SOUTH CAROLINA
TRANSPORTATION INFRASTRUCTURE BANK

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

State of South Carolina

Office of the State Auditor

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

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DEPUTY STATE AUDITOR

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October 10, 2014

The Honorable Nikki R. Haley, 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, 2014, was issued by Scott and Company, LLC, 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,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/sag

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

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Independent Auditor's Report

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and aggregate remaining fund information of the Bank as of June 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank has adopted and changed its method of accounting for bond issuance costs and deferred losses on bond refundings for the year ended June 30, 2014 as required by Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note 1 to the financial statements, the Bank's financial statements are intended to present the financial position and changes in financial position of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of South Carolina that is attributable to the transactions of the Bank. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2014, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule on pages 4 through 8 and 45 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's basic financial statements. The Combining Statement of Changes in Assets and Liabilities – Agency Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Combining Statement of Changes in Assets and Liabilities – Agency Funds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 10, 2014, on our consideration of the Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank's internal control over financial reporting and compliance.

Scott and Company LLC

Columbia, South Carolina
October 10, 2014

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

Management's Discussion and Analysis

The following discussion and analysis of the financial performance of the South Carolina Transportation Infrastructure Bank (the "Bank") provides a narrative overview of the Bank's financial activities for the fiscal year ended June 30, 2014. The MDA should be read 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) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. These components are described below:

Government-Wide Financial Statements

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

The *Statement of Net Position* presents all of the Bank's assets, deferred outflows of resources, liabilities, and net position. Over time, increases or decreases in the Bank's net position 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 and deferred outflows as of June 30, 2014 resulting in a deficiency of $712.7 million. The mission of the Bank is to provide financial assistance for major transportation projects. The Bank does not own or maintain any of the projects. The Bank issues bonds and incurs other financing liabilities to construct the projects, which are donated to the South Carolina Department of Transportation ("SCDOT") for ownership and maintenance. As a result, the assets of the Bank are reduced while the debt remains. Conversely, SCDOT will record these projects as construction in progress or capital assets in its financial statements with no related liability. Approximately $1.4 billion of the Bank's net position is restricted to service the outstanding debt and to fund projects under commitment.

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

During fiscal year 2014, revenues exceeded expenses by $81.3 million resulting in an increase in net position as of fiscal year-end. This is primarily due to revenues continuing to increase while outlays for approved projects continues to be less than projections.

The Government-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 Fund - The financial activity related to the mission of the Bank is accounted for in the governmental fund. The governmental fund is used to account for essentially the same functions reported as governmental activities in the Government-wide financial statements. However, unlike the Government-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, 2014, the fund balance in the Bank's governmental fund was $1.339 billion. This fund balance is used for providing financial assistance to transportation projects and to service the debt related to providing that assistance. As of June 30, 2013 the fund balance was $1.336 billion. The increase as of June 30, 2014 of $3 million was primarily due to an increase in the revenues with the first payment from SCDOT of $50 million for Act 98 (2013) projects.

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

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

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

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

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS
Net Position

Net position 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 $712.7 million at the close of business on June 30, 2014 (see Table 1). The largest portion of the Bank's assets are non-current assets 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 Position will generally reflect a negative net position. 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
Statement of Net Position
(expressed in millions)

	Governmental Activities	
	Restated June 30, 2013	June 30, 2014
Current Assets	$ 220.8	$ 225.5
Non-current Assets	1,225.3	1,246.6
Deferred Outflows	111.0 *	110.5
Total Assets and Outflows	$ 1,557.1	$ 1,582.6
Current Liabilities	$ 204.0	$ 222.2
Non-current Liabilities	2,147.1	2,073.1
Total Liabilities and Inflows	$ 2,351.1	$ 2,295.3
Net Position:		
Restricted	$ 1,387.7	$ 1,399.8
Unrestricted net position	(2,181.7)	(2,112.5)
Total net position, as restated	$ (794.0)	$ (712.7)
Total Liabilities and Net Position, as restated	$ 1,557.1	$ 1,582.6

* Deferred loss on refunding bonds was reclassified to deferred outlfows in accordance with GASB 65

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

Changes in Net Position

In FY2014, the Bank's net position increased by $81.3 million. This is primarily due to an increase in the revenues, with the first payment from SCDOT of $50 million for Act 98 (2013) projects, and outlays for approved projects to be less than projections. 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 2014 were truck registration fees (30%); contribution from SCDOT per Act 98 (2013) (22%); contribution from SCDOT in an amount equivalent to revenues generated from one-cent of gasoline tax (12%); motor vehicle registration fees (18%); electric power tax (2%); program revenues include contributions pursuant to intergovernmental agreements of $5.8 million which is (3%) of total revenues; and investment earnings (13%). 35% of the Bank's expenses represent transportation projects and 65% 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 Position
(expressed in millions)

	Governmental Activities	
	Restated June 30, 2013	June 30, 2014
Revenues:		
Program Revenues:		
Charges for Services	$ 1.9	$ 5.8
General Revenues:		
Truck registration fees	61.9	65.5
Act 98 (2013) revenue	-	50.0
Gasoline tax	23.8	26.5
Motor vehicle registration fees	39.3	39.5
Electric power tax	3.4	3.7
Interest/Investment earnings	22.6	29.1
Total general revenues	151.0	214.3
Total Revenues	152.9	220.1
Expenses:		
Administration	0.4	0.5
Transportation projects assistance	18.1	48.5
Interest and other debt costs	95.3	89.8
Total Expenses	113.8	138.8
Increase in net position	39.1	81.3
Net position, beginning of year*	(833.1) *	(794.0)
Net position, end of year	$ (794.0)	$ (712.7)

*FY2014 Net Position beginning balance restated due to implementation of GASB 65

FINANCIAL ANALYSIS OF THE BANK'S INDIVIDUAL FUND

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

Governmental Fund

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, the classifications of fund balance may serve as a useful measure of a government's net resources available for spending, and the level of restriction related to those resources, 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 $1.339 billion, an increase of $3 million in comparison with the prior year. The entire governmental fund balance is restricted for debt service requirements, bond funded projects, or highway construction.

Debt Administration

The authority of the Bank to incur debt is pursuant to the act which created the Bank and is found in Sections 11-43-110, etseq. of the South Carolina Code. The Bank has the legal authority to issue general obligation bonds of the state and revenue bonds. The Bank's total amount of revenue bonds issued is in excess of $2 billion. During fiscal year 2014, the Bank paid $71.550 million towards principal of outstanding revenue bonds and $2.215 million towards prinicipal of outstanding general obligation bonds. At June 30, 2014, the principal balance of outstanding revenue bonds was $1.902 billion and the outstanding balance on general obligation bonds was $38.94 million. Additional information on the Bank's long-term debt obligations can be found in Note 5 of the Notes to the Financial Statements of this report.

Economic Factors

Revenues to the Bank continue to meet requirements for covering debt service and providing necessary cash to meet project expenditures. Truck registration fee revenues increased in fiscal year 2014 by 3% over the biennial period. The amount contributed by SCDOT equivalent to revenues from one-cent of gas tax was relatively flat between fiscal years 2013 and 2014. These revenues are pledged by the Bank to the repayment of revenue bonds. Due to the conservative financial plan of the Bank, including sufficient coverage ratios, and the overall strength of the Bank's revenue sources, the Bank continues to maintain an “A” credit rating on its debt. The Bank’s short-term and long-range financial plans are constantly reviewed and updated to ensure financial sources are available to meet commitments made by the Bank Board.

Budgetary Highlights

Total appropriations from the State were approximately $50.43 million. These appropriations were approximately $70 thousand more in fiscal year 2014 than fiscal year 2013. The increase is due to the addition of a full time employee to the Bank’s operating budget. Total expenditures on the budgetary basis of accounting were approximately $8.6 million. The significant positive variance with budgeted amounts is due to several infrastructure projects not reaching construction stage during the fiscal year, which reduced costs incurred by the Bank.

