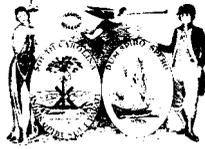


**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK  
COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

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

(803) 253-4160  
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October 23, 2003

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, 2003 was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/trb

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

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YEAR ENDED JUNE 30, 2003**

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# ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

## INDEPENDENT AUDITOR'S 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, 2003 as listed in the table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, to the financial statements, the accompanying financial statements of the Bank are intended to present the financial position and results of operations of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Bank, 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, 2003, and 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.

Management discovered an error in the application of an accounting principle regarding an unrecorded payable for rebatable arbitrage. The correction of this error was accounted for as a prior period adjustment as detailed in Note 11.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities, the major fund and the aggregate remaining fund information of the Bank as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

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Our audit was performed for the purpose of forming an opinion on the financial statements of the Bank taken as a whole. The combining statement is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Logan & Laban, PA*

September 29, 2003

## SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

### Management Discussion and Analysis FY2002-2003

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 state fiscal year ended June 30, 2003. 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 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 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 Bank's assets and liabilities, with the difference between the two reported as "net assets". 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, 2003 resulting in a net deficit of \$148.9 million. The mission of the Bank is to provide financial assistance to 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 one billion dollars 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 2003, net program expenses exceeded general revenues by \$141.2 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 expenses 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, 2003, the fund balance in the Bank's governmental fund was \$1.326 billion. This fund is used for providing financial assistance to transportation projects and to service the debt related to providing that assistance. As of June 30, 2002, the fund balance was \$1.195 billion. The increase as of June 30, 2003 of \$ 130.6 million was primarily due to the issuance of approximately \$285 million in bonds during the fiscal year with only a portion of those proceeds expended during the year for financial assistance of transportation projects.

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

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

*Fiduciary Funds* – These funds are used to account for resources held for the benefit of parties outside 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 which are used 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 \$ 148.9 million at the close of business on June 30, 2003. (See Table A-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 "net deficit". 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)

|   | <u>Governmental<br/>Activities</u> |                          |
|---|------------------------------------|--------------------------|
|   | June 30, 2002<br>(as restated)     | June 30, 2003            |
| Current Assets                          | \$ 146.2                           | \$ 138.6                 |
| Non-current Assets                      | <u>1,082.1</u>                     | <u>1,229.7</u>           |
| <b>Total Assets</b>                     | <b><u>\$1,228.3</u></b>            | <b><u>\$1,368.3</u></b>  |
| Current Liabilities                     | \$ 62.7                            | \$ 79.8                  |
| Non-current Liabilities                 | <u>1,173.2</u>                     | <u>1,437.4</u>           |
| <b>Total Liabilities</b>                | <b><u>\$1,235.9</u></b>            | <b><u>\$1,517.2</u></b>  |
| <b>Net Assets:</b>                      |                                    |                          |
| Restricted                              | \$1,118.6                          | \$1,136.2                |
| Unrestricted (deficit)                  | <u>(1,126.3)</u>                   | <u>(1,285.1)</u>         |
| <b>Total Net Assets</b>                 | <b><u>\$ (7.7)</u></b>             | <b><u>\$ (148.9)</u></b> |
| <br>                                    |                                    |                          |
| <b>Total Liabilities and Net Assets</b> | <b><u>\$1,228.3</u></b>            | <b><u>\$1,368.3</u></b>  |

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 FY2003, the Bank's net assets decreased by \$ 141.2 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 2003 were truck registration fees (39%); contribution from SCDOT in an amount equivalent to revenues generated from one-cent of gasoline tax (18%); and investment income (43%).

82% of the Bank's expenses were for transportation projects and 18% of expenses were interest on debt and other debt related costs.

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

**Table 2**  
**Changes in Net Assets**  
(expressed in millions)

|                                    | Governmental<br>Activities     |                  |
|------------------------------------|--------------------------------|------------------|
|                                    | June 30, 2002<br>(as restated) | June 30, 2003    |
| <b>Revenues:</b>                   |                                |                  |
| Program Revenues:                  |                                |                  |
| Project contributions and revenues | \$ 72.9                        | \$121.8          |
| Federal grants                     | <u>.3</u>                      | <u>---</u>       |
| Total program revenues             | <u>\$ 73.2</u>                 | <u>\$121.8</u>   |
| General Revenues:                  |                                |                  |
| Truck registration fees            | \$ 54.3                        | \$ 50.6          |
| Gasoline tax                       | 22.7                           | 23.0             |
| Investment earnings                | <u>43.6</u>                    | <u>55.6</u>      |
| Total general revenues             |                                |                  |
| Total Revenues                     | <u>\$ 193.8</u>                | <u>\$251.0</u>   |
| <b>Expenses:</b>                   |                                |                  |
| Administration                     | \$ .4                          | \$ .5            |
| Transportation projects assistance | 273.5                          | 320.5            |
| Interest and other debt costs      | <u>54.7</u>                    | <u>71.3</u>      |
| Total Expenses                     | <u>\$ 328.6</u>                | <u>\$ 392.2</u>  |
| Increase (Decrease) in Net Assets  | \$(134.8)                      | \$(141.2)        |
| Net Assets, Beginning of Year      | <u>127.1</u>                   | <u>( 7.7)</u>    |
| Net Assets (Deficit), End of Year  | <u>\$ (7.7)</u>                | <u>\$(148.9)</u> |

## FINANCIAL ANALYSIS OF THE STATE'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 \$ 1.326 billion, an increase of \$ 130.6 million in comparison with the prior year. Of the total fund balance, \$1.1 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. Currently, the Bank has issued only revenue bonds, but has received approval to issue general obligation bonds and plans to issue approximately \$60 million in general obligation bonds during 2004.

