SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

State of South Carolina

Office of the State Auditor

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

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

December 21, 2001

The Honorable Jim 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, 2001, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

Tom Wagner

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

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ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the South Carolina Department of Transportation (the Department) as of and for the year ended June 30, 2001 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 as of and for the year ended December 31, 2000 and for the period from January 12, 1996 (date of inception) through December 31, 2000 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 auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other Auditor's provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Department's financial statements 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 are not intended to present fairly the financial position and results of operations of the State of South Carolina and/or its other agencies, institutions, departments, funds, and component units in conformity with accounting principles generally accepted in the United States of America.

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, 2001. Presentation of such a statement for those governmental funds for which budgets have been legally adopted is required by accounting principles generally accepted in the United States.

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, 2001 and its component unit as of December 31, 2000, and the results of its operations for the year ended June 30,2001 and the results of operations and the cash flows of its component unit for the year ended December 31, 2000 and for the period January 12, 1996 (date of inception) through December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

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As discussed in Note 21 to the financial statements, the Department discovered that certain fixed assets and the related capital lease obligations were not recorded at the inception of the lease agreements and that certain federal revenues and the related receivables had not been recorded. Prior period adjustments were made to correct these errors. Also, as discussed in Note 21, the Department determined that prior year financial statements needed to be adjusted to record certain deletions of fixed assets that were transferred to the South Carolina Department of Public Safety (Public Safety) pursuant to restructuring; and to reduce receivables due from Public Safety that were recorded pursuant to and following restructuring.

As discussed in Note 21, the Department changed its method of accounting for and reporting nonexchange transactions to comply with Governmental Accounting Standards Board (GASB) Statement No. 33, Accounting and Reporting for Nonexchange Transactions which became effective for periods beginning after June 15, 2000. Under this standard, the Department changed its method of reporting Revenue from Federal grants and reimbursable contracts. An adjustment resulting from this change to comply with this Statement is required to be treated as adjustment of prior periods.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Department taken as a whole. The supplementary information presented on pages 50 and 51 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2001, 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. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Rogers & Laban, PA

November 2, 2001

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT
JUNE 30, 2001

	Primary Entity						Component Unit	Reporting Entity
	Governmental Fund Types		Fiduciary Fund Type	Account Groups				
	General	Special Revenue	Agency	General Fixed Assets	General Long-Term Debt	Totals (Memorandum Only)	Connector 2000 Association, Inc.	Totals (Memorandum Only)
ASSETS AND OTHER DEBITS								
Cash and cash equivalents	$ 1,357,968	$ 503,533,676	$ 103,401,761	$	$ -	$ 608,293,405	$ 1,776,948	$ 610,070,353
Investments						-	45,281,288	45,281,288
Intergovernmental receivables:								-
Federal government		99,510,767				99,510,767		99,510,767
State agencies		3,807,100				3,807,100		3,807,100
Counties, municipalities, and other local governmental entities		10,878,116				10,878,116		10,878,116
Accounts receivable - other		1,543,468				1,543,468		1,543,468
Accrued interest receivable		3,802,287	1,044,264			4,846,551	1,036,427	5,882,978
Refunds receivable						-	612,350	612,350
Prepaid expenses						-	2,462	2,462
Inventories		6,729,456				6,729,456		6,729,456
Right-of-ways land		792,476				792,476		792,476
Fixed assets:						-		-
Land and improvements				3,337,429		3,337,429		3,337,429
Buildings and improvements				59,472,305		59,472,305		59,472,305
Furniture, vehicles and equipment				224,641,125		224,641,125		224,641,125
Construction in progress				4,126,763		4,126,763		4,126,763
Interest in license agreement with Department						-	179,773,561	179,773,561
Bond issuance costs, net of accumulated amortization of $182,875						-	2,175,255	2,175,255
Underwriters' fees on Series 1998A, 1998B, and 1998C bonds, net of accumulated amortization of $222,600						-	2,648,000	2,648,000
Amount to be provided for retirement of general long-term debt					854,907,318	854,907,318		854,907,318
Total assets and other debits	$ 1,357,968	$ 630,597,346	$ 104,446,025	$ 291,577,622	$ 854,907,318	$ 1,882,886,279	$ 233,306,291	$ 2,116,192,570

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, 2001

	Primary Entity						Component Unit	Reporting Entity
	Governmental Fund Types		Fiduciary Fund Type	Account Groups				
	General	Special Revenue	Agency	General Fixed Assets	General Long-Term Debt	Totals (Memorandum Only)	Connector 2000 Association, Inc.	Totals (Memorandum Only)
LIABILITIES, FUND EQUITY, AND OTHER CREDITS								
LIABILITIES:								
Accounts payable/other liabilities	$	$ 76,438,754	$ 2,318,533	$	$	$ 78,757,287	$	$ 78,757,287
Accrued requisitions						-	3,109,103	3,109,103
Contract retainages payable		4,844,150				4,844,150	7,220,916	12,065,066
Accrued payroll and related liabilities		16,075,523				16,075,523		16,075,523
Accrued interest payable		4,494,996				4,494,996	1,765,752	6,260,748
Accrued interest sold		814,101				814,101		814,101
Intergovernmental payable:						-		-
State agency		22,191,703				22,191,703		22,191,703
Due to the General Fund of the State		4,507				4,507		4,507
Deposits for right-of-ways			147,446			147,446		147,446
Special deposits and bonds			324,539			324,539		324,539
Funds held for County Transportation Program			101,655,507			101,655,507		101,655,507
Deferred revenue - participation agreements		4,018,147				4,018,147		4,018,147
Bonds payable net of original issue discount					672,135,000	672,135,000	222,353,322	894,488,322
Contributions payable State Agency		13,105,004			164,075,437	177,180,441		177,180,441
Capital lease obligations					386,465	386,465		386,465
Liability for compensated absences					18,310,416	18,310,416		18,310,416
Total liabilities	-	141,986,885	104,446,025	-	854,907,318	1,101,340,228	234,449,093	1,335,789,321
								-
FUND EQUITY (DEFICIT) AND OTHER CREDITS:								-
Investment in general fixed assets				291,577,622		291,577,622		291,577,622
Retained earnings (accumulated deficit)-								
Development stage							(1,142,802)	(1,142,802)
Fund balances:								
Reserved for:								
Bond-funded projects		361,572,286				361,572,286		361,572,286
Inventories		6,729,456				6,729,456		6,729,456
Right-of-ways land held for sale		792,476				792,476		792,476
Intergovernmental receivables (long-term):								
State agency		2,288,166				2,288,166		2,288,166
Counties, municipalities and other local governmental entities		5,374,624				5,374,624		5,374,624
Accounts receivable -								
Other local entities		880,825				880,825		880,825
Unreserved:								
Designated for subsequent								
years' expenditures	1,357,968	110,972,628				112,330,596		112,330,596
Total fund equity (deficit)and other credits	1,357,968	488,610,461	-	291,577,622	-	781,546,051	(1,142,802)	780,403,249
Total liabilities, fund equity (deficit), and other credits	$ 1,357,968	$ 630,597,346	$ 104,446,025	$ 291,577,622	$ 854,907,318	$ 1,882,886,279	$ 233,306,291	$ 2,116,192,570

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - ALL GOVERNEMENTAL FUND TYPES FOR THE YEAR ENDED JUNE 30, 2001

	General	Special Revenue	Totals (Memorandum Only)
REVENUES:			
Taxes and fees	$	$ 386,612,116	$ 386,612,116
State appropriations	773,186		773,186
Federal grants and reimbursable contracts		450,565,305	450,565,305
Reimbursements from Agency Fund - County Transportation Program		3,389,255	3,389,255
Interest/investment income		25,967,628	25,967,628
Sales of goods and fees for services		8,157,552	8,157,552
Participation agreement revenue		3,538,059	3,538,059
Other		4,303,629	4,303,629
TOTAL REVENUES	773,186	882,533,544	883,306,730
EXPENDITURES:			
Current:			
General		32,094,330	32,094,330
Engineering	22,932	42,603,594	42,626,526
Toll facilities		3,029,326	3,029,326
Public transportation	778,056	12,914,241	13,692,297
Highway maintenance		192,354,468	192,354,468
Capital outlay:			
Infrastructure		564,084,751	564,084,751
Construction in progress		3,992,170	3,992,170
Furniture, vehicles and equipment	619,100	20,336,128	20,955,228
Bond issuance costs		156,261	156,261
Debt service:			
Principal		20,085,324	20,085,324
Interest		20,114,635	20,114,635
Executory costs		82,461	82,461
Allocations to other entities:			
State agency		22,191,703	22,191,703
Agency Fund - County Transportation Program		9,500,000	9,500,000
County and municipal governments		1,066,865	1,066,865
TOTAL EXPENDITURES	1,420,088	944,606,257	946,026,345
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(646,902)	(62,072,713)	(62,719,615)
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of bonds		355,323,366	355,323,366
Proceeds from capital lease		201,630	201,630
Proceeds from sale of general fixed assets		3,059,677	3,059,677
Remitted to General Fund of the State		(4,944,472)	(4,944,472)
TOTAL OTHER FINANCING SOURCES (USES)		353,640,201	353,640,201
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(646,902)	291,567,488	290,920,586
FUND BALANCES, beginning of year, as restated	2,004,870	197,042,973	199,047,843
FUND BALANCES, end of year	$ 1,357,968	$ 488,610,461	$ 489,968,429

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, 2000 AND THE PERIOD FROM JANUARY 12, 1996
(DATE OF INCEPTION) THROUGH DECEMBER 31, 2000

	Year Ended December 31, 2000	January 12, 1996 (Inception) Through December 31, 2000
OPERATING REVENUES	$ - 0 -	$ - 0 -
OPERATING EXPENSES	- 0 -	- 0 -
OPERATING INCOME	- 0 -	- 0 -
NONOPERATING REVENUES (EXPENSES):		
Pre-opening advertising	(737,327)	(737,327)
Amortization of bond issuance costs	(62,700)	(182,875)
Amortization of underwriters' fees	(76,320)	(222,600)
NET INCOME (LOSS)	(876,347)	(1,142,802)
ACCUMULATED DEFICIT (DEVELOPMENT STAGE), Beginning	(266,455)	
ACCUMULATED DEFICIT (DEVELOPMENT STAGE), Ending	$ (1,142,802)	$ (1,142,802)

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 CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2000 AND THE PERIOD FROM JANUARY 12, 1996 (DATE OF INCEPTION) THROUGH DECEMBER 31, 2000

	Year Ended December 31, 2000	January 12, 1996 (Inception) Through December 31, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid for advertising	$ (614,777)	$ (614,777)
NETCASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (614,777)	$ (614,777)
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	(63,698,669)	(156,356,828)
Cash refunds received relating to construction of Southern Connector	521,482	826,299
Interest payments on bonds payable	(3,531,500)	(8,534,460)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(66,708,687)	28,288,158
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from redemption of investments	66,256,047	159,380,959
Interest received	1,071,541	3,115,098
Purchases of investments	-	(188,392,490)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	67,327,588	(25,896,433)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,124	1,776,948
BEGINNING CASH AND CASH EQUIVALENTS	1,772,824	
ENDING CASH AND CASH EQUIVALENTS	$ 1,776,948	$ 1,776,948
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating income	$ -0-	$ -0-
Adjustments to reconcile operating income to net cash used by operating activities:		
Non operating cash expenses - pre-opening advertising	(614,777)	(614,777)
Net cash used by operating activities	(614,777)	(614,777)

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 CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2000 AND THE PERIOD FROM JANUARY 12, 1996
(DATE OF INCEPTION) THROUGH DECEMBER 31, 2000

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Interest earned on repurchase agreements was directly reinvested in the repurchase agreements. The earnings were recorded as increases in investments and as reductions of interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department". The amounts totaled $1,968,783 and $16,269,757, respectively, for the year ended December 31, 2000 and for the period from January 12, 1996 (inception) through December 31, 2000.

Original issue discount of $2,693,952 was deducted from bond proceeds and its unamortized balance is reported as a direct reduction of bonds payable in the accompanying balance sheet. Amortization of the original issue discount totaled $80,280 and $234,150, respectively, for the year ended December 31, 2000 and for the period from January 12, 1996 (inception) through December 31, 2000. This amortization increased bonds payable and interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department".

Underwriters' fees of $2,870,600 were deducted from bond proceeds and are reported as an asset in the accompanying balance sheet. Amortization of the underwriters' fees totaled $76,320 and $222,600, respectively, for the year ended December 31, 2000 and for the period from January 12, 1996 (inception) through December 31, 2000. This amortization was recorded as decreases in the unamortized balance of underwriters' fees and as nonoperating expenses.

At December 31, 2000, $1,036,427 of interest income on repurchase agreements was accrued. The accrual was recorded as an increase in interest receivable and as a reduction of interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department."

At December 2000, $612,350 of refunds of monies held in escrow for right-of-way acquisitions was accrued. The accrual was recorded as an increase in refunds receivable and as a reduction of "Interest in License Agreement with Department".

Accretion of interest on capital appreciation bonds (Series 1998B and 1998C) was recorded as increases in interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department" and as increases in bonds payable. The amounts totaled $9,001,526 and $24,635,444, respectively, for the year ended December 31, 2000 and for the period from January 12, 1996 (inception) through December 31, 2000.

Amortization of bond issuance costs was recorded as decreases in bond issuance costs and as nonoperating expenses. The amounts totaled $62,700 and $182,875, respectively, for the year ended December 31, 2000 and for the period from January 12, 1996 (inception) through December 31, 2000.

At December 31, 2000, $1,765,752 of interest payable on the Senior Current Interest Bonds was accrued as a liability and was recorded as an increase in interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department." The same amount of interest payable was accrued at December 31, 1999.