Request For Information

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

South Carolina Transportation Infrastructure Bank
955 Park Street, Room 120B
Columbia, South Carolina 29201

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

STATEMENT OF NET POSITION
JUNE 30, 2014
(expressed in thousands)

		Governmental Activities
ASSETS AND DEFERRED OUTFLOWS		
Current assets:		
Cash and cash equivalents	$	66,564
Accrued interest receivable		120
Intergovernmental loans/receivables:		
County governments		239
Restricted current assets:		
Cash and cash equivalents		92,235
Intergovernmental loans/receivables:		
State agencies		33,610
County governments		32,750
Total current assets		225,518
Noncurrent assets:		
Intergovernmental loans/receivables:		
County governments		5,332
Restricted assets:		
Cash and cash equivalents		761,500
Accrued interest receivable		2,418
Intergovernmental loans/receivables:		
State agencies		262,114
County governments		215,240
Total noncurrent assets		1,246,604
Deferred Outflows:		
Deferred loss on refunding bonds		88,658
Hedging portion of derivative instrument		21,801
Total deferred outflows		110,459
Total assets and deferred outflows	$	1,582,581
LIABILITIES AND NET POSITION		
Liabilities:		
Current liabilities:		
Liabilities payable from restricted current assets:		
Bonds payable - current portion	$	69,195
Accrued interest payable - bonds		19,924
Total liabilities payable from restricted current assets		89,119
Accounts payable		11,088
Unearned revenue		122,026
Compensated absences payable		6
Total current liabilities		222,239
Noncurrent liabilities:		
Bonds payable, net of current portion		1,991,856
Rebatable arbitrage payable		1,476
Compensated absences payable		25
Derivative instrument liability - hedging portion of derivative instrument		21,801
Derivative instrument liability - off market portion of derivative instrument		57,900
Total noncurrent liabilities		2,073,058
Total liabilities		2,295,297
Net Position:		
Restricted:		
Debt service reserve		153,776
Debt service principal and interest		1,123,824
Bond funded projects		122,266
Unrestricted net position		(2,112,582)
Total net position		(712,716)
Total liabilities and net position	$	1,582,581

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(expressed in thousands)

	Governmental Activities
Expenses:	
Public transportation facilities development:	
General operating	$ 486
Financial assistance awards for constructing and improving highway and other transportation facilities and other project costs	48,509
Interest	89,813
Bond related expenditures/issuance costs	19
Total program expenses	138,827
Program revenues	
Charges for services - contributions	(5,838)
Net program expenses	132,989
General revenues:	
Gasoline tax and vehicle registration fees	135,239
Act 98 (2013) revenues, contributed from SCDOT	50,000
Interest/investment income	29,076
Total general revenues	214,315
Change in net position	81,326
Net position - beginning of year as restated	(794,042)
Net position - end of year	$ (712,716)

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2014
(expressed in thousands)

ASSETS			**Public Transportation Facilities Development**
Unrestricted assets:			
Cash and cash equivalents		$	66,564
Intergovernmental loans/receivables:			
County governments			5,571
Accrued interest receivable			120
Total unrestricted assets			72,255
Restricted assets:			
Cash and cash equivalents			853,735
Accrued interest receivable			2,418
Intergovernmental loans/receivables:			
State agencies			295,724
County governments			247,990
Other entities			-
Total restricted assets			1,399,867
Total assets		$	1,472,122
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable		$	11,088
Unearned revenue			122,026
Total liabilities			133,114
Fund balance:			
Restricted for financial assistance award and debt service			1,339,008
Total fund balance			1,339,008
Total liabilities and fund balance		$	1,472,122
Reconciliation to the statement of net position:			
Fund balance - governmental fund		$	1,339,008
Amounts reported for governmental activities in the statement of net position are different because:			
Liabilities are not due and payable in the current period, therefore, are not reported in the governmental fund:			
Bonds payable	(2,061,051)		
Derivative instrument liability - hedging portion of derivative instrument	(21,801)		
Derivative instrument liability - off market portion of derivative instrument	(57,900)		
Rebatable arbitrage payable	(1,476)		
Compensated absences payable	(31)		
Accrued interest payable	(19,924)		(2,162,183)
Deferred outflows of resources are not reported in the governmental fund:			
Deferred loss on bond refundings	154,177		
Less: amortization	(65,519)		
Hedging Portion of derivative instrument	21,801		110,459
Deficiency - governmental activities		$	(712,716)

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2014

(expressed in thousands)

	Public Transportation Facilities Development
Revenues:	
Contribution of gasoline tax revenue for construction projects by the South Carolina Department of Transportation	$ 26,534
Contribution of Act 98 (2013) revenue for construction projects by the South Carolina Department of Transportation	50,000
Truck registration fees and penalties transferred from South Carolina Department of Motor Vehicles	65,494
Motor vehicle registration fees and penalties transferred from South Carolina Department of Motor Vehicles	39,463
Electric power tax revenue transferred from South Carolina Department of Transportation	3,748
Contributions pursuant to intergovernmental agreements for specific construction projects	5,838
Interest/investment income:	
Deposits and investments	15,222
Loans and receivables	13,854
TOTAL REVENUES	220,153
Expenditures:	
General operating	488
Financial assistance awards for constructing and improving highway and other transportation facilities	48,509
Debt service:	
Interest	94,909
Principal	73,765
Bond related expenditures/issuance costs	19
TOTAL EXPENDITURES	217,690
EXCESS OF REVENUES OVER EXPENDITURES	2,463
TOTAL EXCESS OF REVENUES OVER EXPENDITURES	2,463
FUND BALANCE, beginning of year	1,336,545
FUND BALANCE, end of year	$ 1,339,008

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(expressed in thousands)

Reconciliation to the statement of activities:		
Excess of revenues over expenditures for the governmental fund	$	2,463
Amounts reported for governmental activites in the statement of activities are different because:		
Decrease in accrued interest payable is reported as an expense in statement of activities		771
Amortization of premiums and discounts on bonds is reported as an adjustment of interest expense in the statement of activities		6,858
Amortization of deferred loss on refunding of bonds is reported as an expense in the statement of activities		(5,478)
Increase in arbitrage liability is reported as expenses in the statement of activities		(254)
Amortization of derivative instruments is reported as a reduction to interest expense in the statement of activities		3,199
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 position		73,765
(Increase) /decrease in compensated absences is reported as an expense in the statement of activities		2
Change in net position	$	81,326

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014
(expressed in thousands)

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 42,382
Total assets	$ 42,382
LIABILITIES	
Funds held for others	$ 42,382
Total liabilities	$ 42,382

See accompanying Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Reporting Entity

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

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

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

The primary sources of funding of the Bank consist of an annual contribution of revenues by the South Carolina Department of Transportation (SCDOT) to the Bank of an amount not to exceed one cent per gallon of tax collected on gasoline, contributions and donations from government units and private entities, state appropriations, truck registration fees and penalties, electric power tax, and motor vehicle registration fees. In addition, Act 98 (2013) provides for a transfer from the SCDOT of $50 million dollars from non-tax sources to fund projects to expand or improve existing interstates or replace or rehabilitate bridges from project priority lists submitted to the Bank by SCDOT. The Bank is also authorized to issue bonds to finance its activities. Also, the SCDOT is committed to make contributions over a period of years to partially fund certain projects.

All of the revenues collected for truck registration fees and penalties pursuant to SC Code of Laws Sections 56-3-660 and 56-3-670 were received by the Bank from the South Carolina Department of Motor Vehicles and were used to provide funding for various capital projects, including debt service on revenue bonds. The Bank also received 100% of the motor vehicle registration fees and one-half of the electric power tax collections exceeding $20 million dollars.

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

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

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government redardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. The benefit or burden may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit. If a primary government appoints a voting majority of an organization‘s officials or if the organization is fiscally dependent on the primary government and there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations. An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

(1) The primary government is legally entitled to or can otherwise access the organization‘s resources.
(2) The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.
(3) The primary government is obligated in some manner for the debt of the organization.

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.

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 financial assistance awards for construction of capital projects, taxes levied with statutorily defined distributions, and any other resources restricted as to purpose.

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

Fiduciary Funds

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

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

Government-wide and Fund Financial Statements

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

These financial statements are prepared in accordance with GASB statement No. 34, “Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments” and No. 37 “Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus”, as amended. The primary impacts of using these statements involved the presentation of the Government-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 position and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

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

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 Bank considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues - Exchange and Non-Exchange Transactions

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

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

Budget Policy

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

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 117.9 as follows: Agencies and institutions shall be authorized to transfer appropriations within programs and within the agency with notification to the Executive Budget Office and Comptroller General. No such transfer may exceed twenty percent of the program budget. Upon request, details of such transfers may be provided to members of the General Assembly on an agency by agency basis. Transfers of appropriations from personal service accounts to other operating accounts or from other operating accounts to personal service accounts may be restricted to any established standard level set by the Budget and Control Board upon formal approval by a majority of the members of the Budget and Control Board. During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 1 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

Cash and Cash Equivalents

The amounts shown in the financial statements as “cash and cash equivalents” represent cash on deposit with the South Carolina 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.

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 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. For information pertaining to the state's internal cash management pool, see the deposits disclosures in Note 2.

Capital Assets

Capital assets are recorded at cost on the date of acquisition. The Bank follows capitalization guidelines established by the State. 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, 2014. The Bank donates all capital infrastructure projects to the South Carolina Department of Transportation.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than $5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage to be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The Bank incurred $1.5 million of rebatable arbitrage liability as of June 30, 2014.

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.

The Bank implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, during fiscal year 2014. GASB Statement No. 65 establishes accounting and financial reporting standards that require reclassification of certain items that, in prior years, were properly reported as assets and liabilities. This Statement supplements and extends the reach of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which was adopted by the Bank in 2013. The Bank's financial statements were affected by the implementation of GASB Statement No. 65. Under the guidance of the Statement, all bond issuance costs, excluding those related to prepaid insurance costs, are to be expensed in the period incurred rather than capitalized. Any such unamortized bond issuance costs that were incurred and capitalized in a previous year should be written off by a cumulative adjustment of beginning net position. This resulted in an adjustment of $15.7 million to beginning net position. A reconciliation of beginning net position is provided below. Additionally, the Statement required that deferred gains and losses be segregated from bonds payable as either deferred outflows or inflows. This differs from prior year presentation as these amounts were recorded as a reduction to the bonds payable balance. As a result $88.7 million was classified as deferred outflows related bond refundings for the year ended June 30, 2014.