The Bank's total amount of bonds issued increased by \$285 million during fiscal year 2003 to a total of \$1.5 billion. This debt consists solely of revenue bonds. During fiscal year 2003, the Bank paid \$20.4 million toward principal of outstanding bonds. At year-end, the principal balance of outstanding revenue bonds was \$1.46 billion. Additional information on the State's long-term debt obligations can be found in Note 5 of the Notes to the Financial Statements of this report.

During FY2003, the Bank entered into a fixed-to-variable interest rate swap agreement. This agreement terminates on October 1, 2013. Under this swap agreement, the Bank receives a fixed rate of 3.595% semi-annually and pays a variable rate monthly based on the BMA Municipal Swap Index. Interest calculations are based on a notional amount of \$49,440,000.

### ECONOMIC FACTORS

Revenues to the Bank continue to meet requirements for covering debt service and providing necessary cash to meet project expenditures. The payouts on the approved transportation projects will peak during FY2004 and FY2005. In November 2002, the Bank issued \$285,195,000 of senior lien revenue bonds at an interest rate of 4.86% bringing the total revenue bonds outstanding to over \$1.5 billion. Due to lower than projected interest rates on all bond issues and other factors, the Bank was able to provide additional funding to projects during the year.

Downturns in the U.S. economy continue to have an effect on the revenue sources of the Bank, resulting in lower than expected revenues from truck registration fees which are one of the sources pledged by the Bank to the repayment of revenue bonds. Due to the conservative financial plan of the Bank, including sufficient coverage ratios, and the overall strength of the Bank's revenue sources, the lower truck registration fees did not affect the Bank's credit rating. Future revenue projections remain optimistic. The Bank plans to issue additional revenue bonds in an approximate amount of \$280 million during FY2004 and the 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, and investors and creditors. This financial report seeks to demonstrate the Bank's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**STATEMENT OF NET ASSETS  
JUNE 30, 2003**

| <b>ASSETS</b>  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| Current assets:  |                                    |
| Cash and cash equivalents                                | \$ 67,620,716                      |
| Accrued interest receivable                              | 1,131,960                          |
| Intergovernmental loans/receivables:                     |                                    |
| State agencies   | 17,000,000                         |
| County governments                                       | 4,377,305                          |
| Other entities   | 3,374,486                          |
| Restricted current assets:                               |                                    |
| Cash and cash equivalents                                | 45,129,177                         |
| Total current assets                                     | <u>138,633,644</u>                 |
| Noncurrent assets:                                       |                                    |
| Restricted assets:                                       |                                    |
| Cash and cash equivalents                                | 501,963,780                        |
| Accrued interest receivable                              | 6,324,305                          |
| Intergovernmental loans/receivables:                     |                                    |
| State agencies   | 145,736,823                        |
| County Governments                                       | 437,068,553                        |
| Intergovernmental loans/receivables:                     |                                    |
| State agencies   | 91,901,802                         |
| County Governments                                       | 38,586,860                         |
| Unamortized bond issuance costs                          | 8,096,541                          |
| Total noncurrent assets                                  | <u>1,229,678,664</u>               |
| <b>Total assets</b>                                      | <u><u>\$ 1,368,312,308</u></u>     |
| <b>LIABILITIES AND NET ASSETS</b>                        |                                    |
| <b>Liabilities:</b>                                      |                                    |
| Current liabilities:                                     |                                    |
| Liabilities payable from restricted current assets       |                                    |
| Bonds payable  | \$ 26,195,000                      |
| Accrued interest payable                                 | 18,976,939                         |
| Total liabilities payable from restricted current assets | <u>45,171,939</u>                  |
| Accounts payable   | 25,496,642                         |
| Rebatable arbitrage payable                              | 611,106                            |
| Deferred revenue   | 8,577,617                          |
| Total current liabilities                                | <u>79,857,304</u>                  |
| Noncurrent liabilities:                                  |                                    |
| Bonds payable, net of current portion                    | <u>1,437,387,356</u>               |
| Total noncurrent liabilities                             | <u>1,437,387,356</u>               |
| <b>Total liabilities</b>                                 | <u>1,517,244,660</u>               |
| <b>Net Assets:</b>                                       |                                    |
| Restricted:  |                                    |
| Debt service reserve                                     | 115,498,928                        |
| Debt service   | 853,707,735                        |
| Bond funded projects                                     | 167,015,975                        |
| Unrestricted:  |                                    |
| Balance (deficit)  | <u>(1,285,154,990)</u>             |
| <b>Total net assets (deficit)</b>                        | <u>(148,932,352)</u>               |
| <b>Total liabilities and net assets</b>                  | <u><u>\$ 1,368,312,308</u></u>     |

See accompanying Notes To Financial Statements.