At December 31, 2000, accrued requisitions totaled $3,109,103 (a decrease of $2,432,137 from the prior year accrual). The accrual increased prepaid expenses by $2,462, nonoperating expenses by $122,550, and the construction in progress composed of the "Interest in License Agreement with Department" by $2,984,091. The accrual to construction in progress represented a decrease of $2,557,149 from the prior year accrual.

Accruals for contract retainage payable were recorded as the construction on the Southern Connector progressed. The amounts totaled $3,154,983 and $7,220,916, respectively, for the year ended December 31, 2000 and for the period from January 12, 1996 (inception) through December 31, 2000. These accruals increased the construction in progress component of the "Interest in License Agreement with Department" by $2,845,711 and $6,754,510, respectively, for the year ended December, 31, 2000 and for the period from January 12, 1996 (inception) through December 31, 2000. These accruals increased interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department" by $309,272 and $466,406, respectively, for the same time periods.

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.

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

For the purpose of applying generally accepted accounting principles (GAAP) to its activities, the Association's management has determined that the Association is a governmental entity. The Governmental Accounting Standards Board (GASB), which has jurisdiction over accounting and financial reporting standards applicable to governmental entities, and the Financial Accounting Standards Board (FASB), which has jurisdiction over such standards applicable to nongovernmental entities, have agreed on a definition of a governmental entity that is to be used when determining whether governmental GAAP is applicable. Since (a) the Association is a public benefit corporation, (b) the members of the Association's Board of Directors must be approved by the Department and (c) upon dissolution of the Association, all of the Association's net assets will revert to the Department, the Association meets the criteria set forth in the definition of a governmental entity. Accordingly, the accompanying financial statements of the Association have been prepared in accordance with GAAP applicable to governmental unit proprietary funds.

The Association is considered to be in the development stage during the construction of the Southern Connector and the SC 153 Extension. Construction of the Projects is expected to be completed in 2001. In February 2001, the Association received approval from the Department to open the road to the public. At that time the Association commenced operations of the toll road. In accordance with standards applicable to development stage enterprises, the Association presents financial information for the current year and cumulative totals since its inception.

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

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.

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

The Association is considered to be in the development stage during the construction of the Southern Connector and the SC 153 Extension. Construction of the Projects is expected to be completed in 2001. At that time, the Association will commence operations of the toll road. In accordance with GAAP applicable to development stage enterprises, the Association has included two columns of information in its statements of revenues, expenses and changes in accumulated deficit (development stage) and of cash flows. The columns present information for the current year and cumulative totals since the Association's inception.

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.

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

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

The funds of the Department and its component unit 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.

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 and contract reimbursements, 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. In addition, the charges for and costs of operations of vehicles and other equipment utilized for highway projects by the Department are reported in this 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, gasoline tax, excluding the 2.66 cents per gallon that is allocated to the County Transportation Program Agency Fund; truck transportation fees and penalties pursuant to Section 11-43-160 of the Code of Laws of South Carolina; 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 from the sales of goods and services and from participation agreements between the Department and other entities for the sharing of costs of construction projects. Revenues from 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 of the Department until earned.

Proprietary Fund Type

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 may be provided to departments or agencies within the government (internal service funds) or to outside parties (enterprise funds).

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

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 and income on investments.

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 type of fiduciary funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of the results of operations.

The Right of Ways Fund is used to account for payments for the purchase of right of ways land which has been contested by the property owner. In those cases, the property owner is paid 75% of the offer and 25% of the offer is transferred to the county clerk of court. Current year's activity represents receipt of funds from various clerks of court and disbursement to property owners upon settlement of contested cases. The Department records an expenditure in the Special Revenue Fund under the category capital outlay – infrastructure when payments are made for right ways land to be used for infrastructure.

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 12-28-2740 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 South Carolina Department of Revenue and remitted to the Department. 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 a county transportation committee that is appointed by the county legislative delegation to administer the use of these funds. Based on the legally prescribed allocation formula, these monies are either paid directly to the counties for infrastructure projects that are administered by the counties or to vendors on behalf of the counties for expenditures incurred on projects that the county transportation committees have contracted 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 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.

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

Significant Accounting Policies

Basis of Accounting

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

The modified accrual basis of accounting is utilized for governmental fund types 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. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period. The Department considers revenues available if they are collected within 60 days after year end except for federal grants for which the Department considers them to available if collected within one year. 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 fiscal year of payment.

The proprietary fund is 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 Association's revenues will generally consist of income on investments and toll income.

In accordance with Governmental Accounting Standards Board Statement No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Association elected to apply only those standards issued by the Financial Accounting Standards Board on or before November 30, 1989.

Operating transfers for all funds 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.

Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the Department either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The types of nonexchange transactions that the Department engages in is "voluntary nonexchange transactions" related to certain grants and contracts.

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

Nonexchange Transactions: (Continued)

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

a. The recipient has the characteristics specified by the provider.
b. The recipient has met the time requirements specified by the provider (i.e., the period when the resources are required to be used or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider).
c. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
d. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

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. 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.

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

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. The amounts shown in the financial statements as "cash and cash equivalents" of the Association represent cash on deposit in banks and funds invested in open-end money market mutual funds and certain short term investments.

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.

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. Interest/investment earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the income receivable of the pool. Reported income includes interest earnings at the stated rate, realized gains/losses and unrealized gains/losses arising from changes in the fair value of investments in 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.

For credit risk information pertaining to the State's internal cash management pool including investments held by the pool, see the deposits disclosures in Note 2.

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

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

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

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 consumption method of accounting, in which inventory purchases are recorded as expenditures when used. Inventories at year-end are reflected in the balance sheet of the Special Revenue Fund with an equal amount of the fund balance reserved specifically for inventories.

Right of Ways Land Held for Sale

The Department from time to time when acquiring right of ways land has to purchase excess property for economic reasons that is not allocable to project construction costs. These purchases are held until they are disposed of and are reflected in the accompanying balance sheet at the original cost to the Department. Expenditures for this land is accounted for using the consumption method of accounting in which the purchase is recorded as an expenditure when disposed of. Gains or losses on the disposition of right of ways land are included in the other revenues category. Right of ways land transferred to county and municipal governments for no consideration are recorded in the expenditure category allocations to other entities-county and municipal governments. Because the right of ways land held for sale do not represent available financial resources, 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, 2001.

Bonds Payable and Related Premiums, Discounts and Issuance Costs

The Department records its bonds payable in the general long term debt account group. Original issue bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond proceeds are reported as other financing sources in the Special Revenue Fund net of applicable issuance premiums or discounts. Issuance costs, whether or not withheld from the net bond proceeds, are reported as expenditures in the Special Revenue Fund.

For the Association, bond issuance costs, original issue discount and underwriters' fees on all bonds are deferred and amortized over the terms of the bonds using the bonds outstanding method, which approximates the effective interest method. The bond issuance costs and underwriters' fees are recorded as other assets and original issue discounts are presented as reductions of the face amounts of the related revenue bonds payable. Amortization of the original issue discount is recorded as capitalized interest; and, amortization of the bond issuance costs and underwriters' fees are charged to nonoperating expense.

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

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than $5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. A reserve fund is established to liquidate the liability when determined. The Department incurred expenditures of $509,792 in arbitrage costs for the year ended June 30, 2001 which were recorded in the general expenditure category in the Special Revenue Fund. The $509,792 included $218,387 of estimated cumulative rebate liability attributible to the Series 1998A bonds. The $509,792 is also included in accounts payable in the Special Revenue Fund at June 30, 2001.

Arbitrage for the Association involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. The Federal government only requires arbitrage to be calculated, reported and paid every five years or t maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes, and any arbitrage rebate liability incurred is recognized at that time. It is recorded using the revenue reduction method, whereby the rebate is recorded as a reduction of interest revenue. At December 31, 2000, no such liability had been incurred.

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 land and improvements and 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. Proceeds realized from the sales of fixed assets are included in other financing sources. 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. 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 which is not capitalized.

Interest In License Agreement with Department

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.

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

Interest In License Agreement with Department

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 the Department monthly license fees commencing on the first day of the calendar month following the first anniversary of the date of final completion. The license fees will be $125,000 per month for a period of twenty-five years and $100 per month thereafter.

The Association's interest in the License Agreement constitutes 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 incurred during the construction period as part of its intangible asset "Interest in License Agreement with Department." 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.

In accordance with State of Financial Accounting Standards (SFAS) No. 62, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants, the Association is capitalizing the interest costs incurred during the construction of the Southern Connector. The amount of interest capitalized for assets constructed with tax-exempt borrowings is equal to the interest cost of the borrowings, including amortization of original issue discount, less interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings.

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 inventories, right of ways land held for sale and long-term receivables represent financial resources not available for current expenditures.

Proprietary enterprise fund equity for the Association consists of contributed capital and retained earnings (accumulated deficit). The Association has no contributed capital. Its accumulated deficit at December 31, 2000 has resulted from start-up construction activities incurred since inception while the Association is in the development stage. Once the Association begins its operations when construction of the Southern Connector is complete and the toll road is opened to the public, the Association anticipates that the deficit will be eliminated by future toll revenue collections.

Governmental GAAP require reservations of proprietary enterprise fund retained earnings that are legally restricted to future uses, such as debt service, renewals and replacements, operating costs, etc. Retained earnings are reserved only for revenues restricted for such purposes; reserves are not established for the bond proceeds themselves. While the Association is in the development stage, its only earnings have resulted from investment of the bond proceeds. In accordance with its policy of capitalizing interest costs related to tax-exempt borrowings during construction of the Southern Connector, these investment earnings are not a component of fund equity and are not subject to reservation during the development stage. When the Association's operations commence, such earnings will be considered revenues and will be subject to the reservation of retained earnings.

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

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, 2001. 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, 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.

Totals (Memorandum Only) Columns

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 to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present information in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

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

Statement of Cash Flow Presentation

While the Association is in the development stage, its operations have not yet commenced. All of the Association's current activities consist of capital and related financing activities (construction of the Southern Connector and repayment of bond interest) and investing activities (investment earnings on bond proceeds). No amounts are reported in the sections of the accompanying statements of cash flows related to noncapital financing activities. However, even though pre-opening advertising is considered a nonoperating expense in the accompanying statements of revenues, expenses and changes in accumulated deficit (development stage), it must be reported in the operating activities sections of the accompanying statements of cash flows. This difference in presentation results from the method of analyzing cash flow transactions prescribed by governmental GAAP. Such transactions should be evaluated first according to the definitions of noncapital financing activities, capital and related financing activities and investing activities. If particular transactions do not fall within these categories, they must be included in the operating activities category.

NOTE 2. DEPOSITS AND INVESTMENTS:

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

Balance Sheet			Footnotes		
Cash and cash			Primary Entity:		
equivalents	$	610,070,353	Cash on hand	$	250
Investments		45,281,288	Deposits held by		
			State Treasurer		608,293,155
			Component Unit:		
			Deposits		1,762,777
			Investments		45,295,459
	$	655,351,641		$	655,351,641

Primary Entity

Deposits Held by State Treasurer

The deposits of the Department held by the State Treasurer 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 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.

NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)

Cash and cash equivalents reported on the balance sheet include $8,893,301 in unrealized appreciation as of June 30, 2001 of which $1,446,673 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 of $9,206,070 for the year ended June 30, 2001 and unrealized appreciation of $2,437,848 is reported in the Agency Fund.

Deposits at June 30, 2001 held by the State Treasurer include $361,572,286 of unexpended funds related to the recent bond issues and are restricted for construction projects (includes $5,323,408 of unrealized appreciation).

Component Unit

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 Association'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 which are 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) Uninsured and 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)

The Association's deposits were categorized as of year end as follows:

	Category			Carrying
	1	2	3	Amount
Insured deposits	$ 100,000	$	$	$ 100,000
Uninsured deposits:				
Uncollateralized			1,662,777	1,662,777
Total deposits	$ 100,000	$	$ 1,662,777	$ 1,762,777

During the year ended December 31, 2000 and during the period from January 12, 1996 (inception) through December 31, 2000, the amount of uncollateralized deposits (category 3) significantly exceeded the amount in that category at December 31, 2000 when certain deposits were received by the bank after the bank's investment processing time. These category 3 deposits were disbursed or invested the next business day. Deposits that were made after the bank's investment processing time on any given day have been collateralized by the bank, but with securities that are not in the Association's name. This type of collateralization is permitted by the bond indenture.

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 Association's investments in repurchase agreements were 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 an entity 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 which are as follows:

(1) Insured or registered, or securities held by the Association or by its agent 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. These open-end and money market mutual fund are considered to be cash and cash equivalents.

NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)

The Association's investments by investment risk categories are as follows:

	Category 1	Category 2	Category 3	Investments-Carrying Amount/Fair Value
Repurchase agreements	$	$ 45,281,288	$	$ 45,281,288
Not categorized:				
Open-end money market mutual funds				14,171
Total investments	$	$ 45,281,290	$	$ 45,295,459

The investment types listed above include all investment types in which monies were held during the year ended December 31, 2000 and during the period from January 12, 1996 (inception) through December 31, 2000.

Investments

During the year ended December 31, 2000 and during the period from January 12, 1996 (inception) through December 31, 2000, payments for the various accounts were made in accordance with the terms of the bond indenture. The accounts established by the bond indenture and the balances therein at December 31, 2000 were as follows:

Southern Connector Toll Road Revenue Bond Construction Fund	$22,996,546
Southern Connector Toll Road Revenue Bond Debt Service Fund	4,313,298
Southern Connector Toll Road Revenue Debt Service Reserve Fund	19,748,392
Total	$47,058,236

There were no deficiencies in the above account balances during the year ended December 31, 2000 or during the period from January 12, 1996 (inception) through December 31, 2000.

NOTE 3. STATE APPROPRIATIONS:

The 2000-01 original appropriation is the Department's base budget amount presented in the General Funds column of Section 53, Part IA of the 2000-01 Appropriation Act.