Net position as of June 30, 2013, as previously reported:	$ (778,372)
Adjustment to net position to write off capitalized bond issuance costs:	(15,670)
Net position as of June 30, 2013, as restated:	$ (794,042)

Uneared Revenue

Unearned revenue consists of advance payments for construction projects and other contractual payments which have not been earned. Revenues are recognized in the period in which the project expenditures are made. The bank recorded $122.0 million of unearned revenue as of June 30, 2014.

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 Position / Fund Balance

The following categories of fund balance are now being used in the fund level financial statement of the governmental fund:

Nonspendable fund balance

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as other assets. The Bank did not have any nonspendable fund balance at June 30, 2014.

Restricted fund balance

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. All of the Bank's fund balance is presented as restricted as all fund balance is required to be used for debt service or for the construction of roads and highways.

The Bank has a Revenue Stabilization Fund which has a balance of $19.180 million as of June 30, 2014. Transfers from the Revenue Stabilization Fund are revenues pledged for debt service. The Revenue Stabilization Fund is established to ensure a proper matching, over time, of pledged revenues and debt service. The State Treasurer shall monitor the historical receipt of Truck Registration Fees and penalties in determining (i) the amount of any required deposit into the Revenue Stabilization Fund, or (ii) the amount of any available transfer from the Revenue Stabilization Fund to the Pledged Revenue Fund. An initial deposit to the Revenue Stabilization Fund in the amount of $10 million was made from non-bond proceeds of the Bank upon the issuance of the Series 1998A Bonds. In those fiscal years when the budgeted amount of Truck Registration Fees exceeds the prior year's collections, seventy-five percent (75%) of the excess will be deposited to the Revenue Stabilization Fund. When the budgeted amount of Truck Registration Fees is less than the prior year's collections, seventy-five percent (75%) of the difference will be transferred from the Revenue Stabilization Fund to the Pledged Revenue Fund. Adjustments may be made following the close of each fiscal year to reflect amounts actually received during the prior fiscal year. These amounts are considered restricted as there use is restricted per the terms of the Master Revenue Bond Resolution.

Committed fund balance

The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Bank's highest level of decision-making authority, which is the Bank's Board of Directors. The Board of Directors would have to pass a formal resolution to commit fund balance. Those committed amounts cannot be used for any other purpose unless the Bank removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Bank recognizes committed fund balances that have been approved for specific purposes by the Bank's Board of Directors before the fiscal year end. As of June 30, 2014, the Bank did not have any committed fund balance.

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by the Bank's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Bank's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Department's highest level of authority. The Bank's Director can choose to assign fund balance for a specific purpose. Assigned fund balance amounts in the Bank's financial statements represent amounts approved by the Bank's Board of Directors to be transferred and spent after year end. In the special revenue fund, assigned fund balances represent amounts to be spent for specific purposes. As of June 30, 2014, the Bank did not have any assigned fund balance.

Unassigned fund balance

The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the general fund. As of June 30, 2014, the Bank did not have any unassigned fund balance.

Based on the Bank's policies regarding fund balance classifications as noted above, the Bank considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by the Bank's Board of Directors or donors has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

Net Position

The Bank implemented GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" in the year ended June 30, 2013. The statement incorporated deferred inflows and outflows as required components of the residual measure of the government and renaming that measure as net position, rather than net assets.

The following categories of net position are now being used in the Statement of Net Position:

Restricted net position

Restricted net position consists of assets with constraints place on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation. As of June 30, 2014, $9.9 million of restricted net position was restricted by legislation. In all cases, if individual restricted net position categories are negative, the negative balance is eliminated and reclassified against unrestricted net position.

Net investment in capital assets

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances if bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net position

The unrestricted component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The Bank's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Compensated Absences

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

Use of Estimates

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

NOTE 2. DEPOSITS:

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

Financial Statements		
Governmental fund:		
Cash and cash equivalents	$	66,564
Restricted cash and cash equivalents		853,735
Fiduciary fund:		
Cash and cash equivalents		42,382
Total	$	962,681

Footnotes		
Deposits held by		
State Treasurer	$	959,998
Swap Counterparties		3,122
Items in transit		(439)
	$	962,681

Deposits Held by State Treasurer

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

With respect to investments in the state's internal cash management pool, all of the State Treasurer's investments are required to be insured or registered or are investments for which the securities are held by the state or its agent in the state's name.

Cash and cash equivalents reported include unrealized appreciation of $23.595 million for the governmental fund and $677 thousand for the fiduciary fund as of June 30, 2014 arising from changes in the fair value of investments. Interest/investment income from deposits and investments includes an unrealized loss of $648 thousand for the governmental funds and $114 thousand on the fiduciary funds for the year-ended June 30, 2014.

Deposits at fair value at June 30, 2014 held by the State Treasurer include $153.776 million for funding revenue bond debt service reserve requirements, $477.066 million for funding revenue bond debt service, $173.492 million in bond proceeds and cost of issuance, $40.314 million collateral and funds held by others, $66.563 million unrestricted highway cash, and $42.383 million fiduciary funds. Deposits at fair value at June 30, 2014 held by the State Treasurer include $5.965 million for funding general obligation bond debt service.

Information pertaining to reported amounts, fair values, and credit risks of the State Treasurer's deposits and investments, including disclosure under Governmental Accounting Standards Board Statement No. 40, *Deposits and Investments - Risk Disclosures*, is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina, which can now be found at www.cg.sc.gov.

NOTE 3. LOANS/RECEIVABLES/UNEARNED REVENUE:

A summary of intergovernmental loans/receivables and unearned revenue at June 30, 2014 is as follows (expressed in thousands):

	State Agencies		County Governments		Other Entities
Contribution Receivables:					
Horry County RIDE Project					
S.C. Department of Transportation					
Phase II	$ 32,610	*	$ -		$ -
Charleston County Project					
S.C. Department of Transportation	103,333	*	-		-
S.C. Ports Authority	13,000	*	-		-
Charleston County	-		42,000	*	-
Intergovernmental loans:					
Horry County RIDE Project					
Horry County					
Loan I	-		45,000	*	-
Loan II - Pledged portion	-		160,990	*	-
S.C. Department of Transportation					
Multi-project loan	65,205	*	-		-
US 17 project	71,686	*	-		-
Berkeley County I26 Jedburg	-		5,571		-
Other Receivables:					
Truck registration fees and penalties -					
S.C. Department of Motor Vehicles	4,492	*	-		-
Vehicle Registration Fees - SC Dept Motor Vehicle	3,887	*	-		-
Gas Tax Revenues-SCDOT	534		-		-
Electric Power Tax Equivalent	977	*	-		-
Totals	$ 295,724		$ 253,561		$ -
Unearned Revenue:					
SCDOT - Unearned Gas Tax					$ 1,550
Florence County Project					120,476
					$ 122,026

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

CONTRIBUTION RECEIVABLES:

Each fiscal year, the Bank records revenues from contributions pursuant to intergovernmental agreements in amounts equal to the project expenditures made in the fiscal year that are applicable to the contribution share of the project costs. A summary of changes in the contribution receivables for the fiscal year ended June 30, 2014 is as follows (expressed in thousands):

Horry County RIDE Project

	Balances 6/30/13	Current Expenditures	Contributions Received	Balances 6/30/14
SCDOT Phase II (a)	$ 38,338	$ -	$ 5,728	$ 32,610
	$ 38,338	$ -	$ 5,728	$ 32,610

(a) Project costs have been advanced for the $95 million contribution obligation for Phase II of which $62.391 million was collected on this receivable through June 30, 2014.

Charleston County Project

	Balances 6/30/13	Current Expenditures	Contributions Received	Balances 6/30/14
SCDOT Phase I (b)	$ 111,333	$ -	$ 8,000	$ 103,333
SC Ports Authority (c)	14,000	-	1,000	13,000
Charleston County (d)	45,000	-	3,000	42,000
	$ 170,333	$ -	$ 12,000	$ 158,333

(b) The total contribution obligation is $200 million which was fully advanced as of June 30, 2005. $96.667 million was collected on this receivable through June 30, 2014.

(c) The total contribution obligation is $45 million which was advanced as of June 30, 2005. $32 million was collected on this receivable through June 30, 2014.

(d) The total contribution is $75 million which was advanced as of June 30, 2005. $33 million was collected on this receivable through June 30, 2014.

Lexington County Project

	Balances 6/30/13	Current Expenditures	Contributions Received	Balances 6/30/14
SCE&G (e)	$ 5,900	$ -	$ 5,900	$ -
	$ 5,900	$ -	$ 5,900	$ -

(e) Project costs have been advanced for the $59 million contribution obligation of SC Electric and Gas Company of which $59 million was collected on this receivable through June 30, 2014.

Florence County Project

	Balances 6/30/13	Current Expenditures	Contributions Received	Balances 6/30/14
Florence County (f)	$ (104,268)	$ 5,801	$ (22,009)	$ (120,476)
	$ (104,268)	$ 5,801	$ (22,009)	$ (120,476)

(f) The total contribution paid from the County is $139.16 million through June 30, 2014. Expenditures on this project totaled $56.63 million with the County's share totaling $18.69 million resulting in unearned revenue of $120.476 million. The County has committed $125 million to the project.

