergovernmental agreements for specific construction projects	61,156
Interest/investment income:	
Deposits and investments	22,196
Loans and receivables	10,654
Project revenues	2,049
TOTAL REVENUES	178,935
Expenditures:	
General operating	274
Financial assistance awards for constructing and improving highway and other transportation facilities	274,236
Debt service:	
Interest	95,796
Principal	29,395
Bond issuance costs	4,401
Bond related expenditures	833
TOTAL EXPENDITURES	404,935
EXCESS OF EXPENDITURES OVER REVENUES	(226,000)
Other financing sources:	
Long-term bonds issued	228,940
Revenue refunding bonds	153,450
Premium on bonds issued	35,005
TOTAL OTHER FINANCING SOURCES	417,395
Other financing uses:	
Payment to Refunded Bond Escrow Agent	173,790
TOTAL OTHER FINANCING USES	173,790
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	17,605
FUND BALANCE, beginning of year	1,392,337
FUND BALANCE, end of year	$ 1,409,942

See accompanying Notes to Financial Statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005
(expressed in thousands)

Reconciliation to the statement of activities:

Excess of revenues and other financing sources over expenditures for the governmental fund	$	17,605
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		(417,395)
Increase in accrued interest payable is reported as an expense in statement of activities		(8,603)
Amortization of bond issuance costs is reported as an expense in the statement of activities		(774)
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		29,395
Escrow deposits for advance refunding of long-term debt is reported as other financing use in the governmental fund		173,790
Bond issuance costs are reported as an expenditure in the governmental fund and as an addition to assets in the statement of net assets		4,401
Decrease in net assets	$	(201,581)

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005
(expressed in thousands)

		Agency Funds
ASSETS		
Cash and cash equivalents	$	15,338
Intergovernmental receivable:		
County government		2,448
Total assets	$	17,786
LIABILITIES		
Funds held for others	$	17,786
Total liabilities	$	17,786

See accompanying Notes to Financial Statements.

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: one director appointed by the Governor who shall serve as chairman; one director appointed by the Governor; the Chairman of the Department of Transportation Commission, ex officio; 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 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, 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.

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 Motor Vehicles and were used to provide funding for various capital projects, including debt service on revenue bonds. During the 2005 session of the General Assembly, three pieces of legislation were adopted that affect the SCTIB. First, Act Number 57, which was effective May 17, 2005, amended a section of the South Carolina Code of Laws that allocates $2 of each biennial and $1 of each annual motor vehicle registration fee to pay the costs of producing new license plates so as to exclude Truck Registration Fees from that allocation. This results in additional revenue to the SCTIB from Truck Registration Fees of approximately $700,000 annually. Second, Section 60.10 of Part 1B of Act Number 115 (the Annual Appropriations Act) directs the State Treasurer to transfer to the SCTIB, on or before September 1, 2005, the allocations for the cost of producing new license plates deducted from the Truck Registration Fees through June 30, 2005 which were being held in a special account. Pursuant to this provision, the State Treasurer effected a transfer of $2.058 million to the SCTIB in July 2005. This amount is included as a receivable as of June 30, 2005. Third, Act Number 176 provides the SCTIB with two new revenue sources, non-truck motor vehicle registration fees and electric power tax, each of which will be remitted to SCDOT and an equivalent amount will be paid by SCDOT to the SCTIB. Upon full implementation in FY 2007-2008, the SCTIB will receive approximately $38.5 million annually from these two new revenue sources.

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, instrumantatilies 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.

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 award 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.

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 principles.

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.

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 72.10 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 1 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.

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 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, 2005.

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 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 $187 thousand of rebatable arbitrage liability as of June 30, 2005.

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 reservations 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, restricted resources will be used before the unrestricted resources.

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 (expressed in thousands):

Financial Statements			Footnotes		
Governmental fund:			Deposits held by		
Cash and cash equivalents	$	64,279	State Treasurer	$	601,628
Restricted cash and cash equivalents		523,870	Deposits in transit		3,638
Fiduciary fund:			Payments in process		(1,779)
Cash and cash equivalents		15,338			
Total	$	603,487		$	603,487

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.

Cash and cash equivalents reported include unrealized appreciation of $6.453 million for the governmental fund and $98 thousand for the fiduciary fund as of June 30, 2005 arising from changes in the fair value of investments. Interest/investment income from deposits and investments includes an unrealized loss of $3.657 million for the year ended June 30, 2005.

