December 22, 1999

The Honorable James H. Hodges, Governor
and
Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Transportation for the fiscal year ended June 30, 1999, was issued by Rogers & Laban, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1999

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 1999

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the South Carolina Department of Transportation (the Department) as of and for the year ended June 30, 1999 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Connector 2000 Association, Inc. (a Development Stage Enterprise) (the Association), a component unit of the Department. The financial statements of the Association were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors.

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

As described in Note 1, the financial statements of the Department are intended to present the financial position, results of operations, and cash flows of the proprietary fund type of only that portion of the funds and account groups of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Transportation, an agency of the State and its discretely presented component unit. These statements do not include other agencies, institutions, departments or component units of the State of South Carolina primary government.

The Department declined to present a statement of revenues, expenditures, and changes in fund balances - budget and actual, for the general fund and special revenue fund type for the year ended June 30, 1999. Presentation of such a statement for those governmental funds for which budgets have been legally adopted is required by generally accepted accounting principles.

In our opinion, based on our audit and the aforementioned report of the other auditors, except that the omission of the statement of revenues, expenditures, and changes in fund balances - budget and actual results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Department of Transportation as of June 30, 1999, and the results of its operations and its cash flows of its proprietary fund type and of its discretely presented component unit for the year then ended in conformity with generally accepted accounting principles.

The year 2000 issue required supplementary information on pages 41 and 42 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue; its effects; the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established; the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter; and, because insufficient audit evidence exists to support the disclosures. In addition, we do not provide assurance that the Department is or will become year 2000 compliant, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which it does business are or will become year 2000 compliant.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Department taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

As explained in Note 6, the Department changed its capitalization policy from $500 to $1,000 for furniture, vehicles and equipment.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 1999, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

November 12, 1999

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT
June 30, 1999
(with totals as of June 30, 1998)

	1999 - Primary Entity							Component Unit	Reporting Entity	
	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Groups				1999	1998
ASSETS AND OTHER DEBITS	General	Special Revenue	Internal Service	Agency	General Fixed Assets	General Long-Term Debt	Totals (Memorandum Only)	Connector 2000 Association, Inc.	Totals (Memorandum Only)	Totals (Memorandum Only)
Cash and cash equivalents	$ 8,432	$ 340,942,409	$ 19,129,709	$ 78,384,299	$	$	$ 438,464,849	$ 642,128	$439,106,977	$317,385,129
Investments								170,900,015	170,900,015	
Accounts receivable		1,315,563		12,472			1,328,035		1,328,035	635,061
Intergovernmental receivables:										
Federal government		61,450,401					61,450,401		61,450,401	37,173,530
State agencies		42,636,763		5,140,394			47,777,157		47,777,157	48,252,654
County and municipal governments		6,124,899					6,124,899		6,124,899	2,918,489
Accrued interest receivable		2,782,692		664,906			3,447,598		3,447,598	2,141,593
Due from Agency Fund - County Transportation Program		4,350,356					4,350,356		4,350,356	9,277,207
Due from Special Revenue Fund - State Highway Fund										67,156
Inventories		8,616,773					8,616,773		8,616,773	10,635,917
Right of way land purchases held for sale		1,069,680					1,069,680		1,069,680	
Fixed assets:										
Land and improvements					3,335,774		3,335,774		3,335,774	3,335,774
Buildings and improvements					65,930,946		65,930,946		65,930,946	63,011,735
Furniture, vehicles and equipment (net, if applicable, of accumulated depreciation)			5,809,476		206,933,420		212,742,896		212,742,896	211,425,784
Construction in progress					12,753,871		12,753,871		12,753,871	9,775,283
Interest in license agreement with Department								34,678,201	34,678,201	
Bond issuance costs, net of amortization of $57,475								2,300,655	2,300,655	
Original issue discount on Series 1998A bonds, net of amortization of $73,590								2,620,362	2,620,362	
Underwriters' fees on Series 1998A, 1998B, and 1998C bonds, net of amortization of $69,960								2,800,640	2,800,640	
Amount to be provided for retirement of general long-term debt						539,766,973	539,766,973		539,766,973	257,470,509
Total assets and other debits	$ 8,432	$ 469,289,536	$ 24,939,185	$ 84,202,071	$288,954,011	$539,766,973	$1,407,160,208	$213,942,001	$1,621,102,209	$973,505,821

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)
JUNE 30, 1999
(with totals as of June 30, 1998)

	1999 Primary Entity							Component Unit	Reporting Entity 1999	Reporting Entity 1998
	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Groups					
LIABILITIES, FUND EQUITY, AND OTHER CREDITS	General	Special Revenue	Internal Service	Agency	General Fixed Assets	General Long-Term Debt	Totals (Memorandum Only)	Connector 2000 Association, Inc.	Totals (Memorandum Only)	Totals (Memorandum Only)
LIABILITIES:										
Accounts payable	$	$ 73,291,247	$	$ 489,132	$	$	$73,780,379	$3,721,374	$77,501,753	$55,116,062
Contract retainages payable		15,791,036					15,791,036	1,260,549	17,051,585	22,999,003
Accrued payroll and related liabilities		13,297,985					13,297,985		13,297,985	12,629,841
Accrued interest payable		763,500					763,500	1,765,752	2,529,252	
Other liabilities		783,620		117,522			901,142		901,142	1,316,950
Intergovernmental payables:										
State agencies		697,951					697,951		697,951	1,092,278
Due to Agency Fund - County Transportation Program										67,156
Due to Special Revenue Fund - State Highway Fund				4,350,356			4,350,356		4,350,356	9,277,207
Deposits for right of way				396,143			396,143		396,143	248,342
Special deposits and bonds				331,658			331,658		331,658	277,536
Funds held for counties				78,517,260			78,517,260		78,517,260	120,042,023
Deferred revenue - participation agreements		27,378,295					27,378,295		27,378,295	21,142,796
Bonds payable						333,545,000	333,545,000	207,321,761	540,866,761	137,865,000
Contributions payable:										
State agency						189,000,000	189,000,000		189,000,000	104,000,000
Liability for compensated absences						17,221,973	17,221,973		17,221,973	15,605,509
Total liabilities		132,003,634		84,202,071		539,766,973	755,972,678	214,069,436	970,042,114	501,679,703
FUND EQUITY AND OTHER CREDITS:										
Investment in General Fixed Assets					288,954,011		288,954,011		288,954,011	283,340,469
Contributed capital			5,809,476				5,809,476		5,809,476	4,208,107
Retained earnings			19,129,709				19,129,709		19,129,709	17,475,690
Retained earnings (accumulated deficit)- A Development Stage Enterprise								(127,435)	(127,435)	
Fund balances:										
Reserved for:										
Bond-funded projects		216,391,214					216,391,214		216,391,214	46,604,465
Inventories		8,616,773					8,616,773		8,616,773	10,635,917
Right of ways land purchases held for sale		1,069,680					1,069,680		1,069,680	
Intergovernmental Receivables (Long-term):										
State agency		4,867,211					4,867,211		4,867,211	6,225,659
County and municipal		2,875,310					2,875,310		2,875,310	946,143
Other entity		196,250					196,250		196,250	196,250
Unreserved:										
Designated for subsequent years' expenditures	8,432	103,269,464					103,277,896		103,277,896	102,193,418
Total fund equity and other credits	8,432	337,285,902	24,939,185	- 0 -	288,954,011	- 0 -	651,187,530	(127,435)	651,060,095	471,826,118
Total liabilities, fund equity, and other credits	$ 8,432	$469,289,536	$24,939,185	$ 84,202,071	$288,954,011	$539,766,973	$1,407,160,208	213,942,001	$1,621,102,209	$973,505,821

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999
(with totals for the year ended June 30, 1998)

	---- 1999 ----			--- 1998 ---
	General	Special Revenue	Totals (Memorandum Only)	Totals (Memorandum Only)
REVENUES:				
Taxes and fees	$	$ 363,870,144	$ 363,870,144	$ 342,436,706
State appropriations	578,976		578,976	578,976
Federal grants and reimbursable contracts		318,398,261	318,398,261	243,756,981
Reimbursements from Agency Fund - County Transportation Program		32,610,907	32,610,907	45,090,466
Interest/investment income		19,746,818	19,746,818	22,021,962
Sales to and fees from State agencies		1,898,277	1,898,277	4,566,540
Participation agreements revenue		20,850,930	20,850,930	17,745,988
Other		4,074,668	4,074,668	3,941,499
TOTAL REVENUES	578,976	761,450,005	762,028,981	680,139,118
EXPENDITURES:				
Current:				
General		27,859,331	27,859,331	27,658,076
Engineering		25,524,497	25,524,497	15,024,448
Toll facilities		1,786,963	1,786,963	788,080
Public transportation		7,976,549	7,976,549	10,039,582
Highway maintenance	570,544	215,258,564	215,829,108	199,358,750
Capital outlay:				
Infrastructure		429,574,890	429,574,890	380,419,735
Construction in progress		6,150,042	6,150,042	2,251,237
Land, buildings, furniture, vehicles and equipment		17,982,818	17,982,818	14,129,212
Bond issue costs		176,140	176,140	74,752
Debt service:				
Principal		4,320,000	4,320,000	2,405,000
Interest		6,979,293	6,979,293	5,451,120
Allocations to other entities:				
State agency		26,161,483	26,161,483	25,750,000
Agency Fund - County Transportation Program		9,500,000	9,500,000	9,500,000
TOTAL EXPENDITURES	570,544	779,250,570	779,821,114	692,849,992
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	8,432	(17,800,565)	(17,792,133)	(12,710,874)
OTHER FINANCING SOURCES (USES):				
Bond proceeds, net of original issue discount		199,008,330	199,008,330	47,571,655
Remitted to General Fund of the State		(5,582,620)	(5,582,620)	(5,474,269)
TOTAL OTHER FINANCING SOURCES (USES)		193,425,710	193,425,710	42,097,386
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	8,432	175,625,145	175,633,577	29,386,512
FUND BALANCES, beginning of year, as restated		161,660,757	161,660,757	137,415,340
FUND BALANCES, end of year	$ 8,432	$ 337,285,902	$ 337,294,334	$ 166,801,852

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - PROPRIETARY FUND TYPE FOR THE YEAR ENDED JUNE 30, 1999

(with comparative amounts for the year ended June 30, 1998)

	Internal Service	
	1999	1998
OPERATING REVENUES:		
Charges for use and services	$ 2,209,008	$ 2,427,701
OPERATING EXPENSES:		
Gas and oil	81,275	380,546
Equipment, support services, and repairs	471,919	495,672
Other costs	1,795	2,018
Depreciation	1,394,566	1,289,922
Total operating expenses	1,949,555	2,168,158
OPERATING INCOME	259,453	259,543
Add-back of depreciation on fixed assets contributed by other funds	1,394,566	1,289,922
RETAINED EARNINGS, beginning of year	17,475,690	15,926,225
RETAINED EARNINGS, end of year	$19,129,709	$17,475,690

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 1999
(with comparative amounts for the year ended June 30, 1998)

	Internal Service	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 259,453	$ 259,543
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	1,394,566	1,289,922
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,654,019	1,549,465
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,654,019	1,549,465
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,475,690	15,926,225
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 19,129,709	$ 17,475,690

SUPPLEMENTAL INFORMATION:

Noncash Capital and Related Financing Activities:		
Transfer of Vehicles and Equipment to Internal Service Fund from General Fixed Assets Account Group	$ 4,144,080	$ 2,687,744
Transfer of Vehicles and Equipment from Internal Service Fund to General Fixed Assets Account Group	(1,975,641)	(2,297,910)

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

CONNECTOR 2000 ASSOCIATION, INC.
(DISCRETELY PRESENTED COMPONENT UNIT)
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1998 AND THE PERIOD FROM JANUARY 12, 1996 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1998

OPERATING REVENUES	$ - 0 -
OPERATING EXPENSES	- 0 -
OPERATING INCOME	- 0 -
NONOPERATING REVENUES (EXPENSES):	
Amortization of bond issuance costs	(57,475)
Amortization of underwriters' fees	(69,960)
NET INCOME (LOSS)	(127,435)
ACCUMULATED DEFICIT (DEVELOPMENT STAGE), Beginning	- 0 -
ACCUMULATED DEFICIT (DEVELOPMENT STAGE), Ending	$ (127,435)

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

CONNECTOR 2000 ASSOCIATION, INC.
(DISCRETELY PRESENTED COMPONENT UNIT)
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1998 AND THE PERIOD FROM JANUARY 12, 1996 (DATE OF INCEPTION) THROUGH DECEMBER 31, 1998

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Net proceeds from issuance of bonds payable	$ 194,711,277
Cash paid for bond issuance costs	(2,358,130)
Cash paid for construction of Southern Connector	(28,041,405)
Interest payments on bonds payable	(1,471,460)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	162,840,282
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from redemption of investments	25,226,262
Interest received	968,074
Purchases of investments	(188,392,490)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(162,198,154)
INCREASE IN CASH AND CASH EQUIVALENTS	642,128
CASH AND CASH EQUIVALENTS, Beginning of year and period	**- 0 -**
CASH AND CASH EQUIVALENTS, End of year and period	$ 642,128

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Interest income of $3,479,686 was reinvested in repurchase agreements, while interest income of $4,254,101 was accrued at December 31, 1998. These amounts reduced interest capitalized during construction of the Southern Connector project.