INTERGOVERNMENTAL LOANS

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

Horry County RIDE Project

	Balances 6/30/13	Current Expenditures	Contributions Received	Balances 6/30/14
Table I projects (g)	$ 60,000	$ -	$ 15,000	$ 45,000
Table III projects (h)	174,017	-	13,027	160,990
	$ 234,017	$ -	$ 28,027	$ 205,990

(g) The original loan amount was for $300 million and was fully advanced as of June 30, 2002 and $255 million was collected on this loan through June 30, 2014.

(h) The original loan amount was for $247.578 million which was advanced through June 30, 2006. Payments on principal through June 30, 2014 total $86.588 million. The loan was restructured during fiscal year 2004 with the total repayment amount remaining the same, but extending the repayment timeframe up to five years. The agreed payments on this loan total $348.690 million including principal and interest. As there was no stated interest rate with this loan, interest is imputed at 2.9%. For the period ended June 30, 2014, payments of $18.008 million were received which consisted of $4.981 million in interest and $13.027 million in principal.

The loan covenants for the $300 million loan and the $247.578 million loan for the Horry County RIDE Project required the County to establish a Loan Reserve Account by depositing the entire balance it was holding in the Road Special Revenue Fund and to deposit all future receipts of the 1.5% Road Special Revenue Fund portion of the Hospitality Fee into a Loan Servicing Account. The Bank pays itself from the Loan Servicing Account the scheduled loan payments for the $300 million loan and the $247.578 million loan. Unspent funds in the Loan Servicing Account are to be transferred to the Loan Reserve Account as of each year end. As quarterly payments become due, if the balance of the Loan Servicing Account is not sufficient to make the loan payments, the Bank will cause the State Treasurer to pay the deficiency from the balance in the Loan Reserve Account. If the balance in the Reserve Account is not sufficient to make the loan payment, the Bank shall have the option, in its sole discretion, of instructing the State Treasurer, pursuant to section 11-43-210 of the South Carolina Code of Laws, to withhold any pay over the amount due from other funds held by the state and allotted or appropriated to Horry County or utilize those remedies provided by paragraph 4.2 of the Series 1999A Master Loan Agreement. Upon the expiration or earlier termination of this agreement, the balance of the Loan Reserve Account, if any, after satisfying all remaining payments due on outstanding agreements or loans, shall be paid to Horry County. During fiscal year 2004, SCDOT made a commitment to advance Horry County up to $10 million if needed to prevent a shortfall in its loan payments to the Bank.

SCDOT Multi-Project

	Balances 6/30/2013	Current Expenditures	Contributions Received	Balances 6/30/2014
SCDOT (i)	$ 71,750	$ -	$ 6,545	$ 65,205
	$ 71,750	$ -	$ 6,545	$ 65,205

(i) Total loan amount is $94.1 million which was fully advanced as of June 30, 2012. Interest is imputed on this loan as it did not have a stated interest rate in the loan agreement. Currently, the imputed interest rate is 5.025%. During the year ended June 30, 2014, payments of $10 million were received which consisted of $3.455 million in interest and $6.545 million in principal.

US 17 Project

	Balances 6/30/13	Current Expenditures	Contributions Received	Balances 6/30/14
SCDOT (j)	$ 73,440	$ -	$ 1,754	$ 71,686
	$ 73,440	$ -	$ 1,754	$ 71,686

(j) Total loan amount is $82.0 million which was advanced as of June 30, 2009. $10.314 million was collected on this note as of June 30, 2014.

Berkeley County	Balance 6/30/13	Current Expenditures	Contributions Received	Balance 6/30/14
Jedburg Interchange Loan I (k)	$ 5,797	$ -	$ 226	$ 5,571
	$ 5,797	$ -	$ 226	$ 5,571

(k) Total loan amount is $6.401 million which was advanced as of June 30, 2011. $830 thousand was collected on this note as of June 30, 2014.

NOTE 4. LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2014 are as follows (expressed in thousands):

	Beginning Balance July 1, 2013	Increases	Decreases	Ending Balance June 30, 2014	Due Within One Year
General obligation bonds payable	$ 41,150	-	$ (2,215)	$ 38,935	$ 2,070
Unamortized premiums	5,602	-	(4)	5,598	-
Total general obligation bonds payable	$ 44,052	$ -	$ (2,219)	$ 44,533	$ 2,070
Revenue bonds payable	1,973,615		(71,550)	1,902,065	67,125
Unamortized premiums	126,689		(6,870)	119,819	-
Unamortized discounts	(5,382)		16	(5,366)	
Total revenue bonds payable	$ 2,003,486	$ -	$ (78,404)	$ 2,016,518	$ 67,125
Arbitrage payable	$ 1,222	$ 254	$ -	$ 1,476	$ -
Compensated Absences Liability	$ 33	$ -	$ (2)	$ 31	$ 6
Total long-term liabilities	$ 2,048,793	$ 254	$ (80,625)	$ 2,062,558	$ 69,201

NOTE 5. BONDS PAYABLE:

A summary of the bonds payable as of June 30, 2014 is as follows (expressed in thousands):

Issue Date	Series	Original Face Amount	Final Maturity Date	Interest Rate (%)	Unpaid Principal Balance
September 22, 2003	2003B Refunding	368,300	10/01/31	Variable Rate	356,575
July 1, 2004	2004A	228,940	10/01/33	3.60-5.25	2,690
Plus unamortized premium					171
September 1, 2004	2004B Refunding	153,450	10/01/17	3.00-5.25	90,255
Plus unamortized premium					12,014
October 1, 2005	2005A Refunding	221,045	10/01/24	5.00-5.50	159,545
Plus unamortized premium					15,627
February 1, 2007	2007A	286,355	10/01/37	4.25-5.00	260,490
Plus unamortized premium					8,025
February 1, 2007	2007B Refunding	102,015	10/01/31	4.00-5.00	93,745
Plus unamortized premium					583
October 1, 2009	2009A Refunding	88,590	10/01/17	5.00	53,070
Plus unamortized premium					6,094
Less unamortized discount					(52)
December 1, 2010	2010A	203,580	10/01/40	5.25	203,580
Less unamortized discount					(5,314)
April 1, 2012	2012A Refunding	265,965	10/1/33	3.00-5.00	260,520
Plus unamortized premium					24,162
October 1, 2012	2012B Refunding	424,910	10/1/33	3.375-5.00	421,595
Plus unamortized premium					53,143
Subtotal Revenue Bonds					2,016,518
April 13, 2004	2004A GO	60,000	10/01/28	3.00-5.00	10,190
Plus unamortized premium					19
May 1, 2012	2012A GO Refunding	28,745	04/01/25	5.00	28,745
Plus unamortized premium					5,579
Subtotal GO Bonds					44,533
Total bonds payable including unamortized premiums and discounts					$ 2,061,051

A summary of the components of bonds payable at June 30, 2014 is as follows (expressed in thousands):

Face value of revenue bonds outstanding	$ 1,902,065
Face value of general obligation bonds outstanding	38,935
Unamortized premium	125,417
Unamortized discount	(5,366)
	$ 2,061,051

Details of the future revenue bond debt service payments, including interest, are as follows (expressed in thousands):

		Principal	Interest	Totals
	6/30/15	$ 67,125	$ 89,129	$ 156,254
	6/30/16	75,850	85,574	161,424
	6/30/17	56,910	82,246	139,156
	6/30/18	72,050	79,025	151,075
	6/30/19	76,430	75,321	151,751
Five years ending:	6/30/24	368,145	319,151	687,296
	6/30/29	398,245	229,542	627,787
	6/30/34	518,610	124,502	643,112
	6/30/39	182,245	44,256	226,501
	6/30/41	86,455	4,597	91,052
Total debt service obligations		$ 1,902,065	$ 1,133,343	$ 3,035,408

The payment of the principal and interest on the bonds outstanding is secured by liens on and pledges of a certain portion of the Bank's revenues and collections of certain receivables. 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 other 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. The fair value of the Debt Service Reserve Fund at June 30, 2014 was $153.77 million. Total cost of the investment is $142.68 million. Pursuant to Section 3.08 of the Master Revenue Bond Resolution, the amount in the Debt Service Reserve Fund is to be valued at the “cost” of the investment in order to comply with the reserve requirements. For the year ended June 30, 2014, the Bank received pledged revenues in the amount of $204.19 million while net debt service was $168.67 million.

The outstanding balance at June 30, 2014 on defeased debt, after issuance of the Series 2003B, Series 2004B, Series 2005A, Series 2007B Revenue Refunding Bonds, 2009A Revenue Refunding Bonds, 2012A Revenue Refunding Bonds, 2012B Revenue Refunding Bonds and cash defeasance of 2001B bonds is $33.805 million on Series 2001A Revenue Bonds, $253.970 million on Series 2003A Revenue Bonds and $198.810 million on Series 2004A Revenue Bonds for a total of $486.585 million.

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

		Principal	Interest	Totals
Year Ending:	6/30/15	$ 2,070	$ 1,664	$ 3,734
	6/30/16	2,275	1,561	3,836
	6/30/17	2,305	1,447	3,752
	6/30/18	2,400	1,332	3,732
	6/30/19	2,495	1,212	3,707
Five years ending:	6/30/24	14,045	4,085	18,130
	6/30/28	13,345	975	14,320
Total debt service obligations		$ 38,935	$ 12,276	$ 51,211

The Series 2003A Bonds issued January 1, 2004 with a principal of $275,235,000 were partially refunded by the Series 2012B Revenue Refunding Bonds October 1, 2012. The principal refunded was $253,970,000 for maturities from 10-1-14 to 10-1-28, 10-1-30 and 10-1-33. The remaining principal balance of $4,870,000 and interest of $121,750 was paid October 1, 2013.