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003**

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| Expenses:  |                                    |
| Public transportation facilities development:  |                                    |
| Personal services  | \$ 1,715                           |
| Other operating costs  | 510,781                            |
| Financial assistance awards for constructing<br>and improving highway and other transportation<br>facilities and other project costs | 320,533,448                        |
| Interest   | 70,954,671                         |
| Amortization of bond issuance costs  | <u>262,932</u>                     |
| Total program expenses   | 392,263,547                        |
| Program revenues:  |                                    |
| Charges for services   | <u>(121,815,613)</u>               |
| Net program expenses   | <u>270,447,934</u>                 |
| General revenues:  |                                    |
| Gasoline tax and truck transportation fees   | 73,573,498                         |
| Interest/investment income   | <u>55,625,641</u>                  |
| Total general revenues   | <u>129,199,139</u>                 |
| Increase (decrease) in net assets  | (141,248,795)                      |
| Net assets (deficit), as restated - beginning of year  | <u>(7,683,557)</u>                 |
| Net assets (deficit) - end of year   | <u><u>\$ (148,932,352)</u></u>     |

**See accompanying Notes To Financial Statements.**

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**BALANCE SHEET - GOVERNMENTAL FUND**

**JUNE 30, 2003**

| <b>ASSETS</b>  | <b>Public<br/>Transportation<br/>Facilities<br/>Development</b> |
|--|---|
| Cash and cash equivalents  | \$ 67,620,716   |
| Intergovernmental loans/receivables:   |   |
| State agencies   | 108,901,802   |
| County governments   | 42,964,165  |
| Other entities   | 3,374,486   |
| Accrued interest receivable  | 1,131,960   |
| Restricted assets:   |   |
| Cash and cash equivalents  | 547,092,957   |
| Accrued interest receivable  | 6,324,305   |
| Intergovernmental loans/receivables:   |   |
| State agencies   | 145,736,823   |
| County governments   | 437,068,553   |
| <b>Total assets</b>  | <b>\$ 1,360,215,767</b>   |
| <br><b>LIABILITIES AND FUND BALANCE</b>  |   |
| Liabilities:   |   |
| Accounts payable   | \$ 25,496,642   |
| Deferred revenue   | 8,577,617   |
| <b>Total liabilities</b>   | <b>34,074,259</b>   |
| Fund balance:  |   |
| Reserved for:  |   |
| Debt service reserve   | 115,498,928   |
| Debt service   | 853,707,735   |
| Bond funded projects   | 167,015,975   |
| Unreserved:  |   |
| Designated for financial assistance awards   | 189,918,870   |
| <b>Total fund balance</b>  | <b>1,326,141,508</b>  |
| <b>Total liabilities and fund balance</b>  | <b>\$ 1,360,215,767</b>   |
| <br><b>Reconciliation to the statement of net assets:</b>  |   |
| Fund balance - governmental fund   | \$ 1,326,141,508  |
| Amounts reported for governmental activities in the statement of net assets are different because:                         |   |
| Liabilities are not due and payable in the current period, therefore, are not reported in the governmental fund:           |   |
| Bonds payable  | \$ 1,463,582,356  |
| Arbitrage payable  | 611,106   |
| Accrued interest payable   | 18,976,939  |
|  | <u>(1,483,170,401)</u>  |
| Assets that are capitalized and amortized in statement of net assets are charged to expenditures in the governmental fund: |   |
| Bond issuance cost   | \$ 8,515,177  |
| Less, amortization   | (418,636)   |
|  | <u>8,096,541</u>  |
| Net assets (deficit)   | <b>\$ (148,932,352)</b>   |

**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, 2003**

|  | <u>Public<br/>Transportation<br/>Facilities<br/>Development</u> |
|--|---|
| <b>Revenues:</b>   |   |
| Contribution of gasoline tax revenue for construction projects by the<br>South Carolina Department of Transportation | \$ 22,984,451   |
| Truck registration fees and penalties transferred from South<br>Carolina Department of Public Safety                 | 50,589,047  |
| Contributions pursuant to intergovernmental agreements for specific<br>construction projects                         | 112,730,461   |
| Interest/investment income:  |   |
| Deposits and investments   | 41,569,034  |
| Loans and receivables  | 14,056,607  |
| Project revenues   | <u>9,085,152</u>  |
| <b>TOTAL REVENUES</b>  | <u>251,014,752</u>  |
| <b>Expenditures:</b>   |   |
| General operating  |   |
| Financial assistance awards for constructing and improving<br>highway and other transportation facilities            | 512,496   |
| Debt service:  | 311,448,296   |
| Interest   | 67,574,350  |
| Principal  | 20,440,000  |
| Bond issuance costs  | 2,287,008   |
| Project expenditures   | <u>9,085,152</u>  |
| <b>TOTAL EXPENDITURES</b>  | <u>411,347,302</u>  |
| <b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>  | <u>(160,332,550)</u>  |
| <b>Other Financing Sources:</b>  |   |
| Long-term bonds issued   | 285,195,000   |
| Premium on bonds issued  | 5,781,572   |
| <b>TOTAL OTHER FINANCING SOURCES</b>   | <u>290,976,572</u>  |
| <b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES<br/>OVER EXPENDITURES</b>  | 130,644,022   |
| <b>FUND BALANCE, beginning of year</b>   | <u>1,195,497,486</u>  |
| <b>FUND BALANCE, end of year</b>   | <u><u>\$ 1,326,141,508</u></u>                                  |

**See accompanying Notes To Financial Statements.**

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2003**

**Reconciliation to the statement of activities:**

|  |                               |
|--|-------------------------------|
| Excess of revenues and other financing sources over expenditures for the governmental fund   | \$ 130,644,022                |
| 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 | (290,976,572)                 |
| Increase in accrued interest payable is reported as an expense in statement of activities  | (3,380,321)                   |
| Amortization of bond issuance costs is reported as an expense in the statement of activities   | (262,932)                     |
| 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                  | 20,440,000                    |
| Bond issuance costs are reported as an expenditure in the governmental fund and as an addition to assets in the statement of net assets                              | <u>2,287,008</u>              |
| Increase (decrease) in net assets  | <u><u>\$(141,248,795)</u></u> |

