SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2011

State of South Carolina

Office of the State Auditor

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

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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

October 17, 2011

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

This report on the audit of the basic financial statements of South Carolina Department of Transportation and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit* Organizations, for the fiscal year ended June 30, 2011, was issued by Scott and Company, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

RHGjr/cwc

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department") as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Connector 2000 Association, Inc. (the "Association"), a discretely presented component unit of the Department. The financial statements of the Association as of and for the year ended December 31, 2010 were audited by other auditors whose report dated June 24, 2011, thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that component unit, are 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1 to the financial statements, the Department's financial statements are intended to present the financial position and changes in financial position of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Department, an agency of the State, and its discretely presented component unit. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2011, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund and aggregate remaining fund information of the Department as of June 30, 2011, and the respective changes in financial position thereof for the year then ended, and the financial position of its component unit as of December 31, 2010, and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Scott and Company LLP
CERTIFIED PUBLIC ACCOUNTANTS
scottandco.com

1441 Main Street, Suite 800
Post Office Box 8388
Columbia, South Carolina 29202
TEL (803) 256-6021 | FAX (803) 256-8346

702 Pettigru Street
Greenville, South Carolina 29601
TEL (864) 236-4400 | FAX (864) 236-4402

The accompanying financial statements of the Association, which were audited by other auditors, reports in Note 19 to the basic financial statements that the Association's unrestricted financial condition has continued to deteriorate over the past several years and it has been unable to comply with key provisions of its trust indenture and license agreement. The Association attempted to restructure its debt, but was unable to get a debt adjustment plan that was acceptable to both the bond holders and the Department. As a result of the foregoing, on June 24, 2010, the Association filed a petition for adjustment of its obligations in the U.S. Bankruptcy Court for the State of South Carolina. After considerable negotiations, the Association's First Amended Plan for Adjustment of Debts, as amended, ("Plan") was confirmed by the U.S. Bankruptcy Court on April 1, 2011 and became effective on April 21, 2011. The basic financial statements do not include any adjustments that will result from the U.S. Bankruptcy Court's confirmed Plan.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 17, 2011 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 75 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Scott and Company LLP

Columbia, South Carolina
October 17, 2011

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the South Carolina Department of Transportation (the "Department"), we provide this *Management's Discussion and Analysis* of the Department's financial statements for the fiscal year ended June 30, 2011 as a narrative overview and analysis. We encourage readers to consider this information in conjunction with the Department's financial statements, which follow.

Included in these financial statements is the discretely reported information of one component unit, *Connector 2000 Association, Inc.*, which operates the Southern Connector toll road in Greenville County under a license agreement with the Department. Component units are legally separate organizations for which the elected/appointed officials of the primary entity are financially accountable. 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. It is not intended to create the perception that the Department has a legal or financial responsibility for the Association. The Association's financial statements are independently audited and a separate annual report with the auditor's opinion dated June 30, 2011, has been issued. We refer readers to that report and our financial statements for more detailed information.

CASH FLOWS

During fiscal year 2011, the Department experienced a decline in cash reserves. In December of 2010, the cash forecast showed the decline in the cash reserves occurring during the spring and summers months which coincides with the peak of the highway paving season. During fiscal years 2009 and 2010, the road and bridge maintenance and construction work increased over previous years primarily due to federal ARRA funds. The projects are multi-year projects with a majority of work occurring during favorable weather conditions. The amount of work contracted coupled with a very favorable spring and summer construction season led to a high volume of work being performed and submitted for payment. The major source of state funding is derived from the motor fuel user fee on gasoline and diesel which has not increased since 1987, and this revenue source declined slightly from 2010 to 2011. The other major revenue is federal reimbursement of eligible expenditures part of which is required to be matched with state funds.

The management of the Department is aggressively reviewing future commitments and developing various revenue strategies to continue to provide a safe and efficient transportation system for South Carolina. In the short-term the Department is controlling expenditures by reducing the amount of projects constructed, maintaining personnel vacancies, as well as, delaying any non-essential purchases. Through aggressive management and control of current and future expenditures, the management expects to see an increase in the cash reserves over the next twelve to fifteen months.

FINANCIAL HIGHLIGHTS

DEPARTMENT-WIDE

Net Assets - The assets of the Department exceeded its liabilities at fiscal year ending June 30, 2011 by **$12.0** billion (presented as "net assets"). Of this amount, **$15.5 million** was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the Department's ongoing obligations to citizens and creditors. The Department's component unit, Connector 2000 Association, Inc. reported a ***net deficit*** of **$187.5** million as of December 31, 2010, the close of its fiscal year.

Changes in Net Assets - The Department's total net assets increased by **$159.8** (million), or 1.35% increase in fiscal year 2011. The major component of the net asset increase is **$25.1** million in donations of construction in progress from the South Carolina Transportation Infrastructure Bank. The remaining increase resulted in general revenues exceeding the governmental activities deficit by **$134.7** million. All of the activities of the Department are considered governmental activities in the Department-wide financial statements. The Department's component unit net deficit increased by **$14.2** million, **$18.5** million of which was interest expense.

Capital Assets – Capital Assets, net of depreciation, which include infrastructure, were approximately **$12.74** billion at June 30, 2011 for the Department. Capital additions for the year, including **$25.1** million donated from the South Carolina Transportation Infrastructure Bank, totaled **$372.0** million. The carrying value of capital assets removed from the records this year was **$1.1** million. Capital assets of the component unit, net of depreciation, were approximately **$145.2** million at December 31, 2010. The Association classified the capital costs **($192.5** million) of constructing the Southern Connector toll road, including construction period interest, as a license agreement with the Department. The carrying value (net of amortization) of the license agreement was **$144.9** million at December 31, 2010. The Department, as legal owner of the toll highway, has recorded a like amount in its records as infrastructure. See the Capital Assets section of this management's discussion and analysis for more information about the accounting treatment of capital assets.

Long-term Obligations - The Department's total long-term obligations decreased by **$61.52** million (6.97%) during the current fiscal year to **$820.93** million. This change is attributable to a net decrease in bonds payable of **$40.24** million, a net decrease in the amount due the South Carolina State Transportation Infrastructure Bank of **$20.99** million and other decreases of **$0.29** million.

FUND ACTIVITY

Governmental Funds - Fund Balances - As of the close of fiscal year 2011, the Department's governmental funds reported a combined ending fund balance of **$50.9** million, a decrease of **$86.7** million in comparison with the prior year. Expenditures exceeded revenues by **$87.9** million. Overall agency expenditures were down **18.64%** from the previous year which included additional expenses from bond refinancing. In the current fiscal year, maintenance expenditures decreased **2.54%** over the previous year while capital expenditures increased **2.70%**. Operating expenditures, excluding debt service increased **2.69%,** debt service decreased **13.9% ,** and allocations increased by **0.96%.** Overall revenues increase slightly at **1.8%**. Federal revenues increased **5.1%** over last year; and motor fuel revenues were down **0.7%** from the previous year. Of this total amount, **$27.3** million represents the "committed fund balance" which is available for spending at the Department's discretion on future road and bridge construction and maintenance or other necessary activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements include three sections: 1) department-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. These sections are described below:

Department-Wide Financial Statements

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

The *Statement of Net Assets* presents all of the Department's assets and liabilities with the difference between the two reported as "net assets". Over time, increases or decreases in the Department's net assets may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Department's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Department.

Both of the above financial statements have separate columns for two different types of programs or activities. These two types of activities are:

Governmental Activities – The activities in this column are mostly supported by motor fuel taxes and intergovernmental revenues (federal grants). All services normally associated with the Department fall into this category.

Business Type Activities – This is the discretely presented component unit, Connector 2000 Association, Inc., for which the Department is considered financially accountable, but it has many independent qualities as well. The Association is a nonprofit corporation for which the Department, from a legal standpoint, has no legal or financial responsibility.

The department-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into two categories, governmental fund and fiduciary funds. The discretely presented component unit, Connector 2000 Association, Inc., is considered a proprietary fund. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Fund – Most of the basic services provided by the Department are financed through the governmental fund. The governmental fund is used to account for essentially the same functions reported as governmental activities in the Department-wide financial statements. However, unlike the Department-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Department's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Department.

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

The Department has one governmental fund which includes the Earmarked, Restricted, and General Funds. The basic governmental fund financial statements can be found immediately following the government-wide statements.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside the Department. Fiduciary funds are not reflected in the Department-wide financial statements because the resources of these funds are not available to support the Department's own programs. Fiduciary funds financial statements use the accrual basis of accounting. The Department's fiduciary funds are the County Transportation Program Fund, the Right of Ways Fund, and the Special Deposits Fund.

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

Notes to the Financial Statements

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

Required Supplementary Information and Combining Statement

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the *governmental fund*, which includes comparisons of original budget to final budget to actual outflow (expenditures) on a non-GAAP budgetary basis. Also included is a combining statement of changes in assets and liabilities – agency funds.

DEPARTMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Department's assets (all classified as governmental activities) exceeded liabilities by **$12.0** billion at the close of business on June 30, 2011 (See **Table A-1** for a summary of net assets for fiscal years 2010-2011 and 2009-2010). The largest portion of the Department's net assets **(99.8%)** reflects its investment in infrastructure and other capital assets such as land, buildings, and equipment less any related debt used to acquire those assets that is still outstanding. The Department uses these capital assets to fulfill its primary mission to provide a safe and efficient transportation system for the state of South Carolina. Consequentially, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table A-1

SCDOT Net Assets
(expressed in millions)

	Governmental Activities 2010	Governmental Activities 2011
Current Assets	$ 329.6	$ 287.8
Capital Assets	12,550.9	12,742.7
Other Assets	29.0	16.9
Total Assets	**12,909.5**	**13,047.4**
Current Liabilities	297.2	338.3
Non-current Liabilities	800.8	737.8
Total Liabilities	**1,098.0**	**1,076.1**
Net Assets:		
Invested in Capital Assets, Net of Related Debt	11,696.9	11,945.8
Restricted	10.0	10.0
Unrestricted	104.6	15.5
Total Net Assets	**11,811.5**	**11,971.3**
Total Liabilities & Net Assets	**$ 12,909.5**	**$ 13,047.4**

At June 30, 2011, the Department's net assets include resources that are subject to external restrictions on how they may be used. The remaining balance of net assets **(0.01% or $15.5 million)** is unrestricted and may be used to meet the Department's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. At the end of the current fiscal year, the Department is able to report positive balances in all three categories of net assets.

Changes in Net Assets

The Department's net assets increased by **$159.8** million, or 1.35%. Approximately **$25.1** million of this increase came from the donation of infrastructure capital assets to the Department by the South Carolina Transportation Infrastructure Bank, a sister state agency established to finance major transportation projects. The balance of the increase in net assets can be attributed to an increase in self-constructed infrastructure assets net of accumulated depreciation. As stated earlier, the primary purpose of the Department is to build and maintain these infrastructure assets.

In 2011, the Department's program expenditures exceeded revenues by **$384.6** million. A breakdown of the **$1.320** billion in gross revenues reveals that motor fuel taxes, **$542.5** represented 41.1%, while federal highway and transit allocations and grants of **$724.9** represented 54.9%, and 4.0% of revenues came from various sources including toll revenues, motor vehicle fees, charges for services, and interest income.

Table A-2 presents a breakdown of these revenues and expenses for fiscal year 2010-2011 with comparative figures for the prior year.

Table A-2

SCDOT Changes in Net Assets
(Expressed in Millions)

	Governmental Activities			
Revenues:	2010	% of Revenue	2011	% of Revenue
Program Revenues:				
Capital Grants and Contributions	$ 627.1	48%	$ 640.7	49%
Operating Grants and Contributions	97.6	7%	109.4	8%
Charges for Services	28.6	2%	25.1	2%
General Revenues:				
Motor Fuel Taxes	546.7	42%	542.4	41%
State Appropriations	0.1	0%	0.1	0%
Investment Earnings	6.1	1%	2.0	0%
Total Revenues	**1,306.2**	**100%**	**1,319.7**	**100%**
Expenses:				
Public Transportation	1,137.0		1,159.8	
Total Expenses	**1,137.0**		**1,159.8**	
Changes in Net Assets	**169.2**		**159.9**	
Net Assets, Beginning of Year	11,642.3		11,811.4	
Net Assets, End of Year	**$ 11,811.5**		**$ 11,971.3**	

FINANCIAL ANALYSIS OF THE DEPARTMENT'S INDIVIDUAL FUNDS

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

Governmental Fund

The focus of the Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Department's state highway fund reported ending fund balance of **$50.9** million, a decrease of **$86.7** million in comparison with the prior year. The decrease is due to expenditures exceeding revenues because of an increase in capital and program expenditures in the current year. **53%** of the total fund balances or **$27.3** million constitutes "committed" fund balance, which are available for spending in the coming year. A portion of fund balance is "restricted" to indicate that it is not available for new spending because it has already been committed to pay the South Carolina Infrastructure Bank (**$10** million). The remainder of fund balance is "non-spendable" and committed (1) for inventories and pre-paid expenses (**$9.09** million), (2) for long-term receivables (**$3.8** million) and (3) purchase of right-of way (**$771** thousand).

GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS

The South Carolina Appropriations Act as enacted becomes the legal operating budget for the department. The Department's legally adopted budget is presented at the program level including the restricted, earmarked, and general funds appropriated and is included in Other Budgeted Funds for the State. Legal level of authority exists at the program level and any revisions to the budget over and above the amount totally appropriated must be approved by the State Budget and Control Board. The Department has the authority to carry forward any unspent cash balances in the restricted accounts and appropriate those balances to meet program expenditures. Program expenditures for permanent improvements and maintenance that are federally funded were up slightly due to the execution of contracts previously awarded; therefore, more cash balance appropriation was needed. Also the major source of state funding, motor fuel user fees, grew at a nominal pace and were down 0.78% from the projected revenue estimates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Department's investment in capital assets for its governmental activities as of June 30, 2011, amounts to **$15.7 billion**, less accumulated depreciation of **$3.0 billion**, leaving a net book value of **$12.7** billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally stationary in nature and can be preserved for a significantly longer period than most capital assets. In the case of the Department, infrastructure assets are classified into **three networks**: roads, bridges and right of ways. Cost or estimated cost of infrastructure and related depreciation were recorded retroactively back to the year 1914. The Department has chosen to depreciate infrastructure assets (excluding right of ways). **Table A-3** summarizes capital assets at June 30, 2011 and June 30, 2010.

Table A-3

SCDOT Capital Assets
(expressed in millions)

	Primary Government	
	2010	2011
Land	$ 3.7	$ 3.7
Buildings and Improvements	69.9	82.8
Furniture and Equipment	214.9	219.4
Infrastructure		
Right of Way	1,364.2	1,403.8
Roads	8,712.1	9,077.9
Bridges	2,064.1	2,182.8
Construction in Progress	2,953.9	2,773.9
Total Cost	$ 15,382.8	$ 15,744.3
Less Accumulated Depreciation	2,831.9	3,001.6
Net Capital Assets	**$ 12,550.9**	**$ 12,742.7**

The total increase in the Department's investment in capital assets for the current fiscal year was about 3.5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were **$346.8** million for the year. **$25.1** million in infrastructure assets were constructed by and donated to the Department by the South Carolina State Transportation Infrastructure State Bank. Depreciation charges for the year totaled **$178.99** million. Refer to note 7 in the financial statements for additional information on capital assets.