Deposits at fair value at June 30, 2005 held by the State Treasurer include $171.3 million of unexpended funds from revenue bond issues which are to be used for projects in progress, $140.8 million for funding revenue bond debt service reserve requirements, and $210.7 million for funding revenue bond debt service.

Deposits at fair value at June 30, 2005 held by the State Treasurer include $1.1 million for funding general obligation bond debt service.

Information pertaining to reported amounts, fair values, and credit risks of the State Treasurer's deposits and investments, including disclosure under Governmental Accounting Standards Board Statement No. 40, *Deposits and Investments - Risk Disclosures*, 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, 2005

NOTE 3. LOANS/RECEIVABLES/DEFERRED REVENUE:

A summary of intergovernmental loans/receivables and deferred revenue at June 30, 2005 is as follows (expressed in thousands):

	State Agencies	County Governments	Other Entities
Contribution Receivables:			
Horry County RIDE Project			
S.C. Department of Transportation			
Phase I	$ 34,000 *	$ -	$ -
Phase II	76,084 *	-	-
Horry County RIDE II	-	1,215	-
Charleston County Project			
S.C. Department of Transportation	176,000 *	-	-
S.C. Ports Authority	22,000 *	-	-
Charleston County	-	69,000 * *	-
Lexington County Project			
S.C Electric & Gas Company	-	-	22,949 *
Aiken County Project			
Aiken County	-	2,567	-
Intergovernmental loans:			
Horry County RIDE Project			
Horry County			
Loan I	-	180,000 * *	-
Loan II - Pledged portion	-	186,532 * *	-
Loan II - Unpledged portion	-	39,854	-
York County Project			
York County	-	8,000	-
Other Receivables:			
Truck registration fees and penalties -			
S.C. Department of Motor Vehicles	7,340 *	-	-
SCDOT reimbursement - Charleston Project	884	-	-
Gas tax revenues - SCDOT	2,569 *		
Other Receivables	-	-	133
Totals	$ 318,877	$ 487,168	$ 23,082
Deferred Revenue:			
Beaufort County Project			$ 126

*These receivables are pledged pusuant 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.

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, 2005 is as follows (expressed in thousands):

Horry County RIDE Project

	Balances 6/30/04	Current Expenditures	Contributions Received	Balances 6/30/05
SCDOT Phase I (a)	$ 44,000	$ -	$ 10,000	$ 34,000
SCDOT Phase II (b)	79,832	-	3,748	76,084
Horry County RIDE II (c)	1,298	-	83	1,215
	$ 125,130	$ -	$ 13,831	$ 111,299

(a) Project costs have been advanced for the $114 million contribution obligation for Phase I of which $80 million was collected on this receivable through June 30, 2005.

(b) Project costs have been advanced for the $95 million contribution obligation for Phase II of which $18.916 million was collected on this receivable through June 30, 2005.

(c) The project costs to be contributed total $2.279 million and were advanced as of June 30, 2005. $1.064 million was collected on this receivable through June 30, 2005.

Charleston County Project

	Balances 6/30/04	Current Expenditures	Contributions Received	Balances 6/30/05
SCDOT Phase I (d)	$ 155,402	$ 28,598	$ 8,000	$ 176,000
SC Ports Authority (e)	17,566	6,434	2,000	22,000
Charleston County (f)	61,276	10,724	3,000	69,000
	$ 234,244	$ 45,756	$ 13,000	$ 267,000

(d) The total contribution obligation is $200 million which was advanced as of June 30, 2005. $24 million was collected on this receivable through June 30, 2005.

(e) The total contribution obligation is $45 million which was advanced as of June 30, 2005. $23 million was collected on this receivable through June 30, 2005.

(f) The total contribution obligation is $75 million which was advanced as of June 30, 2005. $6 million was collected on this receivable through June 30, 2005.

Lexington County Project	Balances 6/30/04	Current Expenditures and Adjustment	Contributions Received	Balances 6/30/05
SCE&G (g)	$ 9,530	$ 19,319 (h)	$ 5,900	$ 22,949
	$ 9,530	$ 19,319	$ 5,900	$ 22,949

(g) The total contribution obligation of SC Electric and Gas Company is $59 million of which $28.849 million was advanced through June 30, 2005. The Bank collected $5.9 million on this receivable through June 30, 2005.