**See accompanying Notes To Financial Statements.**

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2003**

| <b>ASSETS</b>                                      | <u>Agency<br/>Funds</u>     |
|--|-----------------------------|
| Cash and cash equivalents                          | \$ 10,683,468               |
| Intergovernmental receivable:<br>County government | <u>2,115,862</u>            |
| Total assets                                       | <u><u>\$ 12,799,330</u></u> |
| <br><b>LIABILITIES</b>                             |                             |
| Funds held for others                              | <u>\$ 12,799,330</u>        |
| Total liabilities                                  | <u><u>\$ 12,799,330</u></u> |

**See accompanying Notes To Financial Statements.**

## SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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

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

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

## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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 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, instrumentalities or component units of the State of South Carolina.

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

## SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

#### **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 grant programs and capital projects for others, taxes levied with statutorily defined distributions, and any other resources restricted as to purpose.

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

#### **Fiduciary Funds**

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

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

#### **Government-wide and Fund Financial Statements**

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

## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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 changes in net assets) 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.

## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

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

#### **Budget Policy**

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

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

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

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

## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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

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

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

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

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

#### **Capital Assets**

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The Bank did not have any capital assets as of June 30, 2003.

#### **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

## **SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003**

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. A reserve fund is established to liquidate the liability when determined. The Bank incurred \$611,106 of rebatable arbitrage expense as of June 30, 2002. This amount is due and payable in October, 2003.

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

Bond discounts and bond premiums are amortized over the terms of the bonds using the bonds 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 is included in expenditures as an addition to interest expense. Amortization of bond premium is included in revenues as a separate line amount. 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, then 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.

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**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:

| Financial Statements                 |                | Footnotes        |                |
|--------------------------------------|----------------|------------------|----------------|
| Governmental fund:                   |                |                  |                |
| Cash and cash equivalents            | \$ 67,620,716  | Deposits Held by |                |
| Restricted cash and cash equivalents | 547,092,957    | State Treasurer  | \$ 625,397,141 |
| Fiduciary fund:                      |                |                  |                |
| Cash and cash equivalents            | 10,683,468     |                  |                |
| Total                                | \$ 625,397,141 |                  | \$ 625,397,141 |

**Deposits Held by State Treasurer**

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

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

Cash and cash equivalents reported include unrealized appreciation of \$26,206,128 for the governmental fund and \$484,753 for the fiduciary fund as of June 30, 2003 arising from changes in the fair value of investments. Interest/investment income from deposits and investments includes an unrealized gain of \$11,134,107 for the year ended June 30, 2003.

Deposits at fair value at June 30, 2003 held by the State Treasurer include \$167,015,975 of unexpended funds from bond issues which are to be used for projects in progress, \$115,498,928 for funding debt service reserve requirements, and \$264,576,054 for funding debt service.

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 3. LOANS /RECEIVABLES/DEFERRED REVENUE**

A summary of intergovernmental loans/receivables and deferred revenue at June 30, 2003 is as follows:

| <u>Detail</u>  | <u>State<br/>Agencies</u> | <u>County<br/>Governments</u> | <u>Other<br/>Entities</u> |
|--|---------------------------|-------------------------------|---------------------------|
| <b><u>Contribution receivables:</u></b>                                |                           |                               |                           |
| Horry County Ride Project  |                           |                               |                           |
| S.C. Department of Transportation                                      |                           |                               |                           |
| Phase I  | \$ 54,000,000 *           | \$                            | \$                        |
| Phase II   | 83,408,850 *              |                               |                           |
| Horry County   |                           |                               |                           |
| Ride II  |                           | 1,377,305                     |                           |
| Charleston County Project  |                           |                               |                           |
| S.C. Department of Transportation                                      | 98,042,346                |                               |                           |
| S.C. Ports Authority   | 10,859,456                |                               |                           |
| Charleston County  |                           | 39,765,952                    |                           |
| Lexington County Project   |                           |                               |                           |
| S.C. Electric & Gas Company  |                           |                               | 148,029                   |
| Aiken County Project   |                           |                               |                           |
| Aiken County   |                           | 1,820,908                     |                           |
| State of Georgia   |                           |                               | 3,226,457                 |
| <b><u>Intergovernmental loans:</u></b>                                 |                           |                               |                           |
| Horry County Ride Project  |                           |                               |                           |
| Horry County   |                           |                               |                           |
| Loan I   |                           | 210,000,000                   |                           |
| Loan II  |                           | 227,068,553                   |                           |
| <b><u>Other receivables:</u></b>                                       |                           |                               |                           |
| Truck registration fees and penalties - SC Department of Public Safety | 5,373,522 *               |                               |                           |
| Gas tax revenues - SC Department of Transportation                     | 2,954,451 *               |                               |                           |
| Totals   | <u>\$ 254,638,625</u>     | <u>\$ 480,032,718</u>         | <u>\$ 3,374,486</u>       |
| <b><u>Deferred Revenue:</u></b>  |                           |                               |                           |
| Beaufort County Project  |                           | <u>\$ 8,577,617</u>           |                           |

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

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**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, 2003 is as follows:

**Horry County Ride Project**

|                          | Balances<br>6/30/02   | Current<br>Expenditures | Contributions<br>Received | Balances<br>6/30/03   |
|--------------------------|-----------------------|-------------------------|---------------------------|-----------------------|
| SC DOT Phase I (a)       | \$ 64,000,000         | \$                      | \$ 10,000,000             | \$ 54,000,000         |
| SC DOT Phase II (b)      | 86,820,649            |                         | 3,411,799                 | 83,408,850            |
| Horry County Ride II (c) |                       | 2,279,000               | 901,695                   | 1,377,305             |
| Totals                   | <u>\$ 150,820,649</u> | <u>\$ 2,279,000</u>     | <u>\$ 14,313,494</u>      | <u>\$ 138,786,155</u> |

- (a) Project costs have been advanced for the \$114,000,000 contribution obligation for Phase I. \$60,000,000 was collected on this receivable through June 30, 2003.
- (b) Project costs have been advanced for the \$95,000,000 contribution obligation for Phase II. \$11,591,150 was collected on this receivable through June 30, 2003.
- (c) The project costs to be contributed total \$2,279,000 and were advanced as of June 30, 2003. \$901,695 was collected on this receivable through June 30, 2003.

**Charleston County Project**

|                        | Balances<br>6/30/02  | Current<br>Expenditures | Contributions<br>Received | Balances<br>6/30/03   |
|------------------------|----------------------|-------------------------|---------------------------|-----------------------|
| SC DOT (d)             | \$ 40,082,702        | \$ 65,959,644           | \$ 8,000,000              | \$ 98,042,346         |
| SC Ports Authority (e) | 4,018,581            | 14,840,875              | 8,000,000                 | 10,859,456            |
| Charleston County (f)  | 15,310,404           | 24,455,548              |                           | 39,765,952            |
| Totals                 | <u>\$ 59,411,687</u> | <u>\$ 105,256,067</u>   | <u>\$ 16,000,000</u>      | <u>\$ 148,667,754</u> |

- (d) The total contribution obligation is \$200,000,000 of which \$106,042,346 was advanced through June 30, 2003. \$8,000,000 was collected on this receivable through June 30, 2003.
- (e) The total contribution obligation is \$45,000,000 of which \$23,859,456 was advanced through June 30, 2003. \$13,000,000 was collected on this receivable through June 30, 2003.
- (f) The total contribution obligation is \$75,000,000 of which \$39,765,952 was advanced through June 30, 2003. No payments were collected on this receivable through June 30, 2003.

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**Lexington County Project**

|                                 | <u>Current<br/>Expenditures</u> | <u>Balances<br/>June 30, 2003</u> |
|---------------------------------|---------------------------------|-----------------------------------|
| SC Electric and Gas Company (g) | \$ 148,029                      | \$ 148,029                        |

(g) The total contribution obligation is \$59,000,000 of which \$148,029 was advanced through June 30, 2003. No payments were collected on this receivable through June 30, 2003.

**Aiken County Project:**

|                      | <u>Current<br/>Expenditures</u> | <u>Balances<br/>June 30, 2003</u> |
|----------------------|---------------------------------|-----------------------------------|
| Aiken County (h)     | \$ 1,820,908                    | \$ 1,820,908                      |
| State of Georgia (i) | 3,226,457                       | 3,226,457                         |
| Totals               | <u>\$ 5,047,365</u>             | <u>\$ 5,047,365</u>               |

(h) The total contribution obligation is \$15,000,000 of which \$1,820,908 was advanced through June 30, 2003. No payments were collected on this receivable through June 30, 2003.

(i) The total contribution obligation is to be 50% of the cost of the Savannah River Bridge and is estimated to be approximately \$16,000,000. \$3,226,457 was advanced through June 30, 2003. This receivable was collected after June 30, 2003.

**INTERGOVERNMENTAL LOANS**

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

**Horry County Ride Project**

|                            | <u>Balances<br/>June 30, 2002</u> | <u>Advances</u>      | <u>Collections</u>   | <u>Balances<br/>June 30, 2003</u> |
|----------------------------|-----------------------------------|----------------------|----------------------|-----------------------------------|
| Phases I & II (j)          | \$ 225,000,000                    | \$                   | \$ 15,000,000        | \$ 210,000,000                    |
| Table I & III projects (k) | 143,587,852                       | 83,691,950           | 211,249              | 227,068,553                       |
| Totals                     | <u>\$ 368,587,852</u>             | <u>\$ 83,691,950</u> | <u>\$ 15,211,249</u> | <u>\$ 437,068,553</u>             |

(j) The original loan was for \$300 million and was fully advanced as of June 30, 2003. \$90 million was collected on this loan through June 30, 2003.

(k) The original loan was for \$247,577,664 of which \$242,994,069 was advanced through June 30, 2003. Payments on principal through June 30, 2003 total \$15,925,516. The agreed payments on this loan total \$348,690,000 which include interest at an annual rate of approximately 5% and are payable in scheduled quarterly amounts beginning September 30, 1999 and continuing through June 30, 2017.

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

**DEFERRED REVENUE:**

The intergovernmental agreement with Beaufort County provided for the County to fund \$30,795,265 of the project costs and the Bank to provide \$64,300,000 with a financial assistance award. 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, 2003 totaled \$28,054,446. \$9,085,152 was allocated to the County and \$18,969,294 to the Bank. \$8,577,617 of the County's payment is reflected as deferred revenue as of June 30, 2003. The \$9,085,152 that was allocated the County is reflected as project costs for the year ended June 30, 2003.