Debt Administration

The authority of the Department to incur debt is described in Sections 57-11-210 of the South Carolina Code and continued and amended by Section 11-27-30 thereof, authorizing the issuance of general obligation State Highway Bonds for highway construction and related purposes backed by the full faith and credit 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 gasoline and fuel oil taxes and motor vehicle license fees.

The Department's total long-term obligations decreased by **$61.52** million during the current fiscal year to **$820.93** million. The net decrease is primarily attributed to the payment of principal on outstanding debt of **$40.24** million. Other long-term debt includes **$326.8** million due to the South Carolina State Transportation Infrastructure Bank for financial assistance on transportation projects managed by the entity and accrued compensated absences of **$24.0** million (net decrease for the year of **$286 thousand**). Due within one year for all long-term obligations is **$83.2** million. Refer to notes 8, 9 and 10 of the financial statements for additional information on debt administration.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Department's federal funds result from the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users of 2005 (SAFETEA-LU) increased core federal programs by approximately 20% during the six-year period of the act. These projected increases plus a provision that would guarantee that states would receive at least 91.5 (FY2006/07) and 92.0 (FY2008/09) cents of each dollar in federal fuel taxes collected within their boundaries resulted in a net increase of 20% to 25% for South Carolina by 2009. SAEFTEA-LU expired in September 2009 and was extended through September 30, 2011 at which time the act once again expired. Congress passed another extension of the Highway Act until March 2012 which continued the imposition of the highway user taxes. The extension through March of 2012 allocated $71 million in authority to the Department. Increase fuel efficiency of vehicles coupled with the decline in vehicle miles traveled has caused a decline in the federal motor fuel revenues going into the Highway Trust Fund. In September 2008 and 2009, the Highway Trust Fund received an infusion of additional cash from the general fund in the amount of $8 and $7 billion dollars respectively. The Highway Trust fund did not receive an infusion of general funds dollars in 2010, but operated on the motor fuel user taxes collected.

The Department received $640 million in federal obligation authority and state match in fiscal year 2011. With the future of the federal program uncertain, the Department is not anticipating an increase in the highway act once passed. Conservatively, the Department is estimating no increase in the federal program over the five year period and is planning for a 25% - 30% decrease in federal funds being returned to the states.

On February 17, 2009, President Obama signed into the law the American Recovery and Reinvestment Act (ARRA) setting aside $27.5 billion for highway infrastructure and investment from the general fund. The Department received $463.08 million in obligation authority on March 2, 2009. These funds are over and above the normal federal authority from the Federal Highway Administration Highway Trust Fund. All of the ARRA funds were obligated to projects by March 2, 2010. Expenditures on these projects are expected to be completed by September 30, 2015. The infusion of the new funding sources has almost doubled the Department's project spending plan for fiscal year 2010 and 2011 over what was expended in 2009. As with the normal federal highway program, the ARRA program is also a reimbursement program, meaning that the Department must spend the dollars up front and seek reimbursement for eligible expenditures.

State motor fuel user fees were projected with 1 – 1 ½ % growth in fiscal year 2010-2011. The Department's motor fuel user fees decreased by FY 11 by approximately 0.7%. No increase in motor fuel revenues have been projected for the 2011-2012 fiscal year. State leaders have not granted an increase in state fuel user fee rates since 1987. During the legislative session ended in June 2005, however, the legislature, from other sources, increased annual funding for maintenance by about $40 million (an approximate increase of 13% in non-federal revenues) phased in over the next three to five years. Even with this increase, construction costs continue to outpace the growth in revenues. Since 1999 construction cost have risen 63%. Various legislative increases, such as retirement, insurance contribution, and personal services also tap into the limited Department resources with no additional increase in the revenues. No growth in state motor fuel user fees coupled with increased costs and state match on various federal programs, the Department will continue an aggressive cash management program to address critical highway maintenance and reconstruction needs.

The Department has and continues to concentrate on the maintenance of the current system and replacement of bridges. The additional infusion of Recovery Act Dollars will assist the Department in moving critical system upgrade and expansion projects forward. These types of projects will address congestion and mobility issues within the State. However, revenues must grow by $1 billion a year for the next ten years in order for the Department to completely address the needs for maintenance and rehabilitation of the highway system. This will begin to take the Department's resurfacing and repair cycle from an average of 75 years currently to 15 years, which is the life of the pavement. Additional funding, however, will be needed to prevent further significant deterioration of the state's highway system, which will lead to greater costs to repair and renovate in the future.

During the 2006-2007 Legislative session, restructuring legislation was passed for the Department of Transportation. Act 114 established a Secretary of Transportation, a Governor Appointee, in lieu of an Executive Director and established qualifications for Commissioners. The Secretary is to administer the day to day operations of the Department and carry out the policies of the commission. The Secretary is responsible for routine operation and maintenance except for requests for resurfacing, installation of new traffic signals, curb cuts on primary routes, construction of bike lanes, and construction projects under $10 million. These duties along with developing a statewide long range plan; utilizing prescribed criteria to develop a priority list of projects; developing the Statewide Transportation Improvement Plan (STIP); utilizing prescribed criteria to develop a priority list of projects financed with state funds; awarding federal enhancement grants, and approving the Department's budget belong to the Commission.

The seven member Commission is comprised of six members elected by the members of the South Carolina General Assembly based on the State's congressional districts and one at large member being appointed by the Governor. Each nominee must be screened by a Joint Transportation Review Committee and found qualified to fill the post of Commissioner.

REQUESTS FOR INFORMATION

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

South Carolina Department of Transportation
Deputy Secretary of Finance and Administration
955 Park Street, Suite 304
Columbia, South Carolina 29202-0191

The Department's component unit, Connector 2000 Association, Inc., issues its own separately audited financial statements. These statements may be obtained by directly contacting Southern Connector at Post Office Box 408, Piedmont, South Carolina 29673 or by telephone at (864) 527-2150.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF NET ASSETS
JUNE 30, 2011

(In Thousands)

	Primary Entity Governmental Activities	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,882	$ 612
Invested securities lending collateral	286	-
Receivables:		
Federal government	164,273	-
State agencies	86,328	-
Local governments	926	-
Other entities-net of allowances	3,739	-
Accrued interest receivable	223	-
Prepaid items	5,781	44
Inventories	3,313	319
Total current assets	287,751	975
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	10,562	947
Investments	-	4,374
Total restricted assets	10,562	5,321
Receivables, net of current portion:		
Local governments	3,305	-
Other entities	473	-
Other assets	771	-
Non-depreciable capital assets	4,181,433	-
Capital assets, net of accumulated depreciation	8,561,350	245
Interest in license agreement, net of accumulated amortization	-	144,920
Bond issuance costs, net of accumulated amortization	1,790	3,505
Total non-current assets	12,759,684	153,991
TOTAL ASSETS	$ 13,047,435	$ 154,966

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2011

(In Thousands)

LIABILITIES AND NET ASSETS	Primary Entity Governmental Activities	Component Unit
Liabilities:		
Current liabilities:		
Liabilities payable from restricted assets:		
Accrued interest	$ -	$ 3,625
Total	-	3,625
Bonds payable	41,874	7,300
Accrued interest payable	6,538	1,401
Potential excess collateral liability	-	1,117
Accounts payable	162,897	709
Intergovernmental payable:		
Due to State agency	40,595	9,041
Contract retainages payable	577	-
Accrued payroll and related liabilities	17,378	-
Due to Agency Fund - County Transportation Program	11,737	-
Due to General Fund of the State	12	-
Accrued compensated absences	16,471	-
Deferred revenue	39,549	237
Securities lending collateral	671	-
Total current liabilities	338,299	23,430
Noncurrent liabilities:		
Bonds payable, including unamortized premium and net of current portion and unamortized discounts and deferred loss on refunding of bonds	428,251	319,038
Intergovernmental payable:		
Due to State agency, net of current portion	301,951	-
Accrued compensated absences, net of current portion	7,566	-
Total noncurrent liabilities	737,768	319,038
TOTAL LIABILITIES	1,076,067	342,468
Net assets:		
Invested in capital assets, net of related debt (deficit)	11,945,815	(58,891)
Restricted:		
State Infrastructure Agreement	10,000	-
Unrestricted:		
Balance (deficit)	15,553	(128,611)
TOTAL NET ASSETS (DEFICIT)	11,971,368	(187,502)
TOTAL LIABILITIES AND NET ASSETS	$ 13,047,435	$ 154,966

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

(In Thousands)

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Unit
Primary entity:						
Public Transportation	$ 1,119,921	$ 25,126	$ 109,407	$ 640,692	$ (344,696)	$ -
Unallocated Interest Expense	39,952	-	-	-	(39,952)	-
Total primary entity	1,159,873	25,126	109,407	640,692	(384,648)	
Component unit:						
Toll operations	$ 19,755	$ 5,333	$ -	$ -	-	(14,422)
Totals					(384,648)	(14,422)
General revenues:						
State appropriations-unrestricted					57	-
Motor fuel taxes and other fees					542,464	-
Interest/Investment Income					2,015	222
Total general revenues					544,536	222
Changes in net assets					159,888	(14,200)
Net assets (deficit) - Beginning					11,811,480	(173,302)
Net assets (deficit) - Ending					$ 11,971,368	$ (187,502)

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2011

(In Thousands)

ASSETS		
Current assets:		
Cash and cash equivalents	$	22,882
Invested securities lending collateral		286
Receivables:		
Federal government		164,273
State agencies		86,328
Local governments		926
Other entities		3,739
Accrued interest receivable		223
Prepaid items		5,781
Inventories		3,313
Total current assets		287,751
Non-current assets:		
Restricted assets:		
Cash and cash equivalents		10,562
Total restricted assets		10,562
Receivables, net of current portion		
Local governments		3,305
Other entities		473
Other assets		771
Total non-current assets		15,111
TOTAL ASSETS	$	302,862
LIABILITIES AND FUND BALANCE		
Liabilities:		
Current liabilities:		
Accounts payable	$	162,897
Intergovernmental payables:		
Due to State agencies		15,776
Contract retainages payable		577
Accrued payroll and related liabilities		17,378
Due to Agency Fund - County Transportation Program		11,737
Due to General Fund of the State		12
Deferred revenue		42,854
Securities lending collateral		671
TOTAL LIABILITIES		251,902
Fund Balance:		
Nonspendable		
Inventories and prepaid items		9,094
Long-term receivables		3,778
Other assets		771
Restricted		10,000
Committed		27,317
TOTAL FUND BALANCE		50,960
TOTAL LIABILITIES AND FUND BALANCE	$	302,862

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

(In Thousands)

FUND BALANCE - GOVERNMENTAL FUND		$ 50,960
Amounts reported for governmental activities in the statement of net assets are different because:		
Assets are capitalized and depreciated or amortized in the statement of net assets and are charged to expenditures in the governmental fund:		
Capital assets, net of accumulated depreciation	12,742,783	
Bond issuance costs, net of accumulated amortization	1,790	12,744,573
Deferred revenues are recognized on an accrual basis in the statement of net assets and on the modified accrual basis in the governmental fund:		
Participation agreements, net of allowance for bad debts		3,305
Liabilities are not due and payable in the current period, therefore, are not reported in the governmental fund:		
Bonds payable including unamortized premium and discounts and net of unamortized deferred loss on refunding of bonds	(470,125)	
Intergovernmental payable:		
Due to State agency	(326,770)	
Accrued compensated absences	(24,037)	
Accrued interest payable	(6,538)	(827,470)
NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 11,971,368

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

(In Thousands)

REVENUES:		
Motor fuel taxes	$	542,464
State appropriations		57
Federal grants		724,940
Interest/investment income		2,015
Sales of goods and fees for services		9,501
Other Revenues		7,526
Participation agreement/project revenues		8,353
TOTAL REVENUES		1,294,856
EXPENDITURES:		
Current:		
General administration		51,675
Engineering		60,181
Toll facilities		3,276
Public transportation		28,929
Highway maintenance		686,757
Capital outlay:		
Land and improvements		1
Rights of way land		25,405
Construction in progress		
Infrastructure - road and bridge network		310,229
Other		489
Equipment and furniture		6,354
Vehicles		4,345
Debt service:		
Principal		58,990
Interest		42,202
Other		12
Allocations to other entities:		
State agency - state infrastructure bank		25,842
General fund		10,000
Agency Fund - County Transportation Program		68,053
TOTAL EXPENDITURES		1,382,740
EXCESS OF EXPENDITURES OVER REVENUES		(87,884)
OTHER FINANCING SOURCES:		
Proceeds from sale of capital assets		1,123
TOTAL OTHER FINANCING SOURCES		1,123
NET CHANGE IN FUND BALANCE		(86,761)
FUND BALANCE, beginning of year		137,721
FUND BALANCE, end of year	$	50,960

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

(In Thousands)

DECREASE IN FUND BALANCE - GOVERNMENTAL FUND	$	(86,761)
Amounts reported for governmental activities in the statement of activities are different because:		
Costs of capital assets are reported as expenditures in the governmental fund and are reported as capital asset additions in the statement of net assets		346,825
Costs of donated capital assets for right of ways land and infrastructure - road and bridge network are reported in the statement of activities and are not reported in the governmental fund		25,158
Depreciation of capital assets is reported as expenses in the statement of activities		(178,999)
Deferred revenues are reported on a modified accrual basis in the governmental fund and on accrual basis in the statement of activities		(506)
Amortization of the costs of issuance is reported as expenses in the statement of activities		(217)
Amortization of deferred losses on refunding of bonds is reported as expenses in the statement of activities		(1,419)
Decrease in accrued interest payable is reported as an expense in statement of activities		2,250
Amortization of premium on bonds is reported as a reduction of expenses in the statement of activities		3,659
Repayments of long-term debt are reported as expenditures in governmental fund and are reported as a reduction of liabilities in the statement of net assets:		
Bonds payable		38,000
Intergovernmental payable:		
Due to State agency		20,990
Decreases (increases) in accrued compensated absences is reported as expense in the statement of activities		286
Costs less accumulated depreciation of capital assets disposed of are reported as expenses in the statement of activities		(9,378)
INCREASE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	$	159,888

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

(In Thousands)

		Agency Funds
ASSETS:		
Cash and cash equivalents	$	113,300
Accrued interest receivable		498
Due from State Highway Fund		11,737
Total assets		125,535
LIABILITIES:		
Accounts payable		8,464
Deposits for rights of way		332
Special deposits and bonds		2,668
Funds held for all counties		114,071
Total liabilities	$	125,535

See accompanying Notes to Financial Statements.

NOTE 1. CASH FLOWS

During fiscal year 2011, the Department experienced a decline in cash reserves. In December of 2010, the cash forecast showed the decline in the cash reserves occurring during the spring and summer months which coincide with the peak of the highway paving season. During fiscal years 2009 and 2010, the road and bridge maintenance and construction work increased over previous years primarily due to federal ARRA funds. The projects are multi-year projects with a majority of work occurring during favorable weather conditions. The amount of work contracted coupled with a very favorable spring and summer construction season led to a high volume of work being performed and submitted for payment. The major source of state funding is derived from the motor fuel user fee on gasoline and diesel which has not increased since 1987, and this revenue source declined slightly from 2010 to 2011. The other major revenue is federal reimbursement of eligible expenditures, part of which is required to be matched with state funds.