The Series 2003B Refunding Bonds were issued in three tranches (the "Series 2003B-1 Bonds, Series 2003B-2 Bonds and Series 2003B-3 Bonds) and initially paid interest at an Auction Rate and were subject to redemption on the first day of any Auction Period, in whole or in part, at the option of the Bank, at a price equal to one hundred percent of the principal amount thereof plus interest accrued to the redemption date without any premium or penalty.

On June 18, 2008 the Bank exercised its option to convert the interest rate mode from the Auction Rate mode to a Variable Rate Demand Obligation mode for the Series 2003B Bonds. The 2003B Bonds were secured by direct pay letters of credit from Bank of America, N.A., Branch Banking and Trust Company, and Wachovia Bank, National Association.

On June 17, 2011 the direct pay letters of credit associated with the Bank's Revenue Refunding Bonds, Series 2003B (the "Series 2003B Bonds") issued by Bank of America, N.A.; Branch Banking & Trust and Wachovia Bank, National Association expired. In order to pay off the Series 2003B Bonds, the Bank entered into the following direct placement loans: (1) $180,150,000 Revenue Refunding Bonds, Series 2003B-1-2 with Bank of America, N.A. and (2) $180,100,000 Revenue Refunding Bonds, Series 2003B-2-3 with Wells Fargo Bank, National Association. Both series of bonds have a final maturity of October 1, 2031. See Note 9 for additional details regarding the interest rate swap agreement.

The Series 2003B Refunding Bonds shall be subject to mandatory sinking fund redemption and will be redeemed at a price equal to 100% of the principal amount of the bonds so redeemed, plus accrued interest to the date of redemption, on the date and in the amounts set forth on the following page.

	Principal Amount Redeemed		
October 1	2003B-1	2003B-2	Total
2014	$ 675,000	$ 675,000	$ 1,350,000
2015	175,000	150,000	325,000
2016	750,000	725,000	1,475,000
2017	725,000	725,000	1,450,000
2018	810,000	790,000	1,600,000
2019	825,000	825,000	1,650,000
2020	825,000	825,000	1,650,000
2021	2,575,000	2,550,000	5,125,000
2022	5,775,000	5,775,000	11,550,000
2023	3,400,000	3,400,000	6,800,000
2024	2,700,000	2,700,000	5,400,000
2025	20,700,000	20,675,000	41,375,000
2026	20,815,000	20,785,000	41,600,000
2027	23,485,000	23,515,000	47,000,000
2028	23,740,000	23,735,000	47,475,000
2029	26,585,000	26,590,000	53,175,000
2030	26,940,000	26,960,000	53,900,000
2031	16,835,000	16,840,000	33,675,000
	$ 178,335,000	$ 178,240,000	$ 356,575,000

The Series 2004A Bonds issued July 1, 2004 with a principal of $228,940,000 were partially refunded by the Series 2012B Revenue Refunding Bonds October 1, 2012. The principal refunded was $198,810,000 for maturities from 10-1-15 to 10-1-29, and 10-1-33. The remaining principal balance of $2,690,000 and interest of $70,613 is scheduled to be paid off by October 1, 2015.

The Series 2004B Bonds issued October 1, 2004 with a principal of $153,450,000 maturing October 1, 2017 are not subject to redemption.

The Series 2005A Refunding Bonds maturing prior to October 1, 2021 are not subject to redemption. The Series 2005A Refunding Bonds maturing on or after October 1, 2021, shall be subject to redemption prior to maturity, at the option of the Bank, on and after October 1, 2015, in whole or in part, at any time in any order of maturity selected by the Bank, at a Redemption Price of par plus interest accrued thereon to the date fixed for redemption.

The Series 2007A Bonds maturing prior to October 1, 2017 are not subject to redemption. The Series 2007A Bonds maturing on and after October 1, 2017 shall be subject to redemption prior to maturity, at the option of the Bank, on or after October 1, 2016, in whole or in part, at any time in any order of maturity selected by the Bank, at a Redemption Price of par plus interest accrued thereon to the date fixed for redemption.

The Series 2007A Bonds maturing October 1, 2032, shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on October 1 of each year set forth below (expressed in thousands):

October 1, 2032 Term Bond

Year	Principal Amount	Year	Principal Amount
2028	$11,690	2031	$13,340
2029	12,215	2032*	13,940
2030	12,765		

** denotes final maturity*

The Series 2007A Bonds maturing October 1, 2034, shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on October 1 of each year set forth below (expressed in thousands):

October 1, 2034 Term Bond

Year	Principal Amount	Year	Principal Amount
2033	$14,565	2034*	$15,220

** denotes final maturity*

The Series 2007A Bonds maturing October 1, 2037, shall be subject to mandatory redemption at par plus accrued interest to the redemption date in the respective principal amounts on October 1 of each year set forth below (expressed in thousands):

October 1, 2037 Term Bond

Year	Principal Amount	Year	Principal Amount
2035	$15,905	2037*	$17,370
2036	16,625		

** denotes final maturity*

The Bank shall receive credit on any redemption date against its mandatory obligation to redeem Series 2007A Bonds of a maturity subject to mandatory redemption for Series 2007A Bonds of the same maturity previously redeemed (otherwise than through the operation of the mandatory redemption requirement) by the Bank delivered to the Paying Agent for cancellation.

The Series 2007B Bonds maturing prior to October 1, 2017 are not subject to redemption. The Series 2007B Bonds maturing on or after October 1, 2017 shall be subject to prior to redemption, maturity, at the option of the Bank, on and after October 1, 2016, in whole or in part at any time in any order of maturity selected by the Bank, at a Redemption Price of par plus interest accrued thereon to the date fixed for redemption.

The Series 2007B Bonds maturing October 1, 2031, shall be subject to mandatory redemption at par plus accrued interet to the redemption date in the respective principal amounts on October 1 of each year set forth below:

October 1, 2031 Term Bond

Year	Principal Amount	Year	Principal Amount
2028	$6,620	2030	$7,230
2029	6,915	2031*	7,555

** denotes final maturity*

The Bank shall receive credit on any redemption date against its mandatory obligation to redeem Series 2007B Bonds of a maturity subject to mandatory redemption for Series 2007B Bonds of the same maturity previously redeemed (otherwise than through the operation of the mandatory redemption requirement) by the Bank delivered to the Paying Agent for cancellation.

The Series 2009A Refunding Bonds issued in the amount of $88,590,000 are not subject to redemption. Series 2009A Refunding Bonds have a maturity date of October 1, 2017. Proceeds from the Series 2009A were used to refund a portion of the Series 1998A Bonds, Series 1999A Bonds and Series 2000A Bonds.

The Bank issued $203.580 million of revenue bonds on December 1, 2010. The bonds were issued net of a discount of $5.314 million. The 2010A bonds have a maturity date of October 1, 2040 with a 5.25% coupon rate. The 2010A Revenue Bonds are not subject to redemption prior to maturity.

The Bank issued $265.965 million of revenue refunding bonds on April 1, 2012. The 2012A bonds were issued to refund $34.635 million of the 2001A bonds and $253.625 million of the 2002A bonds. The bonds were issued with a premium of $24.666 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in an accounting loss of $6.036 million. This difference is reported in the accompanying financial statements as a deferred outflow and is being amoritized on a straight line basis over the life of the bonds. The refunding was completed to reduce the overall debt service by $55.335 million with a net present value, or economic gain, of $29.323 million.

The 2012A refunding bonds have a maturity date of October 1, 2033 with a 3.00 to 5.00% coupon rate over the life of the issue.

The Series 2012A Refunding Bonds maturing on or after October 1, 2022, are redeeemable prior to maturity, at the option of the Bank, on and after October 1, 2021, in whole or in part, at any time, at par plus accrued interest to the date fixed for redemption.

The Bank issued $424.910 million of revenue refunding bonds on October 1, 2012. The 2012B bonds were issued to refund $253.970 million of the 2003A bonds and $198.810 million of the 2004A bonds. The bonds were issued with a premium of $53.560 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in an accounting loss of $15.323 million. This difference is reported in the accompanying financial statements as a deferred outflow and is being amoritized on a straight line basis over the life of the bonds. The refunding was completed to reduce the overall debt service by $104.438 million with a net present value, or economic gain, of $67.400 million.

The 2012B refunding bonds have a maturity date of October 1, 2033 with a 3.50 to 5.00% coupon rate over the life of the issue. The 2012B bonds maturing on and after October 1, 2023 are subject to optional redemption prior to their stated maturity dates on any date on and after October 1, 2022 at par.

The SC State Treasurer's Office issued $28.745 million to refund a portion of the outstanding general obligation bonds on May 1, 2012. The bonds were issued to refund $31.220 million of the 2004A general obligation bonds issued on behalf of the Bank. The bonds were issued with a premium of $5.579 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt as an accounting loss of $2.966 million. This difference is reported in the accompanying financial statements as a deferred outflow and is being amoritized on a straight line basis over the life of the bonds. The refunding was completed to reduce the overall debt service by $4.389 million with a net present value, or economic gain, of $3.847 million.