(h) FY2005 expenditures were $13.087 million and adjustment of percentage allocation of the County's contribution was $6.232 million.

Aiken County Project	Balances 6/30/04	Current Expenditures and Adjustment	Contributions Received	Balances 6/30/05
Aiken County (i)	$ 7,781	$ (3,919) (j)	$ 1,295	$ 2,567
	$ 7,781	$ (3,919)	$ 1,295	$ 2,567

(i) The total contribution obligation is $15 million of which $3.862 million was advanced through June 30, 2005. The Bank collected $1.295 million on this receivable through June 30, 2005.

(j) FY2005 expenditures were $363 thousand and adjustment of percentage allocation of the County's contribution was ($4,282).

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 (expressed in thousands):

Horry County RIDE Project	Balances 6/30/04	Current Expenditures	Contributions Received	Balances 6/30/05
Table I projects(k)	$ 195,000	$ -	$ 15,000	$ 180,000
Table III project (l)	227,410	929	1,953	226,386
	$ 422,410	$ 929	$ 16,953	$ 406,386

(k) The original loan amount was for $300 million and was fully advanced as of June 30, 2005 and $120 million was collected on this loan through June 30,2005.

(l) The original loan amount was for $247.578 million of which $245.529 million was advanced through June 30, 2005. Payments on principal through June 30, 2005 total $19.143 million. 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 million including principal and interest.

York County Project

	Balances 6/30/04	Current Expenditures	Contributions Received	Balances 6/30/05
York County (m)	$ 8,000	$ -	$ -	$ 8,000
	$ 8,000	$ -	$ -	$ 8,000

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

The loan covenants for the $300 million loan and the $247.578 million 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 million loan and the $247.578 million 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 advance Horry County up to $10 million 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 million of the project costs and the Bank to provide $64.300 million 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 million. 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, 2005 totaled $6.328 million of which $2.049 million was allocated to the county and $4.279 million to the Bank. Project costs allocated to the county through June 30, 2005 totaled $30.669 million. The remaining balance of the county's payment in the amount of $126 thousand is shown as deferred revenue as of June 30, 2005. The amount of $2,049 that was allocated to the county is reflected as project costs for the year ended June 30, 2005.

NOTE 4. LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2005 are as follows (expressed in thousands):

	Beginning Balance July 1, 2004	Increases	Decreases	Ending Balance June 30, 2005	Due Within One Year
General obligation bonds payable	$ 60,000	$ -	$ (1,540)	$ 58,460	$ 1,605
Unamortized premiums	333		(8)	325	
Total general obligation bonds payable	60,333	-	(1,548)	58,785	1,605
Revenue bonds payable	1,736,910	382,390	(186,080)	1,933,220	37,940
Unamortized premiums and discounts	15,711	35,005	(34)	50,682	-
Unamortized loss on refunded debt	(27,107)	(15,565)	6,163	(36,509)	-
Total revenue bonds payable	1,725,514	401,830	(179,951)	1,947,393	37,940
Arbitrage payable	123	66	(2)	187	
Total long-term liabilities	$ 1,785,970	$ 401,896	$ (181,501)	$ 2,006,365	$ 39,545

NOTE 5. BONDS PAYABLE:

A summary of the bonds payable as of June 30, 2005 is as follows (expressed in thousands):

Issue Date	Series	Original Face Amount	Final Maturity Date	Interest Rate (%)	Unpaid Principal Balance
October 21, 1998	1998A	$ 275,000	10/01/17	4.00-6.00	$ 209,030
July 27, 1999	1999A	308,900	10/01/24	5.00-5.50	175,250
November 9, 2000	2000A	268,810	10/01/30	5.00-6.00	67,550
November 28, 2001	2001A	249,140	10/01/31	5.00-5.75	53,655
Less unamortized discount					(315)
November 28, 2001	2001B	121,880	10/01/31	5.00-5.75	117,340
Plus unamortized premium					1,711
October 30, 2002	2002A	285,195	10/01/33	5.00-5.75	285,195
Plus unamortized premium					5,781
December 16, 2003	2003A	275,435	10/01/33	3.00-5.00	275,435
Plus unamortized premium					8,500
September 22, 2003	2003B Refunding	368,300	10/01/31	Auction Rate	367,375
Less unamortized loss on refunded debt					(23,076)
July 1, 2004	2004A	228,940	10/01/33	3.60-5.25	228,940
Plus unamortized premium					14,578
September 1, 2004	2004B Refunding	153,450	10/01/17	3.00-5.25	153,450
Less unamortized loss on refunded debt					(13,433)
Plus unamortized premium					20,427
Subtotal Revenue Bonds					1,947,393
April 13, 2004	2004A GO	60,000	10/01/28	3.00-5.00	58,460
Plus unamortized premium					325
Subtotal GO Bonds					58,785
Total bonds payable including unamortized premiums and discounts and loss on refunded debt.					$ 2,006,178