Original appropriation	$ 578,976
1% Mid Year State Budget Reduction	(5790)
Capital Reserve Fund appropriations from fiscal year 1999-00 surplus for Greenville Transit Authority (June 2000 Joint Resolution H4776/R467)	200,000
Total	$ 773,186

Pursuant to Section 2 of May 2000 Joint Resolution H3699/R310, the Department carried forward unspent supplemental appropriations of $2,000,000 at June 30, 2000 and $1,357,968 at June 30, 2001 for emergency evaluation message boards and advisory ratio.

The Department brought forward $4,870 of State General Fund appropriations from the year ended June 30, 2000 pursuant to Proviso 72.44 of the 2000-2001 Appropriations Act which allowed agencies to carry forward up to 10% of their original appropriation.

NOTE 4. RECEIVABLES:

A summary of various notes and amounts receivable at June 30, 2001 is as follows:
Details of certain of the receivable balances are as follows:

Due From/Description	Amount
Intergovernmental:	
Federal government:	
Amounts due under	
various grant programs and reimbursable contracts	$ 99,510,767
State Agencies:	
South Carolina Department of Public Safety	
Notes receivable (long term):	
Sales of goods and services	$ 2,049,819
Accounts receivable:	
Truck registration fees and penalties	881,994
Utilities and other costs (long-term)	238,347
	$ 3,170,160
South Carolina Budget and Control Board	
Sale of surplus property	415,300
South Carolina Department of Revenue	
Gasoline taxes	50,000
Other agencies	
Sales of goods and services	171,640
Total	$ 3,807,100
County and municipal governments:	
Long term contracts for	
construction projects (long-term)	$ 5,374,624
Participation agreements	1,175,630
Other receivables (sales of goods	
and services)	4,327,862
Total	$ 10,878,116
Other local entities:	
Long term contracts for construction projects	$ 885,516
Sales of goods and services	657,952
Total	$ 1,543,468

Federal Government:

This receivable amount represents reimbursements due to the Department under various Federal grant programs and reimbursable contracts in which the Department participates.

NOTE 4. RECEIVABLES: (CONTINUED)

State Agencies:

The receivable from the South Carolina Department of Public Safety (Public Safety) is the remaining balance due on two note agreements that were entered into for goods and services purchased during 1994 and 1995 on August 25, 1995 for $8,839,817 and on July 18, 1996 for $897,867. Through June 30, 2000 $5,674,354 and $554,565 had been paid on the two note agreements leaving balances of $3,165,463 and $343,302. The Department received the scheduled payments from Public Safety for July and August, 2000 totaling $226,408. A settlement agreement to resolve certain restructuring issues was entered into January 19, 2001 by the two agencies wherein the balances owed on the two note agreements as of August, 2000 were reduced $1,232,538 to $2,049,819. The $1,232,538 reduction was recorded as a prior period adjustment – see Note 21. Payments on the $2,049,819 are to be deferred until such time as the Department purchases Public Safety's 35% interest in the office building and lot located at 915 Park Street, Columbia, South Carolina – see Note 20.

Due to the long-term nature of the note receivable balance of $2,049,819 and the long-term account receivable balance of $238,347 (see Note 20) from the South Carolina Department of Public Safety (both to be used as offsets for the future purchase of office building and lot), the combined amount of $2,288,166 has been equally offset as a reservation of fund balance to reflect that portion as not being currently available.

Counties, Municipalities and Other Local Entities Governmental:

The Department has entered into various long term contracts for construction projects with local governments for sharing of the costs. A schedule of those long term contracts with balances at June 30, 2001 follows:

Due From	Contract Date	Original Amount	Terms	Unpaid Balances 6/30/01
Richland County	12/13/78	$ 1,697,810	$50,000 annually; no interest	$ 587,810
Town of St. Stephens	12/16/94	$ 250,000	$20,833 annually for 12 years beginning 3/15/97; no interest	146,814
Dorchester County	03/01/99	$ 2,000,000	Annual average principal payments of $100,000 beginning 5/1/00 over 20 years plus interest at an annual rate range of 4.5 - 4.6%	1,960,000
Cherokee County School District	08/27/98	$ 600,000	$120,000 annually for 5 years beginning 7/01/02; no interest	600,000 (1)
Williamsburg County	01/01/01	$ 2,000,000	Annual average principal payments of $100,000 beginning 1/01/02 over 20 years at an annual rate ranges of 4.5 - 6.0%	2,000,000 (2)
Town of Saluda	06/01/01	$ 80,000	$3,443 quarterly beginning 8/01/01 through 5/01/08, no interest	80,000
Total				$ 5,374,624

NOTE 4. RECEIVABLES: (CONTINUED)

(1) Advances during fiscal year ended June 30, 2001 total $208,040; during fiscal year ended June 30, 2000 $391,960.
(2) Proceeds from 2001A Bonds loaned to Williamsburg County – see Note 7.

Due to the long-term nature of the above receivables $5,368,625 of the $5,374,624 total has been equally offset as a reservation of fund balance to reflect that portion as not being currently available.

This account receivable classification was changed from County and Municipal Governments to Counties, Municipalities and Other Local Governmental Entities.

Other Local Entities:

The Department has entered into various long term contracts for construction projects with other local entities for sharing of the costs. A schedule of those long-term contracts with balances at June 30, 2001 follows:

Due From	Contract Date	Original Amount	Terms	Unpaid Balances
Laurens County Water and Sewer Commission	06/23/98	$ 659,802	$83,084 annually for 8 years beginning 1/1/00; no interest	$ 493,624
Gilbert-Summit Water District	08/16/98	$ 203,690	$27,500 annually for 8 years beginning 6/1/99; no interest	203,190
Chester Metropolitan District	04/06/99	$ 600,000	$ 50,000 annually for 12 years beginning 01/01/02; no interest	164,327 (2)
High Hills Rural Water Company, Inc.	06/07/99	$ 65,000	$13,000 annually for 5 years beginning 3/31/00; no interest	24,375
Total				$ 885,516

(1) Original amount reported at June 30, 2000 were adjusted for the unfunded portion of the construction project contracts.
(2) Advances to date on the $600,000 contract.
(3) Contracts with balances at June 30, 2000 for Woodruff-Roebuck Water District in the amount of $98,125 and Beaufort-Jasper Water District in the amount of $200,000 were paid in full during the fiscal year ended June 30, 2001.

Due to the long-term nature of the above receivables; $880,825 of the $885,513 total has been equally offset as a reservation of fund balance to reflect that portion as not being currently available.

NOTE 5. INVENTORIES:

Inventories as of June 30, 2001 consist of the following:

Sign shops	$4,594,869
Repair shops	1,471,483
Supply depot	577,329
Office supplies	85,775
Total	$6,729,456

NOTE 6. FIXED ASSETS/RIGHT-OF-WAYS LAND HELD FOR SALE:

The following is a summary of changes in the General Fixed Assets Account Group of the Department for the fiscal year 2001:

	Land and Improvements	Buildings and Improvements	Furniture Vehicles and Equipment	Construction in Progress	Total General Fixed Assets
Balances, June 30, 2000 as previously reported	$ 4,184,164	$ 85,343,473	$ 222,542,569	$ 338,312	$ 312,408,518
Prior period Adjustments (A)	(841,239)	(25,891,331)	640,282		(26,092,288)
Balances, June 30, 2000 as restated	3,342,925	59,452,142	223,182,851	338,312	286,316,230
Additions:					
Purchases			20,753,598	3,992,170	24,745,768
Capital leases			201,630		201,630
Construction completed		203,719		(203,719)	
Retirement/disposals	(5,496)	(183,556)	(19,496,954)		(19,686,006)
Balances, June 30, 2001	$ 3,337,429	$ 59,472,305	$ 224,641,125	$4,126,763	$ 291,577,622

(A) Prior period adjustments include the following:

Additions acquired by capital leases in prior years not recorded	$ 640,282
Transfers to the South Carolina Department of Public Safety based on agreement made January 19, 2001 to resolve restructuring issues	(26,732,570)
Net increase (decrease)	$(26,092,288)

NOTE 6 FIXED ASSETS/RIGHT-OF-WAYS LAND HELD FOR SALE: (CONTINUED)

The following is a summary of changes in right-of-ways land held for sale for the fiscal year 2001:

Balance June 30, 2000	$ 1,831,309
Additions:	28,032
Deletions:	
Allocations to county and municipal governments for no consideration	(1,066,865)
Balance, June 30, 2001	$ 792,476

NOTE 7. DEBT:

	Bonds Payable	Contribution Payable-State Agency	Capital Lease Obligations	Liability for Compensated Absences		Totals
Balances, beginning of year, as previously reported	$ 326,940,000	$ 177,180,441	$	$ 19,243,169		$ 523,363,610
Prior period adjustment (B)			360,155			360,155
Balances, beginning of year, as restated	326,940,000	177,180,441	360,155	19,243,169		523,723,765
Increases	352,000,000		201,630			352,201,630
Decreases	(6,805,000)	(13,105,004)	(175,320)	(932,753)	(A)	(21,018,077)
Balances, end of year	$ 672,135,000	$ 164,075,437	$ 386,465	$ 18,310,416		$854,907,318

A summary of changes in general long-term debt for the Department for the year ended June 30, 2001 is as follows:

(A) Change is shown at net since details to support the gross increases and decreases are not available

(B) In prior years, the Department entered into various capital leases totalling $640,282 that were classified as operating in error. Payments made through June 30, 2000 totaled $280,127 leaving unpaid balances of $360,155 at June 30, 2000 (See Notes 6 and 21.)

Principal expenditures of $20,085,324 for fiscal year 2001 include $6,805,000 for bonds payable, $13,105,004 for contributions payable –State agency and $175,320 for capital lease obligations. Interest expenditures of $20,114,635 for fiscal year 2001 include $15,601,007 for bonds payable, $4,494,906 for contribution payable-State Agency and $18,632 for capital lease obligations.

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.

NOTE 7. DEBT: (CONTINUED)

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 of approximately $80,200,000 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.

During the year ended June 30, 2001 the Bank issued the following bonds:

Series	2001A	2001B	
Issue date	01/01/01	04/01/01	
Date closed	01/18/01	04/14/01	
Net bond proceeds:			Totals
Face amount of bonds			
Original issue premium	$2,000,000	$ 350,000,000	$352,000,000
Total bond proceeds	204	3,323,162	3,323,366
	$2,000,204	$ 353,323,162	$355,323,366
Issuance costs			
(1) Paid by Williamsburg County	$ 0	(1) 156,261	$ 152,621
Accrured interest sold	$ 4,505	$ 809,596	$ 814,101

The Series 2001A bonds were issued pursuant to the "State Highway Bond Act". The entire proceeds from the 2001A bonds were loaned to Williamsburg County to fund a transportation project. The series 2001B bonds were also issued pursuant to the "State Highway Bond Act" and the proceeds are to be used by the Department for highway construction and related purposes.

On March 1, 1999, the Department issued $200,000,000 of State Highway Bonds (Series 1999A) which were designated 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 of State Highway Bonds (Series 1998A) which 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 designated to be used to pay the costs of replacing structurally deficient bridges in the State of South Carolina.

On July 1, 1996, the Department issued $45,000,000 of State Highway Bonds (Series 1996B) which were designated to be 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 $5,251,031 were realized during fiscal year 2001 and are included in the taxes and fees revenue category in the Special Revenue Fund.

NOTE 7. DEBT: (CONTINUED)

A summary of the bonds payable as of June 30, 2001 is as follows:

Issue Date	Series	Original Face Amount	Maturity Date	Interest Rates	Unpaid Principal Balance June 30, 2001
08/01/95	1995	$ 20,000,000	08/01/10	3.500-5.400%	$ 15,000,000
01/01/96	1996A	30,000,000	02/01/11	4.125-5.000%	22,220,000
07/01/96	1996B	45,000,000	07/01/21	5.625-5.650%	44,775,000
10/01/97	1997A	30,000,000	10/01/12	4.500-5.000%	25,760,000
04/01/98	1998A	17,500,000	04/01/23	4.500-6.500%	16,380,000
03/01/99	1999A	200,000,000	05/01/19	4.500-4.600%	196,000,000
01/01/01	2001A	2,000,000	01/01/21	4.500-6.000%	2,000,000
04/01/01	2001B	350,000,000	04/01/21	4.750-5.500%	350,000,000
Total bonds payable					$ 672,135,000

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	Totals
2002	$ 21,000,000	$ 32,513,270	$ 53,513,270
2003	21,925,000	31,482,631	53,407,631
2004	24,810,000	30,405,203	55,215,203
2005	25,720,000	29,159,629	54,879,629
2006	26,825,000	27,846,522	54,671,522
Thereafter	551,855,000	214,066,720	765,921,720
Total debt service obligations	$ 672,135,000	$365,473,975	$1,037,608,975

Interest expenditures for the fiscal year ended June 30, 2001 totaled $15,601,007.

Accrued interest of $814,101 was sold at the time of sale of the Series 2001A and 2001B bonds and included as a liability in the Special Revenue Fund.

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, are 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:

NOTE 7. DEBT: (CONTINUED)

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, are 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:

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, are 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, are 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 are 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%

NOTE 7. DEBT: (CONTINUED)

The Series 2001A General Obligations State Highway Bonds maturing on and after January 1, 2012, 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 January 1, 2011, 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
January 1, 2011 through December 31, 2011	101%
January 1, 2012 and thereafter	100%

The Series 2001B State Highway Bonds maturing on and after April 1, 2009, are 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%

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. All of the bonds were issued on February 11, 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.

