SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEAR ENDED JUNE 30, 2012

State of South Carolina

Office of the State Auditor

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October 17, 2012

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 for the fiscal year ended June 30, 2012, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

RHGjr/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, 2012, which collectively comprise the Department's basic financial statements as listed in the 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, 2011 were audited by other auditors whose report dated June 22, 2012, 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 2 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, 2012, 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, 2012, 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, 2011, 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.

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The accompanying financial statements of the Association, which were audited by other auditors, report in Note 12 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 Association has accounted for the gain resulting from the adjustment of its debts in bankruptcy as an extraordinary item in its statement of activities.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 15, 2012 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 12 and 81 through 84 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 combining statement of changes in assets and liabilities – all agency funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining statement of changes in assets and liabilities – all agency funds is the responsibility of management and is derived from and relate directly to the underlying accounting records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Scott and Company LLC

Columbia, South Carolina
October 15, 2012

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, 2012 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 22, 2012. We refer readers to that report and our financial statements for more detailed information.

CASH FLOWS

During fiscal year 2012, after a cash shortage in fiscal year 2011, the South Carolina Department of Transportation (the "Department") experienced an increase in cash reserves, due primarily to a decrease in spending. The major source of state funding is derived from the motor fuel user fee on gasoline and diesel, of which the rate per gallon has not increased since 1987, and this revenue source increased slightly from 2011 to 2012. The other major revenue is federal reimbursement of eligible expenditures which also increased.

The management of the Department routinely reviews prior commitments and develops various revenue strategies to continue to provide a safe and efficient transportation system for the State of South Carolina (the "State"). The Department controls its expenditures by carefully managing the amount of construction projects executed, maintaining personnel vacancies, as well as, reducing non-essential purchases. Through aggressive management and control of current and future revenues and expenditures, management expects to maintain reasonable cash reserve levels for the foreseeable future.

FINANCIAL HIGHLIGHTS

DEPARTMENT-WIDE

Net Assets - The assets of the Department exceeded its liabilities at fiscal year ending June 30, 2012 by **$12.3** billion (presented as "net assets"). Of this amount, **$126.8** 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 **$10.5** million as of December 31, 2011, the close of its fiscal year.

Changes in Net Assets - The Department's total net assets increased by **$341.5** million, or 2.9% increase in fiscal year 2012. The major component of the net asset increase is **$29.3** 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 **$312.1** 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 decreased by **$177.0** million, **$186.9** million of which was a reduction in debt and interest payable as a result of the resolution of the component unit bankruptcy.

Capital Assets – Capital Assets, net of depreciation, which include infrastructure, were approximately **$12.93** billion at June 30, 2012 for the Department. Capital additions for the year, including **$29.3** million donated from the South Carolina Transportation Infrastructure Bank, totaled **$362.4** million. The carrying value of capital assets removed from the records this year was **$1.55** million. Capital assets of the component unit, net of depreciation, were approximately **$446** thousand at December 31, 2011 which is comprised of equipment.

Long-term Obligations - The Department's total long-term obligations decreased by **$46.5** million (**5.6%**) during the current fiscal year to **$774.4** million. This change is attributable to a net decrease in bonds payable of **$36.9** million, a net decrease in the amount due the South Carolina State Transportation Infrastructure Bank of **$22.5** million and other increases of **$12.9** million primarily due to the additional borrowings from the SCTIB.

FUND ACTIVITY

Governmental Funds - Fund Balances - As of the close of fiscal year 2012, the Department's governmental funds reported a combined ending fund balance of **$160.2** million, an increase of **$109.2** million in comparison with the prior year. Revenues exceeded expenditures by **$93.8** million. Overall agency expenditures were down **4.5%** from the previous year. In the current fiscal year, maintenance expenditures decreased **5.6%** over the previous year while capital expenditures decreased **3.93%**. Operating expenditures, excluding debt service decreased **0.77%,** debt service decreased **9.48%,** and allocations increased by **0.42%.** Overall revenues increased at **9.3%.** Federal revenues increased **10.52%** over last year; and motor fuel revenues were up **4.84%** from the previous year. Of this total amount, **$140.7** million represents the "committed fund balance" which has been committed 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 S*tatement 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 S*tatement 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 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, the Special Deposits Fund and the Local Tax Fund.

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

Proprietary Funds – These funds, also described as enterprise funds, are used to account for entity resources which are used to provide services to the public. These services are typically provided on a per charge basis. These services and activities mimic those activities of a commercial business entity. As previously noted, the Connector 2000 Association, Inc., is considered a proprietary function. The financial activities of this component unit are discretely presented using this fund type.