A summary of the components of bonds payable at June 30, 2005 is as follows (expressed in thousands):

Face value of revenue bonds outstanding	$	1,933,220
Face value of general obligation bonds outstanding		58,460
Unamortized premium		51,322
Unamortized discount		(315)
Unamortized loss on refunded debt		(36,509)
	$	2,006,178

On July 1, 2004, the Bank issued Series 2004A Revenue Bonds. The net bond proceeds consisted of the following (expressed in thousands):

Face amount of bonds	$	228,940
Original issue premium		14,578
Net bond proceeds	$	243,518

Issuance costs of the Series 2004A bonds consist of the following (expressed in thousands):

Underwriters discount	$	505
Guaranty insurance premium		1,633
Issuance costs		478
Total	$	2,616

Amortization of Series 2004A bond issuance costs for the current fiscal year totaled $89 thousand.

The purpose of the Series 2004A 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.

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

On September 1, 2004, the Bank issued Series 2004B revenue refunding bonds for $153.450 million. The purpose of the Series 2004B Bonds is for advance refunding of $123.675 million of Series 1999A revenue bonds and $34.550 million of Series 2000A revenue bonds. Proceeds from the refunding bond issue consisted of the following (expressed in thousands):

Face amount of bonds	$	153,450
Original issue premium		20,427
Excess debt service reserve fund monies		6,095
	$	179,972

Issuance costs of the Series 2004B bonds consist of the following (expressed in thousands):

Underwriter's Discount	$	548
Guaranty insurance premium		915
Issuance costs		322
Total	$	1,785

Amortization of Series 2004B issuance costs for the current fiscal year totaled $114 thousand.

The Bank deposited $173.790 million 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, $123.675 million of Series 1999A bonds are considered to be defeased and $34.550 million of Series 2000A bonds are considered to be defeased. The liability of those bonds has been removed from the Bank-wide statement of net assets. The outstanding balances of the 1999A bonds and 2000A bonds were $175.250 million and $67.550 million at June 30, 2005, respectively.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of $15.565 million. 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, 2011. The bonds are expected to be redeemed on October 1, 2010. The Bank completed the advance refunding to reduce its total debt service payments over the next 26 fiscal years by approximately $12 million and to obtain an economic gain of approximately $8 million (the difference between the present values of the debt service payments on the old debt and the new debt).

The following summarizes the deferred loss on advance refunding of the Series 1999A and 2000A bonds (expressed in thousands):

Escrow deposit	$	173,790
Less: Principal amount refunded		158,225
Deferred loss on refunding bonds payable		15,565
Accumulated amortization of deferred loss		(2,132)
Balance on unamortized deferred loss	$	13,433

Amortization of the deferred loss on refunding of the bonds payable for the year ended June 30, 2005 was $2.132 million.

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 (expressed in thousands):

Revenue Bond Debt Service

		Principal	Interest	Totals
Year Ending:	6/30/06	$ 37,940	$ 92,669	$ 130,609
	6/30/07	40,370	90,710	131,080
	6/30/08	46,205	88,515	134,720
	6/30/09	42,435	86,272	128,707
	6/30/10	44,625	84,058	128,683
Five years ending:	6/30/15	280,520	380,560	661,080
	6/30/20	315,195	304,813	620,008
	6/30/25	340,790	220,262	561,052
	6/30/30	389,470	135,350	524,820
	6/30/35	395,670	38,404	434,074
Total debt service obligations		$ 1,933,220	$ 1,521,613	$ 3,454,833

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 (expressed in thousands):

Reserve Requirements	Actual Funding at Fair Value
$137,160	$140,761

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

The outstanding balance at June 30, 2005 on defeased debt, after issuance of the Series 2003B and Series 2004B Revenue Refunding Bonds, is $123.675 thousand on Series 1999A Revenue Bonds, $177.180 thousand on Series 2000A Revenue Bonds, and $195.485 on Series 2001A Revenue Bonds for a total of $496.340 thousand.