At December 31, 2000, bonds payable consisted of the following:

	Balance at Issuance	Amortization of Original Issue Discount	Interest Accretions	Balance at December 31, 2000
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
Original issue discount on Series 1998A bonds	(2,693,952)	234,150		(2,459,802)
	63,506,048	234,150		63,740,198
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		15,584,902	102,970,524

NOTE 7. DEBT: (CONTINUED)

Subordinate bonds:	Balance at Issuance	Amortization of Original Issue Discount	Interest Accretions	Balance at December 31, 2000
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		9,050,542	55,642,600
	$197,483,728	$ 234,150	$ 24,635,444	$222,353,322

The terms of the bond indenture require the establishment of seven accounts (called "funds" in the indenture documents). The proceeds of the bonds were allocated among and deposited into certain of these accounts. The monies deposited into these accounts are invested according to the terms of 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.

During the year ended December 31, 2000 and during the period from January 12, 1996 (inception) through December 31, 2000, payments from the various accounts were made in accordance with the terms of the bond indenture.

Debt service requirements to maturity for the Association's bonds payable at December 31, 2000 are as follows:

Year Ended December 31	Principal	Interest	Totals
2001	$	$ 3,531,500	3,531,500
2002		3,531,500	3,531,500
2003		3,531,500	3,531,500
2004		3,531,500	3,531,500
2005		3,531,500	3,531,500
Thereafter	224,813,124	597,471,878	822,285,002
Totals	$ 224,813,124	$ 615,129,378	$ 839,942,502

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. $30,000,000 has been paid through June 30, 2001. The remaining balance of $74,000,000 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 payment for the current fiscal year was not paid until July, 2001 and is included as a liability in the special revenue fund.

NOTE 7. DEBT: (CONTINUED)

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. The remaining balance of $90,075,437 is included in the Department's combined balance sheet in the general long-term debt group as a contribution payable – State agency. The $7,600,000 payment that was due in the current fiscal year was not paid until July 1, 2001 and the accrued interest of $4,494,996 and principal payment of $3,105,004 that was due June 30, 2001 is included in the special revenue fund.

Debt service requirements to maturity of the contributions payable - State agency are as follows:

Year ending June 30,	Principal	Interest	Totals
2002	13,254,788	4,345,212	$ 17,600,000
2003	13,411,799	4,188,204	17,600,000
2004	13,576,383	4,023,617	17,600,000
2005	13,748,906	3,851,094	17,600,000
2006	13,929,752	3,670,248	17,600,000
Thereafter	96,153,809	2,664,619	122,800,000
Totals	$ 164,075,437	$ 22,742,994	$ 210,800,000

Capital Leases – Primary Entity

See Note 17 regarding capital lease obligations.

NOTE 8. INTEREST IN LICENSE AGREEMENT WITH 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 provided 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 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.

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

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 commenced construction on February 27, 1999 and 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.

The Association's rights under the License Agreement as described above constitute an intangible asset that is valued and recorded at an amount equal to the cost of construction of the Southern Connector, including related capitalized interest. At December 31, 2000, the Developer estimated that construction of the Southern Connector was approximately 93% 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.

The $179,773,561 value of the Association's Interest in License Agreement with the Department as of December 31, 2000 consists of $161,088,299 related to construction in progress costs, $3,568,481 for other soft costs of construction and $15,116,781 for capitalized interest expense, net of interest earnings.

On December 28, 2000 the Association entered into a contract (the Operations Contract) with Southern Interwest, LLC (the Contractor) whereby the Contractor will operate the Southern Connector on behalf of the Association for a fee. This initial Operations Contract is for a period of four years. Under the Operations Contract, 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.

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

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, the costs of which are not included in the accompanying financial statements, will be operated, maintained, renewed and replaced by the Department as part of the South Carolina highway system. Also, under the terms of the Operations Contract, the Contractor is responsible for all work relating to operations of the Southern Connector and all obligations of the Association under the License Agreement relating to the operation, toll operation, repair, maintenance and insurance of the Southern Connector. The Operations Contract expires December 31, 2004, and provides renewal options of successive one-year terms, upon the mutual agreement of the parties. As compensation for the Contractor's performance under the Operations contract, the Association will pay the Contractor for certain costs of work (including costs incurred pursuant to start-up of the Southern Connector), as defined in the Operations Contract plus an annual management fee of $200,000. The annual management fee consists of a basic fee of $100,000 and a subordinated fee of $100,000, payable in monthly installments. The basic fee will be considered an operating expense of the Association. The terms of the bond indenture dictate the order of payment of both the basic and subordinated fees from an account specified in the indenture. Any subordinated fee not paid when due will be deferred and will accrue interest at a rate of 10% per annum compounded annually.

All employees who assist the Contractor in fulfilling its obligations and responsibilities under the Operations Contract will be under the direction and control of the Contractor and will not be considered employees of the Association. Accordingly, the Contractor will be responsible for payment and reporting of all salaries and wages, payroll taxes, employee benefits and insurance.

On February 23, 2001, the Association received notification from the Department of its acceptance of the roadways and bridges, thereby permitting the Association to commence operations of the Southern Connector. On February 28, 2001, the Southern Connector was opened to the public. At that time, traffic was allowed on the Southern Connector for free for a two-week introductory period. Toll collection operations began on March 14, 2001.

NOTE 9. 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.

NOTE 9. PENSION PLANS: (CONTINUED)

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 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 (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). 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.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period.

Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 10.07 percent which included a 2.52 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 2001, 2000 and 1999 were approximately $11,575,000, $10,758,000 and $9,425,000 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 $228,000 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.

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 2.14 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.

NOTE 9. PENSION PLANS: (CONTINUED)

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 12.82 percent which, as for the SCRS, included the 2.52 percent surcharge. The Department's actual contributions to the PORS for the years ended June 30, 2001, 2000, and 1999 were approximately $9,900, $5,900 and $4,300, 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 $200 and accidental death insurance contributions of approximately $200 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 10. 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, 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.

NOTE 10. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

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, 21,000 State retirees met these eligibility requirements at June 30, 2000.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately $15,130,000 for the year ended June 30, 2001. As discussed in Note 9, the Department paid approximately $3,865,000 applicable to the 2.52 percent 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 11. DEFERRED COMPENSATION PLANS:

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

The State authorized deferred compensation matching contributions for fiscal year 2000-2001 . The contributions are funded from various funding sources based on the same percentages used for employees' salaries. The State appropriated funds from unspent fiscal year 1999-2000 appropriations for the contributions paid from State General Funds to 401(k) accounts of eligible state employees. In addition, the 2000 Appropriations Act required State institutions and agencies to match certain 401(k) contributions by employees whose salaries are funded from its applicable revenue sources. The 401(k) match is limited to $300. To be eligible an employee must be a permanent full-time State employee or temporary grant employee who is actually contributing to a 401(k), 457, or 403(b) account on the date of distribution. Permanent full time employees making less than $20,000 as of July 1, 2000 are not required to contribute in order to receive the match. The Authority contributed $25 per participant per pay period beginning January 1, 2001. $807,825 was included in the applicable expenditure categories for the current fiscal year.

NOTE 12: RETIREMENT INCENTIVE

Effective January 1, 2001,.Section 9-1-2210 of the South Carolina Code of Laws allow active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The Department recorded and paid expenditures of approximately $1,850,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2001. These expenditures are reported in the applicable expenditure categories in which the payroll costs for the respective employees are recorded. The compensated absences liability as of June 30, 2001 includes $835,000 for eligible employees who have not elected to participate in the program as of June 30, 2001.

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 and provides services for various State agencies. Total sales to State agencies were approximately $1,315,000 for the year ended June 30, 2001.

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 for the Special Revenue Fund amounted to approximately $370,306,000 for the year ended June 30, 2001. $50,000 was unremitted and due to the Special Revenue Fund by DOR at June 30, 2001. Gasoline tax revenues amounted to approximately $58,440,000 for the County Transportation Program Agency Fund for the year ended June 30, 2001.

Section 56-3-910 of the South Carolina Code of Laws provides for 20% of the motor vehicle fees collected by the South Carolina Department of Public Safety are to be credited to the Department beginning with fiscal year 2001. $7,456,341 was allocated to the Department for fiscal year 2001. Of the total, June, 2001 collections of $881,994 were received in July, 2001.

Services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, 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.

NOTE 13: TRANSACTIONS WITH STATE ENTITIES: (CONTINUED)

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 fiscal year 2001 Appropriations Act:

Statewide Cost Allocation Plan (Proviso 53.4)	
Collection of highway revenues	$ 3,067,429
Central Service Agency recoveries	1,872,536
Pay Telephone Revenue (Proviso 72.69)	4,507
Total	$ 4,944,472

$4,939,965 was paid to the State during the year. $4,507 was unpaid and included in the balance sheet of the Special Revenue Fund in the account Due to the General Fund of the State at June 30, 2001.

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

Expenditures for the workers' compensation insurance premiums for the fiscal year 2001 of $3,530,245 were paid to the State Accident Fund and are included in the general expenditure category of the Special Revenue Fund.

The Department had transactions with the South Carolina Transportation Infrastructure Bank ('the Bank"). 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 and amended it on April 27, 1999 with the Bank and Horry County to provide funds and services in connection with the construction of Phases I and II of the Conway By-pass. The $17,600,000 in contributions due to the Bank for the current fiscal year were not paid until July, 2001 (see Note 7). The Department allocated $22,191,703 of truck transportation fees and penalties to the Bank for the fiscal year 2001 pursuant to Section 11-43-160 of the Code of Laws of South Carolina from State highway taxes and fees for the construction and maintenance of highways and is included in the statement of revenues, expenditures and changes in fund balance as allocations to other entity – State agency. The $22,191,703 was not paid until July, 2001 and is reported in the Department's balance sheet of the Special Revenue Fund as intergovernmental payables – State agency. The intergovernmental agreement also provided that the Department shall be paid a fee of $3,000,000 for construction management services. The fee was payable in thirty-six (36) equal monthly installments commencing with the execution of the intergovernmental agreement on March 24, 1998 with Horry County and the Bank. The Department earned and was paid $750,000 for the management services which is included in revenues from sales of goods and fees for services for the year ended June 30, 2001. The total fee was earned and paid in full as of June 30, 2001 for the construction management services. The fees were recognized as earned in equal amounts ratably over the contract period of 36 months. Also, the Department provided the Bank with various administrative services and clerical assistance during the year ended June 30, 2001 for which no consideration will be paid and the value of those services was not determined.

NOTE 14. CONSTRUCTION IN PROGRESS – CAPITALIZED AND INFRASTRUCTURE PROJECTS:

At June 30, 2001, the estimated total costs of the Department's projects in progress to construct, acquire and maintain various capitalized facilities amounted to approximately $24,582,000 and the infrastructure projects approximately $6,401,000,000. The estimated costs to complete the capital projects amounted to approximately $20,455,000 and the infrastructure projects approximately $2,353,000,000; and, the outstanding contractual obligations attributable to the capital projects were approximately $13,483,000 and the infrastructure projects approximately $572,000,000. The estimated time frame for completion of these projects is several years. The costs of the projects in progress and future projects will be funded from State taxes and fees, federal grants, bond proceeds and other revenues of the Department.

NOTE 15. RETAINAGE PAYABLE – ASSOCIATION:

A retainage equal to five percent (5%) of each monthly application from payment submitted by the Developer for certain construction costs is withheld and will be disbursed upon final completion of the Southern Connector Project. In accordance with the Development Agreement, amounts retained are invested in securities as allowed by the bond indenture. The earnings on such investments will be paid to the Developer upon final completion of the Southern Connector Project, provided the Developer is not in default under the Development Agreement. Interest earned on the amounts retained is included in retainage payable in the accompanying balance sheet. Total retainage payable at December 31, 2000 was $7,220,916 including interest of $466,406.

Acceptance of the toll collection system was deferred to the Association. Once the Association has determined that the toll collection system is working properly, substantial completion of the Southern Connector will be deemed to have been achieved, and all amounts previously withheld as retainage and the interest thereon will become due by the Association to the Developer.

NOTE 16. CAPITALIZED INTEREST- ASSOCIATION:

The Association follows the policy of capitalizing interest costs incurred during construction of the Southern Connector Project as part of the value of the interest in the license agreement with the Department.

Interest expense capitalized through December 31, 2000 is as follows:

	Year Ended December 31, 2000	January 12, 1996 (Inception) through December 31, 2000
Interest expense-Series 1998A Senior Current Interest Bonds	$ 3,531,500	$ 10,202,063
Accreted interest expense --		
Series 1998B Senior Capital Appreciation Bonds	5,685,752	$ 15,584,902
Series 1998C Subordinate Capital Appreciation Bonds	3,315,774	9,050,542
Amortization of original issue discount	80,280	234,150
Interest on retainages payable	309,272	466,406
Total interest expense	12,922,578	35,538,063
Less: Interest income on cash, cash equivalents and investments	4,076,751	20,421,282
Net interest expense capitalized	$ 8,845,827	$ 15,116,781

NOTE 17. LEASE OBLIGATIONS:

The Department is obligated under various operating and capital leases for the use of office equipment.

In prior years, the Department entered into various capital leases for the purchase of imaging equipment totaling $640,282 that were classified as operating in error. Principal payments made through June 30, 2000 totalled $280,127 leaving unpaid balances of $360,155 at June 30, 2000. A prior period adjustment was made to record these capital leases and the related fixed assets. (See Notes 6, 7 and 21.) Also, during the fiscal year ending June 30, 2001, the Department entered into a capital lease for $201,630 for the purchase of imaging equipment. The leases are secured by the equipment purchases. Interest rates range from 4.63% to 5.34%. Certain of the capital leases provide for renewal options and none of the leases include any purchase options. Total payments on these leases during the fiscal year ended June 30, 2001 totalled $276,413 of which $175,320 was principal, $18,632 was interest and $82,461 was executory costs and are included as expenditures in the Special Revenue Fund.