Original issue discount and underwriters' fees (called "Underwriters' discount" in the bond purchase agreement) of $2,693,952 and $2,870,600 respectively, were deducted from bond proceeds and are reported as other assets in the accompanying balance sheet. During the year and period ended December 31, 1998, amortization of the original issue discount and underwriters' fees totaled $73,590 and $69,960 respectively.

During the year and period ended December 31, 1998, the accretion of interest on capital appreciation bonds (Series 1998B and 1998C) totaled $7,144,081.

During the year and period ended December 31, 1998, amortization of bond issuance costs totaled $57,475.

At December 31, 1998, $1,765,752 of interest payable on the Senior Current Interest Bonds was accrued and capitalized.

At December 31, 1998, construction in progress and capitalized interest included accrued requisitions and retainages of $3,721,374 and $1,260,549, respectively.

See accompanying Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The South Carolina Department of Transportation (the Department) was established pursuant to Section 57-1-20 of the Code of Laws of South Carolina as an administrative agency of State government, comprised of a Division of Mass Transit; a Division of Construction, Engineering and Planning; and a Division of Finance and Administration.

The Department is governed by the South Carolina Transportation Commission, which is comprised of seven members, six of whom are elected by the Legislative Delegations of each of the State's Transportation Districts. These Transportation Districts coincide with the State's Congressional Districts. One at-large member is appointed by the Governor and, upon confirmation by the South Carolina Senate, serves as Chairman of the Commission. The Commission serves as a general policy-making body for the various functions and purposes of the Department as prescribed by law. The Commission defines policies that are to be administered by the Director.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. 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 Department is reported as part of the State's primary government. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government/entity and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government/entity are financially accountable. In turn, component units may have component units. The Department has determined it has one component unit, the Connector 2000 Association, Inc. (a Development Stage Enterprise) (the Association), and the Association has determined that it has no component units.

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

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

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Department has determined it is not a component of another entity and the Connector 2000 Association, Inc. is a component unit of the Department under Statement 14 of the Governmental Accounting Standards Board. This financial reporting entity includes only the Department (a primary entity) and its component unit.

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

The Association is a South Carolina nonprofit corporation organized as a "public benefit corporation" under the South Carolina Nonprofit Corporation Act of 1994. The Articles of Incorporation of the Association were originally filed with the South Carolina Secretary of State on January 12, 1996 and were amended by filing on March 5, 1997. The Internal Revenue Service has issued a letter dated October 20, 1997 determining that the Association is an exempt organization that is not a private foundation under Section 501(c)(3) of the Internal Revenue Code. Its current purpose is to assist the Department in the financing, acquisition, construction and operation of turnpikes, highway projects and other transportation facilities pursuant to Section 57-3-200 of the Code of Laws of South Carolina. The Association is considered a component unit of the Department because the Department initially fixed the toll rates for the Southern Connector in Greenville County, South Carolina and, after consultation with the Association, has the right (but not the obligation) to revise the toll rates from time to time to rates which are not less than 90% and not more than 120% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. Rates set by the Department must satisfy the applicable revenue covenants contained in the Association's financing documents.

The Association utilizes a December year-end for financial reporting purposes and no financial statements were issued on it for the period from January 12, 1996 (inception) through December 31, 1997 or for the year ended December 31, 1997. Although the Association was formed in 1996, its first financial activity occurred in February, 1998. At that time, the Association entered into a license agreement (the License Agreement) with the Department that grants the Association rights and obligations to finance, acquire, construct and operate an approximately 16 mile fully controlled access toll highway (the Southern Connector) and to construct the South Carolina Highway 153 Extension (the SC 153 Extension) (collectively, the Projects). Toll road revenue bonds were issued on February 11, 1998 to finance the construction of the Southern Connector. Governmental accounting standards require that the reporting entity's financial statements include the year end statements of the component unit which falls within the reporting entity's fiscal year.

The Association is governed by a Board of Directors, approved by the Department. At present, the Association has no employees and has relied on, and expects to continue to rely on, consultants for the performance of its responsibilities under the License Agreement.

The Association is considered to be in the development stage during the construction of the Southern Connector and the SC 153 Extension. The Projects are expected to be completed and in full operation by December 31, 2002.

The Department's inclusion of the Association as a component unit is done for the purpose of communicating information about its component unit as required by generally accepted accounting principles, and the Association's relationship with the Department. It is not intended to create the perception that the Department and the Association are one legal entity. From a legal standpoint, the State of South Carolina and the Department have only a contractual relationship with the Association. This contractual relationship came about as a result of the Association's submittal of the successful proposal to construct and operate the Southern Connector. In addition, the Supreme Court of South Carolina has held that the State of South Carolina and the Department are not a joint owner in the Association, and, accordingly, have no legal or financial accountability for the Association.

The financial statements of a component unit is blended in with the Department as part of the primary entity as though it were part of the Department if they are, in substance, part of the Department's operations. Since the Association does not meet these criteria, the Association's financial activity is presented discretely outside of the Department's primary entity financial statements. A complete copy of the Association's financial statements can be obtained from Connector 2000 Association, Inc., c/o Sinkler & Boyd, P.A., 15 South Main Street, Suite 500, Greenville, South Carolina 29601.

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

The Department 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 Department. 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 Department. Generally, all State departments, agencies, and colleges are included in the State's reporting entity, which is the primary government of the State of South Carolina. These entities are financially accountable to and fiscally dependent on the State. Although the Department operates somewhat autonomously, it lacks full corporate powers. In addition, the Governor and/or the General Assembly appoints most of its board members and budgets a significant portion of its funds.

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and the results of operations and cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Department and its component unit and do not include any other funds or component units of the State of South Carolina.

Basis of Presentation and Description of Funds

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

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

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein. These accounts are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The Department's funds are classified as governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds). 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.

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

General Fund - The general fund accounts for all activities except those required to be accounted for in another fund. For the Department, the general fund consists of funds appropriated from the State General Fund for public transportation.

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 Federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose. Also, the Department reports the acquisition, construction, and maintenance of general fixed assets in its special revenue fund.

The State Highway Fund was established pursuant to Section 57-11-20 of the Code of Laws of South Carolina. This Fund accounts for, among others, the gasoline tax, except for the 2.66 cents per gallon that is allocated to the County Transportation Program Agency Fund, and other special imposts upon highway users for the construction and maintenance of highways and bridges and for other operations of the Department. This fund also accounts for revenue that is received from other entities which have entered into participation agreements with the Department to share costs of construction projects and from the County Transportation Program Agency Fund for projects that are administered for County Transportation committees. Revenues from the participation agreement type contracts are recognized as earned based on the percentage of completion method. The unearned portion is reflected as deferred revenue in the liability section of the balance sheet until earned.

Proprietary Fund Types

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Internal Service Fund - The Internal Service Fund accounts for the rental pool the Department operates for vehicles and other equipment that are utilized primarily for highway projects. The Fund is intended to recover variable costs and certain costs associated with the operation of the equipment, including depreciation.

Enterprise Fund - Management of the Association has determined that the Association's activities are properly accounted for as a proprietary enterprise fund, since the Association's intent is that the costs of providing the Southern Connector be recovered primarily through the tolls to be charged to the Southern Connector's users.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Department uses the Agency Fund fund type of fiduciary funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of the results of operations.

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

The Right-of-Way Fund is used to account for payments for the purchase of right-of-way property which has been contested by the property owner. An amount equal to the Department's offer remains in this Fund until such time as an agreement is reached and price established with the property owner. The property owner has the right to receive 75% of the offer, in which case 25% of the offer is held in the Right-of-Way Fund. Effective April 1, 1988, right-of-way deposits are held by the Clerk of Court in the appropriate county. Deposits held by the Department as of April 1, 1988 will remain in the Department's Right-of-Way Fund until such time as those respective cases are settled. Current year's activity represents receipt of funds from various clerks of court and disbursement to property owners upon settlement of contested cases.

The Special Deposits Fund is used to account for various funds that are collected from other governments or agencies and outside parties. These funds are held until resolution of various matters, such as anti-trust violations, oversize and overweight charges and other similar items that occur.

The County Transportation Program Fund was established pursuant to Section 12-27-400 of the South Carolina Code of Laws to provide for the receipts from distribution and use of the 2.66 cents per gallon gasoline tax collected by the Department of Revenue and remitted to the Department of Transportation. In addition to the gasoline tax, the Department is required to transfer $9,500,000 annually from the State Highway Fund to the Program. Each county has formed a County Transportation Committee appointed by the County legislative delegation to administer the use of these funds. Based on the legally prescribed allocation formula, these monies are paid to the Counties for County infrastructure projects that they administer or to the Department as reimbursements for expenditures incurred on projects that the County Transportation Committees have contracted with the Department to administer.

Account Groups

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the Department with the exception of those accounted for in the proprietary fund types and the investment in infrastructure. Infrastructure includes roads, bridges, lighting systems, and the underlying and adjoining right-of-way land. Infrastructure is considered to be of value only to the State of South Carolina government and the cumulative investment in such is not accounted for in the Department's financial statements. Reporting infrastructure fixed assets is optional and the Department has chosen not to report these assets.

General Long-Term Debt Account Group - This account group is used to account for the outstanding balance of any of the Department's unmatured general long-term liabilities that are expected to be financed from governmental fund type resources. These liabilities include compensated absences, the principal portion owed on bonds payable and the contributions payable to the South Carolina Transportation Infrastructure Bank, an agency of the State of South Carolina.

Significant Accounting Policies

Basis of Accounting

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

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

The modified accrual basis of accounting is utilized for governmental fund types and the Agency Funds. Under this method, revenue, including taxes, is recognized when it becomes measurable and available to finance expenditures of the current fiscal year. Federal grants for the Department are recorded as revenue when the related expenditures are incurred. Federal grant monies that are allocated to subrecipients are recognized as an expenditure when the subrecipient requests reimbursement for incurred costs. Expenditures are recognized when the related fund liability is incurred except for unmatured interest on general long-term debt, which is recognized when due. Payments for insurance and similar services benefiting more than one period are recognized as an expenditure in the year of payment.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., total net assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases and decreases in total net assets.

Proprietary fund revenue and expenses are recognized on the accrual basis of accounting. Revenue is recognized in the accounting period in which it is earned and becomes measurable; expenses are recognized in the period incurred, if measurable.

The Department and the Association implemented Governmental Accounting Standards Board Statement No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting in a prior fiscal year. The Department and the Association has elected to apply only those standards issued by the Financial Accounting Standards Board on or before November 30, 1989.

Operating transfers in and out are recognized in the accounting period in which the interfund payable and receivable arise. Operating transfers do not represent loans, reimbursements or quasi-external transactions.

Budget Policy

The Department is granted an annual appropriation for public transportation by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. 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.

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

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

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

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures" for each fiscal year. The Department has not presented a statement of revenues, expenditures and changes in fund balances - budget and actual for the governmental fund types as required by generally accepted accounting principles since the Department's records are not maintained in a manner which allows the accumulation of the required information.

An annual nonappropriated budget is adopted by the Association's Board of Directors. The Board of Directors also approves any amendments to the budget during the year. The budget is prepared on the accrual basis of accounting. As permitted under governmental generally accepted accounting principles, since the Association's activities are accounted for in an enterprise fund, a budget-to-actual comparison is not presented in the accompanying financial statements.

Cash and Cash Equivalents

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

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

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

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 Department records and reports its deposits in the general deposit account at cost, and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department's account at the end of each month and is retained by the Department. Interest/investment earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the income receivable of 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. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses arising from changes in the fair value of investments 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.

Effective July 1, 1995, Section 12-28-2740 of the South Carolina Code of Laws, 1976 was amended to provide for interest earned on the State Highway Fund and the County Transportation Program Fund to be deposited in the Department's State Highway Fund. Effective July 1, 1997, Section 12-28-2740 was further amended to provide that earnings on the County Transportation Fund administered by the Department be credited to the counties in the proportion each county's distribution of "C" funds is of the total of such distributions statewide and to provide that these distributions shall not include those counties that administer their own "C" funds.

For purposes of the Statement of Cash Flows, the Association considers all investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories

The Department maintains inventories of supplies for its use and merchandise for resale to other state agencies and local governments. All inventories are valued at cost using the weighted average method. Expenditures for inventory are accounted for using the purchases method of accounting, in which inventory purchases are recorded as expenditures when purchased. Inventories on hand at year-end are reflected in the balance sheet with an equal amount of the fund balance reserved specifically for inventories.

Right of Way Land Purchases Held for Sale

The Department from time to time when acquiring right of way lands economically has to purchase excess property for economic reasons that is not allocable to project construction costs. These purchases are held until they can be sold and are reflected in the accompanying financial statements at their cost to the Department. Due to the long-term nature of the right of way land purchases held for sale, the account balance has been equally offset by a reservation of fund balance to reflect that it is not currently available for expenditure.

Interfund Receivables/Payables

Long-term interfund loans are classified as "advance to" or "advance from" particular funds. Short-term amounts are classified as "due to" or "due from" the particular funds. No interest is charged on the advances to or due from amounts. Short-term amounts are generally repaid within 60 days. There were no long-term advances outstanding as of June 30, 1999.