Details of the future general obligation bond debt service payments, including interest, are as follows (expresed in thousands):

General Obligation Bond Debt Service

		Principal	Interest	Totals
Year Ending:	6/30/06	1,605	2,698	4,303
	6/30/07	1,670	2,618	4,288
	6/30/08	1,740	2,534	4,274
	6/30/09	1,810	2,446	4,256
	6/30/10	1,885	2,356	4,241
Five years ending:	6/30/15	10,645	10,289	20,934
	6/30/20	13,015	7,402	20,417
	6/30/25	15,900	3,870	19,770
	6/30/30	10,190	590	10,780
Total debt service obligations		$ 58,460	$ 34,803	$ 93,263

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:

Redemption Period (both dates inclusive)	Redemption Price
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:

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

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:

Redemption Period (both dates inclusive)	Redemption Price
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 (expressed in thousands):

October 1, 2021 Term Bond

Year	Principal Amount
2020	$ 6,505
2021	7,200

October 1, 2027 Term Bond

Year	Principal Amount
2025	$ 20,945
2026	20,615
2027	25,320

October 1, 2029 Term Bond

Year	Principal Amount
2028	$ 25,155
2029	30,220

October 1, 2031 Term Bond

Year	Principal Amount
2030	$ 30,245
2031	35,135

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 (expressed in thousands):

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	2023	$ 5,270	2027	$ 6,440
2020	4,535	2024	5,540	2028	6,775
2021	4,765	2025	5,825	2029	7,130
		2026	6,125	2030	7,505
				2031	7,900

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 (expressed in thousands):

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

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 (expressed in thousands):

October 1, 2030 Term Bond	
Year	Principal Amount
2029	$ 9,890
2030	11,275

October 1, 2033 Term Bond	
Year	Principal Amount
2031	$ 37,685
2032	47,935
2033	52,280

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 (expressed in thousands):

	Principal Amount Redeemed			
October 1	2003B-1	2003B-2	2003B-3	Total
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
	$ 122,775,000	$ 122,750,000	$ 122,775,000	$ 368,300,000

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.

The Series 2004A Revenue 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 (expressed in thousands):

October 1, 2033 Term Bond

Year	Principal Amount	Year	Principal Amount
2030	$2,000	2032	$2,670
2031	2,000	2033	2,000

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

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 2005 in the total amount of $21.577 million which was reimbursed by the Bank to SCDOT in fiscal year 2005.

The South Carolina Department of Transportation provided the Bank certain administrative services and clerical assistance during fiscal year 2005 for which the Bank reimbursed SCDOT the amount of $161 thousand.

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

The Bank recorded $24.357 million as revenue contributions of gas tax from the South Carolina Department of Transportation during fiscal year 2005. 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.

The Bank recorded $57.171 million of revenues from truck registration fees and penalties from the South Carolina Department of Motor Vehicles during fiscal year 2005 and an additional $1.352 million in previously withheld amounts.

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.

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, and the related liability at June 30, 2005 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, 2005 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, 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, 2005 are as follows:

Horry County RIDE I Project. The total costs for this project are estimated to be $888 million. 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. 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 $247.578 million 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 million 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.

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, plus interest, 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 complete.

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:

Contributor	Amount	Terms
• 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.

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 $198 million 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, 2005 are as follows (expressed in thousands):

	Total Award	Expenditures Prior	Expenditures Current	Outstanding Commitments 6/30/2005
Horry County - RIDE II Project	$ 198,000	$ 64,183	$ 51,383	$ 82,434
Beaufort County Project - Route 170 Improvement	64,696	59,757	4,278	$ 661
Charleston County Project - Replacement of Cooper River Bridges	540,000	462,787	77,213	$ -
Lexington County Project - Lake Murray Dam	107,000	28,585	23,735	$ 54,680
Upstate GRID Project (Anderson, Spartanburg, and Greenville)	406,000	252,847	80,492	$ 72,661
York County Project - Improvement of Metropolitan Road Corridors	158,000	76,433	28,037	$ 53,530
Aiken County Project - Extension of I-520 into SC	175,000	44,088	4,199	$ 126,713
Median Barrier Project - Guardrails	30,000	19,731	2,840	$ 7,429
Total	$ 1,678,696	$ 1,008,411	$ 272,177	$ 398,108