The Department's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2002 through 2005. Certain operating leases provide for renewal options for periods at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. The operating lease expenditures in fiscal year 2001, including leases having remaining terms of less than one year, were approximately $300,600. In addition to the noncancelable operating leases, the Department incurred approximately $110,800 in expenditures applicable to contingent rental agreements that are based on a pay-per-copy arrangement. The pay-per-copy leases are noncancelable with maturities in 2004-2006. There is no required minimum usage requirements under the pay-per-copy leases. The Department reports these costs in the applicable expenditure categories.

Future commitments for operating and capital leases having remaining noncancelable terms in excess of one year as of June 30, 2001 are as follows:

Year Ending June 30,	Operating Leases	Capital Leases
2002	$ 220,474	$ 257,445
2003	171,238	148,118
2004	71,570	52,384
2005	4,942	45,834
2006		19,098
Total	$ 468,223	522,879
Less:		
Interest		(30,667)
Executory costs		(105,747)
Capital lease obligations, at June 30, 2001		$ 386,465

NOTE 18. FEDERAL GRANTS AND REIMBURSABLE CONTRACTS:

The Department has grants and reimbursable contracts with the Federal government for the funding of costs related to the programs described in the grants or contracts. 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, 2001.

NOTE 19. 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. There were no significant reductions in insurance coverage from that carried in the prior year. Settled claims have not exceeded this coverage in the prior three years. 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).

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:

- Theft of, damage to, or destruction of assets
- Theft of, damage to, or destruction of assets;
- Real property and contents;
- Motor vehicles;
- Data processing equipment
- Business interruptions
- Torts; and,
- Medical malpractice claims against covered employee for nurse.

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 the Executive Director for losses arising from theft or misappropriation. Employee fidelity bond coverage is not maintained on the Department's Commission members or its other employees. The Department self-insures itself for any losses because it feels the likelihood of losses are remote.

NOTE 19. RISK MANAGEMENT: (CONTINUED)

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, 2001, 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, 2001 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 for infrastructure expenditure categories.

COMPONENT UNIT

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 covering all of its known risks of loss as follows:

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

No claim settlements of the Association have exceeded insurance coverage during the year ended December 31, 2000 and during the period from January 12, 1996 (inception) through December 31, 2000. There were no significant reductions in insurance coverage during the year ended December 31, 2000 or during the period from January 12, 1996 (inception) through December 31, 2000.

NOTE 20. CONTINGENCIES AND SUBSEQUENT EVENTS:

The Department is a defendant in various lawsuits arising from the conduct of its normal business primarily regarding right of ways. 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. Furthermore, there is no evidence that an additional expenditure and liability should be recorded.

NOTE 20. CONTINGENCIES AND SUBSEQUENT EVENTS: (CONTINUED)

Through June 30, 2001 the State's Joint Bond Review Committee approved the issuance by the Department not to exceed $1,072,000,000 in General Obligation State Highway Bonds for projects. As of June 30, 2001, $552,000,000 in bonds have been issued. The Commission authorizes 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.

The Department and the South Carolina Department of Public Safety (Public Safety) entered into an agreement January 19, 2001 to resolve various issues which arose from government restructuring. The agreement provided for the Department to purchase Public Safety's 35% interest in the office building and parking lot located at 955 Park Street, Columbia, SC for $6,300,000 on or before December 31, 2003. Until sold, Public Safety will continue to occupy the building and reimburse the Department for 35% of the utilities and other costs related to the property beginning January 1, 2001. The utilities and other costs for the period January 1, 2001-June 30, 2001 totaling $238,347 and are to be used as an offset against the purchase price at the time of purchase. Beginning July 1, 2001, Public Safety is to reimburse the Department for these costs.

In connection with the allocation of assets pursuant to the January 19, 2001 agreement between the Department and Public Safety, as surveys, legal, and other requirements are met to the satisfaction of both agencies, quit claim deeds are to be prepared and recorded on the applicable county records. Both agencies are to execute the deeds necessary to make the property transfers and to share equally in the cost of preparation and recording of such deeds and plats as may be necessary to effectuate the transfers. The Department's property is to be titled in the name of the Department and Public Safety's property is to be titled in such manner as directed.

NOTE 21. PRIOR PERIOD ADJUSTMENTS/ACCOUNTING CHANGE:

The Department made prior period adjustments as described below to correct errors involving the application of accounting principles and to reflect the terms of its agreement with Public Safety regarding the distribution of assets and the settling of certain receivables balances as the result of government restructuring reasons.

The Department and South Carolina Department of Public Safety (Public Safety) entered into an agreement January 12, 2001 to resolve various financial and property ownership issues resulting from government restructuring legislated in 1993 which dissolved the Department of Highway and Public Transportation and established the separate agencies of Public Safety and the Department. Prior period adjustments are as follows:

- Various fixed assets totaling $26,732,570 were transferred to Public Safety. The adjustment was recorded in the General Fixed Assets Account Group.
- An adjustment was made to reduce long term receivables due from Public Safety by $1,232,538.
- An adjustment was made to charge-off $2,119,054 of accounts receivable recorded in prior years that the Department had set up as being due from Public Safety.

NOTE 21. PRIOR PERIOD ADJUSTMENTS/ACCOUNTING CHANGE: (CONTINUED)

The Department made prior period adjustments to correct errors regarding capital lease agreement entered into in prior periods for the acquisition of certain fixed assets totaling $640,282 that were not recorded as assets and liabilities at the inception of the leases as required by GAAP. Fixed asset additions were recorded in the General Fixed Asset Account Group and the related debt less payments totaling $280,127 through June 30, 2000 were recorded in the General Long-Term Debt Account Group.

In accordance with GAAP in effect for the year ended June 30, 2000, the Department failed to record federal revenue and the related receivables of $7,225,879 for certain construction project costs incurred prior to June 30, 2000 and to be reimbursed under the terms of a federal grant/contract agreement. Prior period adjustments were recorded in the special revenue fund to record the receivables and to adjust the fund balance for the effect of the revenue transaction.

The changes resulting from prior period adjustments were accounted for as follows:

	As Previously Reported	Increase (Decrease)	As Restated
Special Revenue Fund:			
Intergovernmental receivables:			
State agencies	$ 6,228,321	$ (3,351,592)	$ 2,876,729
Federal government	$ 47,341,279	$ 7,225,879	$ 54,567,158
Deferred revenue	$ -0-	$ (7,225,879)	$ (7,225,879)
Fund balance	$ 200,394,565	$ (3,351,592)	$(197,042,973)
General Fixed Assets Account Group:			
Land and improvements	$ 4,184,164	$ (841,239)	$ 3,342,925
Buildings and improvements	$ 85,343,473	$(25,891,331)	$ 59,452,142
Furniture, vehicles and equipment	$ 222,542,569	$ 640,282	$223,182,851
Investment in general fixed assets	$ 312,408,518	$(26,092,288)	$286,316,230
Long Term Debt Account Group:			
Amount to be provided for retirement of general long-term debt	$ 523,363,610	$ 360,155	$523,723,765
Capital lease obligations	$ -0-	$ 360,155	$ 360,155

NOTE 21. PRIOR PERIOD ADJUSTMENTS/ACCOUNTING CHANGE: (CONTINUED)

In connection with the Department changing its method of accounting for and reporting nonexchange transactions to comply with Government Accounting Standards Board (GASB) Statement No. 33 Accounting and Financial Reporting for Nonexchange Transactions, it changed the revenue recognition policy to require that federal grant funds be received within one year in addition to the requirement that the expenditures have been incurred. Previously, the funds had to be received within 60 days. This change required the deferral of $7,225,879 of revenue recorded by the above prior period adjustment since it was not collected within one year.

NOTE 22. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS:

The Governmental Accounting Standards Board has issued Statement No. 34 Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments. The new accounting and reporting standards will impact the revenue and expenditure recognition and assets, liabilities, and fund equity reporting for the fiscal year beginning July 1, 2001. The financial statements will be reformatted and some beginning balances will be restated for the fiscal year ending June 30, 2002.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001

	Assets					
	Cash and Cash Equivalents	Inter-governmental Receivables - State Agencies	Accrued Interest Receivable	Due from Special Revenue Fund	Account Receivable	Total Assets
RIGHT OF WAYS FUND						
Balances, June 30, 2000	$ 306,328					$ 306,328
Additions	2,572,432					2,572,432
Deductions	(2,616,814)					(2,616,814)
Balances, June 30, 2001	$ 261,946				$ - 0 -	$ 261,946
SPECIAL DEPOSITS						
Balances, June 30, 2000	$ 339,990					$ 339,990
Additions	1,211,257					1,211,257
Deductions	(1,090,876)					(1,090,876)
Balances, June 30, 2001	$ 460,371					$ 460,371
COUNTY TRANSPORTATION PROGRAM FUND						
Balances, June 30, 2000	$ 104,635,796 (1)	$ -0-	$ 1,229,464	$ - 0 -		$ 105,865,260
Additions	82,755,480	58,439,630	5,937,597	9,500,000		156,632,707
Deductions	(84,711,832)	(58,439,630)	(6,122,797)	(9,500,000)		(158,774,259)
Balances, June 30, 2001	$ 102,679,444 (1)	$ - 0 -	$ 1,044,264	$ - 0 -		$ 103,723,708
TOTALS - ALL AGENCY FUNDS						
Balances, June 30, 2000	$ 105,282,114 (1)	$ - 0 -	$ 1,229,464	$ - 0 -		$ 106,511,578
Additions	86,539,169	58,439,630	5,937,597	9,500,000		160,416,396
Deductions	(88,419,522)	(58,439,630)	(6,122,797)	(9,500,000)		(162,481,949)
Balances, June 30, 2001	$ 103,401,761 (1)	$ - 0 -	$ 1,044,264	$ - 0 -	$ - 0 -	$ 104,446,025

(1) Includes unrealized appreciation of $1,446,673 at June 30, 2001 and unrealized depreciation of $991,175 at June 30, 2000.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

	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 WAYS FUND						
Balances, June 30, 2000	$	$ 306,128	$	$ 200		$ 306,328
Additions		2,572,432		114,300		2,686,732
Deductions		(2,731,114)				(2,731,114)
Balances, June 30, 2001		$ 147,446		$ 114,500		$ 261,946
SPECIAL DEPOSITS						
Balances, June 30, 2000			$ 210,760	$ 129,230		$ 339,990
Additions			1,182,770	28,487		1,211,257
Deductions			(1,068,991)	(21,885)		(1,090,876)
Balances, June 30, 2001			$ 324,539	$ 135,832		$ 460,371
COUNTY TRANSPORTATION PROGRAM FUND						
Balances, June 30, 2000	$ 5,454,001	$	$	8,927,243	$ 91,484,016	$ 105,865,260
Additions	2,615,872			2,068,201	82,570,280	87,254,353
Deductions	(8,069,873)			(8,927,243)	(72,398,789)	(89,395,905)
Balances, June 30, 2001	$ - 0 -			$ 2,068,201	$ 101,655,507	$ 103,723,708
TOTALS - ALL AGENCY FUNDS						
Balances, June 30, 2000	$ 5,454,001	$ 306,128	$ 210,760	$ 9,056,673	$ 91,484,016	$ 106,511,578
Additions	3,389,255	2,572,432	1,182,770	2,210,988	82,570,280	91,925,725
Deductions	(8,843,256)	(2,731,114)	(1,068,991)	(8,949,128)	(72,398,789)	(93,991,278)
Balances, June 30, 2001	$ - 0 -	$ 147,446	$ 324,539	$ 2,318,533	$ 101,655,507	$ 104,446,025

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Transportation:			
Direct Programs:			
Highway Planning and Construction	20.205	$ 432,967,964	$
Federal Transit Capital Investment Grants	20.500	512,259	463,363
Federal Transit Metropolitan Planning Grants	20.505	514,768	503,802
Formula Grants for Other Than Urbanized Areas	20.509	4,863,478	1,019,486
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,587,688	1,377,805
Job Access – Reverse Commute	20.516	791,554	376,759
Federal Emergency Management Agency:			
Passed through from the South Carolina Adjutant General's Office: Public Assistance Grants	83.544	2,101,715	
TOTAL FEDERAL FINANCIAL ASSISTANCE		$ 443,339,426	$ 3,701,215

RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES:

Federal revenues per statement	$ 450,565,305
Deferred revenues recognized in current year	(7,225,879)
Total per above	$ 443,339,426

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. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

We have audited the financial statements of the South Carolina Department of Transportation (the Department) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 2, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 as items 01-1 – 01-10.

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 one other matter involving the internal control over financial reporting which is described as item 01-11.

1529 HAMPTON STREET, SUITE 200 • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • E-MAIL: ROGLAB@USIT.NET

This report is intended solely for the information and use of the Governor of the State of South Carolina, 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.

Rogers & Laban, PA

November 2, 2001

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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, 2001. 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 auditing standards generally accepted in the United States of America; 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, 2001.

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.

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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 solely for the information and use of the Governor of the State of South Carolina, 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.

Rogers & Laban, PA

November 2, 2002

SOUTH CAROLINA STATE DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued:	Unqualified Opinion
2. Internal control over financial reporting:	
Material weaknesses identified?	__x__ yes _____ no
Reportable condition identified not considered to be material weaknesses?	__x__ yes _____ no
3. Non-compliance material to the Financial Statements noted?	_____ yes __x__ no

Federal Awards

4. Internal control over major programs:	
Material weakness identified?	_____ yes __x__ no
Reportable condition identified Not considered to be material weaknesses	_____ yes __x__ no
5. Type of auditor's report issued on compliance for major programs:	Unqualified Opinion
6. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ yes __x__ no

7. Identification of major programs:

CFDA Number	Name of Federal Program
20.205	Highway Planning and Construction
20.509	Formula Grants for Other Than Urbanized Areas

8. Dollar threshold used to be distinguished between Type A and Type B Programs:	$3,000,000
9. Auditee qualified as low-risk auditee?	_____ yes __x__ no

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.