NOTE 6. DEFERRED OUTFLOWS

Deferred outflows at June 30, 2014 consist of the following (in thousands):

Deferred loss on refunding bonds	$ 88,658
Hedging portion of derivative instrument	21,801
	$ 110,459

Discussion regarding the hedging portion of the derivative instrument can be found in Note 10. The deferred loss on refunding bonds has been reclassified from a reduction of the bonds payable balance to a deferred outflow in accordance with GASB Statement 65 as discussed in Note 1. The deferred loss is amortized based on the shorter of the shorter of the original bond or refunding bond issuance.

The detail below summarizes the deferred loss on refunding bonds by bond issue (in thousands):

Series	Original Face Amount	Final Maturity Date	Deferred Loss on Refunding Bonds
2003B Refunding	368,300	10/01/31	$ 57,570
2005A Refunding	221,045	10/01/24	6,817
2007B Refunding	102,015	10/01/31	2,809
2012A Refunding	265,965	10/1/33	5,418
2012B Refunding	424,910	10/1/33	13,572
			86,186
2012A GO Refunding	28,745	04/01/25	2,472
			2,472
			$ 88,658

Amortization of the deferred loss on refunding bonds was approximately $5.5 million for the year ended June 30, 2014 as was recognized as a component of interest expense.

NOTE 7. TRANSACTIONS WITH STATE ENTITIES:

The Bank has significant transactions with the State of South Carolina and various state agencies. Additional information regarding these transactions can be found in Note 3.

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 insurance plan premiums and to the State Accident Fund for workers' compensation insurance.

The SCDOT provided the Bank certain project management and other related services during fiscal year 2014 in the total amount of $1.290 million which was reimbursed by the Bank. In addition, the Bank reimbursed SCDOT $1.588 million for direct project expenditures on various projects and construction management paid by SCDOT to consultants.

The South Carolina Department of Transportation provided the Bank certain administrative services and clerical assistance during fiscal year 2014 for which the Bank reimbursed SCDOT the amount of $69.9 thousand.

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

The gas tax amounts received from the South Carolina Department of Transportation during the year totaled $25.364 million, which is less the $636 thousand the Bank reimbursed SCDOT due from the year ended June 30, 2013 for the overpayment of gas tax. SCDOT has prepaid one month of gas tax amounts to the Bank resulting in unearned revenue of $1.549 milllion. Additionally, based on the year-end calculation of the required SCDOT gas tax contribution, 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, it was determined that SCDOT will have to pay the Bank $534 thousand. Therefore, the amount of gas tax revenue recognized by the Bank was $26.534 million for the year ended June 30, 2014.

The Bank recorded $65.494 million of revenues from truck registration fees and penalties from the South Carolina Department of Motor Vehicles during fiscal year 2014.

The Bank recorded $39.463 million of revenues from motor vehicle fees from the South Carolina Department of Motor Vehicles.

The Bank recorded $3.748 million in Electric Power Tax Revenue transferred from the South Carolina Department of Transportation.

During the year, per agreement, SCDOT transferred to the Bank $2.808 million in non-tax revenues and in exchange, the Bank transferred to SCDOT $2.808 million in revenues not pledged to the repayment of bonds.

NOTE 8. 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 and maintains state insurance coverage for non-owned motor vehicles and genral torts. The bank did not incur any losses during the year.

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

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

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially. The Bank paid $4,385 to the IRF for insurance premiums during FY 2014.

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, 2014 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, 2014 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claim liabilities, when recorded, are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience. In management's opinion, claim losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the Bank's financial position.

Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded, therefore, no loss accrual has been recorded.

NOTE 9. COMMITMENTS/INTERGOVERNMENTAL AGREEMENTS:

The Bank entered into various intergovernmental agreements to provide financial assistance for highway and transportation facilities projects. Details of the agreements that still have Bank commitments outstanding and their status as of June 30, 2014 are as follows:

Horry County Ride II Project. The total project costs were previously estimated to be $198 million, which were to be funded by the Bank as a financial assistance award and $2.279 million of contributions by Horry County from Admissions Tax District revenues. The full amount has been paid as of June, 30, 2009. The county and the Bank have executed an Intergovernmental Agreement. In July 2005, the Bank increased approved financial assistance for this project in the amount of $37 million with $25 million paid by the Bank and $12 million included in the SCDOT Multi-Project Loan. Subsequently, the $12 million was not needed by the Horry County Ride II program and was transferred to the bridge replacement program (see description below). In October 2006, the Bank increased approved financial assistance for this project in the amount of $31.256 million in the form of a grant from the Bank. The project is nearing completion.

Horry County – Carolina Bays Parkway Southern Extension/Widening of SC 707. Total project funding requested from Bank was $150 million. An Intergovernmental Agreement between Horry County, SCDOT, and the Bank was executed on June 20, 2007. In November 2007 the Bank approved a request to increase its financial assistance in the amount of $85 million for a total of $235 million. The projects are under construction.

Charleston County – Mark Clark Expressway. Total project funding requested from Bank was $420 million. The Bank approved funding for the total projected project cost. An Intergovernmental Agreement between Charleston County, SCDOT, and the Bank was executed on June 8, 2007. Preliminary design is underway on the project. In August 2012, the Bank approved an additional amount of up to $150 million to complete the Mark Clark Expressway project from future capacity of the Bank and an additional amount of up to $90 million to complete the Florence County Project. The additional funding for the Mark Clark Expressway project would not be available until the Florence Project was fully funded. In December 2013, the JBRC approved the $90 million additional funding for Florence County. Modifications to the Intergovernmental Agreements are being executed to reflect the additional funding.

Mount Pleasant – US17/Mark Clark Expressway Interchange. Total project funding requested from Bank was $40 million. An Intergovernmental Agreement between the Town of Mount Pleasant and the Bank was executed on May 1, 2007. In November 2007 the Bank approved a request to increase its financial assistance in the amount of $11.4 millon to a total of $51.4 million. Preliminary design and right of way are underway on the project. In February 2011 the Bank approved a request to increase its financial assistance to the project in the amount of $6.01 million. The total funding approved for the project is $57.41 million.

Florence County Project – Total project funding in the amount of $375 million consisting of a $250 million financial assistance award by the Bank and a contribution from the County from Capital Project Sales Tax in the amount of $125 million. An Intergovernmental Agreement between Florence County, SCDOT, and the Bank was executed on May 3, 2007. The projects are under various stages of preliminary deisgn, right of way, and construction. In August 2012, the Bank approved an additional amount of up to $90 million to complete the Florence County project from future capacity of the Bank. In December of 2013, the Joint Bond Review Committee (JBRC) approved the additional $90 million for Florence County.

Berkeley County - Sheep Island Interchange Project. On February 6, 2009, the Bank approved loan I in the amount of $6.401 and loan II in the amount of $22.563 million for the Jedburg I-26 Interchange Project. An intergovernmental agreement has been executed for loan I. Berkeley began drawing down the loan I funds in September 2009. As of June 30, 2014 Berkeley had drawn the entire amount. Phase II of the loan is contingent upon the Bank's ability to pledge the repayments to revenue bonds. On May 15, 2009, the Bank also approved a $2.1 million grant to Berkeley County for the Sheep island Interchange project. In February 2011 the Bank approved a request by Berkeley County to provide a grant not to exceed $6.5 million to complete the funding for the Sheep Island Interchange Project. An Intergovernmental Agreement has been executed. In January 2012 the Bank approved an additional $15 million for widening a portion of I-26 from mile marker 199 to approximately mile marker 197 to facilitate the interchange project previoulsy approved. An Intergovernmental Agreement has been executed.

In February 2012, the Bank approved funding in the form of grants to fund various component projects of previously approved applications. Intergovernmental agreements have been executed for four projects:

Beaufort County - The Bank approved financial assistance in the form of a grant up to $24.9 million for the widening of SC 170 which is a component of the Beaufort approved project.

City of Charleston – The Bank approved financial assistance in the form of a grant for $88 million from resources available beginning in FY2017 for the US17/Septima Clark Transportation and Drainage Improvement Project.

Dorchester County – The Bank approved financial assistance in the form of a grant up to $19 million for the Widening of SC Highway 165 from two lanes to five lanes from Carolinian to Ashley Ridge High School, U.S. Highway 78 Phase 3 Right-of-Way, U.S. Highway 78 and Deming Way Intersection Improvement, and Orangeburg Road and Butternut Road Intersection Improvement (near Pinewood Prep) which are components of the Dorchester project.

Jasper County/City of Hardeeville - The Bank approved financial assistance in the form of a grant up to $3.9 million for new Exit 3 interchange on I-95 – Interchange Justification Reports and NEPA processes component of the Jasper/City of Hardeeville project.

An intergovernmental agreement is currently being executed for the following component project:

City of Aiken – The Bank approved financial assistance in the form of a grant up to $13.5 million for the Hitchcock Parkway widening, University Parkway widening, and Intersection Improvement at Dougherty & Whiskey Road which are components of the Aiken approved project.

The S.C. General Assembly passed Act 98 during its 2013 Session. The legislation provides that $50 million per year transferred from SCDOT to the Bank "must be used solely by the bank to finance bridge replacement, rehabilitation projects, and expansion and improvements to existing mainline interstates". From the list of projects provided by SCDOT the following projects were approved by the Bank and subsequently by the Joint Bond Review Committee (JBRC) in December of 2013.