NOTE 9. OTHER MATTERS/SUBSEQUENT EVENT:

Through June 30, 2005, the Joint Bond Review Committee of the State of South Carolina has approved the issuance of $2.638 billion Bank General Obligation and/or Revenue Bonds. New Revenue bonds in the amount of $2.013 billion and General Obligation Bonds in the amount of $60 million have been issued through June 30, 2005. The Board of Directors approved the issuance of Refunding Revenue Bonds, Series 2005A on July 15, 2005. On August 2, 2005, the Joint Bond Review Committee approved the issuance of Refunding Revenue Bonds in an amount not to exceed $350 million.

On September 13, 2005, the Bank issued Series 2005A revenue refunding bonds for $221.045 million. The purpose of the Series 2005A Bonds is for advance refunding of $80.755 million of Series 1998A revenue bonds, $126.280 million of Series 1999A revenue bonds, $10.325 million of Series 2000A revenue bonds, and $11.240 million of 2001A revenue bonds.

Proceeds from the refunding bond issue consisted of the following (expressed in thousands):

Face amount of bonds	$	221,045
Original issue premium		21,651
Excess debt service reserve fund monies		764
Net bond proceeds	$	243,460

Issuance costs of the Series 2004B bonds consist of the following (expressed in thousands):

Underwriters discount	$	181
Guaranty insurance premium		475
Issuance costs		1,565
Total	$	2,221

The closing date of the bonds is October 5, 2005 at which time the Bank will deposit $241.236 million in an escrow account for future retirement of the refunded bonds. The deposited funds will be invested in U.S. governmental securites. As a result of the escrow deposit, $80.755 million of Series 1998A revenue bonds will be considered to be defeased; $126.280 million of Series 1999A revenue bonds will be considered to be defeased; $10.325 million of Series 2000A revenue bonds will be considered to be defeased; and $11.240 million of 2001A revenue bonds will be considered to be defeased.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of $12.636 million. The difference will be reported in the financial statements as a reduction of bonds payable and will be amortized on a straight-line basis and charged to operations through the fiscal year ending June 30, 2012. The Bank completed the advance refunding to reduce its total debt service payments over the next 20 fiscal years by approximately $20 million and to obtain an economic gain of approximately $13 million (the difference between the present values of the debt service payments on the old debt and the new debt). In fiscal year 2006, the annual debt service savings will be approximately $528 thousand.

At its July 15, 2005 meeting, the Bank's Board of Directors approved additional project commitments as follows:

Additional grant funding to York County	$18.8 million
Additional grant funding to Horry County RIDE II	$25.0 million
Loan to SCDOT for the following projects:	
Cooper River Bridge demolition	$62.1 million
Beaufort County project	$10.0 million
Horry County RIDE II	$12.0 million
Lexington County project	$10.0 million
Total SCDOT loan	$94.1 million

The $94.1 million loan will be repaid by SCDOT by extending its current $10 million per year payment through FY2022. SCDOT, by agreement, will also provide additional revenues which will be pledged by the Bank to repayment of revenue bonds in exchange for current revenues of the Bank which are not pledged to the repayment of revenue bonds. Intergovernmental Agreements between SCDOT and SCTIB will be dated September 30, 2005. The Bank plans to issue revenue bonds to provide the grant funding to York County, Horry County RIDE II, and the SCDOT loan, excluding the $10 million Lexington County project which will be funded with available cash of the SCTIB.

The Board also approved a new project in Florence County consisting of $250 million in the form of a grant and $125 million contribution from the county from capital project sales tax. The award was conditioned on the county adopting the one-cent capital project sales tax in November 2006. The Bank plans to issue revenue bonds to provide funding for the $250 million grant from the Bank.

The above projects and revenue bonds necessary to provide the financial assistance were approved by the Joint Bond Review Committee at its August 2, 2005 meeting.