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

Bond Issuance Costs

Bond issuance costs attributable to the Association's bonds payable are deferred and being amortized over the term of the bonds using the bonds outstanding method. The bond issuance costs consist of the cost incurred to issue the bonds and include traffic revenue studies, legal fees, financial advisor fees, bond offer costs, and other costs. The bond issuance costs are being amortized over the lives of the Senior Current Interest Bonds (Series 1998A) through January 1, 2023 and January 1, 2038, and of the Senior and Subordinate Capital Appreciation Bonds (Series 1998B and 1998C) through January 1, 2038.

Fixed Assets

General fixed assets acquired or constructed are recorded as expenditures from the applicable governmental fund and are capitalized at cost in the general fixed asset account group. Major capital additions which are being constructed over several years are recorded as expenditures in the applicable governmental fund and simultaneously capitalized as construction-in-progress in the general fixed assets account group. When construction projects are completed, they are reclassified from construction-in-progress to buildings and improvements. Assets contributed by another state agency are recorded at the acquisition cost to that agency. Other donated assets are valued at their fair market value when received. Fixed assets are not depreciated in accordance with generally accepted accounting principles for governmental entities. Equipment costing more than $1,000 and having a useful life of more than one year is capitalized. Fixed assets transferred between the General Fixed Asset Account Group and the Internal Service Fund are recorded at the historical cost of the originating fund. When an internal service fund is the receiving fund, cost is less accumulated depreciation or accumulated depreciation which would have been recorded had the fixed asset always been an asset of proprietary funds. A net value is recorded as contributed capital by the receiving internal service fund.

Depreciation of vehicles and equipment in the proprietary fund is computed using the straight-line method over the estimated useful life of the asset (passenger vehicles - 5 years; trucks -7 years; and equipment - 5-15 years) after allowing for salvage value.

No interest expense has been capitalized for any fixed assets, since the only debt incurred by the Department has been for the construction of infrastructure.

Interest In License Agreement

The Association's License Agreement with the Department dated February 11, 1998 grants to the Association various rights and obligations pertaining to the financing, acquisition, construction and operation of the Southern Connector and to the construction of the SC 153 Extension. The terms of the License Agreement provide that the Association will finance and construct the Southern Connector and will construct the SC 153 Extension with financing provided by the Department. However, the Department will at all times retain fee simple title to the Southern Connector and to the SC 153 Extension, to all real property and improvements thereon, and to all rights of way acquired during construction. Following completion of construction of the Southern Connector and commencement of the toll road operations, the Association will be entitled to collect tolls from the use of the Southern Connector, and will be required to pay monthly license fees to the Department.

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

The Association's interest in the License Agreement is an intangible asset relating to the Southern Connector that will generate revenues upon completion of construction and commencement of operations. In order to account for its interest in the License Agreement, the Association is capitalizing all costs of acquisition and construction of the Southern Connector, including interest expense during the construction period. Once the Southern Connector is opened to the public, the Association's interest in the License Agreement will be amortized on a straight-line basis over the remaining term of the License Agreement through 2038.

The Association's financial statements do not reflect any of the costs of construction of the SC 153 Extension since those costs are directly financed and paid by the Department.

Fund Equity

In accordance with governmental accounting standards, the portions of fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specific use are presented as reserved at year-end. Designated unreserved fund balances represent tentative plans for future use of financial resources. The reserves for inventory, right of way land purchases held for sale and long-term advances receivable represent financial resources not available for current expenditures.

Contributed capital is recorded in the proprietary fund, consisting of capital contributions in the form of vehicles and equipment transferred from the General Fixed Assets Account Group. Depreciation expense on these assets is recorded as a reduction in contributed capital.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Quasi-external transactions are those that would be treated as revenues, expenditures or expenses if they involved organizations external to the government unit. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/ expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are recorded as residual equity transfers. All other interfund transfers are reported as operating transfers. There have been no eliminations of interfund transfers in the financial statements.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 1999. The Department 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,

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

inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the general long-term debt group of accounts.

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 expenditures and affect disclosure of contingent assets and liabilities at the balance sheet date of the financial statements. Accordingly, actual results could differ from those estimates.

Memorandum Only Columns – Totals and Comparative Amounts

Amounts in the "Totals (Memorandum Only)" columns included in the combined balance sheet and statement of revenues, expenditures and changes in fund balances present an aggregation of the financial statement line-items as previously reported to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present information in conformity with generally accepted accounting principles. Such amounts do not include the restatement adjustments described in Note 19. Furthermore, the reporting entity totals for the prior year do not include the Association because it had no balances or transactions as of the prior year-end or for the period then ended. Interfund eliminations have not been made in the aggregation of this data.

The comparative columns for the prior year included in the statements of revenues, expenses and changes in retained earnings and cash flows present balances as previously reported to provide summarized comparisons with current year amounts. The prior year figures and totals are not intended to present all of the information necessary for a fair presentation of results of operations and cash flows in accordance with generally accepted accounting principles.

NOTE 2. DEPOSITS AND INVESTMENTS:

The following schedule reconciles deposits within the footnotes to the balance sheet amounts:

~~Balance Sheet~~		~~Footnotes~~	
Cash and Cash		Primary Entity:	
Equivalents	$ 439,106,977	Cash on Hand	$ 250
Investments	170,900,015	Deposits Held by	
		State Treasurer	438,464,589
		Component Unit:	
		Other Deposits	538,546
		Investments	171,003,597
	$ 610,006,992		$ 610,006,992

Primary Entity

Deposits Held by State Treasurer

All deposits of the Department are under the control of the State Treasurer who, by law, has sole authority for investing State funds. 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 insured or registered or are investments for which the securities are held by the State or its

NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)

agent in the State's name. Information pertaining to carrying amounts, fair value, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Cash and cash equivalents reported on the balance sheet include $667,553 in unrealized appreciation as of June 30, 1999, of which $82,110 is attributable to the Agency Fund. The interest/investment income reported in the statement of revenues, expenditures and changes in fund balance for the Special Revenue Fund includes an unrealized appreciation gain of $150,834 for the year ended June 30, 1999. An unrealized depreciation loss of $732,969 is reported in the Agency Fund.

Deposits at June 30, 1999 held by the State Treasurer include $216,391,214 of unexpended funds related to the recent bond issues (including $432,463 of unrealized appreciation).

Component Unit

Other Deposits

The Association's bond indenture requires that all bank deposits that are not insured by the Federal Deposit Insurance Corporation be collateralized by investment securities. The types of investment securities that may be used as collateral are: obligations of or guaranteed by the United States of America or certain of its agencies, repurchase agreements with underlying securities that are obligations of or guaranteed by the United States of America or certain of its agencies, certain obligations of or guaranteed by any state within the territorial United States of America, agreements that provide for the forward delivery of any securities previously described, investments in money market mutual funds rated "AAAm", "AAm", "AAAmG" or better, unsecured investments agreements with any bank or financial institution the unsecured debt or counterparty rating of which is "investment grade" rated as of the date of acquisition, and any other obligation which, at the date of acquisition, is rated by a Rating Agency in one of the two highest rating categories for long-term obligations or in the highest rating category for short-term obligations.

The Department's component unit's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

1. Insured or collateralized with securities held by the Association or by its agent in the Association name,

2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name, and

3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Association's name.

NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)

	Category 1	Category 2	Category 3	Bank Balance Total
Insured deposits	$ 100,000	$ -	$ -	$ 100,000
Uninsured deposits				
Uncollateralized			438,546	438,546
Total Deposits	$ 100,000	$ -	$ 438,546	$ 538,546

The Association's carrying amount and bank balance was the same at December 31, 1998.

Investments

The Association's bond indenture requires that all bond proceeds received by the Association be held in trust to be expended in accordance with the indenture guidelines. All monies held in trust that are not insured by the Federal Deposit Insurance Corporation must be secured by and/or invested in investment securities as defined in the indenture. Investment securities include, but are not limited to, direct obligations of, or obligations guaranteed by, the United States of America or an agency thereof.

The Association's investments are stated at fair value (quoted market price or the best available estimate thereof).

The component unit's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. There are three categories of investment risk:

1. Insured or registered, or securities held by the Association or by its agents in the Association's name,

2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Association's name, and

3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Association's name, including the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities.

The Association's investments in open-end money market mutual funds were not required to be categorized since the investments were not evidenced by securities that exist in physical or book entry form.

	Category 1	Category 2	Category 3	Fair Value
Repurchase agreements	$ -	$ 170,900,015	$ -	$170,900,015
Not categorized:				
Open-end money market mutual funds				103,582
Total investments				$171,003,597

Included in cash and cash equivalents and investments of the Association are $635,489 and $27,865,762, respectively of restricted assets.

NOTE 3. STATE APPROPRIATIONS:

The 1998-99 original appropriation is the Department's base budget amount presented in the General Funds column of Section 53, Part IA of the 1998-99 Appropriation Act.

Original appropriation	$578,976

The Department carried forward $8,432 of appropriations from the year ended June 30, 1999 pursuant to Proviso 72.48 of the 1999-2000 Appropriations Act.

NOTE 4. RECEIVABLES:

Federal Government - The $61,450,401 receivable amount represents reimbursements due the Department under various Federal grant programs in which the Department participates. Revenues and related receivables are recognized at the time expenditures are incurred under such programs.

State Government - The receivable amount of $42,636,763 is comprised of $34,995,246 for gasoline taxes and other fees collected by the South Carolina Department of Revenue but not remitted to the Department by June 30, 1999 and $7,641,517 for the sales of supplies and services and the reimbursement of expenditures that is due from various State agencies.

The $7,641,517 includes an unpaid balance of $4,867,211 due under two repayment agreements with the South Carolina Department of Public Safety (SCDPS). The reimbursement is primarily for data processing, motor vehicle repairs and operating expenses in fiscal years 1994 and 1995. The two agencies entered into one repayment agreement on August 25, 1995 covering an unpaid balance of $8,839,817. That agreement provides for SCDPS to pay $100,000 per month beginning on January 1, 1996 and each month thereafter with the final payment due April 1, 2003. $1,200,000 was paid during the fiscal year ended June 30, 1999, leaving a balance due on this obligation of $4,365,463 as of year-end. The repayment terms do not provide for interest. The Department entered into a second repayment agreement on July 18, 1996 for an unpaid balance of $897,867. This agreement provides for the SCDPS to pay $13,204 per month beginning in January, 1997 for 68 months. $158,448 was paid during the fiscal year ended June 30, 1999, leaving a balance due on this obligation of $501,748 as of year-end. Due to the long-term nature of the two receivables, the $4,867,211 balance has been equally offset as a reservation of fund balance to reflect that this portion is not currently available. The $7,641,517 balance also includes $500,000 due from the South Carolina Transportation Infrastructure Bank (see Note 13).

The $5,140,394 receivable balance in the Agency Fund represents gasoline tax collected by the South Carolina Department of Revenue for the County Transportation Program Fund and not remitted to the Department by June 30, 1999.

County and Municipal Governments - The $6,124,899 receivable balance represents amounts due from various county and municipal governments as described below.

During the years 1968 through 1972, Richland County (the County) and the Department entered into a series of contracts for the implementation of the Columbia Area Thoroughfare Plan and the construction of certain capital improvements. These contracts provided for the County to reimburse the Department 25% of the right-of-way costs of certain highway improvements. The County's resultant share of costs totaled $1,697,810 which are being paid to the Department under a settlement agreement dated December 13, 1978. The terms of repayment provide for an annual payment of $50,000. The agreement provides that no interest or charges of any nature whatsoever shall accrue and that all payments made will be a reduction of the principal balance due. To date, $1,010,000 has been paid, leaving a balance due at June 30, 1999 of $687,810 Due to the long-term nature of this advance, it has been equally offset as a reservation of fund balance to reflect that this portion is not currently available.

NOTE 4. RECEIVABLES: (CONTINUED)

The Department and the Town of St. Stephens entered into a participation agreement on December 16, 1994 for a construction project. The Town's share of the cost was $250,000 and is to be paid in annual installments of $20,833 each for twelve years following completion of the project without interest. The first installment was due March 10, 1997 with annual installments due each year thereafter. In fiscal year 1999, the Department received $20,833. Due to the long-term nature of the $187,500 receivable at June 30, 1999, it has been equally offset as a reservation of fund balance to reflect that this portion is not currently available.

The Department, in connection with the issuance of the Series 1999A bonds, loaned the Dorchester County Transportation Committee $2,000,000 pursuant to an agreement entered into March 1, 1999. The loan is to be repaid based on the same terms and schedule payment dates as the Series 1999A bonds. The interest rate range is 4.5% - 4.6% and the average annual debt service is $156,084. The first semiannual payment is due November 1, 1999 and the final semiannual payment is due May 1, 2019.

Due to the long-term nature of the receivable at June 30, 1999, the $2,000,000 balance has been equally offset as a reservation of fund balance to reflect that this portion is not currently available.

The remaining $3,249,589 is comprised of $3,065,691 from various county and municipal governments pursuant to participation agreements under which such governments participate in the cost of certain highway construction projects and $183,898 from various county and municipal governments for sales of various supply items.

Accounts Receivable - The account receivable balance of $1,315,563 at June 30, 1999 represents amounts due from other entities including $666,267 pursuant to participation agreements and $196,250 due from Woodruff-Roebuck Water District (the District) as described below.