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, but not required, 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 **$12.3** billion at the close of business on June 30, 2012 (See **Table A-1** for a summary of net assets for fiscal years 2011-2012 and 2010-2011). The largest portion of the Department's net assets **(98.8%)** 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 are 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 2011	Governmental Activities 2012
Current Assets	$ 287.8	$ 348.1
Capital Assets	12,742.7	12,925.8
Other Assets	16.9	16.1
Total Assets	**13,047.4**	**13,290.0**
Current Liabilities	338.3	284.9
Non-current Liabilities	737.8	692.3
Total Liabilities	**1,076.1**	**977.2**
Net Assets:		
Net investments in capital assets	11,945.8	12,176.0
Restricted	10.0	10.0
Unrestricted	15.5	126.8
Total Net Assets	**11,971.3**	**12,312.8**
Total Liabilities & Net Assets	**$ 13,047.4**	**$ 13,290.0**

At June 30, 2012, 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 (**1.0% or $126.8 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 **$341.5** million, or **2.84**%. Approximately **$29.3** 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 2012, the Department's program expenditures exceeded program revenues by **$233.8** million. A breakdown of the **$1.444** billion in gross revenues reveals that motor fuel taxes, **$568.7** million represented **39.4**%, while federal highway and transit allocations and grants of **$801.20** million represented **55.5**% SIB asset donations of **29.3** million represented **2.0%**, and **3.1%** 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 2011-2012 with comparative figures for the prior year.

Table A-2

SCDOT Changes in Net Assets
(Expressed in Millions)

	Governmental Activities			
Revenues:	2011	% of Revenue	2012	% of Revenue
Program Revenues:				
Capital Grants and Contributions	$ 640.7	49%	$ 667.0	46%
Operating Grants and Contributions	109.4	8%	163.5	11%
Charges for Services	25.1	2%	37.4	3%
General Revenues:				
Motor Fuel Taxes	542.4	41%	568.7	39%
State Appropriations	0.1	0%	0.1	0%
Investment Earnings	2.0	0%	6.4	1%
Total Revenues	**1,319.7**	**100%**	**1,443.1**	**100%**
Expenses:				
Public Transportation	1,159.8		1,101.6	
Total Expenses	**1,159.8**		**1,101.6**	
Changes in Net Assets	**159.9**		**341.5**	
Net Assets, Beginning of Year	11,811.4		11,971.3	
Net Assets, End of Year	**$ 11,971.3**		**$ 12,312.8**	

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 **$160.2** million, an increase of **$109.2** million in comparison with the prior year. The increase is due to revenues exceeding expenditures because of a decrease in capital and program expenditures in the current year. **87.9**% of the total fund balances or **$140.7** million constitutes "committed" fund balance, which has been approved by the Board of Commissioners for spending in the coming years. A portion of fund balance is "restricted" to indicate that it is not available for new spending because it has already been restricted to pay the South Carolina Infrastructure Bank (**$10** million). The remainder of fund balance is "non-spendable" (1) for inventories and pre-paid expenses (**$5.50** million), (2) for long-term receivables (**$3.2** 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 certain earmarked 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 0.89% 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, 2012, amounts to **$16.1 billion**, less accumulated depreciation of **$3.1 billion**, leaving a net book value of **$12.9** 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. Costs or estimated costs 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, 2012 and June 30, 2011.

Table A-3

SCDOT Capital Assets
(expressed in millions)

	Primary Government	
	2011	2012
Land	$ 3.7	$ 3.4
Buildings and Improvements	82.8	84.0
Furniture and Equipment	219.4	235.4
Infrastructure		
Right of Way	1,403.8	1,425.1
Roads	9,077.9	9,779.1
Bridges	2,182.8	2,382.2
Construction in Progress	2,773.9	2,193.1
Total Cost	$ 15,744.3	$ 16,102.3
Less Accumulated Depreciation	3,001.6	3,176.6
Net Capital Assets	**$ 12,742.7**	**$ 12,925.7**

The total increase in the Department's investment in capital assets for the current fiscal year was about 1.5**%** in terms of net book value. However, actual expenditures to purchase or construct capital assets were **$333.2** million for the year. **$29.3** million in infrastructure assets were constructed by and donated to the Department by the South Carolina State Transportation Infrastructure Bank. Depreciation charges for the year totaled **$177.9** 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 **$46.51** million during the current fiscal year to **$774.43** million. The net decrease is primarily attributed to the payment of principal on outstanding debt of **$39.63** million. Other long-term debt includes **$316.2** 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 **$24.7** million (net increase for the year of **$639 thousand**). Due within one year for all long-term obligations is **$82.2** 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 Moving Ahead for Progress in the 21st Century Act (P.L. 112-141) (MAP-21), was signed into law by President Obama on July 6, 2012. This legislation will fund surface transportation federal programs at over $105 billion for federal fiscal years (FY) 2013 and 2014. **This program begins October 1, 2012** with an estimated federal amount for South Carolina of $609 million per year. This funding level reflects a $31.0 million (4.85%) decrease of federal obligation authority for the federal fiscal period going forward. The department had previously estimated a conservative decrease of 25-30% before this legislation was enacted. MAP-21 is a milestone for the U.S. economy and the national surface transportation program. The program provides two federal fiscal years of funding stability for the Department. In summary MAP-21 creates a streamlined and performance-based surface transportation program and builds on many of the current highway, transit, bike, and pedestrian programs. It is expected to transform the policy and programmatic framework for investments to guide the system's growth and development. MAP-21 will impact state fiscal years FY 2013, FY2014 and part of FY2015 until it is either reauthorized or replaced by alternative legislation.