The management of the Department is aggressively reviewing future commitments and developing various revenue strategies to continue to provide a safe and efficient transportation system for South Carolina. In the short-term, the Department is controlling expenditures by reducing the amount of projects constructed, maintaining personnel vacancies, as well as, delaying any non-essential purchases. Through aggressive management and control of current and future expenditures, management expects to see an increase in the cash reserves over the next twelve to fifteen months.

NOTE 2. 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 the government of South Carolina (the "State"), comprised of a Division of Mass Transit; a Division of Construction, Engineering and Planning; and a Division of Finance and Administration. The Department is responsible for the planning, construction, maintenance and operation of the highway system of the State of South Carolina and the coordination of statewide mass transit activities.

The Department is governed by the South Carolina Transportation Commission (the "Commission"), which is comprised of seven members, six of whom are elected by the Legislative Delegations of each of the State's Transportation Districts. One at-large member is appointed by the Governor. 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 Deputy Secretary of Transportation.

The core of a financial reporting entity is normally the primary government, which has a separately elected governing body. The Department is reported as part of the primary government of the State. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. The Department is identified herein as such a primary entity. As required by generally accepted accounting principles, the financial reporting entity includes both the primary entity and all of its component units. Component units are legally separate organizations for which the elected officials of the primary entity are financially accountable, or entities that if excluded would make the financial statements misleading or incomplete. In turn, component units may have component units. The Department has determined it has one component unit, the Connector 2000 Association, Inc. (the "Association").

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

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

Based on the above described fiscal dependency criterion, the Department has determined it is not a component of another entity and the Association 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.

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. Also, the Association is governed by a Board of Directors approved by the Department.

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 of 1986, as amended (the "Code"). The Association was formed to assist the South Carolina Department of Transportation 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 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 ("GAAP") 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 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 responsibility for the Association.

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 "Original 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 (the "Bonds") were issued on February 11, 1998 pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, each dated as February 1, 1998 (together, the "Original Trust Indentures") between the Association and U.S. Bank, National Association as successor in trust to First Union National Bank, as trustee (the "Trustee"), to finance the construction of the Southern Connector. Capitalized terms not otherwise defined in these notes are intended to have the meaning assigned in the Original Trust Indentures, if defined therein. 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's year end is December 31, and all financial information included in this report is for the year ended December 31, 2010.

For the purpose of applying GAAP to its activities, the Association's management has determined that the Association should be treated as 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 basic financial statements of the Association have been prepared in accordance with GAAP applicable to governmental unit proprietary funds.

The financial statements of a component unit are blended in as though it were part of the primary entity if it is, in substance, part of its operations. Since the Association is not a part of the operations of the Department, 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., PO Box 408, Piedmont, South Carolina 29673.

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 of the State. Although the Department operates somewhat autonomously, it lacks full powers. In addition, the Governor and/or the General Assembly appoint all 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 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. The presentation of the Department's financial position and Statement of Revenues, expenditures, and Changes in Fund Balance, differs from the State of South Carolina's Comprehensive Annual Financial Report primarily due to adjusting certain transactions that exist between the Department and the South Carolina Transportation Infrastructure Bank.

Department-Wide and Fund Financial Statements

The financial statements of the Department and its component unit are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The GASB is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.

Department-Wide Financial Statements

The Department-wide financial statements are prepared on the accrual basis of accounting and include a "Statement of Net Assets", which discloses the financial position of the Department; and a "Statement of Activities", which demonstrates the degree to which the direct expenses by function of the Department's programs are offset by program revenues.

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

The Department-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

Fund Financial Statements

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

Governmental Fund:

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and, the difference between the assets and liabilities is fund balance.

State Highway Fund – The State Highway Fund generally records the expenditure of revenues that are restricted to specific programs or projects. This special revenue fund accounts for federal grant program revenues, taxes levied with statutorily defined distributions, and other resources restricted as to purpose. Charges for and costs of operations of vehicles and other equipment utilized for road and bridge network projects 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, including the 2.66 cents per gallon that is allocated to the County Transportation Program Agency Fund; and, other special imposts upon highway users for the construction and maintenance of highways and bridges and for other operations of the Department. This fund also accounts for revenue 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 agreements and other project 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 financial statements of the Department until earned. The Department's appropriation from the State's General Fund is also included in this fund. All of the Department's activities are included in this one fund because this is how the Department is presented in the State's financial statements.

Fiduciary Funds:

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 agency funds which are purely custodial (assets equal liabilities) and thus do not involve the measurement of results of operations. The agency funds used by the Department include the following:

- 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.

- 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 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Department-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned or for non-exchange transactions, when all eligibility requirements have been met, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay obligations of the current period. For this purpose, the government considers major sources of revenues to be available if they are collected within sixty days of the end of the current fiscal year. Major sources of revenue reported in compliance with policy are taxes, federal grants, and participation agreements. The Department also accrues current amounts due on long-term receivables based on set repayment schedules.

Expenditures generally are recorded when a liability is incurred, except for principal and interest on general debt, as under accrual accounting. Financial resources of fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The Association generally follows the authoritative guidance in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That Use Proprietary Fund Accounting*, to distinguish operating from non-operating revenues and expenses. Thus, the principal operating revenues of the Association are toll revenues received from patrons. Operating expenses of the Association primarily consist of the costs of operating the Southern Connector, including administrative expenses, depreciation of equipment, professional fees, and trustee fees, and costs. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-operating revenues include interest earned on cash equivalents and investments and unrealized gains on investments. Non-operating expenses include amortization (a) of the Association's intangible interest in the Original License Agreement with the Department, and (b) bond issuance costs, and (c) underwriters' fees, (d) interest expense on the Association's debt, (e) license fees to the Department, (f) maintenance expenses to the Department, (g) interest on unpaid license fees and maintenance expenses, and (h) realized and unrealized losses on investments.

Revenues – Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available.

Non-exchange transactions, in which the Department receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted or authorized; matching requirements, in which the Department must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Department on a reimbursement basis contingent upon the federal authority to claim the funds. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Budget Policy

All of the activity in the Department's governmental fund, Other Budgeted Funds by the State of South Carolina, is by annual appropriations for public transportation by the General Assembly. The appropriation as enacted becomes the legal operating budget for the State Highway Fund. Please refer to the information contained in Required Supplementary Information for the budget to actual and notes regarding the governmental fund.

The Association's Board of Directors adopts an annual non-appropriated operating budget. The Board of Directors also approves any amendments to the budget during the year. The budget is prepared using the modified accrual (non GAAP) basis for Revenue Fund (as defined in the Original Trust Indenture) expenses. Expenses are recognized in the period in which they are paid rather than the period in which they are incurred for budgetary control purposes. Depreciation and amortization are not recognized as expenses, but capital outlays are recognized as expenses for budgetary control purposes. The expenses are reclassified for the purpose of preparing basic financial statements in accordance with governmental GAAP. Since the Association's activities are accounted for in a proprietary fund, a budget-to-actual comparison is not presented in the accompanying basic financial statements.

Cash and Cash Equivalents

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

Most State agencies, including the Department, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Information pertaining to carrying amounts, fair value, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report ("CAFR") of the State of South Carolina.

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 income 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.

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.

The Association considers all investments with maturities of three months or less when purchased to be cash equivalents. The amounts shown in the financial statements as "cash and cash equivalents" of the Association represent cash on hand, deposits in banks, and funds invested in open-end money market mutual funds.

Investments – Component Unit

The Original Trust 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 ("FDIC") must be secured by and/or invested in investment securities as defined in the Original Trust 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 (Note 3).

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

Capital Assets – Primary Entity

Capitalized assets include land, improvements to land, easements, right-of-ways, buildings, building improvements, vehicles, equipment, furniture, infrastructure, and all other tangible or intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. Infrastructure assets acquired prior to fiscal years ended after June 30, 1980 are reported at cost beginning with fiscal year 1917. Capital assets also include assets purchased with Federal funds in which the Federal government retains a reversionary interest.

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gift. Assets contributed by another state agency are recorded at the acquisition cost of that agency. The Department follows capitalization guidelines established by the State of South Carolina. Major additions, renovations, and other improvements which provide new uses, or extend the useful life of an existing capital asset, are capitalized. Routine repairs and maintenance are charged to operations in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. A full year of depreciation is taken in the year the asset is placed in service and no depreciation is taken in the year of disposition.

A summary of the Department's capitalization and useful life by asset category is as follows:

Asset Category	Capitalization	Useful Life (Years)
Land	All, regardless of cost	N/A
Non-depreciable land improvements	All, regardless of cost	N/A
Depreciable land improvements	Any costing more than $100,000	30
Infrastructure:	Any costing more than $500,000	
Roads		75
Bridges		50
Buildings and building improvements	Any costing more than $100,000	30
Vehicles	Any costing more than $5,000	5 – 12
Equipment and furniture	Any costing more than $5,000	5 – 12

Capital Asset – Component Unit

All capital assets, including the Association's intangible interest in its Original License Agreement with the Department, are stated at cost. The Association adopted the asset capitalization policies recommended by the State of South Carolina Office of Comptroller General.

Pursuant to this policy, equipment with costs greater than $5,000 and intangible assets with costs in excess of $100,000 are capitalized. Equipment depreciation is computed using the straight-line method over the equipment's estimated useful life between 5 and 12 years. The Association's interest in its Original License Agreement with the Department is amortized as described in Note 12. When capital assets are disposed of, the cost and accumulated depreciation is removed and the resulting gain or loss is included in operations.

Interest Capitalization – Component Unit

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Subtopic 835-20, the Association capitalized the interest costs incurred during the construction of the Southern Connector. The amount of interest capitalized for assets constructed with tax-exempt borrowings consisted of interest cost of the borrowings, including amortization of the original issue discount, less interest earned on the related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings, incurred prior to commencement of toll road operations.

Receivables

All of the receivables are reported net of any allowances for uncollectible amounts and any discounts, if applicable. The Department's receivables consist of amounts due from the Federal government, State agencies, local governments, and other entities and individuals. Some of the receivables are evidenced by notes and contracts. The notes and contracts are related to costs shared by other entities in construction projects.

All of the Association's receivables are reported net of any allowances for uncollectible amounts and any discounts.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements.

Inventories

The Department maintains inventories for its use and resale to other state agencies, local governments, and other entities. All inventories are valued at cost using the weighted average method. Expenditures for inventory are accounted for using the consumption method of accounting. All inventories of the Association are valued at cost using the first-in-first-out method ("FIF0").

Other Assets

Other assets consist of right of ways land the Department had to purchase for economic reasons that was not allocable to project construction costs. These purchases are held until they are disposed of and are reflected in the accompanying financial statements at the original cost to the Department. Expenditures for this land are accounted for using the consumption method of accounting in which the purchase is recorded as expenditure when disposed of. Gains or losses on the disposition of right-of-ways land are included in the other revenues category in the fund financial statements. Right of ways land transferred to county and municipal governments for no consideration are recorded as allocations to other entities – county and municipal governments in the fund financial statements.

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 advances outstanding as of June 30, 2011.

Bonds Payable, Bond Discounts, Bond Premiums, Bond Issuance Costs and Deferred Loss on Refundings of Bonds

The Department reports bonds payable in the governmental activities in the Department-wide financial statements. The Department defers and amortizes bond discounts and bond premiums over the term of the bonds using the bonds outstanding method, which results in amortization being computed using the percentage of bonds retired to the original amount of bonds issued. Costs incurred in connection with the bond issues are deferred and amortized on the straight-line method over the lives of the related issues. For current refundings and advance refundings of bonds resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is also deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The Department reports bonds payable net of the applicable bond premium or discount and the deferred losses on refundings. Unamortized issuance costs are reported as deferred charges.

For the Association, bond issuance costs, discounts and underwriters' fees on all bonds are deferred and amortized over the terms of the bonds. Bond discounts are amortized using the bonds outstanding method, which approximates the effective interest method. Bond issuance costs and underwriters' fees are amortized using the straight-line method. Bond discounts are presented as a reduction of the face amount of the related Bonds payable whereas bond issuance costs are underwriters' fees and are recorded as other assets. The current and non-current portions of bonds payable are recorded as liabilities in the accompanying Statements of Net Assets.

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 expending 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. There was no arbitrage liability at June 30, 2011.

The Association records the arbitrage liability using the revenue reduction method, whereby the rebate is recorded as a reduction of interest revenue. At December 31, 2010 and 2009, no such liability had been incurred.

Interest in License Agreement with the Department

The Association's Original License Agreement with the Department grants to the Association various rights and obligations pertaining to the financing, acquisition, construction and operation of the Southern Connector and construction of the SC 153 Extension. The terms of the Original License Agreement provide that the Association finance and construct the Southern Connector and construct the SC 153 Extension with financing provided by the Department. However, the Department at all times retained 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. The Southern Connector was opened for traffic on February 27, 2001 and began collecting tolls on March 14, 2001. On July 22, 2001, the Southern Connector attained Substantial Completion. On December 22, 2003, the Southern Connector attained Final Completion. Beginning one year after Final Completion, the Association was required to begin paying a monthly license fee to the Department.

The Association's interest in the Original License Agreement constitutes an intangible asset relating to the Southern Connector that began generating revenues upon commencement of operations. In order to account for its interest in the Original License Agreement, the Association capitalized all costs of acquisition and construction of the Southern Connector, including interest expense incurred during the construction period. Upon commencement of operations, the Association began amortizing its interest in the Original License Agreement on a straight-line basis over the remaining term of the License Agreement through 2038.

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

Restricted Assets – Component Unit

Certain proceeds of the Association's bonds are restricted by applicable covenants for construction, payment of operating and other expenses, or are set aside as reserves for repayment of the bonds. Certain other assets are accumulated and restricted on a monthly basis in accordance with the Original Trust Indenture for the purposes of paying debt interest payments, due on a semiannual basis, and principal payments, due on an annual basis, and for the purpose of maintaining reserve funds at the required levels.

The Original Trust Indenture provisions govern payments from the restricted accounts. Limited types of expenses may be funded from these restricted accounts. The funds and accounts are established as follows:

The Construction Fund was established for purposes of holding bond proceeds and investment earnings, which are used to pay the costs of constructing the Southern Connector. As of December 31, 2010, there were no funds on deposit in the Construction Fund.

The Revenue Fund was established to hold all revenues from toll road operations. The Original Trust Indenture provides that all revenues from the operation of the Southern Connector shall be delivered by the Association to the Trustee immediately upon receipt by, or on behalf of, the Association and shall be deposited by the Trustee into the Revenue Fund.

The Trustee is obligated to transfer money on a monthly basis from the Revenue Fund to the other various funds established under the Original Trust Indenture in the priority listed below:

1. Operating costs budgeted for the next succeeding month shall be distributed to the Association.

2. The Association shall transfer amounts to the Rebate Fund so that the amounts deposited equal the required amounts (if any).