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS:

The Bank entered into an interest rate swap agreement with Citibank, N.A., New York effective January 31, 2003 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 in accordance with the Bank's Asset-Liability Management Policy. 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 BMA Municipal Bond Index. The notional amount for this agreement is $49.440 million. The notional amount will decrease to $33.645 million from 10/1/2011 – 9/30/2012 and to $17.180 million from 10/1/2012 – 9/30/2013. Through June 30, 2005 the Bank had interest income of $4.30 million and interest expense of $1.625 million attributable to this swap agreement. During fiscal year 2005, the Bank paid $908.5 thousand in variable rate monthly payments and received $1.777 million in fixed rate payments. The June 30, 2005, mark to market value of this swap was $1.233 million. By using a derivative instrument, the Bank exposes itself to credit risk and interest rate 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, as is the case with Citibank, N.A., New York. Interest rate risk is the adverse effect on the value of financial instruments that results from a change in interest rates. The interest rate risk associated with this agreement is managed by establishing and monitoring parameters that limit the types and degree of risk.

The Bank's $368.3 million Revenue Refunding Bonds, Series 2003B, were issued in three tranches: Series 2003B-1 in the principal amount of $122.775 million, Series 2003B-2 in the principal amount of $122.750 million, and Series 2003B-3 in the principal amount of $122.775 million. Effective October 1, 2003, 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, N.A., relating to the Series 2003B-3 Bonds. In order to mitigate credit risks, the Bank diversified the exposure by entering into the Interest Rate Exchange Agreements with three high quality counterparties. The termination date of the Interest Rate Exchange Agreements is October 1, 2031. The objective of the interest rate exchange agreements is to enhance the savings to the Bank from the issuance of the Revenue Refunding Bonds and to offset changes in tax-exempt variable interest rates applicable to those Bonds.

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 London Interbank Offered Rate (LIBOR) 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, which are based on an auction rate, resulting in net fixed rate debt service. Because the variable interest rates paid by the Bank and paid to the Bank are based on different indexes, the Bank is exposed to basis risk. 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.

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. The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

During fiscal year 2005, the Bank made variable bond interest payments in the amount of $4.291 million and fixed rate payments on the swap in the amount of $14.087 million. The Bank received variable swap payments on the swap in the amount of $3.037 million. The net of payments and receipts was $15.341 million. The estimated net payments were $14.087 million. Through fiscal year 2005, 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 ($38.460 million) at June 30, 2005.

Debt Service payments on the 2003B Revenue Refunding Bonds are disclosed in Note 5.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(expressed in thousands)

	Balances June 30, 2004	Additions	Deductions	Balances June 30, 2005
Horry County Loan Servicing Account				
Cash and cash equivalents (1)	$ 3,465	$ 25,362	$ 28,817	$ 10
Intergovernmental receivable - County government	2,290	25,342	25,184	2,448
Total assets	$ 5,755	$ 50,704	$ 54,001	$ 2,458
Due to Special Revenue Fund	1,475		1,475	-
Interfund transfer payable	1,930		1,930	-
Funds held for others	2,350	50,704	50,596	2,458
Total liabilities	$ 5,755	$ 50,704	$ 54,001	$ 2,458
Horry County Loan Reserve Account				
Cash and cash equivalents (2)	$ 10,245	$ 5,224	$ 141	$ 15,328
Interfund transfer receivable	1,930		1,930	-
Total assets	$ 12,175	$ 5,224	$ 2,071	$ 15,328
Funds held for others	$ 12,175	$ 5,224	$ 2,071	$ 15,328
Totals				
Cash and cash equivalents	$ 13,710	$ 30,586	$ 28,958	$ 15,338
Intergovernmental receivable - County government	2,290	25,342	25,184	2,448
Interfund transfer receivable	1,930	-	1,930	-
Total assets	$ 17,930	$ 55,928	$ 56,072	$ 17,786
Due to Special Revenue Fund	1,475		1,475	-
Interfund transfer payable	1,930	-	1,930	-
Funds held for others	14,525	55,928	52,667	17,786
Total liabilities	$ 17,930	$ 55,928	$ 56,072	$ 17,786

(1) Includes fair value adjustment of $10.37 at June 30, 2005 and $47.55 at June 30, 2004.

(2) Includes fair value adjustment of $87.90 at June 30, 2005 and $140.59 at June 30, 2004.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of South Carolina Transportation Infrastructure Bank (the"Bank"), as of and for the year ended June 30, 2005, which collectively comprise the Bank's basic financial statements and have issued our report thereon dated September 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Bank's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Scott McElveen, L.L.P.

Columbia, South Carolina
September 14, 2005