**NOTE 4. LONG-TERM LIABILITIES:**

Changes in long-term liability for the year ended June 30, 2003 is as follows:

|                                | June 30,<br>2002<br>as restated | Additions             | Reductions           | June 30,<br>2003        | Due<br>Within<br>One Year |
|--------------------------------|---------------------------------|-----------------------|----------------------|-------------------------|---------------------------|
| Revenue bonds payable          | \$ 1,192,730,000                | \$ 285,195,000        | \$ 20,440,000        | \$ 1,457,485,000        | \$ 26,195,000             |
| Unamortized premiums           | 1,777,030                       | 5,781,572             |                      | 7,558,602               |                           |
| Unamortized discounts          | (1,461,246)                     |                       |                      | (1,461,246)             |                           |
| Total revenue<br>bonds payable | 1,193,045,784                   | 290,976,572           | 20,440,000           | 1,463,582,356           | 26,195,000                |
| Rebatable arbitrage            | 611,106                         |                       |                      | 611,106                 | 611,106                   |
| <b>Totals</b>                  | <b>\$ 1,193,656,890</b>         | <b>\$ 290,976,572</b> | <b>\$ 20,440,000</b> | <b>\$ 1,464,193,462</b> | <b>\$ 26,806,106</b>      |

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**NOTE 5. BONDS PAYABLE:**

A summary of the bonds payable as of June 30, 2003 is as follows:

| Issue Date   | Series | Original Face Amount | Final Maturity Date | Interest Rate (%) | Unpaid Principal Balance |
|--|--------|----------------------|---------------------|-------------------|--------------------------|
| October 21, 1998   | 1998A  | \$ 275,000,000       | 10/01/17            | 4.00-6.00         | \$ 232,755,000           |
| July 27, 1999  | 1999A  | 308,900,000          | 10/01/24            | 5.00-5.50         | 306,390,000              |
| November 9, 2000   | 2000A  | 268,810,000          | 10/01/30            | 5.00-6.00         | 262,125,000              |
| November 28, 2001  | 2001A  | 249,140,000          | 10/01/31            | 5.00-5.75         | 249,140,000              |
| Less unamortized discount  |        |                      |                     |                   | (1,461,246)              |
| November 28, 2001  | 2001B  | 121,880,000          | 10/01/31            | 5.00-5.27         | 121,880,000              |
| Plus, unamortized premium  |        |                      |                     |                   | 1,777,030                |
| October 30, 2002   | 2002A  | 285,195,000          | 10/01/1933          | 5.00-5.27         | 285,195,000              |
| Plus unamortized premium   |        |                      |                     |                   | 5,781,572                |
| Total bonds payable including unamortized premiums and discounts |        |                      |                     |                   | <u>\$1,463,582,356</u>   |

A summary of the components of bonds payable at June 30, 2003 is as follows:

|                                 |                        |
|---------------------------------|------------------------|
| Face value of bonds outstanding | \$1,457,485,000        |
| Unamortized premium             | 7,558,602              |
| Unamortized discount            | <u>(1,461,246)</u>     |
| Total                           | <u>\$1,463,582,356</u> |

On October 30, 2002, the Bank issued Series 2002A Revenue Bonds. The net bond proceeds consisted of the following:

|                                   |                       |
|-----------------------------------|-----------------------|
| Face amount of bonds              | \$ 285,195,000        |
| Original issue premium (discount) | <u>5,781,572</u>      |
| Net bond proceeds                 | <u>\$ 290,976,572</u> |

Issuance costs for the Series 2002 A bonds consists of the following:

|                            |                    |
|----------------------------|--------------------|
| Underwriters discount      | \$ 210,602         |
| Guaranty insurance premium | 1,546,017          |
| Issuance costs             | <u>530,389</u>     |
| Total                      | <u>\$2,287,008</u> |

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

Amortization of issuance costs for the current fiscal year totaled \$262,932.

The purpose of the Series 2002A 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. Details of the future debt service payments, including interest, are as follows:

|                                | Principal               | Interest                | Totals                  |
|--------------------------------|-------------------------|-------------------------|-------------------------|
| Year ending: 6/30/04           | \$ 26,195,000           | \$ 75,064,993           | \$ 101,259,993          |
| 6/30/05                        | 26,930,000              | 73,709,511              | 100,639,511             |
| 6/30/06                        | 32,675,000              | 72,181,655              | 104,856,655             |
| 6/30/07                        | 34,960,000              | 70,430,036              | 105,390,036             |
| 6/30/08                        | 40,755,000              | 68,461,718              | 109,216,718             |
| Five years                     |                         |                         |                         |
| ending: 6/30/13                | 209,505,000             | 310,947,525             | 520,452,525             |
| 6/30/18                        | 246,745,000             | 247,145,236             | 493,890,236             |
| 6/30/23                        | 188,260,000             | 194,377,540             | 382,637,540             |
| 6/30/28                        | 278,245,000             | 134,336,924             | 412,581,924             |
| 6/30/33                        | 326,240,000             | 50,430,844              | 376,670,844             |
| 6/30/38                        | 46,975,000              | 1,174,375               | 48,149,375              |
| Total debt service obligations | <u>\$ 1,457,485,000</u> | <u>\$ 1,298,260,357</u> | <u>\$ 2,755,745,357</u> |

The total bond interest expense for the year ended June 30, 2003 on the accrual basis was \$70,722,384.

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

|                         |                                 |
|-------------------------|---------------------------------|
| Reserve<br>Requirements | Actual Funding<br>at Fair Value |
| <u>\$111,543,145</u>    | <u>\$115,498,928</u>            |

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.