The Department advanced $785,000 in 1992 to the District for certain construction costs which are being reimbursed to the Department. The District is repaying $98,125 annually with no interest under an agreement dated May 26, 1992. No payments were received during fiscal year 1999. The Department has billed the District and should receive two payments during the fiscal year ending June 30, 2000. Due to the long-term nature of the $196,250 receivable at June 30, 1999, it has been equally offset as a reservation of fund balance to reflect that this portion is not currently available.

NOTE 5. INVENTORIES:

Inventories as of June 30, 1999 consist of the following:

Sign Shops	$5,013,532
Repair Shops	2,120,338
Supply Depot	1,249,397
Office Supplies	233,506
	$8,616,773

NOTE 6. FIXED ASSETS:

The following is a summary of changes in the General Fixed Assets Account Group of the Department during the fiscal year 1999 :

	Land and Improvements	Buildings and Improvements	Furniture, Vehicles and Equipment	Construction in Progress	Total General Fixed Assets
Balances, June 30, 1998 as previously stated	$3,335,774	$63,011,735	$207,217,677	$9,775,283	$283,340,469
Adjustments (A)			(4,297,195)		(4,297,195)
Balances, June 30, 1998 as restated	$3,335,774	$63,011,735	$202,920,482	$9,775,283	$279,043,274
Additions purchased			17,982,818	6,150,042	24,132,860
Donated assets			1,268,390		1,268,390
Transfers from Internal Service Fund			1,975,641		1,975,641
Retirements/disposals		(8,516)	(13,069,831)A	(243,727)B	(13,322,074)
Transfers to Internal Service Fund			(4,144,080)		(4,144,080)
Construction completed		2,927,727		(2,927,727)	
Balance, June 30, 1999	$3,335,774	$65,930,946	$206,933,420	$12,753,871	$288,954,011

(A) $4,297,195 results from a change in the capitalization policy from $500 to $1,000 for furniture, vehicles and equipment.

(B) These retirements/disposals are for engineering and other upfront costs attributable to proposed projects that are not going to be constructed.

The following is a summary of proprietary fund-type fixed assets included in the Internal Service Fund at June 30, 1999:

Vehicles and equipment	$12,209,883
Less: accumulated depreciation	6,400,407
Net fixed assets	$ 5,809,476

NOTE 7. DEBT:

A summary of changes in general long-term debt for the Department for the year ended June 30, 1999 is as follows:

	Bonds Payable	Liability for Compensated Absences	Contribution Payable - State Agency	Total
Balances, beginning of year	$137,865,000	$15,605,509	$104,000,000	$257,470,509
Increases	200,000,000	1,616,464*	95,000,000	296,616,464
Decreases	(4,320,000)		(10,000,000)	(14,320,000)
Balances, end of year	$333,545,000	$17,221,973	$189,000,000	$539,766,973

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

NOTE 7. DEBT: (CONTINUED)

Bonds Payable – Primary Entity

Sections 57-11-210, et seq. of the South Carolina Code (the "State Highway Bond Act"), as continued and amended by Section 11-27-30 thereof, authorized the issuance of general obligation State Highway Bonds for highway construction and related purposes backed by the full faith, credit, and taxing power of the State. State Highway Bonds are additionally secured by a pledge of so much of the revenues as may be made applicable by the General Assembly for State highway purposes from any and all taxes or licenses imposed upon individuals or vehicles for the privilege of using the public highways of the State. Such taxes include the gasoline tax, the fuel oil tax, the road tax and the motor vehicle license tax described herein. So long as any State Highway Bonds are outstanding the amount of revenues made applicable thereto by the General Assembly may not be less than the amounts needed to fund the general operations budget of the Department and meet debt service requirements for annual principal and interest payments on such bonds. Section 57-11-240 provides that the debt limit for State Highway Bonds is the maximum annual debt service limitation which results from the application of the constitutional limitation imposed by said Paragraph 6(a) of Section 13 of the Article X of the South Carolina Constitution. From time to time, the State Budget and Control Board may authorize the issuance of various amounts of State Highway Bonds for specific types of projects or individual projects and may authorize the total to be issued in one or more series depending on the projections of the timing of project expenditures to be funded from the proceeds.

On March 1, 1999, the Department issued $200,000,000 of State Highway Bonds (Series 1999A). The net proceeds realized was $199,008,330 after deducting issue discounts totaling $991,670. The proceeds form these bonds are to be used for projects under the Metropolitan Planning Organizations Project Acceleration Program and the Dorchester County Transportation Committee.

On April 1, 1998, the Department issued $17,500,000 in State Highway Bonds (Series 1998A). The proceeds from these bonds were designated to be used by the Department for the Greenville Southern Connector Project.

The Department issued $20,000,000 of State Highway Bonds (Series 1995) on August 1, 1995, $30,000,000 (Series 1996A) on January 1, 1996, and $30,000,000 (Series 1997A) on October 1, 1997 which make up the $80,000,000 of general obligation bonds that were authorized to provide funds to pay the costs of replacing approximately 182 structurally deficient bridges in the State of South Carolina.

On July 1, 1996, the Department issued $45,000,000 of Series B Bonds at par. The proceeds from these bonds were used to pay a portion of the cost of the Hilton Head Island Cross-Island Parkway. The Department currently imposes tolls on the Parkway in order to reimburse the State Highway Fund for the costs thereof, including debt service on the bonds. The revenues from the tolls are not pledged to secure the bonds. Toll revenues of $4,271,137 were realized during fiscal year 1999.

A summary of the bonds payable as of June 30, 1999 is as follows:

Issue Date	Series	Original Face Amount	Maturity Date	Interest Rates	Unpaid Principal Balance June 30, 1999
08/01/95	1995	$ 20,000,000	08/01/10	5.400%	$ 17,200,000
01/01/96	1996A	30,000,000	02/01/11	6.100%	25,590,000
07/01/96	1996B	45,000,000	07/01/21	5.025-5.650%	44,950,000
10/01/97	1997A	30,000,000	10/01/11	4.500-5.000%	28,660,000
04/01/98	1998A	17,500,000	04/01/23	4.500-6.500%	17,145,000
03/01/99	1999A	200,000,000	05/01/19	4.500-4.600%	200,000,000
Total bonds payable				$333,545,000	

NOTE 7. DEBT: (CONTINUED)

Annual payments of principal and interest are due on the bonds and are being paid semiannually.

Details of annual debt service, including interest, for each year are as follows:

Year Ending June 30,	Principal	Interest	Total
2000	$ 6,605,000	$ 17,462,379	$ 24,067,379
2001	6,805,000	15,601,008	22,406,008
2002	9,235,000	15,273,476	24,508,476
2003	9,765,000	14,831,637	24,596,637
2004	12,220,000	14,362,759	26,582,759
Thereafter	288,915,000	117,939,028	406,854,028
Total debt service obligations	$333,545,000	$195,470,287	$529,015,287

Interest expenditures for the fiscal year ended June 30, 1999 were $6,979,293 Accrued interest received of $35,327 at the time of sale of the 1998A bonds was applied to the interest payments made during the fiscal year ended June 30, 1999.

The Series 1995 State Highway Bonds maturing on or after August 1, 2006, are subject to redemption, at the option of the State, in whole or in part at any time in any order of maturity to be determined by the State, on and after August 1, 2005, at the Redemption Prices expressed as a percentage of the principal amount of each Series 1995 State Highway Bond, or portion thereof, to be redeemed, as set forth below, plus accrued interest to the date for redemption:

Redemption Dates	Redemption Price
August 1, 2005 through July 31, 2005	102%
August 1, 2006 through July 31, 2006	101%
August 1, 2007 and thereafter	100%

The Series 1996A General Obligation State Highway Bonds maturing on and after February 1, 2007, shall be subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on and after February 1, 2006, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed as set forth below, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Price
February 1, 2006 through January 31, 2007	102%
February 1, 2007 through January 31, 2008	101%
February 1, 2008 and thereafter	100%

The Series 1996B State Highway Bonds maturing on and after July 1, 2007, shall be subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after July 2006, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

NOTE 7. DEBT: (CONTINUED)

Redemption Dates	Redemption Price
July 1, 2006 through June 30, 2007	102%
July 1, 2007 through June 30, 2008	101%
July 1, 2008 and thereafter	100%

The Series 1997A State Highway Bonds maturing on and after October 1, 2008, shall be subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after October 1, 2007, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Price
October 1, 2007 through September 30, 2008	102%
October 1, 2008 through September 30, 2009	101%
October 1, 2009 and thereafter	100%

The Series 1998A State Highway Bonds maturing on and after April 1, 2009, shall be subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after April 1, 2008, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Price
April 1, 2008 through March 31, 2009	102%
April 1, 2009 through March 31, 2010	101%
April 1, 2010 and thereafter	100%

The Series 1999A General Obligation State Highway Bonds maturing on and after May 1, 2010 shall be subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on and after May 1, 2009, at the Redemption Prices expressed as a percentage o the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Price
May 1, 2009 through April 30, 2010	102%
May 1, 2010 through April 30, 2011	101%
May 1, 2011 and thereafter	100%

Bonds Payable – Component Unit

The Association issued three series of tax-exempt toll road revenue bonds pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, both dated February 1, 1998. The bonds are special, limited obligations of the Association that are not, and shall never, constitute an indebtedness of the State of South Carolina, of the Department, or of any agency, department or political subdivision of the State of South Carolina, including the County of Greenville, South Carolina and the City of Greenville, South Carolina.

NOTE 7. DEBT: (CONTINUED)

At December 31, 1998, bonds payable consisted of the following:

	Balance at Issuance	Interest Accretions	Balance at December 31, 1998
Senior bonds:			
Series 1998A Senior Current Interest Toll Road Revenue Bonds, dated February 1, 1998; interest payable semiannually on January 1 and July 1 at rates of 5.25% and 5.375%; $21,400,000 of bonds mature January, 2023; $44,800,000 of bonds mature January, 2038	$ 66,200,000	$	$ 66,200,000
Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds, dated February 11, 1998; interest accrues at various rates ranging from 5.3% to 5.85%; bonds mature at various dates from January, 2008 to January, 2038	87,385,622	4,527,477	91,913,099
Subordinate bonds:			
Series 1998C Subordinate Capital Appreciation Toll Road Revenue bonds, dated February 11, 1998; interest accretes at various rates ranging from 6.15% to 6.3%; bonds mature at various dates from January, 2008 to January 2038	46,592,058	2,616,604	49,208,662
	$ 200,177,680	$ 7,144,081	$ 207,321,761

The terms of the bond indenture require that the proceeds of the bonds be allocated among and deposited into various accounts (called "funds" in the indenture documents). The monies deposited into these accounts are invested according to the terms of the indenture. Authorized payments of construction costs, debt service, arbitrage rebates and, upon completion of the Southern Connector, operating costs and renewal and replacement costs may only be paid from certain accounts as specified in the indenture. Payment of the debt service of the bonds is secured by the Trust Estate, which includes all monies deposited into these various accounts, excluding amounts in the rebate account and in the renewal and replacement account. The Trust Estate also includes the Association's interest in revenues as defined in the indenture, the Association's interest in the License Agreement with the Department, and any other property pledged as security for the bonds.

NOTE 7. DEBT: (CONTINUED)

Debt service requirements to maturity for the Association's bonds payable are as follows:

Year Ended December 31	Principal	Interest	Total
1999	$ -	$ 3,531,500	$ 3,531,500
2000	-	3,531,500	3,531,500
2001	-	3,531,500	3,531,500
2002	-	3,531,500	3,531,500
2003	-	3,531,500	3,531,500
Thereafter	207,321,761	622,026,241	829,348,002
Totals	$ 207,321,761	$ 639,683,741	$ 847,005,502

Contributions Payable – State Agency – Primary Entity

The Department entered into an intergovernmental agreement on March 10, 1998 with Horry County and the South Carolina Transportation Infrastructure Bank (the Bank) to fund $545,000,000 in project costs for Phase I of the Conway By-Pass in Horry County. The agreement provides that the Department will contribute $114,000,000 of the project costs. The Department's commitment includes contributing to the Bank $10,000,000 a year for eleven years and $4,000,000 in the twelfth year. $20,000,000 has been paid through June 30, 1999 with $10,000,000 being paid by the Department in the current year. The remaining balance of $94,000,000 is included in the Department's combined balance sheet in the general long-term debt group account as a contribution payable – State agency. The $10,000,000 expenditure made during the current fiscal year is included in the statement of revenues, expenditures and changes in fund balances as allocations to other entity – State agency.

The intergovernmental agreement was amended on April 27, 1999 and the amendment provides for the Department to contribute $95,000,000 in funds for Phase II of the Conway By-Pass. This contribution is payable in annual payments of $7,600,000 each year beginning July 1, 1999 for 20 years including 5% interest per annum. No payments were made on this obligation as of June 30, 1999. The $95,000,000 balance is included in the Department's combined balance sheet in the general long-term debt group account as a contribution payable – State agency.

NOTE 8. INTEREST IN LICENSE AGREEMENT WITH THE DEPARTMENT:

On February 11, 1998, the Association entered into a license agreement (the License Agreement) with the Department regarding the construction and operation of the Southern Connector and SC 153 Extension projects (the Projects). The agreement grants the Association the exclusive right (1) to acquire in the name of the Department rights of way and other real property necessary to the development and operation of the Projects, (2) to develop and construct the Projects, (3) to finance the Southern Connector, (4) to operate, repair, renew and replace the Southern Connector in accordance with terms of the agreement, and (5) to collect tolls from the users of the Southern Connector.