3. The Trustee shall transfer to the Senior Bonds Debt Service Account amounts which, when added to other amounts in the Senior Bonds Debt Service Account, and available for such purposes, will provide for accumulation, in substantially equal monthly installments, of the amounts required to pay the sum of:
    a. Any interest to become due and payable on each series of outstanding Senior Bonds on the next interest payment date (within the next six months) for such Series; and

Any principal installments to become due and payable on any series of outstanding Senior Bonds on or before the next date (within the next twelve months) on which such principal installment is payable.

4. If the Senior Bonds Debt Service Reserve Account contains less than the Senior Bonds Debt Service Reserve Account requirement, the Trustee shall transfer into the Senior Bonds Debt Service Reserve Account an amount equal to 1/24 of the Senior bonds Debt Service Account requirement or the amount to attain the Senior Bonds Debt Service Reserve Account requirement, whichever is less. The transfers shall continue until the Senior Bonds Debt Service Reserve Account contains the Senior Bonds Debt Service Account requirement.

5. The Trustee shall transfer to the Subordinate Bonds Debt Service Account amounts which, when added to other amounts in the Subordinate Bonds Debt Service Account, and available for such purposes, will provide for accumulation, in substantially equal monthly installments, or otherwise as may be provided in any Supplemental Indenture, of the amounts required to pay the sum of:
   a. Any interest to become due and payable on each series of outstanding Subordinate Bonds (within the next six months) on the next interest payment date for such Series; and,
   b. Any principal installments to become due and payable on any series of outstanding Subordinate Bonds on or before the next date (within the next twelve months) on which such principal installment is payable.

6. If the Subordinate Bonds Debt Service Reserve Account contains less than the Subordinate Bonds Debt Service Reserve Account Requirement, the Trustee shall transfer into the Subordinate Bonds Debt Service Reserve Account, an amount equal to1/60 of the Subordinate Bonds Debt service Reserve Account Requirement or the amount needed to attain the Subordinate Bonds Debt Service Reserve Account Requirement, whichever is less. All transfers shall continue until the Subordinate Bonds Debt Service Reserve Account contains the necessary requirement.

7. After the date of Final Completion of the Southern Connector Project, the Trustee shall deposit into the Renewal and Replacement Fund the amounts included in the annual budget of Association, which are required pursuant to the Renewal and Replacement Plan then in effect under the Original License Agreement.

8. The Trustee shall pay to the Department amounts certified by an Authorized Association Representative as being due the Department for (i.) the maintenance costs reimbursable to the Department under the Original License Agreement, together with any accruals from prior periods and interest owed thereon under the Original License Agreement, and (ii.) any reimbursement to the Department for condemnation awards for rights of way for the Southern Connector Project in excess of the amounts reserved therefore on the Completion Date.

9. The Trustee shall pay amounts certified by an Authorized Association Representative as being due the Department for the License Fee owing to the Department under the Original License Agreement, together with any accruals from prior periods and any interest owed thereon under the Original License Agreement.

10. Money remaining in the Revenue Fund shall be used by the Trustee to make or provide for all deposits, payments, or transfers certified by an Authorized Association Representative as being required by any agreement or other instrument creating or evidencing any obligation of the Association which is not a

Senior Bond or Subordinate Bond, at the time and in the amount provided for in such instrument.

11. The Trustee shall transfer any money remaining in the Revenue Fund at the end of any fiscal year to the Program Fund.

The Debt Service Fund, consisting of the Senior Bonds Debt Service Account and the Subordinate Bonds Debt Service Account, was established as a sinking fund for the payment of interest and principal on the revenue bonds.

The Debt Service Reserve Fund, consisting of the Senior Bonds Debt Service Reserve Account and the Subordinate Bonds Debt Service Reserve Account, was established for the purpose of paying bond interest and maturing principal in the event that monies held in the Debt Service Fund and other funds would be insufficient for such purposes.

The Renewal and Replacement Fund was established for the purpose of holding monies in reserve to pay the costs of reconstruction, renewal, repair and replacement of the Southern Connector. At December 31, 2010, there were no funds on deposit in this Fund.

The Program Fund, consisting of the Retained Balance and the General Account was established to hold monies in reserve to pay debt service if monies in other accounts are insufficient for such purpose and to pay other fees and costs as defined in the Original Trust Indenture. At December 31, 2010, there were no funds on deposit in the Fund.

The Rebate Fund was established for the purpose of holding and paying arbitrage investment earnings to the United States Treasury as a result of investing tax exempt bond proceeds at rates of return exceeding the maximum amount that is permitted under the applicable tax code. At December 31, 2010, there were no funds on deposit in this Fund.

Deferred Revenue

Deferred revenue in the department-wide financial statements consists of advance payments for construction projects which have not been earned. Revenues are recognized in the period in which the project expenditures are made.

Deferred revenue in the fund financial statements represents the long-term portion of receivables that will not be collected within one year of the balance sheet date and advance payments for construction projects.

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, 2011. 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 as a liability.

The Association grants its regular full time employees 10 vacation days and 10 holidays per year. Employees receive no sick days but are allowed to use vacation or holiday time when sick. All vacation and holiday time must be taken in the year earned. Therefore, at year end there are no accumulating vacation or holiday benefits, thus there is no liability that must be recorded. At December 31, 2010, no liability or expense was recorded in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenses/expenditures and affect disclosure of contingent assets and liabilities at the balance sheet date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

Net Assets

Primary Entity:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. In all cases, if individual restricted net asset categories are negative, the negative balance is eliminated and reclassified against unrestricted net assets.

Unrestricted – All other assets that do not meet the definition of "restricted" or "invested in capital assets".

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

Component Unit

Proprietary fund equity, is classified as net assets and displayed as the following three components:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This includes the Association's accreted interest liability that was capitalized during the Association's Development Stage.

Restricted – Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. In all cases, if individual restricted net asset categories are negative, the negative balance is eliminated and reclassified against unrestricted net assets.

Unrestricted – All other assets that do not meet the definition of "restricted" or "invested in capital assets".

Unless otherwise indicated in the Original Trust Indenture, the Association's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The Association's net deficit at December 31, 2010, resulted from shortfalls since commencement of operations due to lower than expected traffic counts and toll revenue.

FUND BALANCE

The GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of this Statement is to enhance the usefulness

of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The Department implemented the provisions of this statement during the year ended June 30, 2011. The following categories of fund balance are now being used in the fund level financial statement of the governmental fund:

Nonspendable fund balance

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

Restricted fund balance

The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation.

Committed fund balance

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

Assigned fund balance

The assigned fund balance classification includes amounts that are constrained by the Department's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the Department's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the Department's highest level of authority. Assigned fund balance amounts in the Department's financial statements represent amounts approved by Department Commission to be transferred and spent after year end. In the special revenue fund, assigned fund balances represent amounts to be spent for specific purposes.

Unassigned fund balance

The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the general fund.

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

NOTE 3. DEPOSITS AND INVESTMENTS:

The following schedule reconciles deposits and investments within the footnotes to the amounts in the financial statements:

	(In Thousands) Financial Statements		Footnotes
Primary Entity:			
Unrestricted current assets:			
Cash and cash equivalents	$ 22,882	Cash on hand	$ -
Restricted noncurrent assets:		Deposits held by State	
Cash and cash equivalents	10,562	Treasurer	146,744
Fiduciary - Agency Funds			
Cash and cash equivalents	113,300		
Total Primary Entity	146,744		146,744
Component Unit			
Unrestricted current assets:			
Cash and cash equivalents	612		
Restricted current assets:			
Cash and cash equivalents	947	Bank Deposits	1,559
Restricted noncurrent assets:			
Investments	4,374	Investments	4,374
Total component unit	5,933		5,933
TOTAL	$ 152,677		$ 152,677

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. The State's investment policy by law authorizes investments that vary by fund, but generally include 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, certain corporate bonds, and commercial paper.

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of investments or collateral securities that are in possession of an outside party. All of the State Treasurer's investments are fully insured or collateralized.

More information pertaining to carrying amounts, fair value, credit and other risks as required by Governmental Accounting Standards Board Statement No. 40, *Deposits and Investments - Risk Disclosures*, of the State Treasurer's investments are disclosed in the CAFR the State of South Carolina.

Cash and cash equivalents reported include an unrealized loss of $1.6 million for the governmental funds and an unrealized loss of $934 thousand for the fiduciary funds as of June 30, 2011 arising from changes in the fair value. The interest/investment income includes an unrealized loss of $1.6 million for the year ended June 30, 2011.

Securities Lending Program

By law, the State Treasurer may lend securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions, with a simultaneous agreement to return the collateral for the same securities in the future. The State may lend United States government securities, corporate bonds, other securities and equities for collateral in the form of cash or other securities. The contracts with the State's custodians requires them to indemnify the State if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the State for income distributions by the securities' issuers while the securities are on loan.

The weighted average maturity of the State's collateral investments generally matched the maturity of the securities loans during the fiscal year ended at June 30, 2011. At June 30, 2011, the State had no credit risk exposure to borrowers because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. Either the State or the borrower can terminate all securities loans on demand. There are no restrictions on the amount of the loans that can be made. For the fiscal year ended June 30, 2011, the State experienced no losses on its securities lending transactions borrower related to borrower or lending agency defaults.

The State receives primarily cash as collateral for its loaned securities. The market value of the required collateral must meet or exceed 102.0% of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. During the fiscal year ended June 30, 2011, the State met the 102.0% requirement. The State cannot pledge or sell collateral securities unless the borrower defaults. The lending agent, on behalf of the State, invests cash collateral received. Accordingly, at June 30, 2011, the State recorded these investments of cash collateral as assets in the CAFR. Corresponding liability amounts also have been recorded because the State must return the cash collateral to the borrower upon expiration of the loan. Amounts included in the accompanying financial statements is the Department's proportionate share of the invested securities lending collateral.

COMPONENT UNIT:

Deposits

The Association's Original Trust Indenture requires that all fund 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 counter-party 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.

Custodial credit risk for deposits is the risk, that in the event of a bank failure, the Association's deposits might not be recovered. The Association does not have a formal deposit policy for custodial credit risk but follows the guidelines outlined in the Association's Trust Indenture. As of December 31, 2010 approximately $698 thousand of the Association's bank balances of approximately $1.550 million, with a carrying value of $1.560 million, were uninsured and uncollateralized. None of the deposits above were on deposit with the South Carolina State Treasurer.

Investments

The Association does not have a formal policy for limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates but follows the guidelines outlined in the Association's Original Trust Indenture.

Custodial credit risk for investments is the risk that in the event of a bank failure, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association does not have a formal investment policy for custodial credit risk but follows the guidelines outlined in the Associations Original Trust Indenture. As of December 31, 2010, none of the Association's investments were exposed to custodial credit risk.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association does not have a formal investment policy for credit risk but follows the guidelines outlined in the Association's Original Trust Indenture.

The Association places no limit on the amount the Association may invest in any one issuer. Investments issued by or explicitly guaranteed by the U. S. Government and investments in mutual funds, external investment pools and other pooled investments are exempt from concentration of credit risk disclosures.

As a result of Lehman Brothers' bankruptcy in 2008, Lehman Brothers defaulted on the repurchase agreement and thus the custodian transferred the collateral/securities to the Trustee.

(In Thousands)

Investment Type	Credit Rating		Fair Value	Percentage of Total Investment	Weighted Average maturity (In Years)
Agency Securities	N/A	$	4,374	100.0%	21.420
Total Investments		$	4,374		21.420

The investment types listed above include all investment types in which monies were held during the year ended December 31, 2010. None of the above investments were on deposit with the South Carolina State Treasurer.

NOTE 4. STATE APPROPRIATIONS:

The original appropriation is the Department's base budget amount as presented in the General Fund column of Section 68, Part IA of the 2010-2011 Appropriation Act. The Department received $57 thousand in General Fund Appropriations. There are two special general funds appropriated for specific purposes. The appropriations have a carry-forward provision. In fiscal year 2011, the Department expended $525 thousand of the $4.5 million available from prior years carry-forward. The unexpended balance of $3.9 million is carried forward into the next fiscal year.

NOTE 5. RECEIVABLES:
PRIMARY ENTITY:

The following schedule summarizes receivables at June 30, 2011, which include various notes, contracts and other accounts receivable.

(In Thousands)

Due From / Description	Current Portion	Long-term Portion (A)	Totals
Intergovernmental:			
Federal Government:			
Amounts due under various grant programs and reimbursable contracts	$ 164,273	$ -	$ 164,273
	164,273	-	164,273
State Agencies:			
South Carolina Department of Motor Vehicles License Fees	120	-	120
South Carolina State Infrastructure Bank Reimbursement	183	-	183
South Carolina Department of Revenue Gasoline and special fuels taxes	86,018	-	86,018
Various Agencies: Sales of good and services	7	-	7
	86,328	-	86,328
Local Governments:			
Long-term contracts for construction projects	423	3,305	3,728
Participation agreements	503	-	503
	926	3,305	4,231
Other:			
Long-term contracts for construction projects	780	473	1,253
Participation agreements	25	-	25
Sales of goods and services	3,591	-	3,591
Less: allowance for doubtful accounts	(657)	-	(657)
	3,739	473	4,212
Total Receivables	$ 255,266	$ 3,778	$ 259,044

The balances due under long-term contracts for construction projects from local governments and other entities represent loans to those entities for their share of the costs of construction projects.

The balances due under participation agreements from local governments and other entities represent advances by the Department for construction costs in excess of collections on joint-venture construction projects.

NOTE 6. INVENTORIES:

The following schedule summarizes inventories at June 30, 2011:

(In Thousands)

Sign Shops	$	1,392
Repair Shops		917
Supply Depot		1,004
	$	3,313

NOTE 7. CAPITAL ASSETS:

PRIMARY ENTITY:

The following schedule summarizes changes in capital assets of the Department for the year ended June 30, 2011:

(In Thousands)

	Beginning Balances June 30, 2010	Increases	Decreases	Ending Balances June 30, 2011
Capital assets not being depreciated:				
Land and improvements	$ 3,710	$ 1	$ -	$ 3,711
Right of ways land	1,364,207	40,145	531	1,403,821
Construction in progress:				
Infrastructure - road and bridge network	2,940,170	320,579	488,249	2,772,500
Other	13,713	489	12,801	1,401
Total capital assets not being depreciated	4,321,800	361,214	501,581	4,181,433
Other capital assets:				
Infrastructure - road and bridge network	10,776,160	488,249	3,660	11,260,749
Buildings and improvements	69,992	12,801	-	82,793
Equipment and furniture	119,960	6,354	2,362	123,952
Vehicles	94,951	4,415	3,908	95,458
Total other capital assets	11,061,063	511,819	9,930	11,562,952
Less accumulated depreciation for:				
Infrastructure - road and bridge network	2,645,783	162,643	3,134	2,805,292
Buildings and improvements	32,636	2,641	-	35,277
Equipment and furniture	84,835	7,564	2,351	90,048
Vehicles	68,701	6,151	3,867	70,985
Total accumulated depreciation	2,831,955	178,999	9,352	3,001,602
Other capital assets, net	8,229,108	332,820	578	8,561,350
Total capital assets for governmental activities, net	$ 12,550,908	$ 694,034	$ 502,159	$ 12,742,783

The following schedule summarizes additions to capital assets and their funding sources for the year ended June 30, 2011:

		(in Thousands)
Additions:		
Increases per above:		
Capital assets not being depreciated	$	361,214
Other capital assets		511,819
Less, transfers from construction in progress:		
capital assets not being depreciated		501,050
Total additions	$	371,983
Funding Sources:		
Governmental funds	$	346,825
Donated capital assets:		
South Carolina Transportation Intrastructure Bank		25,158
Total funding Sources	$	371,983

Included in the Department's capital assets as of June 30, 2011 is $192.48 million that was paid for by the Association for the Southern Connector. This same amount has been capitalized by the Association as the capital asset - Interest in License Agreement with the Department. Accumulated depreciation on the assets was $ 47.57 million at June 30, 2011. Depreciation expense on these assets for the year ended June 30, 2011 was $3.57 million.