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

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

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

| <u>Redemption Period<br/>(both dates inclusive)</u> | <u>Redemption Price</u> |
|---|-------------------------|
| 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:

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

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

| October 1, 2021<br>Term Bond |                         | October 1, 2027<br>Term Bond |                         |
|------------------------------|-------------------------|------------------------------|-------------------------|
| <u>Year</u>                  | <u>Principal Amount</u> | <u>Year</u>                  | <u>Principal Amount</u> |
| 2020                         | \$ 6,505,000            | 2025                         | \$ 20,945,000           |
| 2021                         | 7,200,000               | 2026                         | 20,615,000              |
|                              |                         | 2027                         | 25,320,000              |

| October 1, 2029<br>Term Bond |                         | October 1, 2031<br>Term Bond |                         |
|------------------------------|-------------------------|------------------------------|-------------------------|
| <u>Year</u>                  | <u>Principal Amount</u> | <u>Year</u>                  | <u>Principal Amount</u> |
| 2028                         | \$ 25,155,000           | 2030                         | \$ 30,245,000           |
| 2029                         | 30,220,000              | 2031                         | 35,135,000              |

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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 2001B 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:

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

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

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

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

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

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

**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 administrative services and clerical assistance during the fiscal year 2003 for which \$145,000 was paid.

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

The Bank recorded \$22,984,451 as revenue contributions of gas tax from the South Carolina Department of Transportation during fiscal year 2003. The gas tax represented an amount not to exceed the one cent per gallon collected in accordance with Section 11-43-160 of the South Carolina Code of Laws for the on-going funding of construction and maintenance of highways.

The Bank recorded \$50,589,047 of revenues from truck registration fees and penalties from the South Carolina Department of Public Safety during fiscal year 2003.

**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.

## SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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, 2003, 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, 2003 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. Claims 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, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the Bank's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded, and, therefore, no loss accrual has been recorded.

#### **NOTE 8. COMMITMENTS/INTERGOVERNMENTAL AGREEMENTS**

The Bank entered into various intergovernmental agreements to provide financial assistance for highway and transportation facilities projects. Details of the agreements and their status as of June 30, 2003 follows:

**Horry County RIDE I Project.** The total costs for this project are estimated to be \$888,000,000. Funding consists of a \$340 million financial assistance award by the Bank of which a \$114 million contribution is being paid to the Bank by the South Carolina Department of Transportation (SCDOT) in annual installments of \$10 million each for eleven years and \$4 million in the 12<sup>th</sup> year and an additional \$95 million contribution is being paid to the Bank by SCDOT in annual installments of \$7.6 million including 5% interest per annum for 20 years; a \$300 million interest free loan (Loan I) that is being paid by Horry County over 20 years at \$15 million per year; and, a \$247,577,664 loan that is being paid by Horry County over 18 years at agreed upon amounts including interest at approximately 5% per annum.

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

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

## SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

**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 has a loan approved from the Federal Highway Administration in the amount of 33% of the project costs not to exceed \$215 million. The Bank is to be paid contributions for this project as follows:

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

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

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

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

Outstanding commitments as of June 30, 2003 are as follows:

| Project Description  | Total Award             | Expenditures          |                       | Outstanding Commitments 6/30/03 |
|--|-------------------------|-----------------------|-----------------------|---------------------------------|
|  |                         | Prior                 | Current               |                                 |
| Horry County Ride II Project                                 | \$ 198,000,000          | \$                    | \$ 5,846,078          | \$ 192,153,922                  |
| Beaufort County Project                                      |                         |                       |                       |                                 |
| Route 170 Improvement  | 64,700,000              | 27,419,926            | 18,969,294            | 18,310,780                      |
| Charleston County Project                                    |                         |                       |                       |                                 |
| Replacement of Cooper River Bridges                          | 540,000,000             | 108,223,404           | 178,091,218           | 253,685,378                     |
| Lexington County Project                                     |                         |                       |                       |                                 |
| Lake Murray Dam  | 107,000,000             |                       | 268,460               | 106,731,540                     |
| Upstate GRID Project (Anderson, Spartanburg, and Greenville) | 406,000,000             | 128,975,853           | 53,471,128            | 223,553,019                     |
| York County Project  |                         |                       |                       |                                 |
| Improvement of Metropolitan Road Corridors                   | 158,000,000             | 47,023,986            | 16,161,749            | 94,814,265                      |
| Aiken County Project   |                         |                       |                       |                                 |
| Extension of I-520 into SC                                   | 197,650,000             | 227,696               | 24,606,783            | 172,815,521                     |
| Median Barrier Project                                       |                         |                       |                       |                                 |
| Guardrails   | 30,000,000              |                       | 14,033,586            | 15,966,414                      |
| <b>Totals</b>  | <b>\$ 1,701,350,000</b> | <b>\$ 311,870,865</b> | <b>\$ 311,448,296</b> | <b>\$ 1,078,030,839</b>         |

**NOTE 9. OTHER MATTERS/SUBSEQUENT EVENT:**

Through June 30, 2003 the Joint Bond Review Committee of the State of South Carolina has approved the issuance of \$2,423,346,342 Bank General Obligation and/or Revenue Bonds. \$1,508,925,000 in revenue bonds have been issued through June 30, 2003.