Act 98 Greenville I-85/I-385 Interchange - The Bank approved financial assistance in the form of a grant to provide $80 million to reconfigure the interchange to improve safety and capacity. An additional through lane in each direction will be provided along I-385. Structures along I-85 will be designed to accommodate an additional lane in each direction in the future. Scope also includes rehabilitation of the northbound lane, improvements at the Garlington Road and Woodruff Road intersection, and improvements at the northbound I-85 ramp at Woodruff Road. The total cost estimate for the Design Build Contract, CE& I and Project Management is $270 million.

Act 98 Lexington County I-20 Widening - The Bank approved financial assistance in the form of a grant to provide up to $154.7 million to widen I-20 with a third travel lane to the median in each direction for approximately 11 miles. The widening will begin just west of US 378 and terminate west of Longs Pond Road.

Act 98 Cherokee/Spartanburg I-85 Widening - The Bank approved financial assistance in the form of a grant to provide up to $262 million for phase one and two for the widening of I-85 from four to six lanes for approximately 16 miles. Most of the widening will occur toward the median. The project includes intersection improvements, railroad crossing replacement, and bridge improvements.

Act 98 Richland County I-77 Widening - The Bank approved financial assistance in the form of a grant to provide up to $38.7 million to widen I-77 with a third travel lane to the median in each direction for approximately seven miles. The widening will begin just south of I-20 and terminate at Killian Road. The project will also include the widening or replacement of the north and southbound bridges at five locations.

Act 98 Richland/Lexington PE I-26/I-20 - The Bank approved financial assistance in the form of a grant to provide up to $10 million for preliminary engineering for the area generally defined as I-20 from the Saluda River to the Broad River, I-26 from US 378 to Broad River Road, and I-126 from Colonial Life Boulevard to I-26. The project includes the development of an Environmental Impact Statement (EIS) that will identify and access the impacts of solutions to reduce congestion, improve traffic operations, increase safety and capacity.

Act 98 PE Cherokee County I-85 Phase III - The Bank approved financial assistance in the form of a grant to provide up to $4 million for preliminary engineering for Phase Three of I-85 Widening in Cherokee County. The project includes widening the interstate from four lanes to six fro approximately 10 miles. The preliminary engineering and environmental document will be developed concurrently with phase one and two.

Outstanding commitments on active projects as of June 30, 2014 are as follows (expressed in millions):

	Total Award	Expenditures Prior	Expenditures Current	Outstanding Commitments 6/30/2014
Horry County RIDE II	$ 254.2	$ 251.1	$ -	$ 3.1
Horry County Sales Tax Project	235.0	56.3	12.3	166.4
Charleston County Mark Clark Project	420.0	12.0	5.7	402.3
Mount Pleasant Project	57.4	53.2	1.3	2.9
Florence County Project	340.0	38.4	13.3	288.3
Berkeley County I-26 Widening	15.0	-	-	15.0
Berkeley County Sheep Island	6.5	-	-	6.5
City of Aiken	13.5	-	-	13.5
Beaufort County SC 170	24.9	3.4	8.0	13.5
City of Charleston (beginning 2017)	88.0	-	-	88.0
Dorchester County	19.0	0.3	0.7	18.0
Jasper County/City of Hardeeville	3.9	-	0.2	3.7
Act 98 Greenville I85/I-385 Interchange	80.0	-	-	80.0
Act 98 Lexington County I-20 Widening	154.7	-	-	154.7
Act 98 Cherokee/Spartanburg I-85 Widening	262.0	-	-	262.0
Act 98 Richland County I-77 Widening	38.7	-	-	38.7
Act 98 Richland/Lexington PE I-26/I-20	10.0	-	-	10.0
Act 98 PE Cherokee County I-85 Phase III	4.0	-	-	4.0
Totals	$ 2,026.8	$ 414.7	$ 41.5	$ 1,570.6

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS:

The Bank's $368.3 million Revenue Refunding Bonds, Series 2003B, were issued in three tranches: Series 2003B-1 in the principal amount of $122.775 million, Series 2003B-2 in the principal amount of $122.750 million, and Series 2003B-3 in the principal amount of $122.775 million. Effective October 1, 2003, the Bank entered into an Interest Rate Exchange Agreement with Bank of America, N.A., relating to the Series 2003B-1 Bonds, an Interest Rate Exchange Agreement with Citibank, N.A., relating to the Series 2003B-2 Bonds, and an Interest Rate Exchange Agreement with Wachovia Bank, N.A., relating to the Series 2003B-3 Bonds.

On June 18, 2008 the Bank terminated the above referenced Interest Rate Exchange Agreement with Citibank, N.A. and entered into Interest Rate Exchange Agreements with Bank of America, N.A. and Wachovia Bank, N.A. relating to the Series 2003B-2 Bonds. The notional amounts for Bank of America, N.A. are $121.150 million for 2003B-I (Swap #1) and $60.587 million for the 2003B -2A (Swap #2). The notional amounts for Wachovia Bank, N.A. are $121.150 million for the 2003B-3 (Swap #4) and $60.587 million for the 2003B-2B (Swap #3). In return, the respective counterparties will pay the Bank a variable rate equal to 67% of the one-month London Interbank Offered Rate (LIBOR) on such notional amount.

On June 17, 2011 the direct pay letters of credit associated with the Bank's Revenue Refunding Bonds, Series 2003B (the "Series 2003B Bonds") expired. In order to pay off the Series 2003B Bonds, the Bank entered into the following direct placement loans: (1) $180,150,000 Revenue Refunding Bonds, Series 2003B-1-2 with Bank of America, N.A. and (2) $180,100,000 Revenue Refunding Bonds, Series 2003B-2-3 with Wells Fargo Bank, National Association. Both series of bonds have a final maturity of October 1, 2031. The Initial Purchase Date as defined in the Amended and Restated Sixth Series Resolution is June 15, 2016.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2014 are classified by type, and the changes in fair value of the derivative instrument are as follows:

		Changes in Fair Value		Fair Value at June 30, 2014		
SWAP	Cash Flow Hedges	Classification	Amount	Classificaiton	Amount	Notional
1	Pay-fixed rate interest swaps	Deferred Outflow	$ (1.588)	Liability	$ (7.268)	$121.150
2	Pay-fixed rate interest swaps	Deferred Outflow	(0.795)	Liability	(3.634)	60.587
3	Pay-fixed rate interest swaps	Deferred Outflow	(0.795)	Liability	(3.634)	60.225
4	Pay-fixed rate interest swaps	Deferred Outflow	(1.588)	Liability	(7.265)	120.425
			$ (4.766)		$ (21.801)	

The fair value was a calculated value using the discounted cash flow methodology which considers the net present value of the future payments from payments to be made or received under the swap. The present value of a “fixed leg” is calculated as the sum of the present values, as of the computation date, of the payment amounts (computed at the fixed swap rate) expected to be paid over the scheduled term of the swap. The value of a “floating leg” is calculated as the sum of the present values, as of the valuation date, of the floating leg payment amounts expected to be paid over the scheduled term of the swap. The floating leg coupon rates are based on the forward rates derived from the relevant interest rate swap yield curve data (e.g., LIBOR, SIFMA, etc.) as of the valuation date. The present value discount factors for each future payment date is determined by the LIBOR swap curve data using the zero coupon method. The fair value of the non-hedging portion is ($60.274) million and the accumulated fair value at June 30, 2014 is ($82.075).

Objective and Terms of Hedging Derivative Instrument – The following table displays the objective and terms of the Bank's hedging derivative instrument outstanding at June 30, 2014.

Swap	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
1	Pay-fixed rate interest swaps	Hedge of changes in cash flows of variable debt obligations	$121.150	10/1/2003	10/1/2031	Receive 67% of 1 month LIBOR + 0.75% pay 3.859%	BofA A-1
2	Pay-fixed rate interest swaps	Hedge of changes in cash flows of variable debt obligations	60.587	10/1/2003	10/1/2031	Receive 67% of 1 month LIBOR + 0.75% pay 3.932%	BofA A-1
3	Pay-fixed rate interest swaps	Hedge of changes in cash flows of variable debt obligations	60.225	10/1/2003	10/1/2031	Receive 75% of 1 month LIBOR + 0.885% pay 3.932%	Wells Fargo Bank, NA A+
4	Pay-fixed rate interest swaps	Hedge of changes in cash flows of variable debt obligations	120.425	10/1/2003	10/1/2031	Receive 75% of 1 month LIBOR + 0.885% pay 3.859%	Wells Fargo Bank, NA A+

The Bank uses the synthetic instrument method and the regression analysis method to determine whether the changes in cash flows of the swap substantially offset the changes in cash flows of the bonds. During fiscal year ended June 30, 2014, the Bank made variable bond interest payments in the amount of $3.391 million and fixed rate payments on the swap in the amount of $13.862 million. The Bank also received variable payments on the swap in the amount of $412 thousand. The net of variable payments on the bonds and receipts on the swaps was ($2.979) million. The estimated total net payment by the Bank on the 2003B Bonds and related interest rate exchange agreements was $15.112 million (including $1.25 million principal payment). Contingency payments of $3.723 million were also made.