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. Increased 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 2011 or 2012, but operated solely on the motor fuel user taxes collected.

The Department received $640 million in federal obligation authority and state match in fiscal year 2012. Conservatively, the Department had estimated no increase in the federal program over the five year period and had planned 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, but has seen a slight leveling off in 2012. 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 to remain unchanged in fiscal year 2011-2012. The Department's motor fuel user fees increased in FY 12 by approximately 0.7%. No increase in motor fuel revenues have been projected for the 2012-2013 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 slight growth in revenues. Since 1999 construction costs have risen 91%. Various legislative increases, such as retirement, insurance contribution, and personal services also significantly deplete 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 requirements on various federal programs require the Department to 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 ARRA funds 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, 2012

(In Thousands)

	Primary Entity Governmental Activities	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents	$ 144,943	$ 617
Invested securities lending collateral	275	-
Receivables:		
Federal government	95,330	-
State agencies	95,009	-
Local governments	4,286	-
Other entities-net of allowances	2,378	-
Accrued interest receivable	420	-
Prepaid items	2,121	55
Inventories	3,376	250
Total current assets	348,138	922
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	10,564	3,681
Investments	-	1,325
Total restricted assets	10,564	5,006
Receivables, net of current portion:		
Local governments	3,023	-
Other entities	131	-
Other assets	771	-
Non-depreciable capital assets	3,622,009	-
Capital assets, net of accumulated depreciation	9,303,800	446
Interest in license agreement, net of accumulated amortization	-	141,358
Bond issuance costs, net of accumulated amortization	1,597	239
Total non-current assets	12,941,895	147,049
TOTAL ASSETS	$ 13,290,033	$ 147,971

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2012

(In Thousands)

LIABILITIES AND NET ASSETS	Primary Entity Governmental Activities	Component Unit
Liabilities:		
Current liabilities:		
Bonds payable	$ 43,155	$ 2,113
Accrued interest payable	3,380	-
Accounts payable	124,568	535
Transponder deposits	-	17
Intergovernmental payable:		
Due to State agency	23,543	20
Due to Local government	24	-
Contract retainages payable	578	-
Accrued payroll and related liabilities	20,100	-
Due to Agency Fund - County Transportation Program	11,925	-
Due to General Fund of the State	88	-
Capital lease payable	44	-
Accrued compensated absences	17,587	-
Deferred revenue	39,025	252
Securities lending collateral	928	-
Total current liabilities	284,945	2,937
Noncurrent liabilities:		
Bonds payable, including unamortized premium and net of current portion and unamortized discounts and deferred loss on refunding of bonds	390,111	155,563
Intergovernmental payable:		
Due to State agency, net of current portion	294,860	-
Due to Local government	24	-
Capital lease payable	164	-
Accrued compensated absences, net of current portion	7,089	-
Total noncurrent liabilities	692,248	155,563
TOTAL LIABILITIES	977,193	158,500
Net assets:		
Net investment in capital assets	12,175,989	446
Restricted:		
State infrastructure agreement	10,000	-
State agency payable	-	219
Other	-	259
Unrestricted:		
Balance (deficit)	126,851	(11,453)
TOTAL NET ASSETS (DEFICIT)	12,312,840	(10,529)
TOTAL LIABILITIES AND NET ASSETS	$ 13,290,033	$ 147,971

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

(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	$ 1,075,479	$ 37,402	$ 163,528	$ 667,001	$ (207,548)	$ -
Unallocated Interest Expense	26,213	-	-	-	(26,213)	-
Total primary entity	1,101,692	37,402	163,528	667,001	(233,761)	$ -
Component unit:						
Toll operations	$ 15,773	$ 5,782	$ -	$ -	-	(9,991)
Totals					(233,761)	(9,991)
General revenues:						
State appropriations-unrestricted					57	-
Motor fuel taxes and other fees					568,742	-
Interest/Investment Income					6,434	117
Total general revenues					575,233	117
Changes in net assets					341,472	(9,874)
Extraordinary item:						
Extraordinary gain on adjustment of debts from bankruptcy					-	186,847
Net assets (deficit) - Beginning					11,971,368	(187,502)
Net assets (deficit) - Ending					$ 12,312,840	$ (10,529)