The Board of Directors approved the issuance of Revenue Refunding Bonds, Series 2003B-1, 2003B-2 and 2003B-3 on or about October 1, 2003. The following bonds are to be advance refunded by placing proceeds into an escrow account:

Series 2000A

- \$3,330,000 Serial Bond maturing October 1, 2021 (5.50%)
- \$18,665,000 Serial Bond maturing October 1, 2025 (5.50%)
- \$10,740,000 Serial Bond maturing October 1, 2024 (5.50%)
- \$40,465,000 Serial Bond maturing October 1, 2027 (5.50%)
- \$69,430,000 Serial Bond maturing October 1, 2030 (5.50%)

Series 2001A

- \$7,850,000 Serial Bond maturing October 1, 2022 (5.50%)
- \$66,880,000 Term Bond maturing October 1, 2027 (5.10%)
- \$55,375,000 Term Bond maturing October 1, 2029 (5.00%)
- \$65,380,000 Term Bond maturing October 1, 2031 (5.125%)

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2003**

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

Also, the Bank has approved the issuance of \$60 million of general obligation bonds, Series 2003A. The Bonds have not been issued and management has not determined if the bonds will be issued.

**NOTE 10. DERIVATIVE FINANCIAL INSTRUMENT:**

The Bank became a party to a derivative instrument during the fiscal year ended June 30, 2003. The Bank entered into an interest rate swap agreement with a termination date of October 1, 2013. The Bank's objective for entering into the interest rate swap agreement is to maximize income. Under this fixed to variable interest rate swaps, the Bank receives a fixed rate of 3.595% semi-annually while paying a variable rate monthly based on the TBMA Municipal SWAP Index. The notional amount for this agreement is \$49,440,000. Through June 30, 2003 the Bank had interest income of \$746,003 and interest expense of \$232,286 attributable to this swap agreement. By using a derivative instrument, the Bank exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of the derivative contract is positive, the counterparty owes the Bank which creates repayment risk for the Bank. When the fair value of a derivative contract is negative, the Bank owes the counterparty and, therefore, does not possess repayment risk. The Bank can minimize the credit or repayment risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of financial instruments that results from a change in interest rates. The market risk associated with an interest-rate contract is managed by establishing and monitoring parameters that limit the types and degree of market risk that should be undertaken.

**NOTE 11. PRIOR PERIOD ADJUSTMENT:**

The Bank made a correction of an error involving the application of an accounting principle regarding an unrecorded liability for rebatable arbitrage.

The effect of the change in net assets in the governmental – wide financial statements is as follows:

|   |                       |
|---|-----------------------|
| Net assets (deficit), July 1, 2002  | \$ (7,072,451)        |
| Correction of error:  |                       |
| Record liability for rebatable<br>arbitrage not recorded as<br>of June 30, 2002 | <u>(611,106)</u>      |
| Net assets (deficit), July 1, 2002<br>as restated                               | <u>\$ (7,683,557)</u> |

There is no effect on the governmental fund financial statements since this liability is long-term.

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2003**

|   | <u>Balances<br/>June 30, 2002</u> | <u>Additions</u>     | <u>Deductions</u>    | <u>Balances<br/>June 30, 2003</u> |
|---|-----------------------------------|----------------------|----------------------|-----------------------------------|
| Horry County Loan Servicing Account                 |                                   |                      |                      |                                   |
| Cash and cash equivalents                           | \$                                | \$ 25,089,495        | \$ 25,079,655        | \$ 9,840                          |
| Intergovernmental receivable -<br>County government | <u>2,095,573</u>                  | <u>22,412,919</u>    | <u>22,392,630</u>    | <u>\$ 2,115,862</u>               |
| Total assets  | <u>\$ 2,095,573</u>               | <u>\$ 47,502,414</u> | <u>\$ 47,472,285</u> | <u>\$ 2,125,702</u>               |
| Funds held for others                               | <u>\$ 2,095,573</u>               | <u>\$ 47,502,414</u> | <u>\$ 47,472,285</u> | <u>\$ 2,125,702</u>               |
| Total liabilities                                   | <u>\$ 2,095,573</u>               | <u>\$ 47,502,414</u> | <u>\$ 47,472,285</u> | <u>\$ 2,125,702</u>               |
| <br>  |                                   |                      |                      |                                   |
| Horry County Loan Reserve                           |                                   |                      |                      |                                   |
| Cash and cash equivalents (1)                       | <u>\$ 12,538,639</u>              | <u>\$ 671,139</u>    | <u>\$ 2,536,150</u>  | <u>\$ 10,673,628</u>              |
| Funds held for others                               | <u>\$ 12,538,639</u>              | <u>\$ 671,139</u>    | <u>\$ 2,536,150</u>  | <u>\$ 10,673,628</u>              |
| <br>  |                                   |                      |                      |                                   |
| Totals  |                                   |                      |                      |                                   |
| Cash and cash equivalents (1)                       | \$ 12,538,639                     | \$ 25,760,634        | \$ 27,615,805        | \$ 10,683,468                     |
| Intergovernmental receivable -<br>County government | <u>2,095,573</u>                  | <u>22,412,919</u>    | <u>22,392,630</u>    | <u>\$ 2,115,862</u>               |
| Total assets  | <u>\$ 14,634,212</u>              | <u>\$ 48,173,553</u> | <u>\$ 50,008,435</u> | <u>\$ 12,799,330</u>              |
| Funds held for others                               | <u>\$ 14,634,212</u>              | <u>\$ 48,173,553</u> | <u>\$ 50,008,435</u> | <u>\$ 12,799,330</u>              |
| Total liabilities                                   | <u>\$ 14,634,212</u>              | <u>\$ 48,173,553</u> | <u>\$ 50,008,435</u> | <u>\$ 12,799,330</u>              |

(1) Includes fair value adjustment of \$484,285 at June 30, 2003 and \$395,659 at June 30, 2002.