01-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition:

The Department posted its transactions in its State Transportation Accounting and Reporting System (STARS) for the fiscal year 2001. The Department's accounting system did not contain adequate and accurate financial data to produce financial statements for the Department. The Department's financial statements were prepared using a variety of non-integrated systems and sources of data including manually prepared records. The lack of an integrated financial accounting system capable of maintaining sufficient financial data to produce financial statements affected the Department's ability to report the financial position and activity of the Department in accordance with accounting principles generally accepted in the United States of America (GAAP).

Several conditions as noted below required a substantial amount of additional work and procedures to be performed at year-end to ensure that the financial statements were in accordance with GAAP.

- The Department's financial statements consist of two governmental funds, a fiduciary fund, 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 did not maintain complete and accurate records that adequately account for the Department's financial transactions in each fund for the fiscal year.
- Schedules and reports that were prepared by the Department and furnished to the audit firm to support certain financial activity were incorrect and had to be reworked. The schedules and reports that provide supporting documentation should be prepared by the Department and used by management throughout its fiscal year.
- 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 records were not maintained to allow the accumulation of information necessary to present a budget versus actual statement.
- The Department's revenues and expenditures that were posted to the general ledger were not reconciled to the Comptroller General's records on a monthly basis.

Similar findings were included in prior management letters.

Cause:

The Department's accounting system was not functioning in a manner to enable the Department to produce accurate and complete financial records for management's use and audit purposes.

Effect:

Failure to maintain accurate and complete financial records results in a lack of accountability and possible misstatements in the Department's financial statements and other financial reports.

01-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (CONTINUED)

Criteria:

State regulations, good business practices and GAAP require the Department to maintain complete and accurate financial accounting records that reflect all of the financial activities of the Department that will support the Department's financial statements and other financial reports and that will provide management with adequate information to monitor budgeted expenditures.

Recommendation:

We recommend that the Department:

- Establish and maintain an accounting system that includes all of the necessary self-balancing funds to properly account for the Department's financial position and all of its financial activities in accordance with GAAP. Also, reports and schedules that are prepared to support financial activities and account balances should include accurate information.
- Review the manner in which all transactions are being posted to its general ledger to ensure that all transactions are properly and timely posted in accordance with GAAP.
- Prepare accurate schedules and reports that provide supporting documentation for certain financial activity throughout the year.
- Adopt a policy to properly classify highway expenditures as maintenance or construction.
- Record budgets and expenditures in a manner, which would allow the preparation of a budget versus actual statement.
- Reconcile the revenues and expenditures posted to the general ledger to the Comptroller General's records on a monthly basis in a timely manner.

Management's Response:

This "reportable condition" is a duplicate of one contained in last year's audit report for the year ended June 30, 2000. Although we acknowledge the auditor's *technical* responsibility to describe these conditions again, we are disappointed that they do not likewise describe the comprehensive action plan which has been successfully implemented as of July 1, 2001 to correct the problem. With the special contractual assistance of the audit firm and other experts, a plan to replace the defective "STARS" software system was painstakingly organized and implemented. Without acknowledging the previously devised Corrective Action Plan, it would appear to the reader that appropriate action had not been taken.

SCDOT financial and information systems personnel, with the review and approval of this audit firm, worked diligently to provide all needed information and maintain appropriate reconciliation with the statewide accounting system. The plan successfully utilized the statewide accounting system to provide financial information not available in the SCDOT STARS system. Several of the schedules and reports which the auditor states were "incorrect and had to be reworked" were only incorrect because they contained too much information, or were so unique in their source that misunderstandings of what was expected occurred. Schedules of activity provided early in the audit process were not utilized by the auditors until late in the audit or were requested more than once, causing unnecessary confusion.

TO CLEARLY REITERATE OUR POSITION, the SC Department of Transportation accepts full responsibility for inaccuracies created by the unsuccessful attempt to implement the State Transportation Accounting and Reports System (STARS) in 1999. We have taken all necessary steps to correct this problem during 2000-2001, following a plan approved by the auditors. As of July 1, 2001, the plan has been declared a success due to the dedicated efforts of a competent financial staff. We intend to produce all necessary reports and other information necessary to present the financial activity of the SCDOT in accordance with GAAP and will not tolerate any condition which creates weakness in our financial systems.

01-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) (CONTINUED)

Management's Response:

We believe it is extremely important to refer to the Independent Auditors Opinion on page 1 of this document, which states that these financial statements present fairly, in all material respects the financial position of SCDOT and the results of its operations in conformity with accounting principles accepted in the United State of America. Further, the auditors conclude on pp 53 and 55 that they discovered no instances of non-compliance required to be reported under Governmental Auditing Standards, and within Federal programs, respectively.

We will continue to uphold these standards and, with successful conversion of accounting systems, we will be able to accurately and professionally account for and report all financial activity.

01-2 CASH RECONCILIATION DEFICIENCIES

Condition:

The cash reconciliations were not being timely and accurately prepared for the various accounts of the Department.

Similar findings were included in prior management letters.

Cause:

The Department does not have an accounting system in which they are posting cash transactions that will provide cash detail reports to reconcile the bank balances to.

Effect:

Failure to prepare timely cash reconciliations and record adjustments for unrecorded and other reconciling items may result in inaccurate balances in the Department's internal account system and/or in the Comptroller General's records of the Departments accounts and will result in incomplete documentation for support of individual cash account balances.

Criteria:

The Statewide Accounting and Reporting System Manual Section 2.1.7.20C and good accounting practices and policies require cash reconciliations to be prepared timely and accurately.

Recommendation:

We recommend that the Department:

- Reconcile all cash accounts in the Department's Accounting System to the Comptroller General's account balances within 30 days after each month end. Adopt a reconciliation format that clearly reflects the transit items, timing difference items and items not yet 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 by that designated senior management staff person as to timely preparation if the reconciliations are not available for review within 30 days after each month end and as to disposition of all reconciling items if any items on the current month's reconciliation are over 30 days old.

- Prepare and record required adjusting journal entries in the Department's accounting system for all unrecorded transactions and error corrections in a timely manner including any needed adjustments to the State's accounting system.

01-2 CASH RECONCILIATION DEFICIENCIES (CONTINUED)

Management's Response:

As with the Auditor's management letter comment 01-1 addressed immediately above, we believe that the proper perspective on the issue of cash reconciliations was not presented. This information, repeated from the prior year report, does not recognize the intentional process that was followed by SCDOT staff to manage cash accounts during the year prior to planned conversion to the General Ledger Accounting System at July 1, 2001. With the foreknowledge and understanding of the auditors, the STARS financial system phased out at 6/30/01 never carried "balances" to which we would normally reconcile. Great effort was expended to reconcile cash transactions to Comptroller General transaction reports and "balances" were materially correct.

The Department has five cash accounts that require reconciliation on a monthly basis. The reconciliation was prepared accurately for the Special Deposit, Right of Way, Working Fund, and County Transportation Fund accounts for the fiscal year 2001. The actual transactions processed through the disbursements system and the deposits were compared to the monthly Comptroller General (CG) 444 reports. Items in transit were listed, reconciling items identified, and corrections or journal vouchers prepared on the department's side as well as the Comptroller's system. The reconciliation of the fifth account, the Highway Fund, was handled in much the same manner; however, due to the large volume of transactions, it was much more difficult to complete.

With the establishment of the General Ledger system and beginning cash balance for fiscal year 2002, the Highway fund reconciliation will be accurate and timely. The remaining cash accounts have been kept up to date and are being reconciled on a monthly basis. Corrections are made within the next month eliminating the carrying of these items from one month to the next. Both the Controller and the Director of Financial Management will review all bank reconciliations to ensure that agency policy is being followed.

01-3 ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES DEFICIENCIES

Condition:

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

- The schedule of additional accounts payable for the current fiscal year included expenditures applicable to the subsequent fiscal year. This resulted in accounts payable being overstated by approximately $1,313,000.
- Our tests for unrecorded liabilities disclosed additional accounts payable of $203,864 not included on the schedule.
- The Department did not prepare year-end documentation to support the year-end payroll accruals for annual fringe allocations. A review of fringe expenditures disclosed workers' compensation costs being miscoded to an incorrect expenditure account. This misposting caused fringe benefits to be understated by $3,133,580 and the fringe allocation schedules to be prepared for the second time by the auditors in order to properly allocate fringe cost.

Similar findings were included in the prior management letters.

Cause:

The Department's staff did not identify and accurately record its accounts payable and payroll liabilities as of year-end and did not prepare a schedule supporting the allocation of fringe benefits.

Effect:

The failure to correctly schedule all accounts payable and accrued expenditures will result in misstatements of liabilities and expenditures in the Department's financial statements and the failure to code expenditures to the proper fringe account will result in the misstatement of expenditures.

01-3 ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES DEFICIENCIES (CONTINUED)

Criteria:

Good accounting practices dictate the recording of all accounts payable and of accrued expenditures as of each year-end and the coding of expenditures to correct accounts.

Recommendation:

We recommend that the Department implement fiscal year-end expenditure and liability cutoff procedures to ensure that all accounts payable and accrued expenditures of the Department are recorded as of each year-end through a more diligent search and that the schedule supporting accrued payroll and related fringe be prepared and the schedule supporting the annual fringe allocation to be prepared.

Management's Response:

When preparing the accounts payable schedule for use in preparing the financial statements, **all** disbursement vouchers processed in July, August, September and a portion of October were physically examined. This time consuming process was conducted twice to ensure that we captured as accurately as possible all accounts payable.

Of the nine vouchers for $1,313,000 that the auditors indicated were incorrectly included in accounts payable, three for contractual services have work dates beginning June 5th, 6th and 9th. The work ending dates are August 8th and 4th. There was no way to clearly determine from the voucher when the majority of the work was performed; therefore, the $417,089.01 was included in the schedule from a conservative standpoint and is not considered by us to be an error.

One voucher for $716,502.76 liquidated two invoices; one dated 6/30/01 for $523,398.43 and another dated 7/21/01 for $193,104.33. Clearly the June 30th invoice should be included in the schedule and the July 21st invoice omitted. We agree in retrospect that the remaining five vouchers totaling $703,053.01 were incorrectly included in the schedule.

In the future the department will work to ensure that the proper dates are used when determining if a voucher should be included in the payable schedule or not.

The Department was asked to supply the following payroll related items to the auditors: a schedule of employee/employer contributions, group life insurance contributions, accidental death benefit contributions, health and dental premiums paid, 401K contributions for covered employees, accrued annual leave, payroll and fringe. All of these items were provided to the auditors in a timely manner. Accrued payroll documentation and the Comptroller General printouts were also provided. In the past, the audit firm used this information to assist us in calculating the year-end payroll accrual and we assumed this would be the case again.

The Worker's Compensation premium was incorrectly coded to another insurance account and the coding was accepted by the Comptroller General's payables section. Therefore, total insurance expense was not misstated. This posting error was obvious upon review, and the fact that the auditors prepared their schedule before review was not within our control. In the general ledger system, all fringes are pooled in one account and accurate distribution across the payrolls on a monthly basis will occur. The incorrect coding of the two vouchers for Worker's Compensation had no effect on year-end payroll accruals.

In the future the Department is planning to produce accurate financial statements, which would include this information, before the auditors begin their work.

01-4 RETAINAGES PAYABLE DEFICIENCIES

Condition:

Our tests disclosed errors in the Department's accounting records supporting retainages payable. Also, the escrow bank balance is not being reconciled to the listing of retainages that are deducted from construction payment draw requests and deposited into the escrow account. Several errors were noted in which funds should have been disbursed to the escrow accounts and were not.

Similar findings were included in the prior management letters.

Cause:

The deficiencies appear to result from the Department not having an adequate accounting system in place to maintain updated contract retainages, balances and the release of escrow amounts.

Effect:

Miscalculation of retainage amounts, incorrect transaction codings and postings, and failure to reconcile the escrow bank balance to supporting detail result in inaccurate and incomplete financial records for retainages payable.

Criteria:

State rules and regulations and good business practices require the Department to set up and maintain accurate and complete financial records to support its retainage balances and changes thereto.

Recommendation:

We recommend that the Department set up an electronic system to account for escrowed retainage liabilities and that escrow bank balances for retainages withheld be reconciled each month to the supporting listing of retainages payable and the draw request billings by contractors.

Management's Response:

Two retainage payable amounts were incorrectly included in the retainage schedule. These two contracts were completed and settled through litigation. The final payment was made through a legal settlement and the normal notice to Accounting to liquidate the retainage was not received. These have now been adjusted and liquidated from the payable amount. With the return of the General Ledger system, the retainage payable subsidiary will be reconciled to the estimates and corrections made through adjustment vouchers.

The escrow retainage balances are maintained on individual spreadsheets by company, contract number, and file number. These are reconciled to the bank statements on a monthly or quarterly basis, depending on when the statements are generated and mailed from the bank. These have never been reconciled to the contract estimates, which have not been considered part of the Accounting Records in the past. To address this audit recommendation all active escrow accounts will be reconciled twice a year to the estimate files in the Contracts Office to ensure the correct retainage is being withheld and remitted. In the general ledger system retainage, standard and escrow, is posted to the payable account. This will ensure that outstanding escrow amounts are liquidated.

01-5 ACCOUNTS RECEIVABLE DEFICIENCIES

Condition:

The Department's accounts receivable balances include amounts from numerous sources, including other State agencies, local governments and other entities. The Department's accounts receivable records are maintained on a computerized spread sheet. We noted several receivables totaling $523,470 that were not set up by the client in accounts receivable. Additional receivables were also noted in performing audit procedures for duplicate payments of invoices to vendors.

01-5 ACCOUNTS RECEIVABLE DEFICIENCIES (CONTINUED)

Condition:

Similar findings were included in prior management letters.