The Association is only responsible for financing the Southern Connector portion of the Projects; the Department provides financing for the SC 153 Extension portion of the Projects.

In order to finance the Southern Connector, the Association issued three series of toll road revenue bonds pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, both dated February 1, 1998. Interest on the bonds is exempt from federal income tax and from South Carolina income tax. The bonds are special, limited obligations of the Association, payable solely from net revenues and monies held

NOTE 8. INTEREST IN LICENSE AGREEMENT WITH THE DEPARTMENT: (CONTINUED)

in certain accounts and other property included in the trust estate. The bonds are not, and shall never, constitute an indebtedness of the State of South Carolina, of the Department, or of any agency, department or political subdivision of the State of South Carolina.

The License Agreement specifies that, upon its termination, the Association is to convey to the Department full title to all property and equipment acquired in whole or in part with proceeds of the bonds issued to finance the Southern Connector project. As stated in the License Agreement, the title to all real property and improvements thereon acquired or constructed during the term of the License Agreement is held by the Department. The License Agreement specifies a termination date 50 years after substantial completion of the Southern Connector. However, the License Agreement automatically terminates upon repayment, redemption or defeasance of the bonds and all other project debt. Since the bonds mature January 1, 2038, management considers that date to be the effective termination date of the License Agreement.

In order to fulfill its responsibilities under the License Agreement, the Association has entered into an agreement (the Development Agreement) with Interwest Carolina Transportation Group, LLC (the Developer) whereby the Developer has agreed to perform the obligations of the Association under the License Agreement with respect to construction of the Southern Connector and has assumed various additional responsibilities with respect to the construction. In order to fulfill its responsibilities under the Development Agreement, the Developer has in turn entered into contracts with various subcontractors for the performance of certain obligations. The Developer has agreed to complete the construction of the Southern Connector at a guaranteed price of $173,802,263, which includes acquisition of all rights of way, relocation of utilities and railroads, and all design and construction activities including toll plazas, toll collection equipment, operations systems and other costs. The Developer has also agreed to a guaranteed date of substantial completion of the Southern Connector on November 17, 2001. The Developer is not allowed to adjust the guaranteed price or delay the date of substantial completion unless such adjustments or delays are specifically authorized as an approved change order. Upon completion of the Southern Connector, the Association will deliver to the Department a request for the acceptance of the toll road. Once the Department has approved and accepted the Southern Connector, the toll road will be opened to public traffic, and collection of toll revenues will commence.

The Association expects to enter into an agreement (the Operation Agreement) with a third party (acceptable to the Department) whereby the third party will operate the Southern Connector on behalf of the Association for a fee. It is currently expected that the initial Operation Agreement would be for a period of three to five years. Under the Operation Agreement, tolls for the use of the Southern Connector will be collected on behalf of the Association. From these tolls, the Association will be required to pay a license fee to the Department in the amount of $125,000 per month for a period of 25 years, and of $1 per month thereafter for the remainder of the term of the License Agreement. Payment of the monthly license fees will commence on the first day of the calendar month following the first anniversary of the final completion date of the Southern Connector. So long as any project debt remains outstanding, any license fees not paid when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually. The Department will be responsible for maintaining the Southern Connector (costs of maintenance are to be reimbursed by the Association) and will be responsible for setting the toll rates in accordance with the terms of the License Agreement. The SC 153 Extension, will be operated, maintained, renewed and replaced by the Department as part of the South Carolina Highway System.

The Association's rights under the License Agreement as described above constitute an intangible asset that is valued and recorded at the cost of construction of the Southern Connector, including related capitalized interest. At December 31, 1998, the Developer estimated that construction of the Southern Connector was approximately 18% complete. Construction costs are reviewed by the Association's Authorized Representative, an independently contracted engineer who reviews all costs of construction of the Southern Connector.

NOTE 8. INTEREST IN LICENSE AGREEMENT WITH THE DEPARTMENT: (CONTINUED)

The $34,678,201 value of the Association's Interest in License Agreement with the Department as of December 31, 1998 consists of $31,411,953 related to construction in progress costs, $1,573,252 for administrative costs and $1,692,996 for capitalized interest expense, net at interest earnings.

NOTE 9. INTERFUND RECEIVABLES/PAYABLES:

The $4,350,356 due to the Special Revenue Fund from the Agency Fund represents June, 1999 billings for work performed for the County Transportation Program.

NOTE 10. PENSION PLANS:

The majority of employees of the Department 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 Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

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

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 1999, 1998 and 1997 were approximately $9,425,000 $8,809,000, and $8,691,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately $187,000 in the current fiscal year at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

NOTE 10. PENSION PLANS: (CONTINUED)

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.03 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 12.33 percent which, as for the SCRS, included the 2.03 percent surcharge. The Department's actual contributions to the PORS for the years ended June 30, 1999, 1998, and 1997 were approximately $4,300, $4,700, and $4,600, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately $80 and accidental death insurance contributions of approximately $80 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the Department for pension, group-life benefits and accidental death benefits 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. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

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

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

NOTE 11. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Department are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age,

NOTE 11. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Department for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately, 19,200 State retirees met these eligibility requirements at June 30, 1998.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately $11,389,000 for the year ended June 30, 1999. As discussed in Note 10, the Department paid approximately $2,413,000 applicable to the 2.03% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 12. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k) and 403(b), administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

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

NOTE 13. TRANSACTIONS WITH STATE ENTITIES:

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

The Department sells supply items, gasoline and oil to and makes vehicle and equipment repairs for various State agencies. Total sales to state agencies were approximately $648,300 for the year ended June 30, 1999.

NOTE 13. TRANSACTIONS WITH STATE ENTITIES: (CONTINUED)

The gasoline tax is collected by the South Carolina Department of Revenue (DOR) and remitted to the Department on a monthly basis. Taxes collected by DOR and remitted to the special revenue fund amounted to approximately $355,700,000 for the year ended June 30, 1999. Gasoline tax revenues amounted to approximately $57,100,000 for the County Transportation Program Agency Fund for the year ended June 30, 1999.

The Special Revenue Fund infrastructure expenditures and revenues include approximately $32,600,000 for County Transportation Program projects administered by the Department.

Services received at no cost from State agencies include legal services from the Attorney General, grants services from the Governor's Office and bond trustee services from the State Treasurer's Office.

Services received at no cost from the various divisions of the State Budget and Control Board include insurance plan administration, procurement services, retirement plan administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments and other centralized functions.

The Department had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement plan contributions and health insurance premiums, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made to other agencies for unemployment insurance and workers' compensation coverage. The amounts of expenditures applicable to related party transactions are not readily available.

In addition, the Department transferred the following amounts to the General Fund of the State of South Carolina for its proportionate share of the cost of administration of central state services, other specified support and pay telephone revenue pursuant to the following provisions of the 1998-99 Appropriations Act:

Statewide Cost Allocation Plan (Proviso 53.4)	
Collection of highway revenues	$3,069,811
Central Service Agency recoveries	1,103,894
Other indirect cost recoveries	705,518
Payments for Servicing Functions (Proviso 53.11)	
Comptroller General's Office for accounting and payroll functions	471,500
State Treasurer's Office	123,546
Pay Telephone Revenue (Proviso 72.99)	108,351
Total	$5,582,620

The $5,564,667 was paid to the State during the year. $17,953 was unpaid and included in accounts payable at June 30, 1999.

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

The Department was obligated to the State Accident Fund for $698,000 for fiscal year 1999 workers' compensation insurance premiums. This amount is included in intergovernmental payables on the balance sheet of the Special Revenue Fund. Expenditures for the workers' compensation insurance premium for fiscal year 1999 of $2,671,558 are included in the general expenditure category of the Special Revenue Fund.

NOTE 13: TRANSACTIONS WITH STATE ENTITIES: (CONTINUED)

The Department had transactions with the South Carolina Transportation Infrastructure Bank ('the Bank") which was created June 26, 1997 by Act Number A-418 of the Code of Laws of South Carolina. The Bank's purpose is to assist governmental units and private entities in constructing and improving highway and transportation facilities by providing loans and other financial assistance. The Chairman of the Department's Commission is an ex-officio member of the Bank's governing Board of Directors. The Department entered into an intergovernmental agreement on March 10, 1998 with the Bank and Horry County to provide funds and services in connection with the construction of the Conway By-pass. In addition to the $10,000,000 payment to the Bank referred to in Note 7, the Department paid the Bank $16,161,483 during fiscal year 1999 which represented the three percent of funds appropriated under Section 11-43-160 of the Code of Laws of South Carolina to the Department from State highway taxes and fees for the construction and maintenance of highways from State highway taxes and fees. The $26,161,483 is included in the statement of revenues, expenditures and change in fund balance as allocations to other entity – State agency. The intergovernmental agreement also provides that the Department shall be paid a fee of $3,000,000 for construction management services. The fee is payable in thirty-six (36) equal monthly installments commencing with the execution of the loan agreement on March 24, 1998 with Horry County and the Bank. At June 30, 1999, the Department recorded a receivable from the Bank for $500,000. The Department included the $500,000 in intergovernmental receivables from State agencies at June 30, 1999 and $1,000,000 for the management services in other revenues for the year ended June 30, 1999. $1,250,000 has been earned through June 30, 1999 for the construction management services. Also, the Department received $43,900 during fiscal year 1999 from the bank for various administrative services and clerical assistance provided during the period January 1, 1999 – June 30, 1999.

NOTE 14. PROJECTS/CONSTRUCTION IN PROGRESS:

At June 30, 1999, the estimated costs of Department projects in progress to construct, acquire and maintain various capital facilities amounted to approximately $27,000,000 and the infrastructure projects approximately $4,217,000,000; the estimated costs to complete the capital projects amounted to approximately $14,000,000 and the infrastructure projects approximately $1,040,000,000; and, the outstanding contractual obligations attributable to the capital projects amounted to approximately $1,200,000 and the infrastructure projects approximately $424,000,000. The estimated time frame for completion of these projects is several years.

The costs of projects in progress and future projects will be funded from state taxes and fees, federal grants, County Transportation Fund reimbursements and bond proceeds.

The Association's Interest in license agreement includes construction in progress at December 31, 1999 which consists of $31,411,953 of cost incurred under a guaranteed contract totaling $173,802,263 and capitalized administrative expenses of $1,573,252.

NOTE 15. CONTRIBUTED CAPITAL:

The following is a summary of the changes in contributed capital in the Internal Service Fund during the fiscal year:

Contributed capital, beginning of year	$4,208,107
Vehicles and equipment transferred from the General Fixed Assets Account Group ($4,144,080 net of prior accumulated depreciation of $657,615)	3,486,465
Vehicles and equipment transferred to the General Fixed Assets Account Group ($1,975,641 net of accumulated depreciation of $1,485,111)	(490,530)
Current fiscal year reduction for depreciation on contributed assets	(1,394,566)
Contributed capital, end of year	$5,809,476

NOTE 16. FEDERAL GRANTS AND REIMBURSABLE CONTRACTS:

The Department has grants and reimbursable contracts with the Federal government for the funding of specific costs related to the various programs described in each grant or contract. These funds are subject to audit and/or adjustment by the various funding sources.

Management feels that adjustments, if any, will not have a material adverse effect on the financial position of the Department. Furthermore, there is no evidence to indicate that a liability should be recorded at June 30, 1999.

NOTE 17. RISK MANAGEMENT:

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks except for a provision for $650,000 for a possible claim that may be payable by the Department on one tort case in excess of insurance coverage. There were no significant reductions in insurance coverage in the prior year. Settled claims have not exceeded this coverage in the prior two years. The liability for $650,000 is included in other liabilities and the expenditure is included in the general expenditure category in the Special Revenue Fund. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

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

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

4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

NOTE 17. RISK MANAGEMENT: (CONTINUED)

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

The Department 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. Theft of, damage to, or destruction of assets;
2. Real property and contents;
3. Motor vehicles;
4. Data processing equipment;
5. Business interruptions;
6. Torts; and,
7. Medical malpractice claims against covered employees.

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 ISF's rates are determined actuarially.

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

The Department obtains coverage up to $50,000 through a commercial insurer for employee fidelity bond insurance for its Director for losses arising from theft or misappropriation. Employee fidelity bond coverage is not maintained on the Department's other employees. The Department self-insures itself for any losses because it feels the likelihood of losses are remote.

The Department has not transferred the portion of the risk of loss related to insurance policy deductibles and limits for capital assets and fidelity coverages to a State or commercial insurer. The Department has not reported an estimated claims loss expenditure, and the related liability at June 30, 1999, based on the requirements of GASB Statement No. 10 and No. 30 which state that a 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, 1999 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage, except as mentioned above for certain tort claims, are unlikely and, if incurred, would be insignificant to the Department's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded; and, therefore, no loss accrual has been recorded.

The Department has recorded insurance premium expenditures in the current expenditures and capital outlay expenditure categories.