At June 30, 2011, the estimated total costs of Department projects in progress to construct, acquire and maintain various capitalized assets amounted to approximately $7.15 million for facilities capital projects and approximately $2.81 billion for infrastructure projects including capital and non-capital. The estimated costs to complete the facilities capital projects amounted to approximately $5.78 million and the infrastructure projects amounted to approximately $2.20 billion at June 30, 2011. The outstanding contractual obligations attributable to the facilities capital projects were approximately $281.35 thousand and to the infrastructure projects were approximately $828.69 million. 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 taxes and fees, federal grants, bond proceeds and other revenues of the Department. The amounts for infrastructure projects exclude those infrastructure project costs funded by the South Carolina Transportation Infrastructure Bank.

COMPONENT UNIT:

The following schedule summarizes changes in capital assets of the Association for the year ended December 31, 2010:

(In Thousands)

	Balance December 31, 2009	Increases	Decreases	Balance December 31, 2010
Capital assets:				
Interest in License Agreement with SCDOT	$ 192,486	$ -	$ -	$ 192,486
Equipment	820	109	(27)	902
Subtotal - Capital Assets	193,306	109	(27)	193,388
Less accumulated depreciation/ Amortization:				
Interest in License Agreement	43,996	3,570	-	47,566
Equipment	604	80	(27)	657
Subtotal-Accum. Deprec/Amortization	44,600	3,650	(27)	48,223
Total capital assets for component unit, net	$ 148,706	$ (3,541)	$ -	$ 145,165

For the year ended December 31, 2010, depreciation and amortization expense related to capital assets was approximately $3.650 million.

The Association had no significant construction commitments outstanding at December 31, 2010.

NOTE 8. CHANGES IN LONG-TERM OBLIGATIONS:

The following schedule summarizes changes in long-term obligations of the Department for the year ended June 30, 2011:

(In Thousands)

	Beginning Balances June 30, 2010	Increases	Decreases	Ending Balances June 30, 2011	Due Within One Year
General obligation bonds payable	$ 488,265	$ -	$ 38,000	$ 450,265	$ 39,635
Unamortized discounts, premiums	36,058	-	3,659	32,399	3,659
Unamortized deferred loss on refunding of bonds	(13,958)	-	(1,419)	(12,539)	(1,420)
Total Bonds Payable	510,365	-	40,240	470,125	41,874
Intergovernmental Payable Due to State Agency	347,760	-	20,990	326,770	24,819
Accrued Compensated absences	24,323	17,574	17,860	24,037	16,471
Total Governmental Activities	$ 882,448	$ 17,574	$ 79,090	$ 820,932	$ 83,164

The Department has an additional amount due to the state agencies of $15,776 million which is included in the current portion of due to state agencies in the accompanying statement of net assets.

The following schedule summarizes principal and interest expenditures/expenses attributable to long-term obligations of the Department for year ended June 30, 2011:

(in Thousands)

	Principal	Interest	Totals
Bonds Payable	$ 38,000	$ 34,468	$ 72,468
Contributions Payable	20,990	7,734	28,724
Total Expenditures	$ 58,990	$ 42,202	$ 101,192
Adjustments to Department-wide statements			
Change in interest accrual - bonds payable		(2,250)	
Total Interest Expense		$ 39,952	

NOTE 9. 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 fees described herein. So long as any State Highway Bonds are outstanding the amount of revenues made applicable thereto by the General Assembly may not be less than the amounts needed to fund the general operations budget of the Department and meet debt service requirements for annual principal and interest payments on such bonds. Section 57-11-240 provides that the debt limit for State Highway Bonds is the maximum annual debt service limitation of approximately $71 million 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.

A listing of the general obligation bonds payable at June 30, 2011 is as follows:

(In Thousands)

Issue Date	Series	Original Face Amount	Maturity Date	Interest Rates	Ending Principal Balance
4/1/2001	2001B	350,000	4/1/2021	4.750-5.500%	$ 17,080
10/1/2003	2003A	2,200	10/1/2018	5.00%	34,455
6/1/2003	2003B	46,080	7/1/2021	2.000-4.000%	1,370
4/1/2005	2005A	146,495	8/1/2022	3.000-5.000%	109,535
4/1/2010	2010A	299,860	6/1/2021	3.000-5.000%	287,825
					450,265
Add, unamortized premium					32,399
Less, unamortized deferred loss on refundings of bonds					(12,539)
Total bonds payable					$ 470,125

The following schedule summarizes the debt service requirements, including principal and interest, of bonds payable by the Department to maturity:

(In Thousands)

	Principal	Interest	Totals
Year ending June 30:			
2012	$ 39,635	$ 19,196	$ 58,831
2013	40,915	17,475	58,390
2014	41,895	15,822	57,717
2015	42,945	14,124	57,069
2016	44,085	12,328	56,413
2017 - 2021	215,205	30,448	245,653
2022 - 2023	25,585	728	26,313
Total debt service for bonds payable	$ 450,265	$ 110,121	$ 560,386

On June 1, 2003, the Department issued $46.08 million in general obligation State Capital Improvement Refunding Bonds, Series 2003B. The purpose of the issuance was for advance refunding of $39.675 million of the Series 1996B bonds. Proceeds from the bond issue consisted of the following (in Thousands):

Face amount of bonds	$ 46,080
Premium	669
Total	$ 46,749

Issuance costs of the 2003B bonds consist of the following (in Thousands):

Underwriter's discount	$ 322.5
Other issuance cost	74.1
	396.6
Accumulated Amortization	(177.3)
Balance of unamortized issuance costs	$ 219.3

Amortization of bond issuance costs for the year ended June 30, 2011 was $21.9 thousand.

The Department deposited $46.34 million in an escrow account with Bank of America Securities, LLC pursuant to an irrevocable Trust Indenture for the future retirement of the refunded bonds. The deposited funds were invested in U.S. government securities. The $39.675 million of Series 1996B bonds are considered to be defeased and the liability for those bonds has been removed from the Department-wide statement of net assets. The balance of the debt is zero.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of $5.7 million. This difference is reported in the accompanying financial statements as a reduction of bonds payable and is being amortized on a straight line basis and was charged to operations through the fiscal year ending June 30, 2007 since a call premium was pre-funded. The bonds were redeemed on July 1, 2006. The Department completed the advance refunding to reduce its total debt service payments over the next 18 fiscal years by approximately $2.550 million and to obtain an economic gain of approximately $2.230 million (the difference between the present values of the debt service payments on the old debt and the new debt). As of June 30, 2011, the deferred loss was completely amortized.

On April 1, 2005, the Department issued $146.4 million in general obligation State Capital Improvement Bonds, Series 2005A, of which $6.495 million was used to advance refund $6.5 million of the Series 1995 Bonds. Proceeds from the bond issue consisted of the following (in Thousands):

Face amount of bonds	$ 146,495
Premium	294
Total	$ 146,789

Issuance costs of the 2005A bonds consist of the following (in Thousands):

Underwriter's discount	$ 310.7
Other issuance cost	153.8
	464.5
Accumulated Amortization	(167.4)
Balance of unamortized issuance costs	$ 297.1

Amortization of bond issuance costs for the year ended June 30, 2011 was $26.8 thousand.

On April 1, 2010, the Department issued $299.86 million in general obligation State Refunding Bonds, Series 2010A. The purpose of the issuance was for advance refunding of $124.00 million of the Series 1999A bonds, $1.285 million of the Series 2001A bonds, and $194.490 million of the Series 2001B bonds. Proceeds from the bond issue consisted of the following (in Thousands):

Face amount of bonds	$ 299,860
Premium	36,042
Total	$ 335,902

Issuance costs of the 2010A bonds consist of the following (in Thousands):

Underwriter's discount	$ 1,098.3
Other issuance cost	343.5
	1,441.8
Accumulated Amortization	(168.2)
Balance of unamortized issuance costs	$ 1,273.6

Amortization of bond issuance costs for the year ended June 30, 2011 was $144.1 thousand.

The Department deposited $334.44 million in an escrow account with Bank of New York Mellon pursuant to an irrevocable Trust Indenture for the future retirement of the refunded bonds. The deposited funds were invested in State and Local Government securities. The $124.00 million of Series 1999A bonds, $1.285 million of Series 2001A bonds, and the $194.49 million of Series are considered to be defeased and the liability for those bonds has been removed from the Department-wide statement of net assets. The balance of the debt is $19.915 million.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of $14.672 million. This difference is reported in the accompanying financial statements as a reduction of bonds payable and is being amortized on a straight line basis and will be charged to operations through the fiscal year ending June 30, 2021 since a call premium was pre-funded. The Department completed the advance refunding to reduce its total debt service payments over the next 11 fiscal years by approximately $31.134 million and to obtain an economic gain of approximately $28.827 million (the difference between the present values of the debt service payments on the old debt and the new debt).

The following summarizes the deferred loss on advance refunding of the Series 2010A bonds (in Thousands):

Escrow deposit	$ 334,443
Less:	
Principal amount refunded	(320,249)
Deferred loss on refunding of bonds	
Payable	14,194
Accumulated amortization of deferred loss	(1,655)
Balance of unamortized deferred loss	$ 12,539

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2011 was $1.419 million.

The 2010A Bonds are not subject to redemption prior to maturity.

The Series 2003A General Obligation State Highway Bonds maturing on and after October 1, 2014, 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, 2013, 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, 2013 and thereafter	100%

The Series 2003B State Capital Improvement Refunding Bonds are not subject to redemption prior to maturity.

The Series 2005A General Obligation State Highway Bonds maturing on and after August 1, 2016, 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 August 1, 2015 at par plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Price
August 1, 2015 and thereafter	100%

Component Unit

The Association issued three series of tax-exempt toll road revenue bonds pursuant to the Trust Indenture. 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, the Department, or any agency, department or political subdivisions of the State of South Carolina, including the County of Greenville, South Carolina and the City of Greenville, South Carolina. As a result of the Association's bankruptcy petition on June 24, 2010, all prepetition debt and liabilities which are subject to the Plan of Adjustment were frozen and thus no additional payments, accruals, amortization, etc., have been required or recorded since that date. Following is a brief description of each bond issue:

Series 1998A: Series 1998A Senior Current Interest Toll Road Revenue Bonds which were dated 2/01/98 - $66.2 million original principal amount at issuance; interest payable semi-annually on January 1 and July 1 at rates of 5.250% and 5.375%; $21.4 million of bonds mature January, 2023; $44.8 million of bonds mature January, 2038. There was an original issue discount on the Series 1998A bonds at issuance of $2.693 million. Mandatory sinking fund installments began January 1, 2008 and continue until January 1, 2038 in varying amounts from $900 thousand to $4.2 million.

Series 1998B: Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds, which were dated 2/11/98 - $87.4 million original principal amount at issuance; interest accretes at various rates ranging from 5.30% to 5.85%; $438.1 million of bonds mature serially from January 1, 2008 to January 1, 2038.

Series 1998C: Series 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds which were dated 2/11/98 - $46.6 million original principal amount at issuance; interest accretes at various rates ranging from 6.15% to 6.30%; $241.8 million of bonds mature serially from January 1, 2008 to January 1, 2038.

The following schedule summarizes changes in bonds payable (up to the bankruptcy petition date of June 24, 2010) by the Association for the year ended December 31, 2010:

(In Thousands)

	Beginning Balances December 31, 2009	Increases	Decreases	Ending Balances December 31, 2010
Senior Bonds				
Series 1998A	$ 64,400	$ -	$ -	$ 64,400
Original Issue Discount on 1998A	(1,738)	39	$ -	(1,699)
Subtotal Series 1998A	62,662	39	-	62,701
Series 1998B	165,427	4,626	-	170,053
Subordinate Bonds				
Series 1998C	90,926	2,658	-	93,584
Totals	$ 319,015	$ 7,323	$ -	$ 326,338

Additions to bonds payable represent the amortization of original issue discount on the Series 1998A Senior Current Interest Toll Revenue Bonds, and accretions on the Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds, and 1998C Subordinate Capital Appreciation Toll Revenue Bonds. At December 31, 2010, $7.3 million in principal payments on bonds was due within one year. The next scheduled debt service payments (that would have come due in July 2010 and in January 2011) were not recorded as current liabilities as of December 31, 2010 since all debt became frozen at the bankruptcy petition debt date of June 24, 2010 (see Note 19 for more details).

A summary of debt service requirements to maturity for the bonds is as follows as of December 31, 2010 as if the Association had not filed a petition for bankruptcy protection on June 24, 2010. The Association's debt service requirements by year are based on the normal scheduled maturities per the Original Trust Indenture except for the year ending December 31, 2011, which included any outstanding and unpaid principal and interest at December 31, 2010 related to the Bonds:

(In Thousands)

Year ending December 31:	Principal	Interest	Totals
2011	15,400	6,983	22,383
2012	9,900	3,303	13,203
2013	10,500	3,243	13,743
2014	11,000	3,179	14,179
2015	11,700	3,114	14,814
2016-2020	78,900	14,471	93,371
2021-2025	115,200	12,258	127,458
2026-2030	154,000	9,334	163,334
2031-2035	187,100	5,493	192,593
2036-2038	139,500	989	140,489
	733,200	$ 62,367	$ 795,567
Less: unamortized discounts	(406,862)		
	$ 326,338		

At December 31, 2010, accrued interest payable was $5.0 million. Interest is payable January 1 and July 1 of each year to holders of the Senior Bonds at rates of 5.250% and 5.375% per annum. As a result of the Association's bankruptcy petition on June 24, 2010, all prepetition debt and liabilities which are subject to the Plan of Adjustment were frozen and thus no additional interest has been accrued since that date. The accrued interest payable at December 31, 2010 consisted of the unpaid Senior Current Interest Bond (Series 1998A) payment which was due January 1 of 2010 plus accrued interest on the unpaid portions of both principal and interest for the Bonds of $245 thousand. The accrued interest payable at December 31, 2009 consisted of the Senior Current Interest Bond (Series 1998A) payment which was due January 1, 2010.

Interest costs expensed during the year ended December 31, 2010 totaled $18.5 million. Interest costs expensed during the year ended December 31, 2010 was significantly less as a result of the Association's bankruptcy petition on June 24, 2010 which resulted in all prepetition debt and liabilities, which are subject to the Plan of Adjustment, being frozen and thus no additional interest was accrued since that date.