Cause:

The Department's policies and procedures and controls regarding the billing, posting and maintaining of subsidiary records that support accounts receivable (short-term and long-term) is inconsistent due to the record keeping being maintained on a spread sheet and not on an integrated computer system.

Effect:

Maintenance of account receivable records manually results in incomplete and inaccurate financial data in accounting records and financial statements and reports.

Criteria:

State rules and regulations and good business practices require the Department to establish and maintain accurate and complete subsidiary and control records over all accounts receivable balances.

Recommendation:

We recommend that transactions affecting all accounts receivable be recorded accurately and coded in a manner to provide for record keeping on the accrual basis and financial reporting on the modified accrual basis.

Management's Response:

During 2000-2001 the Accounts Receivable System was significantly enhanced to include as many “unusual” and “non-recurring” transactions as reasonably possible. These transactions are entered into the accounting records as soon as identified and practical. Of the receivable deficiencies noted by the auditors, three refer to July 2001 cash receipts for the return of escrow contract retainage from the banks. The Department did not consider the retainage as receivables at June 30, 2001. All of the $523,470 has been accounted for in the department’s receipts records.

Control over cash receipts and revenue and management of normal, material amounts due the agency is the primary focus of the Department on a day-to-day basis. We believe the auditor findings support the success of these efforts.

We believe that the Accounts Receivable System as currently operating is performing an excellent job. Over the past five years, as this system was developed and implemented, over $6,000,000 in past due miscellaneous receivables were identified and collected by Receivables Management. Financial Management will continue to make sure that this system functions as intended.

01-6 IMPROVEMENTS NEEDED OVER ACCOUNTING FOR PARTICIPATION AGREEMENTS

Condition:

Improvements are needed in the accounting for participation agreements. A review of the client prepared schedule for outstanding participation agreements and supporting documentation disclosed the following deficiencies:

- The prepared schedule included incorrect expenditure amounts.
- Our tests of the various contracts disclosed that the types of contracts were not the same but they were accounted for as if the contracts were the same or similar.
- The schedule contained a non-participation type project in error.
- The Department's accounting staff does not maintain any type subsidiary records for amounts due from the various participating entities to reconcile back to subsidiary records maintained by the contract audit services office.

We also noted there is inadequate reconciliations of records between the "contract" office and the "accounting" department and that changes to accounts receivable and deferred revenues are only being updated as of year-end as part of the year-end audit process.

Similar findings were included in prior management letters.

Cause:

The Department's accounting staff does not update the schedules and maintain supporting documentation for outstanding participation agreements on a monthly basis. Financial activity for the participation agreements is only being updated by accounting manually after the June 30 year-end.

Effect:

Failure to update the financial activity for participation agreements on a monthly basis increases the likelihood that the financial information may be inaccurate and incomplete because of errors and omissions. Without timely updating and accurate and complete project information, the accounting records and schedule don't provide management with current information for monitoring projects. Also this resulted in audit adjustments being required as of year-end to accounts receivable and deferred revenues.

Criteria:

Good business practices and generally accepted accounting principles require accurate and complete financial data to be maintained to support the asset, liability and revenue account balances for participation agreements.

Recommendation:

We recommend that the Department prepare monthly participation schedules that reconcile to the control records maintained in the contract audit services office that will provide an accurate accounting of all participation agreements. The schedule should be prepared and updated for changes as of each month end to help ensure it is mathematically correct; properly reflects all contract data; properly includes all contracts completed and closed during the current fiscal year; and properly reflects all amounts due and/or deferred revenues. This schedule and all supporting documentation should be reviewed and approved by a designated senior management staff person as of each month end.

01-6 IMPROVEMENTS NEEDED OVER ACCOUNTING FOR PARTICIPATION AGREEMENTS (CONTINUED)

Management's Response:

The four points outlined in this comment refer to a schedule of outstanding participation agreements which was prepared for the auditors from records which were in the process of being updated and converted to the General Ledger System. The incorrect expenditure amounts were discovered by accounting staff during this conversion and new schedules were prepared for the auditors. Likewise the **one** project which was determined to not belong on the schedule was quickly and easily removed.

This schedule should not be construed to be our accounting records. Because of limitations within the STARS system, the accounting records could not mechanically produce participation statements on a monthly basis and reconciliation of detailed transactions was required to maintain the integrity of the participation balances. Extensive communication and cooperation between the Contracts Office and Accounting was necessary to successfully maintain control and any implication to the contrary is misleading.

As with several other issues in this management letter, comprehensive plans to compensate for the temporary shortcomings of the STARS system were successfully implemented in this area. With complete conversion to the General Ledger System, Accounting is currently preparing participation statements that are reconciled to general ledger balances on a monthly basis. The Contracts Office will verify the agreement amounts to their records and advise Budget and Accounting when new agreements should be added. Future schedules prepared for the auditors or for internal purposes will reflect the “amounts due” and/or “deferred revenue” at fiscal year end. A designated senior management official is reviewing the monthly statements.

01-7 OPERATING AND CAPITAL LEASE DEFICIENCIES

Condition:

The Department failed to schedule and correctly report its obligations for operating and capital leases and to code and reconcile lease expenditures for its leases to the appropriate general ledger accounts. Several capital leases were reported as operating in prior years and a prior period adjustment was required to record these liabilities and the related fixed assets. Numerous errors were noted such as leases with less than a twelve month maturity period were reported when disclosure was not required, lease obligations were erroneously reported with 61 month obligation instead of 60 months, and future lease obligations did not extend to the end of the lease term. A similar finding on operating leases was included in the prior year's management letter.

Cause:

The Department’s staff has difficulty calculating future obligations for capital and operating leases. The Department is also misposting expenditures for the various type of leases and not reconciling the expenditures for disclosure of current year expenses incurred on the different types of lease arrangements.

Effect:

The failure to include in the Department's annual financial statements for future operating and capital lease and the current year lease expenditures are departures from generally accepted accounting principles.

Criteria:

Generally accepted accounting principles (GAAP) require the reporting of total current year operating lease expenditures and of the liability by fiscal year for noncancelable operating leases having a remaining term of more than one year and for the maintenance of adequate records to support all applicable GAAP operating lease disclosures.

01-7 OPERATING AND CAPITAL LEASE DEFICIENCIES (CONTINUED)

Recommendation:

We recommend that the Department prepare separate schedules annually that include the terms of all active operating and capital leases as of the fiscal year-end and reconcile total lease expenditures to the various expenditure accounts. We also recommend the Department prepare schedules at fiscal year-end detailing the future minimum lease payments for all operating and capital leases with a remaining lease term in excess of one year. The Department should ensure that adequately trained staff perform these functions.

Management's Response:

The lease schedule was originally prepared by our Procurement Division under the premise that **all** copier leases, even those with less than one-year maturity, should be included for the auditor's review. This schedule was then re-worked to exclude these payments, which did not require disclosure and to remove the capital leases. We understand that we are responsible for the accuracy of our own information, but we mistakenly believed that with the inclusion of all information, the auditors would be able to easily extract the information they needed.

The schedule will be prepared in the future and reviewed by the Finance Office to ensure correct expenditure information, maturity periods, and future obligation calculations are correct. Also, guidelines have been distributed to all personnel and a Procedure Memorandum is being written to ensure all SCDOT offices are aware of the proper way to process copier payments.

01-8 FIXED ASSET DEFICIENCIES

Condition:

The Department's schedule of fixed assets additions contained numerous misstatements. Our tests of expenditures disclosed a fixed asset costing $8,078 that was not set up as a fixed asset. An analysis of various expenditure codes disclosed twelve additional fixed assets costing $341,126 that were not set up on the fixed assets schedule and three vouchers for expenditures totaling $66,771 could not be located for us to determine what fixed asset was purchased so that we could trace it to the fixed asset schedule. Also, the same analysis disclosed that several pressure washers and other items were set up as "gateway computers" and a tractor plus attachments costing $70,368 was set up in the fixed asset schedule with a zero dollar value. The Department had to rework the schedule supporting fixed assets additions for the fiscal year.

The second schedule prepared by the Department also contained errors. Our tests of 6 out 25 fixed asset additions disclosed expenditures totaling $188,482 for repair and maintenance type cost were included in fixed asset additions. An audit adjustment was required to delete the repair and maintenance type costs from fixed assets. Our tests of transactions also disclosed several coding and posting errors. The Department did not include buzz bar additions and a journal entry was necessary to set them up for $85,593. Several items were noted that were improper expenditures or set up for the incorrect amount.

The Department prepared a reconciliation of current year expenditures with fixed asset additions only as an audit request. The Department did not update their building improvements and land improvements fixed asset schedules for the current fiscal year and the information provided by the client contained several errors.

Cause:

The Department is not reconciling fixed assets additions monthly to fixed assets expenditures as they have done in the past and did not timely prepare its year-end reconciliation. The Department did not maintain updated records for fixed assets and there are no procedures in place to ensure expenditures for fixed assets are correctly coded and set up as fixed assets and repairs and maintenance are not coded as fixed asset additions.

Effect:

Failure to maintain and timely update fixed asset records will result in incomplete and inaccurate financial data that supports of the Department's year end financial statement balances. Also, controls over property and equipment become ineffective.

01-8 FIXED ASSET DEFICIENCIES (CONTINUED)

Criteria:

Good accounting procedures require the Department to maintain accurate and complete property records on a timely basis.

Recommendation:

We recommend that procedures be implemented to ensure that all fixed asset additions are posted timely, descriptions are accurate, and items are recorded for the proper amount. The applicable fixed asset subsidiaries and control accounts should be timely updated and reconciliations of new additions to expenditures should be performed monthly.

Management's Response:

Subsequent to last year's audit, procedures were implemented to record all appropriate acquisitions and remove disposals of furniture and equipment. Reconciliations of expenditures per the STARS disbursement system to additions on the Fixed Asset subsidiary listing were prepared at June 30, 2001. Certain system and processing defects in the STARS system existed, however, which could not be overcome or were not discovered until the auditors performed tests. These issues included:

1. Asset Enhancement transactions were not being handled properly by STARS.

2. The absence of General Ledger control accounts prevented the application of standard reconciliation procedures. Reconciliation to disbursement accounts in the STARS system did not account for transactions coded *differently* in the Comptroller General's system.

3. Other STARS software glitches caused fixed asset descriptions to print incorrectly and the asset cost of multiple purchases to be assigned improperly to one item.

In addition, agency policy for recording certain enhancements or larger "parts" to equipment has been determined to need expansion and clarification. Items such as Swingers, and Buzz Bars are interchangeable parts for various mowers and tractors. The agency in prior years adopted the policy not to set these items up as fixed assets. We have now identified all Swingers and Buzz Bars statewide. Going forward, these items will be set up as fixed assets and assigned tag numbers.

Although these systems deficiencies caused current year additions and deletions to be difficult to reconcile, it should be noted that total fixed assets of **$291,577,622** remain accurately recorded and reported, as evidenced by the opinion of the independent auditors.

With the re-establishment of the General Ledger System adequate control over Fixed Assets has been assured. True monthly reconciliation of all activity is being performed. Additional training of field personnel who are responsible for establishing initial control of fixed assets when purchased will be conducted. Tighter procurement controls are being considered as well as new data entry edits. Implementation of the requirements of GASB 34 will also enhance internal control over agency assets.

01-9 CONSTRUCTION IN PROGRESS DEFICIENCIES

Condition:

The Department's records for construction in progress were not prepared correctly and required several revisions. Our testing of the project files disclosed that budget amounts as reported were not updated for increases or decreases. The amounts reported as outstanding commitments by the Department were the difference between the budget and expenditures to date instead of amounts for which contracts had been signed and related expenditures not incurred.

01-9 CONSTRUCTION IN PROGRESS DEFICIENCIES (CONTINUED)

Cause:

The Department did not appear to fully understand the requirements for financial disclosure based on the information presented in its construction in progress schedule.

Effect:

Failure to maintain updated construction in progress schedules could result in improper financial statement data and incorrect disclosures in the footnotes.

Criteria:

Good accounting procedures require the Department to maintain accurate and up to date construction in progress records.

Recommendation:

We recommend that the budgets be timely updated as they change, projects be closed when complete or substantially complete and outstanding commitments reflect actual contractual liabilities as of year-end.

Management's Response:

The construction in progress schedule was manually prepared in *the exact same manner as the previous year, which was accepted by the auditors*. The Department has always recorded the budget at the entire amount inclusive of all phases of work from design to construction. In the general ledger system the Construction In Progress statement will be produced from the construction projects in progress file and the allotment ledger-posting file. The statement will show budget allotments, outstanding obligations, expenditures, and over/under-runs. It will produce a more accurate and acceptable statement that will be balanced to the Department's records. Department personnel are experienced in this area and have never had a problem reporting this in the past. We must take issue with the auditor's statement concerning our "lack of understanding" of the matter.

01-10 DRAW-DOWN OF FEDERAL FUNDS NOT TIMELY

Condition:

The Department billed for expenditures for two federal projects at a rate of 80% instead of 100% allowed. One under billing for $23,000 was discovered by the Department and the result was a delay in the payment for two years. Our testing disclosed an additional under billed amount of $441,796. In addition, a federal draw-down request for March 2000 was not processed until November, 2000. Also, when the Department made changes to its accounts payable system in the year ended June 30, 2000, it failed to bill the federal government $7,225,879 for retainages. A prior period adjustment was made to record this amount as of June 30, 2000.

The Department did not update 6 out of 15 employees tested for rates charged for federal payroll for salary increases, which resulted in undercharges to federal programs. Also one case was found where the employee's budgeted weekly time schedule was not set up correctly and caused an undercharge of payroll costs to the federal program.

Cause:

The Department did not properly verify the cost sharing percentage of various projects. If a project agreement has not been signed or completed, the percentage of federal share should be re-verified upon final completion of the agreement. If the Department had been reconciling expenditures with revenues, the federal draw down request would have been caught and processed much earlier. Also, pay rate changes were not timely entered into the system.