Prior to January 1, 1994, the Department was self-insured for its workers compensation insurance. The Department reimburses the State Accident Fund for claims paid which were incurred prior to January 1, 1994. The Fund acts as a claims servicer for those claims. All risks of loss are retained by the Department

NOTE 17. RISK MANAGEMENT: (CONTINUED)

which reimburses the Fund for the full amounts of claims paid plus an amount for administrative costs. These reimbursements include claims for employees that were transferred to other State agencies from the Department of Highways and Public Transportation pursuant to reorganization as of July 1, 1993.

A summary of changes in the self-insured workers compensation claims for the past three years is as follows:

	Beginning Liability		Current Year Claims and Changes in Estimates		Claims Payments	Ending Liability
1999	$ 334,365	$ -0-	$334,365	$ -0-		
1998	1,463,550		(353,635)		775,550	334,365
1997	- 0 -		1,464,512		962	1,463,550

At June 30, 1998, the Department recorded an estimated claims liability of $334,365 for the expected remaining old claims outstanding. This liability was paid during the fiscal year 1999. The State Accident Fund accepted the liability for any additional claims allowed after June 30, 1998.

The Association is exposed to various types of risk including loss related to torts; theft of, damage to and destruction of assets; injuries to construction workers and others; professional design; and damage to property of others. The Association obtained commercial insurance against such losses for the following types of risk:

Automobile Liability
Professional Design
Workers' Compensation
Crime
Directors and Officers
Force Majeure
Builder's Risk
General Liability

No claim settlements have exceeded insurance coverage during the year and period ended December 31, 1998.

NOTE 18. CONTINGENCIES AND SUBSEQUENT EVENTS:

The Department is a defendant in various lawsuits arising from the conduct of its normal business. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of any litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Department. The risk of material loss in excess of insurance coverage is unlikely except for $650,000 discussed in Note 17. Furthermore, there is no evidence that an additional expenditure and liability should be recorded.

The Joint Bond Review Committee at its meetings of July 28, 1998 and December 8, 1998 reviewed and approved the issuance by the Department not to exceed $722,000,000 in General Obligation State Highway Bonds for projects. As of June 30,1999 $200,000,000 in bonds (Series 1999A) have been issued. The bond authorizations included the following projects:

NOTE 18. CONTINGENCIES AND SUBSEQUENT EVENTS: (CONTINUED)

- Up to $130,000,000 to fund the Interstate Upgrade Acceleration Program
- Up to $295,000,000 to fund the Metropolitan Planning Organization Project Acceleration Program; and,
- Up to $226,000,000 to fund the Council of Governments (COG) Project Acceleration Program

The Commission authorized the timing and amounts of the various bond issues to be determined by the Department's staff.

In May, 1997, the State Budget and Control Board authorized the Department to transfer an island consisting of approximately 8,000 acres to the South Carolina Department of Natural Resources (DNR), another State agency upon exhaustion of mitigation banking credits. The acreage was banked to provide an offset for environmentally sensitive lands that are required for future highway projects. An agreement to transfer the land to DNR will be executed when the Department has used up all the mitigation banking credits.

NOTE 19. PRIOR PERIOD ADJUSTMENT/ACCOUNTING CHANGE:

Effective July 1, 1997, the Department adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This Statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires that the equity position of each fund that sponsors the pool to be reported as assets in those funds. The South Carolina State Treasurer provided management with incorrect fair value amounts as of June 30, 1998 and management has restated its fund balances as of July 1, 1998 to reflect the correct amounts. The change to the special revenue fund balance is as follows:

	Beginning Fund Balances – July 1, 1998		
	As Previously Reported	Prior Period Adjustment	As Restated
Special Revenue Fund	$166,801,852	$(5,141,095)	$161,660,757

Statement No. 31 allows interest and investment income and both realized and unrealized gains to be reported on a single financial statement line. For this fund, these items are reported as "Interest/Investment income" in the Statement of Revenues, Expenditures, and Changes. Accordingly $5,007,377 in unrealized appreciation was previously reported in the Statement of Revenues, Expenditures, and Changes for the year ended June 30, 1998. The restated unrealized appreciation is $226,854 for the year ended June 30, 1998.

For the County Transportation Program Fund, which is a part of the Agency Funds, cash and cash equivalents and the related liability for funds held for counties were each decreased $3,239,046 as of July 1, 1998 to reflect the correct amount resulting from the adoption of Statement No. 31.

Also, See Note 6.

REQUIRED SUPPLEMENTARY INFORMATION – YEAR 2000 ISSUE (UNAUDITED)
JUNE 30, 1999

Primary Entity

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Department's direct control but also the systems of other entities with which the Department transacts business. Some of the Department's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the Department.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Department is or will be Y2K ready, the Department's remediation efforts will be successful in whole or in part or that parties with whom the Department does business will be year 2000 ready.

The Department has used internal staff to conduct various assessments of Y2K issues. A project plan for remediation of mission critical and other department systems, including timelines, has been developed, costs determined and resources allocated. The Department's Y2K plan includes multiple review steps to achieve compliance in all critical areas. The Department has projected that Y2K compliance will cost an estimated $18,000 and will be funded from internal budgets. The Department's management view is that Y2K funding is appropriate for the balance of the initiative.

Work to address the year 2000 issue with respect to each system falls predominantly within one of the following stages of work:

1. Awareness/Assessment stage – Establish a budget and project plan for dealing with the year 2000 issue. Identify the systems and components for which year 2000 work is needed. Identify resources needed to complete work.

2. Remediation stage – makes changes to systems, upgrade or replace equipment.

3. Validation/Testing stage – Validate and test changes made during the Remediation stage.

4. Implementation stage – Replace non-compliant software and hardware with compliant software and hardware.

At June 30, 1999, the Department had completed the awareness/assessment, remediation, validation/testing and implementation stages for our mission critical systems which are Financial Management, Payroll, Purchasing, Shop Work Reporting, Preconstruction Project Management, Personal Computers, Workstations, Servers, Hubs, Routers, and other network components, Telephones, Traffic Signal Systems, Weather Station, Operating System software and Office Software.

The Department is making contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to the Department's business.

Component Unit

The Association has contracted with a finanical institution as Trustee under the bond indenture for the establishment and maintenance of various accounts required by the bond indenture and with other professionals for the provision of its bookkeeping and accounting functions. Therefore, at December 31, 1998, the Association had no computerized accounting systems or other electronic equipment that might be susceptible to year 2000 problems. Furthermore, the Association does not expect to acquire any computerized accounting systems or electronic equipment that is likely to be susceptible to year 2000 problems.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 1999

	Assets						
	Cash and Cash Equivalents		Inter-governmental Receivables - State Agencies	Accrued Interest Receivable	Due from Special Revenue Fund	Account Receivable	Total Assets
RIGHT OF WAY FUND							
Balance, June 30, 1998	$ 248,542						$ 248,542
Additions	1,816,562					12,472	1,829,034
Deductions	(1,681,233)						(1,681,233)
Balance, June 30, 1999	$ 383,871					$ 12,472	$ 396,343
SPECIAL DEPOSITS							
Balance, June 30, 1998	$ 395,908						$ 395,908
Additions	1,261,924						1,261,924
Deductions	(1,208,852)						(1,208,852)
Balance, June 30, 1999	$ 448,980						$ 448,980
COUNTY TRANSPORTATION PROGRAM FUND							
Balance, June 30, 1998, as restated	$ 120,419,279	(1)	$ 4,994,428	$ 599,321	$ 67,156		$ 126,080,184
Additions	81,832,154		57,074,311	6,186,285	9,500,000		154,592,750
Deductions	(124,699,985)		(56,928,345)	(6,120,700)	(9,567,156)		(197,316,186)
Balance, June 30, 1999	$ 77,551,448	(1)	$ 5,140,394	$ 664,906	$ - 0 -		$ 83,356,748
TOTALS - ALL AGENCY FUNDS							
Balance, June 30, 1998, as restated	$ 121,063,729	(1)	$ 4,994,428	$ 599,321	$ 67,156		$ 126,724,634
Additions	84,910,640		57,074,311	6,186,285	9,500,000	12,472	157,683,708
Deductions	(127,590,070)		(56,928,345)	(6,120,700)	(9,567,156)		(200,206,271)
Balance, June 30, 1999	$ 78,384,299	(1)	$ 5,140,394	$ 664,906	$ - 0 -	$ 12,472	$ 84,202,071

(1) Includes unrealized appreciation of $82,110 at June 30, 1999 and $815,079 at June 30, 1998, as restated. Also, cash and cash equivalents and funds held for counties were decreased $3,239,046 as of July 1, 1998 to reflect the correct fair value amounts -- See Note 19 of the Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 1999

	Liabilities					
	Due to Special Revenue Fund	Deposits for Right-of-Way	Special Deposits and Bonds	Accounts Payable/ Other Liabilities	Funds Held for Counties	Total Liabilities
RIGHT OF WAY FUND						
Balance, June 30, 1998		$ 248,342		$ 200		$ 248,542
Additions		1,829,034				1,829,034
Deductions		(1,681,233)				(1,681,233)
Balance, June 30, 1999		$ 396,143		$ 200		$ 396,343
SPECIAL DEPOSITS						
Balance, June 30, 1998			$ 277,536	$ 118,372		$ 395,908
Additions			1,261,674	250		1,261,924
Deductions			(1,207,552)	(1,300)		(1,208,852)
Balance, June 30, 1999			$ 331,658	$ 117,322		$ 448,980
COUNTY TRANSPORTATION PROGRAM FUND						
Balance, June 30, 1998, as restated	$ 9,277,207				$ 116,802,977	$ 126,080,184
Additions	32,610,907			489,132	85,328,261	118,428,300
Deductions	(37,537,758)				(123,613,978)	(161,151,736)
Balance, June 30, 1999	$ 4,350,356			$ 489,132	$ 78,517,260	$ 83,356,748
TOTALS - ALL AGENCY FUNDS						
Balance, June 30, 1998	$ 9,277,207	$ 248,342	$ 277,536	$ 118,572	$ 116,802,977	$ 126,724,634
Additions	32,610,907	1,829,034	1,261,674	489,382	85,328,261	121,519,258
Deductions	(37,537,758)	(1,681,233)	(1,207,552)	(1,300)	(123,613,978)	(164,041,821)
Balance, June 30, 1999	$ 4,350,356	$ 396,143	$ 331,658	$ 606,654	$ 78,517,260	$ 84,202,071

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Transportation		
Direct Programs:		
Highway Planning and Construction	20.205	$314,743,825
Federal Transit Metropolitan Planning Grants	20.505	230,784
Formula Grants for Other Than Urbanized Areas	20.509	3,007,058
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	416,594
TOTAL FEDERAL ASSISTANCE		$318,398,261

NOTE: The Department used the accrual basis method of accounting in preparing the above Schedule. This is the same basis of accounting used by the Department in the preparation of its annual financial statements which are audited.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEM ENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the South Carolina Department of Transportation (the Department) as of and for the year ended June 30, 1999, and have issued our report thereon dated November 12, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying schedule of findings and questioned costs are material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of the Department in a separate letter dated November 12, 1999 included on pages 55 and 56.

This report is intended for the information of the Commission members and management of the Department and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
November 12, 1999

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the South Carolina Department of Transportation (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 1999. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Commission members and management of the Department and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
November 12, 1999

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999

SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion dated November 12, 1999 on the financial statements of the Department for the year ended June 30, 1999 was issued.

2. Reportable conditions that were determined to be material weaknesses in internal control over financial reporting are described below.

3. No instances of noncompliance that were material to the financial statements were noted.

4. No reportable conditions relating to the audit of the major federal award programs are reported.

5. An unqualified opinion on compliance for major programs dated November 12, 1999 was issued.

6. There are no findings required to be reported under Section .510(a) of OMB Circular A-133.

7. The major programs of the Department are Highway Planning and Construction (CFDA #20.205) Formula Grants for Other Than Urbanized Areas (CFDA #20.509).

8. The dollar threshold used to distinguish between Type A and Type B programs was $3,000,000.

9. The Department was not determined to be a low-risk auditee.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The following reportable conditions are material weaknesses, are related to the Department's financial statements and are required to be reported in accordance with generally accepted government auditing standards.

BOOKS OF ACCOUNT NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR GOVERNMENTAL ENTITIES

As noted in prior management letters issued to the Department, the Department does not maintain its books of account in accordance with generally accepted accounting principles (GAAP) for governmental entities. Several practices as noted below require a substantial amount of additional work and procedures to be performed at year end to ensure that the financial statements are in accordance with GAAP.

- The Department's financial statements consist of two governmental funds, a proprietary fund, fiduciary funds, and two account groups. In addition, one of the governmental funds (the special revenue fund) and the agency fund consist of a number of individual funds. The Department's general ledger is not set up to adequately account for the Department's activity in each correct fund.

- The Department's policy for classification of highway expenditures as maintenance or capital outlay is based on the source of funding and not the actual nature of the expenditure.

- The Department's general ledger contains accounts for recording estimated revenues and expenditures known as budgetary accounts. These accounts should be self-balancing; however, the entries to these accounts resulted in these budgetary accounts being out of balance. The Department made numerous entries directly to its fund balance account during the year. Generally, no entries should be made to fund balance during the year.

- The Department's general ledger is not maintained by type of expenditure to allow the accumulation of information necessary to present a budget versus actual statement. Expenditures in the general ledger are recorded by function instead of personnel costs, employer contributions, supplies, etc.

A similar finding was included in prior management letters.