The terms of the Original Trust Indenture require the establishment of bank fund accounts as follows. The proceeds of the Bonds were allocated among and deposited into certain of these accounts. The monies deposited into these accounts were invested as provided in the Original Trust Indenture. Authorized payments of construction costs, debt service, arbitrage rebates and operating costs and renewal and replacement costs may only be paid from certain funds as specified in the Original Trust Indenture. Payment of debt service of the Bonds is secured by the Trust Estate, which includes all monies deposited into these various funds, excluding amounts in the rebate fund and in the renewal and replacement fund. The Trust Estate also includes the Association's interest in revenues as defined in the Original Trust Indenture, the Association's interest in the Original License Agreement with the Department, and any other property pledged as security for the Bonds.

The accounts established by the Original Trust Indenture and the balances therein at December 31, 2010 were as follows:

(In Thousands)

Fund	Amount December 31, 2010
Revenue	$ 488
Debt Service Reserve	3,716
Total	$ 4,204

During the year ended December 31, 2009, payments from the various accounts were made in accordance with the terms of the Original Trust Indenture. Since funds were insufficient to pay the entire debt service due January 2010, the 1998 Senior Bonds Trustee made no payment on the 1998 Senior or Subordinate Bonds at that date, and the Association's first payment default on the 1998 Bonds occurred (see Note 19 for more details).

The Original Trust Indenture contains certain other bond covenants including, but not limited to, the following:

- The Association is prohibited from taking any action, or omitting to take any action, that would cause the Bonds to lose their tax-exempt status.

- After the Southern Connector is completed and operational, the Association's Engineer (as defined) must inspect the toll road annually and submit a report documenting, among other matters, the physical condition of the toll road. The latest report was completed by the Association's Engineer and delivered to the Trustee in June 2011. The Association has notified the trustee that funding of the Renewal and Replacement Fund was seventh in the flow of funds listing of the Original Trust Indenture, and to the extent that revenues are insufficient to make any such deposits, the amounts to be transferred to the Renewal and Replacement Funds are to be deferred.

- Beginning on the first day of the second full fiscal year immediately following the later of (i) the Final Completion date of the Southern Connector, and (ii) the last date through which interest on any of the Bonds is to be paid from proceeds of the Bonds, the tolls charged by the Association shall equal or exceed the greater of (a) 1.25 times the aggregate debt service on all outstanding Senior Bonds due in that fiscal year, and (b) the amount required to fund all transfers to the Senior Bonds Debt Service Reserve Fund as defined in the Original Trust Indenture, and to equal not less than 1.10 times the aggregate debt service on all outstanding Bonds due in that fiscal year ("Revenue Covenant"). In addition, before the beginning of each fiscal year, the Association is required to review its financial status in order to estimate and determine whether Net Revenues (as defined) for the current and following fiscal year will be sufficient to comply with the Revenue Covenant. The Original Trust Indenture also specifies actions (i.e. toll rate study, etc.) to be taken if the Association determines that revenues may be inadequate to meet this covenant. The Revenue Covenant also states, that failure to comply with the covenant for a period of 36 consecutive months will constitute an event of default under the Original Trust Indenture.

Net toll revenues have been insufficient to meet the Revenue Covenant. In compliance with its obligations under the Original Trust Indenture, the Association hired a Toll Rate Consultant who studied the traffic and toll rates charge by the Association and advised the Association on changes to the toll rates. The Toll Rate Consultant issued three reports on studies it conducted in 2005, 2006, and 2007, each of which concluded that revising the toll rates would not, in the opinion of the Toll Rate Consultant; permit the Association to meet the Revenue Covenant. Certain of the reports contained suggested modification to the toll rates and Association policies regarding discounts for electronic toll customers which would, in the opinion of the Toll Rate Consultant, increase net revenues, although by an amount insufficient to meet the Revenue Covenant.

The Association was unable to comply with the Revenue Covenant for 36 consecutive months and was thus in default (see Note 19 for more details).

- Prior to the end of the fiscal year, the Association is required to file an annual budget for the next fiscal year with the Trustee.

The Association monitors the covenants for compliance throughout the year. Except for the Revenue Covenant and bond payment default noted above, the Association has not received any notice of non-compliance with the bond covenants for the applicable period of 2010.

NOTE 10. Intergovernmental Payable – Due to State Agency – Primary Entity

The Department entered into various intergovernmental agreements with the South Carolina Transportation Infrastructure Bank (the Bank) and various local governments to provide financial assistance for highway and transportation facilities projects. Details of the agreements follow in which the Department has a financial obligation.

<u>Horry County RIDE I Project</u>. The total costs for this project are estimated to be $888 million. Funding consists of (1) a $340 million financial assistance award by the Bank, of which $114 million is being re-paid to the Bank by the Department of Transportation in annual installments of $10 million each for eleven years and $4 million in the twelfth year; and an additional $95 million contribution which is being paid to the Bank by the Department in annual installments of $7.6 million including 5% interest per annum for 20 years; (2) a $300 million interest free loan to Horry County by the Bank; and, (3) a $247.5 million interest bearing loan by the Bank to Horry County.

Multi-Project Loan. During fiscal year 2006 the Department and the Bank entered into an agreement to extend the original Horry County agreement. This agreement extends an additional $12 million to complete the Horry County Ride Projects, $10 million to complete the Lexington project, $10 million to complete the Beaufort project and $62.1 million for the bridge demolition project in Charleston. The entire $62.1 million has been utilized. Annual installments of $10 million began in 2009 and continue until 2022. On August 29, 2009, the Bank transferred $10 million from the Beaufort and Lexington projects to the US 17 project increasing the projects total allocation. On August 10, 2011 the Bank authorized the Department to utilize the remaining $12 million no longer needed for the Horry County project for design build bridge replacement projects.

Charleston County Project. The total estimated project costs were $650 million. Funding for the project consists of a $540 million financial assistance award by the Bank and the funding of $110 million of expenditures by the Department and claimed as federal expenditures. In addition, the Department is to contribute $200 million to the Bank at the rate of $8 million per year for 25 years without interest commencing in fiscal year 2003.

US 17 Beaufort and Colleton Counties. During fiscal year 2007, the Department and the Bank entered into an agreement to fund Phase I widening of US17 through Beaufort and Colleton Counties. Total project cost is estimated to be $100 million. Funding consists of $11 million in federal dollars; $7 million contribution from Beaufort County; and Bank assistance in the form of an $82 million loan being repaid by the Department in annual installments of $4.9 million including 4.44% interest for 30 years commencing in fiscal year 2008. The first loan transfer of $53 million was made July 2007 with the remaining funds of $29 million transferred July 2008.

The following schedule summarizes changes in contributions payable – State agency (the South Carolina Transportation Infrastructure Bank) for the year ended June 30, 2011 and account balances of each year-end:

(In Thousands)

Project	Beginning Balance June 30, 2010	Increases	Decreases	Ending Balance June 30, 2011
Horry Ride I Project				
Phase II	$ 54,445	$ -	$ 4,973	$ 49,472
Charleston County Project	136,000	-	8,000	128,000
US 17	78,260	-	1,536	76,724
Totals	$ 268,705	$ -	$ 14,509	$ 254,196

The following schedule summarizes the debt service requirements, including principal and interest of the Department of Transportation to maturity:

(in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 14,819	$ 5,761	$ 20,580
2013	15,143	5,436	20,579
2014	15,483	5,097	20,580
2015	15,839	4,741	20,580
2016	16,212	4,368	20,580
2017-2021	71,735	15,964	87,699
2022-2026	53,691	11,208	64,899
2027-2031	25,087	7,812	32,899
2032-3036	21,325	3,573	24,898
2037	4,862	117	4,979
Totals	$ 254,196	$ 64,077	$ 318,273

The following amounts have not been fully advanced as of June 30, 2011, and thus, an exact debt service amortization is not yet determinable. These are as follows.

(in Thousands)

Project	Beginning Balance June 30, 2010	Increases	Decreases	Ending Balance June 30, 2011
Mulit-Project Loan	$ 79,055	$ -	$ 6,481	$ 72,574
	79,055	-	6,481	72,574
Combined Total	$ 347,760	$ -	$ 20,990	$ 326,770

As of June 30, 2011, $80.908 million has been advanced relating to the Multi-Project loan. On July 1, 2008, the Department began to make repayments towards the Multi-Project loan in the amount of $6 million for fiscal year 2009, and $10 million thereafter until 2022. Currently the imputed interest rate is 5.025%. Once the funds have been fully advanced, the Department will compute an amortization schedule for inclusion in these financial statements. The change in the 6/30/10 balance is due to the revision of the amortization schedule to accurately reflect the final payment date.

NOTE 11. LEASE OBLIGATIONS:

The Department has no capital leases outstanding for the fiscal year ended June 30, 2011. The Department incurred approximately $620,818 in expenditures applicable to contingent rental agreements that are based on a pay-per-copy arrangement, with no required minimum usage requirements. All contingent rental agreements are with external parties.

NOTE 12. INTEREST IN LICENSE AGREEMENT WITH THE DEPARTMENT – COMPONENT UNIT:

On February 11, 1998, the Association entered into the Original License Agreement with the Department regarding the construction and operation of the Southern Connector and SC 153 Extension Projects (the "Projects"). The Original License 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.

In order to finance the Southern Connector, the Association issued three series of toll road revenue Bonds pursuant to the Original Trust Indenture 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 established by the Trust Indenture. The Bonds are not, and shall never, constitute an indebtedness of the State of South Carolina, the Department, or any agency, department or political subdivision of the State of South Carolina (see Note 9 for additional information).

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

Prior to 2009, management had deemed the maturity date on the bond, January 1, 2038, to be the effective termination date of the Original License Agreement and thus had amortized the Association's interest in the Original License Agreement over approximately 36.5 years. Due to developments described in Note 19, beginning in 2009 management believed that the Original License Agreement termination date of 50 years from the substantial completion date, July 2051 is the more appropriate period to amortize the Association's interest in the Original License Agreement.

In order to fulfill its responsibilities under the Original License Agreement, the Association entered into an agreement (the "Development Agreement") with Interwest Carolina Transportation Group, LLC (the "Developer") whereby the Developer agreed to perform the obligations of the Association under the Original License Agreement with respect to construction of the Southern Connector and the SC 153 Extension and assumed various additional responsibilities. In order to fulfill its responsibilities under the Development Agreement, the Developer in turn entered into contracts with various subcontractors for the performance of certain obligations. The Developer agreed to complete the construction of the Southern Connector at a guaranteed price of $173.8 million, 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, 1998. 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 South Connector. On February 27, 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. Substantial completion was reached on July 22, 2001. On December 22, 2003, the Southern Connector attained final completion.

The Association is required to pay a license fee to the Department in the amount of $125,000 per month for a period of 25 years, commencing twelve months (the first payment was due January 1, 2005) after Final Completion of the Southern Connector and of $1 per month thereafter for the remainder of the term of the Original 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. Payment of the license fee is ninth in priority according to the flow of funds.

So long as any Bonds remain outstanding, any license fees not paid when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually. As a result of the Association's bankruptcy petition on June 24, 2010, all prepetition debt and liabilities which are subject to the Plan of Adjustment were frozen and thus no additional license fees, including interest, have been accrued since that date. At December 31, 2010, the Association has unpaid deferred license fees of $8.225 million and related interest of $1.229 million.

The Department is responsible for maintaining the Southern Connector (costs of maintenance are to be reimbursed by the Association in eighth priority in the flow of funds). So long as any Bonds remain outstanding, any maintenance costs of the Department not paid by the Association when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually. As a result of the Association's bankruptcy petition on June 24, 2010, all prepetition debt and liabilities which are subject to the Plan of Adjustment were frozen and thus no additional maintenance fees, including interest, have been accrued since that date. At December 31, 2010, the Association has unpaid Department deferred maintenance and related interest of $816 thousand and $173 thousand, respectively.

The Department is responsible for setting the toll rates in accordance with the terms of the License Agreement. The SC 153 Extension, the cost of which is not included in the accompanying basic financial statements, is operated, maintained, renewed, and replaced by the Department as part of the South Carolina Highway System.

The Association's rights under the License Agreement, as described above, constitute an intangible asset that is valued and recorded at an amount equal to the cost of construction of the Southern Connector, including related capitalized interest, less accumulated amortization (see Note 2 for additional information).

NOTE 13. 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 (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 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. Beginning July 1, 2005, the State legislature passed a law requiring TERI participants to make SCRS contributions.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6% of all compensation. Beginning July 1, 2006, the employees' participation percent in the SCRS increased .25% to a total 6.25%. Effective July 1, 2010, the employer contribution rate became 13.14%, which included a 3.50% surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 2011, 2010 and 2009 were approximately $22.5 million, $17.3 million, and $17.0 million respectively, and equaled the required contributions of 9.64% (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately $258 thousand 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.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2010, the employer contribution rate became 15.03%, which, as for the SCRS, included the 3.50% surcharge. The Department's actual contributions to the PORS for the years ended June 30, 2011, 2010 and 2009 were approximately $33 thousand, $27 thousand, and $22 thousand respectively, and equaled the required contributions of 11.53 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately $439 and accidental death insurance contributions of approximately $439 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

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 therefore 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 14. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides post-employment health and dental and long term disability benefits to retired State and school district employees and their covered dependents. All permanent full-time and certain permanent part-time employees of the Department are eligible to receive these benefits. The Department contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit post employment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these post employment healthcare and long-term disability benefits be funded though annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.50 % of annual covered payroll.

The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Department paid approximately $ 6.0 million, $6.5 million, and $6.4 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2011, 2010, and 2009 respectively. 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. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was $3.23 for the fiscal years ended June 30, 2011.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

NOTE 15. 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), 403(b), and Roth 401(k) are administered by third parties and are not included in the CAFR 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 Department has not made any contributions to these plans.

NOTE 16. TRANSACTIONS WITH STATE ENTITIES / RELATED PARTIES:
Primary Entity:

The Department has significant transactions with the State of South Carolina and various State agencies. The Department purchases goods and services from various State agencies. Total purchases from State agencies were approximately $54 million for the year ended June 30, 2011. The Department sells supply items and provides services for various State agencies. Total sales to State agencies were approximately $14,987 for the year ended June 30, 2011.

The gasoline and special fuels user fees are collected by the South Carolina Department of Revenue (DOR) and remitted on a monthly basis. The user fees collected by DOR for the State Highway Fund amounted to $474.0 million for the year ended June 30, 2011 of which $45.4 was accrued as a receivable at June 30, 2011. Gasoline tax revenues collected by DOR for the County Transportation Program Agency Fund amounted to $68.0 million for the year ended June 30, 2011.

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 inter-agency 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.

The Department provided no material services free of charge to other State agencies during the fiscal year. The Department participates in the statewide dual employment program. Workers' compensation insurance premiums for the fiscal year 2009 of $10.0 million were paid to the State Accident Fund.

See Note 10 regarding transactions resulting from intergovernmental agreements entered into by the Department, the Bank, and other local governments. The Department provided the Bank administrative services, clerical assistance, and project oversight during fiscal year 2011 for which it was paid $1.824 million. The Bank also reimbursed the Department $492 thousand in direct project costs and $183 thousand for administrative services. Allocations to other entities - State agency represented amounts paid to the Bank and totaled $25.8 million for the year ended June 30, 2011. The payments were from gas tax collections and represented an amount not to exceed the one cent per gallon collected in accordance with Section 11-43-160 of the South Carolina Code of Laws for the on-going funding of construction and maintenance of highways. The Department has established an agreement with the Bank to reserve $10,000,000 as guaranty on Horry County loan payments to the Bank.