01-10 DRAW-DOWN OF FEDERAL FUNDS NOT TIMELY (CONTINUED)

Effect:

The under billings of federal funds results in State funds being utilized in their place, and is poor management of State funds. This also results in the loss of interest earnings and could result in the Department not being able to collect from the federal government if the reimbursement requests are not submitted in accordance with applicable federal requirements.

Criteria:

State regulations require the drawdowns and expending of federal and other funds before spending State funds, whenever possible.

Recommendation:

The Department should implement procedures to ensure these various types of errors do not occur in the future. The Department should reconcile federal payroll expenditures with the actual amounts booked.

Management's Response:

Concerning the two projects which were billed at 80% instead of 100%, we would like to point out that, because of shear volume, this problem occurs from time to time. During any given month there are approximately 2500 to 3000 projects on the current bill. In addition, there are approximately 200 to 300 additions, deletions or changes made to the current bill monthly. Either Accounting or Federal-Aid personnel discover these percentage problems in most cases on a timely basis. In one instance, the error was discovered by Federal-aid during the final voucher process. The final voucher process will ensure no project will be closed before all matching revenues are received from FHWA.

In the case of the unbilled retainages, FHWA has agreed to permit the re-opening of the projects in order for us to receive full reimbursement. This issue and the employee charge rate errors were caused by the incompleteness of the STARS accounting system, which has been described above. Under our new General Ledger System proper reconciliation occurs and these types of errors cannot occur.

The Department employs a very sophisticated cash management system to maximize revenues, including interest earnings on idle cash balances. With the successful implementation of an integrated accounting system, we will continue to work diligently to reach maximum cash management efficiencies.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

OTHER MANAGEMENT LETTER COMMENT
FOR THE YEAR ENDED JUNE 30, 2001

We noted the following matter involving the internal control over financial reporting:

00-11 INSURANCE COVERAGES

Condition:

The Department is not properly and timely updating the amounts of insurance coverage for the buildings owned throughout the State. The Department acquired additional coverage in August 2001. This finding was also cited in the prior year's management letter.

Cause:

There was no apparent reason the insurance coverage for the Department was not reviewed and updated.

Effect:

The Department could realize losses from not having adequate coverage or by paying excess premiums if the properties are insured for more than their current value.

Criteria:

Good business practices require the Department to review and update insurance coverages in force at least annually.

Recommendation:

We recommend that the Department utilize the most current annual replacement cost and depreciation report issued by the South Carolina Insurance Reserve Fund and the Department's historical cost records in determining the correct amounts of insurance coverage.

Management's Response:

A complete inventory of all SCDOT property, which was begun in 2000, has now been completed. After lengthy negotiation with SCDPS over property transferred or to be transferred to them, our Insurance Department has worked with Insurance Reserve Fund personnel using current replacement costs to establish adequate coverage. GASB 34 requirements for the capitalization of fixed assets will allow Finance to assist Insurance in making sure that adequate coverage will be maintained.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATUS OF PRIOR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2001

During our current audit, we reviewed the status of corrective action taken on the management letter comments reported in the prior auditor's report on the financial statements of the Department dated November 16, 2000 resulting from the audit of the financial statements for the year ended June 30, 2000. We found that adequate corrective action was taken for the following management letter comments:

- Year End Journal Entries not Posted by Department
  (Since the Department did not maintain a general ledger for the current fiscal year, this finding was no longer applicable.)
- Failure to Timely Deposit Rental Cash Receipts
- Fixed Asset Deficiencies
- Improper use of Internal Audit Staff

The other prior year findings are repeated in the current year's Schedule of Findings and Questioned Costs and/or other management letter comments.

CORRECTIVE ACTION PLAN

APPENDIX A

South Carolina
Department of Transportation

CORRECTIVE ACTION PLAN

January 31, 2002

Thomas L. Wagner, Jr. CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner:

The South Carolina Department of Transportation respectfully submits the following Corrective Action Plan for the year ended June 30, 2001.

This Plan outlines actions taken, or to be taken, to address "reportable conditions" contained in the audit report prepared by Rogers and Laban, PA, CPA's dated November 2, 2001. Each audit recommendation is repeated prior to our response and numbered as in the audit report.

With a letter dated January 23, 2002, we provided to you a comprehensive report (REPORT) which contained the full text of the auditor's reportable conditions with our response and corrective action, when appropriate, immediately following each reportable condition. In this ***Corrective Action Plan*** *we will refer to that report to avoid redundancy.*

01-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Recommendation:

We recommend that the Department:

> Establish and maintain an accounting system that includes all of the necessary self-balancing funds to properly account for the Department's financial position and all of its financial activities in accordance with GAAP. Also, reports and schedules that are prepared to support financial activities and account balances should include accurate information.
>
> Review the manner in which all transactions are being posted to its general ledger to ensure that all transactions are properly and timely posted in accordance with GAAP.
>
> Prepare accurate schedules and reports that provide supporting documentation for certain financial activity throughout the year.
>
> Adopt a policy to properly classify highway expenditures as maintenance or construction.

Post Office Box 191
, South Carolina 29202-0191

Phone: (803) 737- 2314
TTY: (803) 737- 3870

Record budgets and expenditures in a manner, which would allow the preparation of a budget versus actual statement.

Reconcile the revenues and expenditures posted to the general ledger to the Comptroller General's records on a monthly basis in a timely manner.

SCDOT CORRECTIVE ACTION:

The successful replacement of the STARS accounting system with our modified General Ledger system as of July 1, 2001 has implemented or provided the means to implement all of these recommendations. Please refer to the **REPORT** for a description of the implementation process which was reviewed by the audit firm.

01-2 CASH RECONCILIATION DEFICIENCIES

Recommendation:

We recommend that the Department:

Reconcile all cash accounts in the Department's Accounting System to the Comptroller General's account balances within 30 days after each month end. Adopt a reconciliation format that clearly reflects the transit items, timing difference items and items not yet 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 by that designated senior management staff person as to timely preparation if the reconciliations are not available for review within 30 days after each month end and as to disposition of all reconciling items if any items on the current month's reconciliation are over 30 days old.

Prepare and record required adjusting journal entries in the Department's accounting system for all unrecorded transactions and error corrections in a timely manner including any needed adjustments to the State's accounting system.

SCDOT CORRECTIVE ACTION:

With the successful implementation of the General Ledger System, all cash accounts are now being fully reconciled on a monthly basis and reviewed by management. Prior to June 30, 2001 the agency did not have "balances" in the normal sense of the term to which to reconcile and instead, reconciled cash receipts and cash disbursements to the Comptroller General. This process was part of a plan pre-approved by the auditors and is described in more detail in the **REPORT.**

01-3 ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES DEFICIENCIES

Recommendation:

We recommend that the Department implement fiscal year-end expenditure and liability cutoff procedures to ensure that all accounts payable and accrued expenditures of the Department are recorded as of each year-end through a more diligent search and that the schedule supporting accrued payroll and related fringe be prepared and the schedule supporting the annual fringe allocation to be prepared.

SCDOT CORRECTIVE ACTION:

The Department believes that it employed adequate fiscal year-end expenditure and liability cutoff procedures at June 30, 2001. In the **REPORT** we describe errors in the auditor findings and other misunderstandings on their part. Needless to say, we will continue to diligently apply these procedures and are planning to produce accurate financial statements before the auditors begin their work.

01-4 RETAINAGES PAYABLE DEFICIENCIES

Recommendation:

We recommend that the Department set up an electronic system to account for escrowed retainage liabilities and that escrow bank balances for retainages withheld be reconciled each month to the supporting listing of retainages payable and the draw request billings by contractors.

SCDOT CORRECTIVE ACTION:

SCDOT is currently complying with this recommendation, except that reconciliation to the estimate files in the Contracts Office will be performed twice a year. The accounting records are considered to be the official record and are completely reconciled.

01-5 ACCOUNTS RECEIVABLE DEFICIENCIES

Recommendation:

We recommend that transactions affecting all accounts receivable be recorded accurately and coded in a manner to provide for record keeping on the accrual basis and financial reporting on the modified accrual basis.

SCDOT CORRECTIVE ACTION:

During 2000-2001 the Accounts Receivable System was significantly enhanced to include as many "unusual" and "non-recurring" transactions as reasonably possible. These transactions are entered into the accounting records as soon as identified and practical. Of the receivable deficiencies noted by the auditors, three refer to July 2001 cash receipts for the return of escrow contract retainage from the banks. The Department did not consider the retainage as receivables at June 30, 2001. All of the $523,470 has been accounted for in the department's receipts records.

Control over cash receipts and revenue and management of normal, material amounts due the agency is the primary focus of the Department on a day-to-day basis. We believe the auditor findings support the success of these efforts.

We believe that the Accounts Receivable System as currently operating is performing an excellent job. Over the past five years, as this system was developed and implemented, over $6,000,000 in past due miscellaneous receivables were identified and collected by Receivables Management. Financial Management will continue to make sure that this system functions as intended.

01-6 IMPROVEMENTS NEEDED OVER ACCOUNTING FOR PARTICIPATION AGREEMENTS

Recommendation:

We recommend that the Department prepare monthly participation schedules that reconcile to the control records maintained in the contract audit services office that will provide an accurate accounting of all participation agreements. The schedule should be prepared and updated for changes as of each month end to help ensure it is mathematically correct; properly reflects all contract data; properly includes all contracts completed and closed during the current fiscal year; and properly reflects all amounts due and/or deferred revenues. This schedule and all supporting documentation should be reviewed and approved by a designated senior management staff person as of each month end.

SCDOT CORRECTIVE ACTION:

As with several other issues in this report, comprehensive plans to compensate for the temporary shortcomings of the STARS system were successfully implemented in this area. We refer the reader to the **REPORT** to gain a better perspective on the materiality of the auditor comments. Under the General Ledger system electronic control has been established and participation statements are prepared and reconciled each month.

01-7 OPERATING AND CAPITAL LEASE DEFICIENCIES

Recommendation:

We recommend that the Department prepare separate schedules annually that include the terms of all active operating and capital leases as of the fiscal year-end and reconcile total lease expenditures to the various expenditure accounts. We also recommend the Department prepare schedules at fiscal year-end detailing the future minimum lease payments for all operating and capital leases with a remaining lease term in excess of one year. The Department should ensure that adequately trained staff perform these functions.

SCDOT CORRECTIVE ACTION:

The lease schedule was originally prepared by our Procurement Division under the premise that **all** copier leases, even those with less than one-year maturity, should be included for the auditor's review. This schedule was then re-worked to exclude these payments, which did not require disclosure and to remove the capital leases. We understand that we are responsible for the accuracy of our own information, but we mistakenly believed that with the inclusion of all information, the auditors would be able to easily extract the information they needed.

The schedule will be prepared in the future and reviewed by the Finance Office to ensure correct expenditure information, maturity periods, and future obligation calculations are correct. Also, guidelines have been distributed to all personnel and a Procedure Memorandum is being written to ensure all SCDOT offices are aware of the proper way to process copier payments.

01-8 FIXED ASSET DEFICIENCIES

Recommendation:

We recommend that procedures be implemented to ensure that all fixed asset additions are posted timely, descriptions are accurate, and items are recorded for the proper amount. The applicable fixed asset subsidiaries and control accounts should be timely updated and reconciliations of new additions to expenditures should be performed monthly.

SCDOT CORRECTIVE ACTION:

The **REPORT** describes in some detail the problems in the STARS system which had to be overcome to prepare fixed asset account balances at June 30, 2001. Although these systems deficiencies caused current year additions and deletions to be difficult to reconcile, it should be noted that total fixed assets of $291,577,622 remain accurately recorded and reported as evidenced by the opinion of the independent auditors.

01-9 CONSTRUCTION IN PROGRESS DEFICIENCIES

Recommendation:

We recommend that the budgets be timely updated as they change, projects be closed when complete or substantially complete and outstanding commitments reflect actual contractual liabilities as of year-end.

SCDOT CORRECTIVE ACTION:

The construction in progress schedule was manually prepared in *the exact same manner as the previous year, which was accepted by the auditors.* The Department has always recorded the budget at the entire amount inclusive of all phases of work from design to construction. In the general ledger system the Construction In Progress statement will be produced from the construction projects in progress file and the allotment ledger-posting file. The statement will show budget allotments, outstanding obligations, expenditures, and over/under-runs. It will produce a more accurate and acceptable statement that will be balanced to the Department's records.

Department personnel are experienced in this area and have never had a problem reporting this in the past. We must take issue with the auditor's statement concerning our "lack of understanding" of the matter.

1-10 DRAW-DOWN OF FEDERAL FUNDS NOT TIMELY

Recommendation:

The Department should implement procedures to ensure these various types of errors do not occur in the future. The Department should reconcile federal payroll expenditures with the actual amounts booked.

SCDOT CORRECTIVE ACTION:

Under the General Ledger system proper reconciliation occurs and these types of errors cannot go undetected.

00-11 INSURANCE COVERAGES

Recommendation:

We recommend that the Department utilize the most current annual replacement cost and depreciation report issued by the South Carolina Insurance Reserve Fund and the Department's historical cost records in determining the correct amounts of insurance coverage.

SCDOT CORRECTIVE ACTION:

A complete inventory of all SCDOT property, which was begun in 2000, has now been completed. After lengthy negotiation with SCDPS over property transferred or to be transferred to them, our Insurance Department has worked with Insurance Reserve Fund personnel using current replacement costs to establish adequate coverage. GASB 34 requirements for the capitalization of fixed assets will allow Finance to assist Insurance in making sure that adequate coverage will be maintained.

If you need additional information on any of these matters, please don't hesitate to contact me.

Sincerely,

Robert W. Wilkes, Jr. CPA

Director of Financial Management

CC: Rogers and Laban, PA