BOOKS OF ACCOUNT NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR GOVERNMENTAL ENTITIES (CONTINUED)

We recommend that the Department:

- Set up the necessary funds within its general ledger to properly account for its activity in accordance with GAAP.
- Each fund should be self-balancing.
- Adopt a policy to properly classify expenditures as highway maintenance or construction.
- Review the manner in which all transactions are posted to its general ledger to ensure that all transactions are properly and timely posted in accordance with GAAP.
- Post expenditures in a manner which would allow the preparation of a budget versus actual statement.

CASH RECONCILIATION DEFICIENCIES

We noted several deficiencies regarding the various cash reconciliations. They include the following:

- The cash reconciliations are not being prepared timely for the State Highway Fund account. The reconciliation for June, 1999 was not completed and furnished to us until November 10, 1999.
- The cash reconciliations include reconciling items that are carried over from month to month for several months. The format for the cash reconciliation begins with ending balances per the Comptroller General's records with increases and decreases from reconciling items being shown to equal the Department's ending balance. The State Highway Fund account reconciliation for June, 1999 was out of balance approximately $81,000. The May, 1999 reconciliation reflected out of balance condition of approximately $1,592,000.
- Cash reconciliations are not being prepared for the bond related cash accounts. Three accounts with small balances that were set up to fund bond issuance costs were not recorded on the Department's general ledger. Our review of the financial activity for the accounts disclosed one draw down for construction expenditures not recorded in the general ledger, one that was recorded for an incorrect amount and none of the interest earnings and expenditures therefrom were recorded for the bond issuance costs accounts. The net proceeds from the issuance of Series 1999A was recorded in the general ledger for $180,000 more than actually received. The excess amount included the $170,000 designated for issuance cost and a $10,000 addition error.
- Transactions for transfers between cash accounts are not always recorded in both cash accounts in the general ledger in the month the transfer transactions actually occur.

State regulations and good accounting practices and policies require cash reconciliations to be prepared timely and accurately.

We recommend the Department:

- Set up separate general ledger accounts in the general ledger for <u>each</u> cash account, including the bond related accounts.
- Reconcile all cash accounts to the Comptroller General's account balance within 30 days after each month end. Adopt a reconciliation format that clearly reflects the transit items from the unrecorded items by the Department. Transit items would include deposits in transit and outstanding vouchers. Unrecorded items would include all transactions recorded by the Comptroller General that were not recorded by the Department as of that month end. No items more than 30 days old should appear on the reconciliations.
- Have a designated senior management staff person review and approve all of the cash reconciliations. Also, follow-up should be made by the designated senior staff person if the reconciliations are not available for review within 30 days after each month end and for all recording items that are over 30 days old on the reconciliation (excluding outstanding checks).

- Be sure transfers between cash accounts are recorded in both cash accounts in the general ledger in the month the transfer transaction actually occurs.

ACCOUNTS PAYABLE AND EXPENDITURE DEFICIENCIES

We noted several deficiencies regarding accounts payable and related expenditures. They include the following:

- Our testing for unrecorded vendor accounts payable resulted in the recording of approximately $1,800,000 of additional accounts payable by journal entry.

- Our testing disclosed purchase orders being dated the same date as the date of delivery of the goods. This would seem to indicate that orders are being placed without purchase orders and purchase orders are being prepared after the goods are received. An example is as follows:

  For purchase order #276510/voucher number #v000289

  The merchandise was received on June 24, 1999;
  The purchase order was dated June 24, 1999;
  The invoice was dated June 11, 1999 and indicates the order was placed on June 9, 1999;
  The Department's accounting division received an acknowledgement of delivery on July 9, 1999;
  The voucher for payment was dated August 8, 1999; and,
  The vendor's invoice indicates a 1% discount was available if the invoice was paid by July 1, 1999 (the discount was not taken).

- Our testing of cash disbursements disclosed nine invoices that were not paid within 30 working days of receipt of the necessary documentation to allow payment. Also the Department failed to pay an invoice on time and the delinquent payment resulted in a late charge payment of $818. A similar finding regarding the timely payment of invoices was included in the prior year management letter.

- Contract retainages payable included $14,678 for two balances that were not owed, $5,170 for a billing on a contract for overtime that was disputed by the Department, and $11,784 that should have been escrowed as required.

The Department's internal policies and procedures require purchase orders to be prepared when goods are ordered and State Regulations require the payment of invoices within 30 working days. Also, good account practice dictate the recording of all accounts payable as of each year end.

We recommend the Department:

- That a more diligent search be made as of year-end to ensure that all accounts payable of the Department are recorded as of each year-end.

- That the purchase order system be adhered to with purchase orders being issued and approved prior to orders being placed for goods and services.

- That all invoices be paid timely so the Department can take advantage of discounts available and not be required to pay late charges unnecessarily.

- That the retainages payable liability accounts and the related escrows be reconciled to draw request billings from contractors as of each month end.

ACCOUNTS RECEIVABLE NOT RECORDED ON MODIFIED ACCRUAL BASIS

The Department's accounts receivable include balances from numerous sources, including other state agencies. The Department records revenues relating to these receivables on the accrual basis of accounting instead of the modified accrual basis of accounting required by GAAP for governmental funds. Revenues and the related receivables should only be recorded if they are collected soon enough after each year end to finance current expenditures.

This finding was included in the prior management letters.

We recommend that all accounts receivable be recorded on the modified accrual basis as required for governmental funds.

YEAR END JOURNAL ENTRIES NOT POSTED BY DEPARTMENT

Adjusting journal entries prepared by the audit firm as of the prior year-end were not posted to the general ledger by the Department. This causes the beginning fund and equity balances per the Department's general ledger accounts not to agree with the Department's audited financial statements. Additional time is required to adjust the beginning balances to agree to the prior year's audited financial statements.

This finding was included in prior management letters.

We recommend that the Department review and post all auditor prepared adjusting journal entries that are necessary to agree all of the beginning fund and equity balances with the audited financial statements.

IMPROVEMENT NEEDED OVER ACCOUNTING FOR PARTICIPATION AGREEMENTS

Improvements are needed in the accounting for participation agreements. A review of Report #CA-213, "Status of Outstanding Participation Agreements", and the related client prepared schedule disclosed the following deficiencies:

- The prepared schedule included some incorrect amounts.

- Our testing of the various contracts disclosed they were not being handled on a consistent basis and one file was not located.

- The schedule did not reflect those contracts closed out during the fiscal year. Our review of the contract files reflected several agreements that had been completed and should have been closed out.

- The prepared schedule did not include the gross allotment (budget) amount which was necessary to determine the participating entity's share of the project; and, it did not include total project expenditures to date. This resulted in extra work being required to obtain those amounts so the accounts receivable amount and deferred revenue amount could be computed as of year end.

- We noted several contracts for which expenditures were made and recorded prior to the budget amounts being entered into the project records. Also, we noted an instance for which budget amounts were incorrectly entered in the project records.

IMPROVEMENT NEEDED OVER ACCOUNTING FOR PARTICIPATION AGREEMENTS (CONTINUED)

- The Department's accounting staff does not maintain any type subsidiary records for amounts due from the various participating entities.
- The Department's general ledger and subsidiary ledgers do not include amounts due on long-term accounts receivable from two participating entities.
- The Department is recording various project activities as participation agreements and as accounts receivable.

This finding included similar weaknesses that were included in prior management letters.

We recommend that the Department's accounting staff set up detail and control records so that an accurate accounting can be made of all participation agreements. A schedule should be prepared as of each month end that is mathematically correct; properly reflects all contract data; excludes all completed and closed contracts; properly reflects all amounts due and/or deferred; and with changes recorded and balances agreed to the related general ledger accounts.

PROPRIETARY FUND FIXED ASSETS ACQUISITIONS AND DISPOSALS NOT RECORDED CORRECTLY

The Department recorded all fixed assets acquisitions and disposals for proprietary fund (internal service fund) assets in the general fixed asset account group. All acquisitions are purchased utilizing special revenue funds and then recorded as a transfer from the general fixed asset account group to the internal service fund. All disposals are recorded as fixed assets transferred from the internal service fund to the general fixed asset account group and then recorded as a retirement or disposal. Because of this method of handling fixed asset transactions, the internal service fund rates do not reflect full costs for fixed assets, such as gains and losses on disposals and, therefore, the reported results of Internal Service Fund operations are misstated. Furthermore, the Special Revenue Fund bears the additional costs of losses on disposals for Internal Service Fund assets. The result is costs are not properly allocated to the benefiting fund. The Department has apparently been handling these transactions in this manner because of limitations in its general ledger system.

This finding was included in prior management letters.

We recommend that any acquisitions that are to be initially utilized by the internal service fund be recorded as a purchase by that fund. All disposals should be recorded in the internal service fund and not transferred to the general fixed asset account group unless the asset will continue to be utilized by the Department.

FAILURE TO TIMELY RECORD RENTAL CASH RECEIPTS

Our testing of cash receipts disclosed that certain rental collections for the months of October 1998 – April 1999 were all receipted and deposited in April 1999. Documentation maintained by the Department disclosed that the payments were received monthly starting October, 1998.

State law requires all collection received by a State agency to be deposited weekly.

We recommend that the Department take those necessary steps to ensure all collections received by the Department are deposited weekly as required by State law.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings and questioned costs for federal awards that are required to be reported under Section .510(a) of OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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

In planning and performing our audit of the financial statements of the South Carolina Department of Transportation (the Department) for the year ended June 30, 1999, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters as detailed on the Schedule of Findings and Questioned Costs involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that all of the reportable conditions on the Scheduled Findings and Questioned Costs are material weaknesses.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

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

This report is intended for the information of the Commission members and management of the Department and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
November 12, 1999

FAILURE TO TIMELY INVOICE PER AGREEMENT

An invoice was not sent to Woodruff-Roebuck Water District in May, 1999 for the $98,125 payment that was due. This resulted in the Department not receiving a payment during fiscal year 1999 which has resulted in a loss of interest income that could have been earned if the payment had been received on time.

We recommend that billings be sent timely for accounts 30 days prior to the due date.

FAILURE TO RECORD DELETIONS IN GENERAL LEDGER FOR ABANDONED CONSTRUCTION IN PROGRESS

The Department recorded deletions of $243,727 in construction costs for abandoned projects in its construction in progress subsidiary ledger but not in its general ledger.

We recommend that the subsidiary ledger for construction in progress be reconciled to the general ledger control accounts as of each month end to ensure adjusting entries are made to both the subsidiary ledger and general ledger on a timely basis.

MISSING DOCUMENTATION IN EMPLOYEE PERSONNEL FILE

Our tests disclosed one employee's personnel file did not include the Employment Eligibility Verification Form (I-9). This form is required by the US Department of Justice Immigration and Naturalization Service. This results in the personnel file not including all required documentation.

We recommend that newly hired employees not be permitted to start work until all required documentation to make the personnel file complete is received.

STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999

During our current audit, we reviewed the status of corrective action taken on the findings reported in the prior auditor's report on the financial statements of the Department dated October 19, 1998, resulting from the audit of the financial statements for the year ended June 30, 1998. We found that adequate corrective action has been taken on the following findings:

- Status of Allotment Reports Inaccurate
- Over Allocation of Fringe Benefits
- Failure to Bill for Federal Share of Project Costs

The other findings are included in the current year's schedule of findings and questioned costs.

MANAGEMENT'S RESPONSE

APPENDIX A

SCDOT
South Carolina
Department of Transportation

December 14, 1999

TO: Rogers & Laban, PA

FROM: Bob Probst, Chief of Staff

RE: Management Letter Recommendations

Attached is the response to the draft management letter recommendations for the audit period ended June 30, 1999.

cc: Debra White
Angela Feaster

MATERIAL REPORTABLE CONDITIONS AUDIT REPORT JUNE 30, 1999

BOOKS OF ACCOUNT NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR GOVERNMENTAL ENTITIES.

- The Department's financial statements consist of two governmental funds, a proprietary fund, fiduciary funds, and two account groups. In addition, one of the governmental funds (the special revenue fund) and the agency fund consists of a number of individual funds. The Department's general ledger is not set up to adequately account for the Department's activity in each correct fund.

RECOMMENDATION:
Set up the necessary funds to properly account for its activity in accordance with GAAP.
Each fund should be self balancing

RESPONSE:
The Department concurs that its current accounting system does not have the necessary funds to properly account for its activity in accordance with GAAP and that each fund should be self-balancing. A new accounting system is in the implementation stage and is designed for GAAP compliance and fund accounting. The funds will be self-balancing, and financial presentations will be on a GAAP basis.

- The Department's policy for classification of highway expenditures as maintenance or capital outlay is based on the source of funding and not the actual nature of the expenditure.

RECOMMENDATION:
Adopt a policy to properly classify expenditures as highway maintenance or construction.

RESPONSE:
Federal Highway funds can only be used for construction purposes and some major rehabilitation activities; they cannot, by law, be used to fund ordinary maintenance activities on highways. State generated funds are used for the normal maintenance of highways. Traditionally, expenditure classification has followed the AASHTO guidelines.

The Department's general ledger contains accounts for recording estimated revenues and expenditures known as budgetary accounts. These accounts should be self-balancing; however, the entries to these accounts resulted in these budgetary accounts being out of balance. The Department made numerous entries directly to its fund balance account during the year. Generally, no entries should be made to fund balance during the year.