A summary of intergovernmental payables to State agencies in the fund level balance sheet at June 30, 2011 is as follows:

(In Thousands) Due To / Description		
South Carolina State Infrastructure Bank		
1 cent per gallon gasoline tax, reimbursement of cost, and license fees	$	8,191
Purchases of goods and services:		
State Budget and Control Board		5,220
S.C. Department of Motor Vehicles		1,541
Department of Public Safety		417
S.C. Department of Corrections		153
Clemson University		60
S.C. Energy Office		63
S.C. Department of Natural Resources		50
S.C. Department of Revenue		47
S.C. Department of Parks & Recreation		14
Archives & History		12
S.C. Retirement Systems		8
Total	$	15,776

NOTE 17. FEDERAL GRANTS:

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

NOTE 18. RISK MANAGEMENT:

Primary Entity

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;
- 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 re-insurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially. State agencies and other entities are the primary participant in the State's Health and Disability Insurance Fund and IRF.

The Department obtains coverage up to $50,000 through a commercial insurer for employee fidelity bond insurance for the Secretary of Transportation 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. The Department has not transferred the portion of the risk of loss related to insurance policy deductibles and limits for capital assets and fidelity overages to a State or commercial insurer.

The Department has not reported an estimated claims loss expenditure, and the related liability at June 30, 2011, 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, 2011 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported

(IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the 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.

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
Worker's Compensation	Crime
Directors and Officers	Force Majeure
Builder's Risk	General Liability

No claim settlements have exceeded insurance coverage during the previous three years. There were no significant reductions in insurance coverage during the year ended December 31, 2010.

NOTE 19. BANKRUPTCY AND RELATED MATTERS – COMPONENT UNIT

At the time the Bonds were issued, Wilbur Smith Associates prepared a Traffic and Revenue Study (the "WS Study" or "Original Study") to estimate the future utilization of the road and toll revenues for the Association. The actual traffic on the highway and toll revenues received by the Association have been substantially less than projected in the WS Study.

Through July 2007, the Association's debt service payment obligations on its 1998 Bonds consisted solely of interest payments due on the Senior Series 1998A Bonds. However, beginning in 2008, the Association's annual financial obligations began to increase significantly as the capital appreciation bonds began to mature and as sinking fund principal installments came due on the Series 1998A Bonds. Because actual traffic on the Southern Connector produced toll revenues less than the amounts necessary to meet the Association's debt service obligations, the Association was required to withdraw monies from the 1998 Senior and Subordinate Bonds Debt Service Reserve Accounts in order to pay debt service obligations. By the end of December 2008, the Association had essentially depleted the reserves in its 1998 Subordinate Bonds Debt Service Reserve Account. By July 2009, the Association's withdrawals from the 1998 Senior Bonds Debt Service Reserve Account reduced the balance in that account to a point where the remaining funds in that account, along with tolls collected and available for payment of debt service, were insufficient to pay the debt service due in January 2010. Since funds were insufficient to pay the entire debt service due in January 2010, the 1998 Senior Bonds Trustee made no payment on the 1998 Senior or Subordinate Bonds at that date, and the Association's first payment default on the 1998 Bonds occurred. On January 11, 2010, the Association filed an event notice acknowledging that an event of default had occurred as a result of its failure to pay the debt service that came due on the 1998 Bonds in January 2010. Since that time, the continuing shortfall of toll revenues prevented the Association from meeting its debt service obligations, and the Association continued in default under the Original Trust Indenture.

The Original Trust Indenture required the Association to meet a Revenue Covenant (see Note 9 for more details). The Revenue Covenant became effective January 1, 2005, and a failure to comply with the covenant for a period of 36 consecutive months constituted an event of default under the Original Trust Indenture. Since the Association has never been able to meet this covenant, it was also in default under this covenant of the Original Trust Indenture. In January 2008 and again in May 2009, the Association received notices of such default from the 1998 Senior Bonds Trustee in which the Trustee acknowledged and reserved its various remedies provided in the Original Trust Indenture, but did not identify which, if any, actions were to be taken on behalf of the holders of the 1998 Bonds.

The Original Trust Indenture required that toll rate studies be performed whenever the revenue covenant was not met. Although the Association hired a toll consultant to perform the required toll rate studies in each of years 2005, 2006 and 2007, each of those studies concluded that, even if the toll consultant's recommendations to maximize toll revenue were implemented, projected toll revenues would continue to be insufficient to pay principal and interest on the 1998 Bonds in full.

In 2008, the Association engaged Stantec Engineering as its new traffic and revenue consultant to perform an investment grade traffic and revenue study. The purpose of the study was to forecast traffic and revenue and revenue potential for a period of 50 years. The report on this study (the "Revised Traffic Study") was issued in May 2009 and set forth projections based on both the then-current toll rate schedule and a revised toll rate schedule. Based on the Revised Traffic Study, the Association petitioned the Department for a toll rate increase that was approved by the Department in August 2009 and implemented in November 2009.

The Association's operations through December 31, 2010 have been governed by its Original License Agreement with the Department (See Note 12 for more details). That Original License agreement specified that the 1998 Bonds issued by the Association to finance construction of the Southern Connector are not and shall never constitute indebtedness of the State of South Carolina, the Department, or any agency, department or political subdivision of the State of South Carolina. The Original License Agreement required the Department to determine the toll rates to be charged by the Association. It obligated the Association to pay license fees and roadway maintenance amounts to the Department and to periodically repair, renew and replace the Southern Connector at the Association's cost.

The Original License Agreement provided that the Association's insolvency is an event of default which allowed the Departmentto terminate the Original License Agreement provided the Department complied with certain terms of the Original License Agreement. The Association received letters in June and October 2009 from the Department informing it that the Association was in default under the Original License Agreement and that the Department did not waive any claims it may have against the Association. The department also agreed to the Association's request for at least 90 days' prior notice of its intention to terminate the Original License Agreement.

Because of the factors discussed above, in 2005, the Association began actively investigating its options to restructure the 1998 Bonds. The Association interviewed international companies engaged in the acquisition of concessions for the financing and operation of toll facilities worldwide, but after over a year of negotiations, discontinued this effort. The Association hired Goldman Sachs & Co. ("Goldman") in early 2008 as its special financial advisor to investigate its ability to restructure its obligations outside of bankruptcy. Possibilities which were considered included consensual restructuring, conventional refunding, a tender and exchange of new securities for the 1998 Bonds, and a sale by the Department of a concession to operate the Southern Connector to a for-profit third party. Goldman advised the Association that any restructuring of its obligations within the remaining term of the Original License Agreement would require a substantial reduction in the principal amount of the 1998 Bonds, and that restructuring its debt outside of bankruptcy would be extremely difficult. Goldman also advised the Association that any successful restructuring of the 1998 Bonds, either as part of a bankruptcy proceeding or otherwise, would require an investment grade traffic and revenue study. Accordingly, the Association engaged Stantec Engineering to perform the Revised Traffic Study discussed above. Based on that study, the Association requested and received approval from the Department of a toll rate increase that was implemented in November 2009.

The Association's restructuring efforts and various negotiations with the 1998 Senior Bonds Trustee, the Subordinate Bonds Trustee, certain bondholders owning a majority of outstanding principal of the Association's 1998 Senior Bonds (the "Restricted Owners") and the Department resulted in three potential debt adjustment plans. The first plan submitted by the Association was ultimately rejected by the 1998 Senior Bonds Trustee, the Subordinate Bonds Trustee and the Restricted Owners. An alternate debt adjustment plan proposed by the 1998 Senior Bonds Trustee's counsel's financial advisor would have required extension of the term of the Association's Original License Agreement with the Department. This alternate debt adjustment plan failed when the South Carolina General Assembly adjourned its 2010 legislative session without enacting the legislation required to authorize the Department to extend the term of the Original License Agreement. The Association then in the spring of 2010 pursued discussions regarding a third debt adjustment plan that could be implemented over the term of the Original License Agreement without any extension, but the Department informed the Association that it would not agree to that debt adjustment plan, and subsequent offers to solicit or negotiate changes acceptable to the Department failed.

On January 20, 2010, the Association's Board of Directors had adopted a resolution authorizing Association's management, when management so deemed it appropriate, to file a petition for bankruptcy protection under the United States Bankruptcy Code and to take related actions in connection with the bankruptcy. On June 24, 2010, following the failure of the negotiations discussed above, the Association filed its Chapter 9 bankruptcy petition (the "Petition") in the U.S. Bankruptcy Court at the direction of its Executive Vice President and General Manager.

Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* ("Statement No. 58"), as issued by the GASB, requires that liabilities subject to adjustment in a Chapter 9 bankruptcy proceeding be frozen as of the date of the bankruptcy petition. As of June 24, 2010, and through the effective date of the Association's Plan, the Association's liabilities subject to adjustment in bankruptcy (the 1998 Bonds payable liabilities, all amounts owed to the Department and the excess collateral liability) were frozen by the U.S. Bankruptcy Law. Accordingly, under the terms of GASB Statement No. 58, no additional amounts were accrued after June 24, 2010 pertaining to these liabilities.

During the remainder of 2010 and during the pendency of the bankruptcy proceeding, the Association continued to operate the Southern Connector as usual and paid its non-Bondholder and non-Department creditors in the ordinary course of business. As mentioned previously, payments were no longer made to the bondholders, although the 1998 Senior Bonds Trustee, the Subordinate Bonds Trustee, their respective counsel and advisors were paid their fees and expenses from the toll revenues collected. The Association continued its negotiations with the 1998 Senior Bonds Trustee, the Subordinate Bonds Trustee, the Restricted Owners and the Department, and filed a First Amended Plan for adjustment of Debts in November 2010. That document, along with the Addendum to First Amended Plan for Adjustment of Debts filed in January 2011 and Debtor's Modification to the First Amended Plan for Adjustment of Debts filed in March 2011, form the Plan that was later confirmed by the U.S. Bankruptcy Court on April 1, 2011 and became effective on April 21, 2011. A summary of the terms of the Plan are discussed in Note 20.

NOTE 20. CONTINGENCIES AND SUBSEQUENT EVENTS:

CONTIGENCIES:

PRIMARY ENTITY:

The Department is a defendant in various lawsuits arising from the conduct of its normal business primarily regarding rights-of-way. 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.

Through June 30, 2011, the State's Joint Bond Review Committee approved the issuance by the Department not to exceed $926 million in General Obligation State Highway Bonds for projects. As of June 30, 2011, $450.3 million bonds have been issued and are outstanding. In April 2011, the Commission authorized the department to begin procedures to issue not to exceed $344 million in general obligation highway bonds for various significant projects. The timing and amounts of the bond issues is to be determined by the Department's staff and will go through the Joint Bond Review Committee. As of June 30, 2011 none of the authorized bonds have been issued.

COMPONENT UNIT:

POTENTIAL EXCESS COLLATERAL RECEIVED

At the time the Bonds were issued, the Association directed the Trustee to invest monies in the Senior Bonds Debt Service Reserve Account and the Subordinate Bonds Debt Service Reserve Account in a long-term collateralized repurchase agreement ("REPO") with Lehman Brothers, with Norwest Bank serving as custodian and collateral agent. As a result of Lehman Brothers' bankruptcy in 2008, Lehman Brothers defaulted on the REPO and thus the custodian transferred the collateral/securities to the Trustee. The amount of collateral/securities received by the Trustee was greater than the amount of collateral/securities required to be maintained by Lehman Brothers under the REPO. The maximum amount of the securities received by the Trustee that may be subject to a claim by Lehman Brothers under the REPO has been recorded as liability by the Association of $1,117,498 at December 31, 2010.

SUBSEQUENT EVENTS:

COMPONENT UNIT:

This note and Note 19 present a summary of certain key provisions of the Association's Plan that was confirmed by the U.S. Bankruptcy Court on April 1, 2011 and that became effective April 21, 2011. More detailed information regarding the Association's bankruptcy proceedings may be found on the Association's website, www.SouthernConnector.com.

Specifically, complete copies of the Association's Plan, the Plan documents and other bankruptcy filings, notices and Court Orders may be found on the Association's website under the Bankruptcy Filing link under the News & Filings tab.

A confirmation hearing was held on March 25, 2011, and on April 1, 2011, the Bankruptcy Court entered its Confirmation Order approving and confirming the Plan. Since no appeals to the Bankruptcy Court's Confirmation Order were filed and the other conditions to effectiveness were satisfied, the Plan became effective April 21, 2011.

The Plan is implemented by the First Amended and Restated Master Indenture of Trust (the "Amended Trust Indenture"), and the First Amendment to the License Agreement between the Association and the Department (the "Revised License Agreement"). Under the Plan, Amended and Restated Bonds (the "2011 Bonds") were issued in exchange for the 1998 Bonds, the Association's prior obligations to the Department for license fees and roadway maintenance reimbursements were forgiven, and $800,000 of the excess collateral Repurchase Agreement securities was repaid to Lehman Brothers, Inc. The Amended Trust Indenture establishes new 2011 Trust Funds and Accounts into which commencing April 1, 2011 toll revenues will be deposited and from which debt service payments on the 2011 Bonds and certain payments for the benefit of the Department will be made. The Amended Trust Indenture also establishes a new flow of funds schedule (the "New Waterfall") that defines the order and priority in which amounts deposited into the 2011 Revenue Fund may be distributed. The Revised License Agreement with the Department eliminates the Association's obligations to the Department for future highway maintenance, repair, renewal and replacement costs beyond making certain deposits into a 2011 Renewal and Replacement Fund (the "R&R Fund") as discussed below, and amends the manner in which toll rates for the Southern Connector are set.

Based on the key changes (see following sections for details) brought about by the Plan, management believes that traffic on the highway and the resulting toll revenues received by the Association in future years should be sufficient to meet its ongoing operating and debt service requirements.

Amended and Restated 2011 Bonds and Terms of the Amended Trust Indenture

On April 21, 2011, the 2011 Bonds were issued to the existing holders of the 1998 Bonds on a pro rata basis, based on unpaid principal and accrued/accreted interest as of the bankruptcy petition date of June 24, 2010. The 2011 Bonds are dated April 1, 2011, and accrete interest from that date. The 2011 Bonds consist of Series 2011A Bonds and Series 2011B Bonds (exchanged for the 1998 Senior Bonds) and Series 2011C Bonds (exchanged for the 1998 Subordinate Bonds).

The Series 2011A Bonds total $126,899,826 aggregate original principal amount of Senior Capital Appreciation Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 2011A, consisting of serial bonds maturing January 1 of the years 2012 through 2022 (inclusive) and three term bonds, each subject to prior pro-rata paydown, maturing January 1, 2032, January 1, 2042 and July 22, 2051. The Series 2011A Bonds are secured by a lien on the 2011 Trust Estate, including the Revenues of the Southern Connector and a collateral assignment of the Association's rights under the Revised License Agreement. Payments on the Series 2011A Bonds are expected to equal approximately 71.5% of the Association's net revenues (after operating costs) in each year projected in accordance with the Revised Traffic Study.