Credit Risk – Credit risk is the risk that the counterparty will not fulfill its obligations. As of June 30, 2014, the swaps were in liability positions; therefore, the Bank is not exposed to credit risks. However, should interest rate change the market value of the swaps become in asset positions, the Bank would be exposed to credit risks.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Bank's financial instruments of its cash flows. The Bank is exposed to interest rate risk on its pay-fixed, received-variable interest rate swaps. As LIBOR swap index decreases, the Bank's net pay on the swap increases.

Basis Risk – Basis risk is the risk that arises when variable rates or prices of a hedging derivative instrument and a hedge item are based on different reference rates. The Bank is exposed to basis risk on its pay-fixed interest rate swap hedging instruments because the variable-rate payments received by the Bank on these hedging derivative instruments are based on a rate or index other than interest rates the Bank pays on its hedge variable-rate debt. The Revenue Refunding Bonds, Series 2003B-1-2 accrue interest at the LIBOR Index Rate (as defined in the Amended and Restated Sixth Series Resolution), which is calculated based on 67% of 1 Month LIBOR plus 0.75%. The Revenue Refunding Bonds, Series 2003B-2-3 accrue interest at the LIBOR Index Rate (as defined in the Amended and Restated Sixth Series Resolution), which is calculated based on 75% of 1 Month LIBOR plus 0.885%.

Termination Risk – Termination risk is the risk that a hedging derivative instrument's unscheduled end will affect the Bank's financial planning strategy. The obligation of the Bank to make any Termination Payments under the Interest Rate Exchange Agreements is junior and subordinate to the obligation to make debt service payments on revenue bonds. Under certain circumstances, the Interest Rate Exchange Agreements are subject to termination prior to their respective scheduled expiration dates and prior to the maturity of the bonds to which each such Interest Rate Exchange Agreement relates, in which event the Bank may be obligated to make a substantial payment to the respective counterparty ("Termination Payments").

Rollover Risk – Rollover risk is the risk that a hedging instrument associated with hedgable item does not extend to the maturity of that hedgeable item. The Bank is not exposed to rollover risks because the hedging derivative instruments associated with the hedgeable debt items extend to the maturity of the hedgeable debt items.

Cancellations - Due to the refunding of the 2003B bonds mentioned previously, a portion of the interest rate swap was considered terminated under the provisions of GASB Statement 53. The 2003B bonds on which the interest rate swaps were based had changed and therefore the original interest rate swap was deemed to be terminated although there was no actual termination of the swap. GASB 53 requires the fair value of the swap to be deferred and amortized as a component of interest expense over the life of the refunded debt.

At the time of the refunding, the swap counterparties quoted fixed interest rates that they would require if the Bank had entered into a new swap at the date of the refunding. Although the Bank did not enter into a new swap, the rates were used to calculate a new market rate which is to be considered "on market" and the difference between the current market rate and the original fixed rate is to be considered "off market". These amounts are used to amortize the derivative instrument liability that existed at the date of the refunding over the remaining life of the swap as a component of interest expense. The "on market" portion is also still considered a hedging derivative instrument and valued based on the synthetic and regression analysis methods and has been discussed previously in this note.

The amortization of the "off market" derivative instrument liability which was recorded under GASB 53 in 2011, amounted to $3.199 million, which was a reduction of interest expense, and the balance at June 30, 2014 was $57.900 million. Amortization related to the deferred loss on refunding amounted to $3.219 million, which was charged to interest expense, and the balance at June 30, 2014 was $60.705 million.

The deferred outflow of the interest rate swap, and the two derivative instrument liabilities are shown on the statement of net position. Debt service payments on the 2003B Revenue Refunding Bonds are disclosed in Note 5.

NOTE 11. PENSION PLANS:

The majority of employees of the South Carolina Transportation Infrastructure Bank (the Bank) are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA). Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits to eligible employees and retired members.

The Retirement Division maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be eligible for SCRS disability retirement benefits.

An incidental death benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to $6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage.

The Bank's actual retirement and incidental death benefit program contributions to the SCRS for the years ended June 30, 2014 and 2013 (first payroll year for the Bank) were:

Fiscal Year	Retirement		Incidental Death	
Ended	Rate	Contribution	Rate	Contribution
2014	10.450%	$19,551	.15%	$ 281
2013	10.450%	$ 4,938	.15%	$ 71

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and .15% incidental death benefit program contribution amounts are remitted to SCRS. The Bank did not have anyone participating in the ORP.

The amounts paid by the Bank for pension, incidental death benefit program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit, and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS and PORS are actuarially determined.

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rate.

For the current fiscal year, the SCRS and PORS do not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Bank's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Bank recognizes no contingent liability for unfunded costs associated with participation in the plans.

NOTE 12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS:

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Bank contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare and long-term disability plans administered by the Insurance Benefits Division (IB) of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Bank paid $9,204 and $2,150 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014 and 2013, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was $3.22 for the fiscal years ended June 30, 2014 and 2013. The Bank recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of $32 and $0 for the years ended June 30, 2014 and 2013, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

NOTE 13. OTHER MATTERS/SUBSEQUENT EVENT:

Through June 30, 2014, the Joint Bond Review Committee of the State of South Carolina has approved the issuance of up to $4.675 billion Bank General Obligation and/or Revenue Bonds. $2.50 billion in new Revenue Bonds and $60 million in General Obligation Bonds have been issued through June 30, 2014. The Bank has issued $1.19 billion in revenue refunding bonds which refunded $1.21 billion new money revenue bonds.

S.C. Transportation Infrastructure Bank
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis, Unaudited)
Governmental Fund
For the Fiscal Year Ended June 30, 2014
(in thousands)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Administration				
Classified positions	$ 128	$ 138	$ 133	$ 5
Other personal services	25	75	54	21
Other operating	221	261	247	14
Transportation Infrastructure	50,000	49,900	8,098	41,802
Employer Contributions	56	56	54	2
Total Expenditures	$ 50,430	$ 50,430	$ 8,586	$ 41,844

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2014

NOTE 1. BUDGETARY FUNDS

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds. These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

Total Funds. The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

The Bank's legally adopted budget is part of the Total Funds budget for the State. It is presented for the Infrastructure Bank Board at the program level. However, not all of the Bank's funds are legally budgeted and therefore, the budgetary comparison schedule only includes funds legally budgeted by the State.

NOTE 2. ORIGINAL AND FINAL BUDGETED AMOUNTS; BASIS OF PRESENTATION

The original appropriations presented in the accompanying schedule for the Infrastructure Bank Board include amounts in the Appropriations Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classification, and format of the appropriations section of the accompanying schedule for department's governmental fund are substantively the same as for the legally enacted budget.

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the Infrastructure Bank Board. However, Section 115 (*Recapitulations)* of the Appropriation Act includes net *source of funds* amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the Infrastructure Bank Board is presented as required supplementary information.

As operating conditions change, the Bank may move appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personal services without Budget and Control Board approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the Budget and Control Board.

NOTE 3: LEGAL LEVEL OF BUDGETARY CONTROL

The Bank maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency which is the level of detail presented in the accompanying schedule.

NOTE 4: BASIS OF BUDGETING

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- Departments and agencies shall charge certain vendor and inter-fund payments against the preceding fiscal year's appropriations through July 14.
- The gasoline and motor fuel taxes are recorded on the modified accrual basis in accordance with State law.
- All other revenues are recorded only when the State receives the related cash.

NOTE 5: RECONCILIATION OF BUDGET TO GAAP REPORTING DIFFERENCES

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist of primarily of reclassifications from financial statement classifications to budgetary fund categories, the accrual and reversal of accounts payable and payroll and related fringe benefits, which exceed the cut off for the Bank to charge the previous fiscal year's appropriations.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(expressed in thousands)

	Balances June 30, 2013	Additions	Deductions	Balances June 30, 2014
Horry County Loan Servicing Account				
Cash and cash equivalents (1)	$ 9	$ 33,843	$ 33,839	$ 13
Total assets	$ 9	$ 33,843	$ 33,839	$ 13
Funds held for others	9	33,843	33,839	13
Total liabilities	$ 9	$ 33,843	$ 33,839	$ 13
Horry County Loan Reserve Account				
Cash and cash equivalents (2)	$ 41,119	$ 2,033	$ 783	$ 42,369
Total assets	$ 41,119	$ 2,033	$ 783	$ 42,369
Funds held for others	$ 41,119	$ 2,033	$ 783	$ 42,369
Total liabilities	$ 41,119	$ 2,033	$ 783	$ 42,369
Totals				
Cash and cash equivalents	$ 41,128	$ 35,876	$ 34,622	$ 42,382
Total assets	$ 41,128	$ 35,876	$ 34,622	$ 42,382
Funds held for others	41,128	35,876	34,622	42,382
Total liabilities	$ 41,128	$ 35,876	$ 34,622	$ 42,382

(1) Includes fair value adjustment of $13 thousand at June 30, 2014 and $9 thousand at June 30, 2013.

(2) Includes fair value adjustment of $664 thousand at June 30, 2014 and $782 thousand at June 30, 2013.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements performed in accordance with *Government Auditing Standards*

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2014, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements and have issued our report thereon dated October 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Bank's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes

Scott and Company LLC

Columbia, South Carolina
October 10, 2014