RECOMMENDATION:
Review the manner in which all transactions are posted to its general ledger to ensure that all transactions are properly posted in accordance with GAAP.

RESPONSE:
The Department will review the postings to the general ledger to ensure they are correct and in accordance with GAAP. The Department will also review entries made to fund balance account to ensure they are appropriately recorded.

The Department's general ledger is not maintained by type of expenditure to allow the accumulation of information necessary to present a budget versus actual statement. Expenditures in the general ledger are recorded by function instead of personnel cost, employer contributions, supplies etc.

RECOMMENDATION
Post expenditures in a manner which would allow the preparation of a budget vs. actual statement.

RESPONSE:
The current general ledger portrays a summary of account activity on a monthly basis by function. The department will produce a statement from its new financial system that compares budget to actual for each program and functional area by summary and line item category. This statement will give the user information by category of personal services, employer contributions, supplies, and contractual services etc.

CASH RECONCILIATION DEFICIENCIES

The cash reconciliation was not being prepared in a timely manner. The cash reconciliations include items that are carried over from month to month for several months. The format for the cash reconciliation beings the ending balances per the Comptroller General's records with increases and decreases from reconciling items being shown to equal the Departments ending balance. The State Highway Fund account reconciliation for June 1999 was out of balance approximately $81,000.

RECOMMENDATION:
Reconcile all cash accounts to the Comptroller General's account balance within 30 days after each month end. Adopt a reconciliation format that clearly reflects the transit items from the unrecorded items by the Department. Transit items would include deposits in transit and outstanding vouchers. Unrecorded items would include all transactions recorded by the Comptroller General that were not recorded by the Department. No items more than 30 days old should appear on the reconciliations.

Have a designated senior management staff person review and approve all of the cash reconciliations. Also follow-up should be made by the designated senior staff person if the reconciliations are not available for the review within 30 days after each month end for all recording items that are over 30 day old on the reconciliation (excluding outstanding checks).

RESPONSE:
The Department concurs with the recommendation to balance the cash accounts within 30 days after month end. A senior staff person will also monitor the timeliness of the reconciliation and any outstanding items to ensure the proper entry is recorded in the Department's financial records.

Cash reconciliations are not being prepared for the bond related cash accounts. Three accounts with small balances that were set up to fund bond issuance costs were not recorded on the Department's general ledger. Our review of the financial activity for the accounts disclosed one draw down for construction expenditures not recorded in the general ledger, one that was recorded for an incorrect amount and none of the interest earnings and expenditures were recorded for the bond issuance cost accounts. The net proceeds from the issuance of Series 1999A was recorded in the general ledger for $180,000 more than actually received. The excess amount included the $170,000 for issuance cost and a $10,000 addition error.

RECOMMENDATION:
Set up separate general ledger accounts in the general ledger for each cash account, including the bond related accounts.

RESPONSE:
As Trustee of the bonds, the Office of State Treasurer is responsible for all bond related accounts. The Department does reconcile the bond accounts on a yearly basis to the Treasurer's actual balances and in the future, will reconcile the accounts on a monthly basis. This will ensure all entries for interest, draws, etc. are recorded in SCDOT's ledger in a timely manner. All known interest earned and draws made are recorded by journal voucher. The cost of issuance amounts are recorded in the proceeds account in the

general ledger, and entries are made to record issuance cost when notified by the Treasurer. These accounts are not separated in the general ledger at this time, however, the Department will begin to keep separate general ledger accounts for bond issues. The overstated amount of $10,000 has been correct in the subsequent year.

Transactions for transfers between cash accounts are not always recorded in both cash accounts in the general ledger in the month the transfer transactions actually occur.

RECOMMENDATION:
Be sure transfers between cash accounts are recorded in both cash accounts in the general ledger in the month the transfer transaction actually occurs.

RESPONSE:
We concur with the recommendation and will monitor all cash transfers to ensure the entries are made to the general ledger in the month incurred.

ACCOUNTS PAYABLE AND EXPENDITURE DEFICIENCIES

Our testing for unrecorded vendor accounts payable resulted in the recording of approximately $1,800,000 of additional accounts payable by journal entry.

RECOMMENDATION:
A more diligent search be made as of year end to ensure that all accounts payable of the Department are recorded as of each year end.

RESPONSE:
We concur with the recommendation. Due to the transition in accounting systems, a manual search of documentation had to be done this year to accumulate any additional payables. There were several types of vouchers to be considered in making this search. We will make a concerted effort to ensure any additional payables are accounted for.

Our testing disclosed purchase orders being dated the same date of delivery of the goods. This would mean that orders are being placed without purchase orders and purchase orders are being prepared after the goods are received.

RECOMMENDATION:
The purchase order system be adhered to with purchase orders being issued and approved prior to orders being placed for good and services.

RESPONSE:
Purchases are often made with the requisition number referenced as the "customer order number". On these "confirming" orders, the purchase order may be created on the date the goods are received. The Department encourages the preparation of a purchase order prior to contracting for goods and services but failure to do so does not necessarily constitute an unauthorized procurement.

Our testing of cash disbursements disclosed nine invoices that were not paid within 30 working days of receipt of the necessary documentation to allow payment. Also the Department failed to pay an invoice on time and the delinquent payment resulted in a late charge payment of $818.

RECOMMENDATION:

All invoices be paid timely so the Department can take advantage of discounts available and not be required to pay late charged unnecessarily.

RESPONSE:

We agree with the recommendation. The accounting staff works to the best of their ability to ensure payments are made with in the time frame specified by law. However there are circumstances that exist that delay the payment process. We will continue to monitor the payment process, streamline where we can, and still maintain proper control over disbursements to ensure all Department and state regulations are followed.

- Contract retainage payable included $14,678 for two balances that were not owed, $5,170 for a billing on a contract for overtime that was disputed by the Department, and $11,784 that should have been escrowed as required.

RECOMMENDATION:

The retainage payable liability accounts and the related escrows be reconciled to draw request billings from contractors at month end.

RESPONSE:

The retainage account was increased for $5,170 for liquidated damages that were assessed on the previous estimate in January 1999. The final estimate payment was sent to Accounting in July of 1999 for payment. This payment was reduced by the amount of the damages and the retainage account relieved of this amount. If liquidated damages are assessed against a contractor for whom the Department holds retainage, the retainage account is increased by the amount of the damages until the matter is resolved. The $11,784 error was discovered and the amount has been sent to the bank for the escrow amount. We concur that the statements should be reconciled in a timely manner.

ACCOUNTS RECEIVABLE NOT RECORDED ON MODIFIED ACCRUAL BASIS

- The Department's accounts receivable include balances from numerous sources, including other state agencies. The Department records revenues relating to these receivables on the accrual basis of accounting instead of the modified accrual basis of accounting required by GAAP for governmental funds. Revenues and the related receivables should only be recorded if they are collected soon enough after each year-end to finance current expenditures.

RECOMMENDATION:

We recommend that all accounts receivable be recorded on the modified accrual basis as required for governmental funds.

RESPONSE:

The Department will continue to utilize working paper adjustment to annually portray accounts receivable on a modified accrual basis, however the Department will continue to record actual receivable and revenues on an accrual basis to provide a true picture of revenues and amounts due from outside entities.

YEAR END JOURNAL ENTRIES NOT POSTED BY DEPARTMENT

- Some of the adjusting journal entries prepared by the audit firm as of the prior year-end were not posted by the Department. This causes the beginning fund balances per the Department's general ledger accounts not to agree with the Department's audited financial statements. Additional time is required to adjust the beginning fund balances to agree to the prior year's audited financial statements.

RECOMMENDATION:
We recommend that the Department review, and upon approval, post all auditor prepared adjusting journal entries.

RESPONSE:
The year-end adjusting entries are reviewed and recorded to the extent possible. The Department recognizes that those not posted will require adjustment at the beginning of the subsequent audit and will advise the auditors of those not posted.

IMPROVEMENT NEEDED OVER ACCOUNTING FOR PARTICIPATION AGREEMENTS

Improvements are needed in the accounting for participation agreements. A review of Report CA-213, "Status of Outstanding Participation Agreements", and the related client prepared schedule disclose the following deficiencies: incorrect amounts, handled in an inconsistent manner, closed contracts carried on the statement, omission of budgetary amount, no subsidiary ledger, exclusion of long term accounts receivable, omission of payments received on two agreements.

RECOMMENDATION:
We recommend that the Department accounting staff set up detail and control records so that an accurate accounting can be made of participating contracts. A schedule should be prepared as of each month end that is mathematically correct; properly reflects all contract data; excludes all completed and closed contracts; properly reflects all amounts due and/or deferred; and agrees with the related general ledger accounts.

RESPONSE:
A monthly statement is prepared and is mathematically correct. There were also numerous contracts closed out during the fiscal year and properly removed from the schedule. Participation agreements are negotiated based upon the outside entities' willingness to provide funding for the various stages of construction and are handled by the Contracts Grants Coordinator. The accounting staff is coordinating efforts to ensure the participation agreements are allotted and recorded on the statement. The new financial system will meet the expanded reporting requirements recommended.

PROPRIETARY FUND FIXED ASSETS ACQUISITIONS AND DISPOSALS NOT RECORDED CORRECTLY

- The Department recorded all fixed assets acquisitions and disposals for proprietary fund (internal service fund) asses in the general fixed asset account group. All acquisitions are purchased utilizing special revenue funds and then recorded as a transfer from the general fixed asset account group to the internal service fund. All disposals are recorded as fixed assets transferred from the internal service fund to the general fixed asset account group and then recorded as a retirement or disposal. Because of this method of handling fixed asset transactions, the internal service fund rates do not reflect full cost for fixed assets, such as gains or losses on disposals and, therefore, the reported results of Internal Service fund operations are misstated. Furthermore, the Special Revenue fund bears the additional costs of losses on disposals for Internal Service Fund assets. The result is costs are not properly allocated to the benefiting fund. The Department has apparently been handling these transactions in the manner because of the limitations in its general ledger system.

RECOMMENDATION:
We recommend any acquisitions that are to be initially utilized by the internal service fund be recorded as a purchase by that fund. All disposals should be recorded in the internal service fund and not transferred to the general fixed asset account group unless the asset will continue to be utilized by the Department.

RESPONSE:

At the time of acquisition, the Department has not determined which items will be utilized by the internal service fund. During preparation for issue, items are issued to custodians in the internal service fund. Transfer of acquisition and preparation cost are accomplished at this time, therefore the proper fund incurs the cost. When items are no longer utilized by the internal service fund, they are transferred to the Equipment Depot for reassignment or disposal. The implementation of the accounting system in fiscal year 1999-2000 will account for all equipment in an internal service fund and will address this reportable condition.

FAILURE TO TIMELY RECORD CASH RECEIPTS

Our testing of cash receipts disclosed that certain rental collections for the month of October 1998 – April 1999 were all receipted and deposited in April 1999. State law requires all collections received by a State agency to be deposited weekly.

RECOMMENDATION:
We recommend that the Department take those necessary steps to ensure all collections received by the Department are deposited weekly as required by State Law.

RESPONSE:
The Department concurs with the recommendation. The proper persons have been notified of the correct procedure to handle the receipting of funds. A policy is in place and future rental collections will be handled in a timely manner.

MATERIAL WEAKNESSES

FAILURE TO TIMELY INVOICE PER AGREEMENT:

An invoice was not sent to Woodruff-Roebuck Water District in May 1999 for the $98,125 payment that was due. This resulted in the Department not receiving a payment during fiscal year 1999 which has resulted in a loss of interest income that could have been earned if the payment had been received on time.

RECOMMENDATION:
We recommend billings be sent timely for accounts 30 days prior to due date.

RESPONSE:
There was a change in the personnel of the office which initiates the paper work to generate a billing for the Woodruff-Roebuck Water District. Since year-end a charge memorandum has been received in the accounting department to invoice the water district for their payment. The new accounting system has automated this process by establishing agreements and billing cycles to record the outstanding balances, and bill according to set time frames.

FAILURE TO RECORD DELETIONS IN GENERL LEDGER FOR ABANDONED CONSTRUCTION IN PROGRESS

The Department recorded deletions of $243,727 in construction cost for abandoned projects in its construction in progress subsidiary ledger but not in its general ledger.

RECOMMENDATION:
We recommend that the subsidiary ledger for construction I progress be reconciled to the general ledger control accounts as of each month end to ensure entries are made to both the subsidiary ledger and general ledger on a timely basis.

RESPONSE:
We concur with the recommendation. The subsidiary ledgers are reconciled to the general ledger on a monthly basis. This was an oversight due to the lateness of the closing of the books and the push to complete the year-end. We will ensure the subsidiary ledgers and the general ledgers are in balance.

MISSING DOCUMENTATION IN EMPLOYEE PERSONNEL FILE

Our test disclosed one employee's personnel file did not include form I-9. This results in the personnel file not including all required documentation.

RECOMMENDATION:
We recommend that newly hired employees not be permitted to start work until all required documentation to make the personnel file complete is received.

RESPONSE:
We have reviewed our procedures with regard to obtaining I-9 forms from all employees. The absence of an I-9 form from one such file appears to have been an isolated occurrence in the field, and we believe that adequate procedures are in place to ensure compliance with the law. We will reemphasize the importance of obtaining such documentation to all hiring units.