The Series 2011B Bonds total $21,085,708 aggregate original principal amount of Senior Subordinate Capital Appreciation Toll Road Revenue Bonds (Southern Connector

Project, Greenville, South Carolina), Series 2011B consisting of two term bonds, each subject to prior pro-rata paydown, maturing January 1, 2032 and July 22, 2051. The Series 2011B Bonds are secured by a lien on the 2011 Trust Estate. The Series 2011B Bonds are subordinated to the Series 2011A Bonds in all respects, including in right of payment and priority of liens. Payments on the Series 2011B Bonds are expected to equal approximately 16.5% of the Association's net revenues (after operating costs) in each year projected in accordance with the Revised Traffic Study.

The Series 2011C Bonds total $2,160,434 aggregate original principal amount of Junior Subordinate Capital Appreciation Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 2011C maturing, subject to prior pro-rata paydown, on July 22, 2051. The Association's obligations in respect of the Series 2011C Bonds are secured by a lien on the 2011 Trust Estate. The Series 2011C Bonds are subordinated to the Series 2011A Bonds and Series 2011B Bonds in all respects, including in right of payment and priority of liens. Payments on the Series 2011C Bonds are expected to equal approximately 2.0% of the Association's net revenues (after operating costs) in each year projected in accordance with the Revised Traffic Study.

The 2011 Bonds are expressly nonrecourse to the Association, the State of South Carolina, the Department or any agency, department or political subdivision of the State of South Carolina, and payable solely from the 2011 Trust Estate. The 2011 Bonds are not rated by a national rating agency.

The Amended Trust Indenture provides certain remedies if the Association fails to make any payment in respect of the Series 2011A Bonds or if another event of default occurs, but like the Original Trust Indenture, does not provide any right to accelerate the maturity of the 2011 Bonds. Also, only a payment default on the Series 2011A Bonds constitutes an event of default under the Amended Trust Indenture. Any payment defaults on the Series 2011B or 2011C Bonds cause those unpaid amounts to accrue interest at the respective 2011 Bond interest rate as "Arrearages" which are payable at a later date when distributable cash is sufficient. If an event of default occurs, the 2011 Bonds Trustee (the "New Trustee") shall have the right to retain, or cause the Association to retain, (i) an independent consultant to recommend the optimum toll rates for the Southern Connector, and (ii) a management consultant or other third party to examine and make recommendations regarding the Association's operations and operating costs. Unless certain 2011 Bondholders object to the recommendations made by such consultant or other third party, the Association will be required to implement those recommendations to the extent it is able to do so. The Subordinate Bonds Trustee was eliminated under the Amended Trust Indenture.

Under the Amended Trust Indenture, the Association will maintain a 2011 Debt Service Reserve Fund (the "New Reserve Fund") to pay shortfalls in debt service on the Series 2011A Bonds (and, once all Series 2011A Bonds have been redeemed, on the Series 2011B Bonds, and once all Series 2011B Bonds have been redeemed, on the Series 2011C Bonds). The New Reserve Fund will initially be funded by amounts remaining (as defined in the Amended Trust Indenture) in the 1998 Revenue, 1998 Debt Service and 1998 Debt Service Reserve Funds established under the Original Trust Indenture after payment of costs of the bankruptcy proceeding. If any payments are made from the New Reserve Fund, the Amended Trust Indenture requires that the balance in the New Reserve Fund be restored before any payments may be made in respect of the 2011B or 2011C Bonds.

Under the terms of the Amended Trust Indenture, beginning April 1, 2011, the Association's revenues are delivered to the New Trustee for deposit into the 2011 Revenue Fund. The New Waterfall defined in the Amended Trust Indenture establishes the flow of funds schedule under which the New Trustee may withdraw amounts deposited into the 2011 Revenue Fund.

Whether an Event of Default has occurred and is then continuing or otherwise, in each fiscal year amounts in the Revenue Fund of the Amended Trust Indenture shall be applied for the purposes and in the priority set forth in Section 505 of the Amended Trust Indenture, which include payments to the R&R Fund to reimburse the Departent for a portion of the highway maintenance costs as described below (some of which R&R Fund deposits are paid before transfers for Debt Service on the Amended and Restated Bonds) and to pay the Debt Service of the Amended and Restated Bonds as and to the extent specified therein. See, "VII. Discussion of the Plan, B. Summary of the Plan Terms, 2 Distribution of Net Revenues" beginning at page 38 of the Amended Disclosure Statement and Section 505 of the Amended Trust Indenture, each of which are available for review on the Association's website.

Revised License Agreement with the Department

Under the terms of the Plan, in exchange for the agreement of the Association under the Amended Trust Indenture to make transfers from the Revenue Fund to the R&R Fund equal to a percentage of the net revenues of the operation of the toll road, the Department entered into the Revised License Agreement which released all its claims against the Association that existed as of the Plan's effective date of April 21, 2011.

The Association's Revised License Agreement with the Department became effective April 21, 2011. Under the Revised License Agreement, the Department has assumed the obligation for the future highway maintenance, repair, renewal and replacement and related costs of the Southern Connector in the same manner as any other State-owned interstate road. Neither the Association nor the New Trustee or 2011 Bondholders will be responsible for any highway maintenance, repair, renewal or replacement. Instead, the Association's sole obligation related to highway maintenance, repair, renewal or replacement will be to make certain deposits into the R&R Fund as required under the New Waterfall discussed above. The Association will not be responsible for maintaining insurance against any casualty or damage to the Southern Connector other than the toll facilities. The Association will be responsible for future toll facilities maintenance and related costs, which will be payable as an operating cost from the available toll revenues.

Monies will be deposited into the R&R Fund periodically in accordance with the New Waterfall. Upon request of the Department, the Association will requisition such funds from the New Trustee to be distributed to the Department as reimbursement for its costs of maintaining, repairing, renewing and replacing the Southern Connector. In addition, the Association agreed in the Revised License Agreement to reimburse the Department for its direct cost of such maintenance, repair, renewal and replacement in excess of the amount so distributed from the R&R Fund; however, any such additional reimbursement will only be payable after all of the 2011 Bonds are repaid and will require an extension of the term of the Revised License Agreement.

Under the Revised License Agreement, the Department has no right to terminate the Revised License Agreement based on insolvency of the Association.

Toll Rates

Toll rates under the Amended Trust Indenture and the Revised License Agreement are initially established at amounts equal to the revised rates set forth in the Revised Traffic Study. Toll rates may from time to time be revised to the optimum rates for the Southern

Connector as then estimated by an independent toll rate consultant selected by the Association. The Amended Trust Indenture lists the circumstances under which the Association is required to retain a toll rate consultant to perform a new toll rate study. Although the Revised License Agreement contains provisions that allow the Department to approve the consultant hired by the Association to perform any new toll rate study, neither the Department nor the State of South Carolina will be responsible for the adequacy of any toll rates charged by the Association for purposes of satisfying its obligations to third parties.

Lehman Brothers, Inc. Claim for Return of Excess Collateral

Although the Lehman Brothers, Inc. claim (discussed in further detail above) was identified as an impaired claim in the Plan, its resolution was settled consensually among the pertinent parties during April 2011. Under the terms of the resolution, the Association returned $800,000 to Lehman Brothers, Inc. The remaining monies held in the Repurchase Agreement Suspense Account are deemed to be the Association's property.

Permanent Injunction

The Plan contains an injunction that permanently enjoins all parties having a claim against the Association at or that arose prior to the Plan's effective date of April 21, 2011, from enforcing, levying, collecting or recovering such claim, except as provided in the terms of the Plan.

Extraordinary Gain on Adjustment of Debts

In accordance with GASB Statement No. 58, preliminary calculations indicate that the Association will recognize an extraordinary gain from the adjustment of debts totaling approximately $186,500,000, including approximately $175,800,000 from the exchange of the 1998 Bonds for the 2011 Bonds, approximately $10,400,000 from the forgiveness of liabilities owed to the Department, and approximately $300,000 from the settlement of the Lehman Brothers' excess collateral claim.

South Carolina Department of Transportation
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)
Governmental Fund
For the Fiscal Year Ended June 30, 2011
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Earmarked	$ -	$ 6,165	$ 176	$ (5,989)
General fund	57	583	583	-
Restricted	1,289,245	1,289,245	1,164,710	(124,535)
Total Revenues	**1,289,302**	**1,295,993**	**1,165,469**	**(130,524)**
Expenditures				
General Administration				
Personal services	15,200	14,500	14,130	370
Other operating	28,496	38,494	35,542	2,952
Debt services	4	6	6	-
Land & Buildings				
Other operating	1,000	1,000	703	297
Permanent improvement	2,000	2,223	584	1,639
Engineering - Adm. Proj. Mgmt.				
Personal services	76,500	76,773	76,772	1
Other operating	8,500	8,500	6,718	1,782
Engineering - Construction				
Other operating	110,000	116,200	109,643	6,557
Permanent improvements	681,520	629,388	546,667	82,721
Debt services	4,980	4,980	4,980	-
Allocations	8,500	9,900	2,097	7,803
Highway Maintenance				
Personal services	96,000	91,382	90,612	770
Other operating	152,000	193,000	176,082	16,918
Permanent improvements	100	100	28	72
Mass Transit				
Personal services	800	1,045	1,037	8
Other operating	750	750	303	447
Allocations	34,057	34,057	25,107	8,950
Toll Operations				
Personal services	95	95	92	3
Other operating	3,300	3,300	2,911	389
Employer Contributions	65,500	70,300	70,006	294
Total Expenditures	**1,289,302**	**1,295,993**	**1,164,020**	**131,973**
Net increase (decrease) in fund balance- budgetary basis	-	-	1,449	1,449
Fund balance beginning of year-budgetary basis	27,683	27,683	27,683	-
Fund balance end of year - budgetary basis	$ 27,683	$ 27,683	$ 29,132	$ 1,449

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2011

NOTE 1. BUDGETARY FUNDS

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

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

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

The Department's legally adopted budget is part of the Total Funds budget for the State. It is presented for the State Highway Fund at the program level including the restricted, earmarked, and general funds appropriated to the Department.

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

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

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the State Highway Fund. However, Section 70 (*Recapitulations)* of the Appropriation Act includes net *source of funds* amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the State Highway Fund is presented as required supplementary information.

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

NOTE 3: LEGAL LEVEL OF BUDGETARY CONTROL

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

NOTE 4: **BASIS OF BUDGETING**

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

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

- Departments and agencies shall charge certain vendor and interfund payments against the preceding fiscal year's appropriations through July 17.
- The gasoline and motor fuel taxes are recorded on the modified accrual basis in accordance with State law.
- All other revenues are recorded only when the State receives the related cash.

NOTE 5: **RECONCILIATION OF BUDGET TO GAAP REPORTING DIFFERENCES**

The accompanying budgetary comparison schedule compares the Department's legally adopted budget with actual information in accordance with the legal basis of budgeting. Budgetary accounting principles however differ significantly from GAAP accounting principles. Basis differences arise because the basis of budgeting differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balance.

Reconciliation of Budget Basis to GAAP Basis
For Fiscal Year ended June 30, 2011

	(In Thousands) State Highway Fund
Net decrease in fund balance - budgetary basis	$ 1,449
Basis of accounting differences:	
Debt service principal and interest payments are a cash appropriation transfer for budget purposes but shown as an expenditure on the governmental fund statements	(100,632)
Proceeds from intergovernmental payable are shown as revenue on governmental fund statement but are not budgeted	3,508
Change in federal revenue accrual between 2010 and 2011	(3,075)
Revenues are recorded on the cash basis for budgetary purposes and on the modified accrual basis for financial	26,152
Expenditures are recorded on the cash basis for budgetary purposes and are on the modified accrual basis for financial statement purposes	(61,380)
Adjustment of Participation Deferred Revenue	344
Change in interest income based on fair value calculations	(1,610)
Reversal of prior fiscal year accruals	11,070
Other basis differences accruals of revenues (disbursements)	37,413
Net decrease in fund balance - GAAP basis	$ (86,761)

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
(In Thousands)

	Assets			
	Cash and Cash Equivalents	Accrued Current Receivable	Due from State Highway Fund	Total Assets
RIGHT OF WAYS FUND				
Balance at June 30, 2010	$ 332	-	-	$ 332
Additions	-	-	-	-
Deductions	-	-	-	-
Balance at June 30, 2011	332	-	-	332
SPECIAL DEPOSITS				
Balance at June 30, 2010	3,267	-	-	3,267
Additions	1,956	-	-	1,956
Deductions	(1,939)	-	-	(1,939)
Balance at June 30, 2011	3,284	-	-	3,284
LOCAL TAX FUND				
Balance at June 30, 2010	-	-	-	-
Additions	6,225	2,224	-	8,449
Deductions	(1,294)	(2,220)	-	(3,514)
Balance at June 30, 2011	4,931	4	-	4,935
COUNTY TRANSPORTATION FUND				
Balance at June 30, 2010	115,562	1,121	5,919	122,602
Additions	86,870	932	79,884	167,686
Deductions	(97,679)	(1,559)	(74,066)	(173,304)
Balance at June 30, 2011	104,753	494	11,737	116,984
TOTALS - ALL AGENCY FUNDS				
Balance at June 30, 2010	119,161	1,121	5,919	126,201
Additions	95,051	3,156	79,884	178,091
Deletions	(100,912)	(3,779)	(74,066)	(178,757)
Balance at June 30, 2011	$ 113,300	$ 498	$ 11,737	$ 125,535

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011
(In Thousands)

	Liabilities				
	Accounts Payable/ Other Liabilities	Deposits for Right of Ways	Special Deposits and Bonds	Funds Held for Counties	Total Liabilities
RIGHT OF WAYS FUND					
Balance at June 30, 2010	$ -	$ 332	$ -	$ -	$ 332
Additions	-	-	-	-	-
Deductions	-	-	-	-	-
Balance at June 30, 2011	-	332	-	-	332
SPECIAL DEPOSITS					
Balance at June 30, 2010	227	-	3,040	-	3,267
Additions	605	-	1,469	-	2,074
Deductions	(216)	-	(1,841)	-	(2,057)
Balance at June 30, 2011	616	-	2,668	-	3,284
LOCAL TAX FUND					
Balance at June 30, 2010	-	-	-	-	-
Additions	-	-	-	6,229	6,229
Deductions	-	-	-	(1,294)	(1,294)
Balance at June 30, 2011	-	-	-	4,935	4,935
COUNTY TRANSPORTATION FUND					
Balance at June 30, 2010	11,617	-	-	110,983	122,600
Additions	7,820	-	-	174,878	182,698
Deductions	(11,589)	-	-	(176,725)	(188,314)
Balance at June 30, 2011	7,848	-	-	109,136	116,984
TOTALS - ALL AGENCY FUNDS					
Balance at June 30, 2010	11,844	332	3,040	110,983	126,199
Additions	8,425	-	1,469	181,107	191,001
Deletions	(11,805)	-	(1,841)	(178,019)	(191,665)
Balance at June 30, 2011	$ 8,464	$ 332	$ 2,668	$ 114,071	$ 125,535