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2012

(In Thousands)

ASSETS		
Current assets:		
Cash and cash equivalents	$	144,943
Invested securities lending collateral		275
Receivables:		
Federal government		95,330
State agencies		95,009
Local governments		4,286
Other entities		2,378
Accrued interest receivable		420
Prepaid items		2,121
Inventories		3,376
Total current assets		348,138
Non-current assets:		
Restricted assets:		
Cash and cash equivalents		10,564
Total restricted assets		10,564
Receivables, net of current portion		
Local governments		3,023
Other entities		131
Other assets		771
Total non-current assets		14,489
TOTAL ASSETS	$	362,627
LIABILITIES AND FUND BALANCE		
Liabilities:		
Current liabilities:		
Accounts payable	$	124,568
Intergovernmental payables:		
Due to State agencies		2,176
Contract retainages payable		578
Accrued payroll and related liabilities		20,100
Due to Agency Fund - County Transportation Program		11,925
Due to General Fund of the State		88
Deferred revenue		42,048
Securities lending collateral		928
TOTAL LIABILITIES		202,411
Fund Balance:		
Nonspendable		
Inventories and prepaid items		5,497
Long-term receivables		3,154
Other assets		771
Restricted		10,000
Committed		140,794
TOTAL FUND BALANCE		160,216
TOTAL LIABILITIES AND FUND BALANCE	$	362,627

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

(In Thousands)

FUND BALANCE - GOVERNMENTAL FUND		$ 160,216
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	12,925,809	
Bond issuance costs, net of accumulated amortization	1,597	12,927,406
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		3,023
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	(433,266)	
Intergovernmental payable:		
Due to State agency	(316,227)	
Notes Payable	(48)	
Capital lease payable	(208)	
Accrued compensated absences	(24,676)	
Accrued interest payable	(3,380)	(777,805)
NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 12,312,840

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, 2012

(In Thousands)

REVENUES:		
Motor fuel taxes	$	568,742
State appropriations		57
Federal grants		801,233
Interest/investment income		6,434
Sales of goods and fees for services		10,085
Other Revenues		8,723
Participation agreement/project revenues		18,868
TOTAL REVENUES		1,414,142
EXPENDITURES:		
Current:		
General administration		51,568
Engineering		60,563
Toll facilities		3,347
Public transportation		27,474
Highway maintenance		648,271
Capital outlay:		
Rights of way land		12,999
Construction in progress		
Infrastructure - road and bridge network		302,530
Other		1,333
Equipment and furniture		9,239
Vehicles		7,084
Debt service:		
Principal		62,224
Interest		29,370
Allocations to other entities:		
State agency - state infrastructure bank		26,100
Agency Fund - County Transportation Program		78,233
TOTAL EXPENDITURES		1,320,335
EXCESS OF REVENUES OVER EXPENDITURES		93,807
OTHER FINANCING SOURCES:		
Proceeds from intergovernmental payable:		
Due to State Agency - SIB		12,000
Due to State Agency - Energy Note		72
Capital Lease		230
Proceeds from sale of capital assets		3,147
TOTAL OTHER FINANCING SOURCES		15,449
NET CHANGE IN FUND BALANCE		109,256
FUND BALANCE, beginning of year		50,960
FUND BALANCE, end of year	$	160,216

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, 2012

(In Thousands)

INCREASE IN FUND BALANCE - GOVERNMENTAL FUND	$ 109,256
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	333,185
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	29,251
Book value of donated capital assets are reported in the statement of activities and are not reported in the governmental fund	45
Depreciation of capital assets is reported as expenses in the statement of activities	(177,901)
Deferred revenues are reported on a modified accrual basis in the governmental fund and on accrual basis in the statement of activities	(281)
Amortization of the costs of issuance is reported as expenses in the statement of activities	(192)
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	3,157
Amortization of premium on bonds is reported as a reduction of expenses in the statement of activities	(1,357)
Proceeds from intergovernmental debt financing are reported as other financing sources in the governmental fund and are reported as an increase in liabilities in the statement of net assets	(12,302)
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	39,635
Intergovernmental payable:	
Due to State agency	22,543
Capital leases	22
Due to local government	24
Increases in accrued compensated absences is reported as expense in the statement of activities	(639)
Costs less accumulated depreciation of capital assets disposed of are reported as expenses in the statement of activities	(1,555)
INCREASE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	$ 341,472

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

(In Thousands)

		Agency Funds
ASSETS:		
Cash and cash equivalents	$	123,544
Accrued interest receivable		497
Due from State Highway Fund		11,925
Total assets		135,966
LIABILITIES:		
Accounts payable / Other Liabilities		11,677
Deposits for rights of way		332
Special deposits and bonds		4,116
Funds held for counties		119,841
Total liabilities	$	135,966

See accompanying Notes to Financial Statements.

NOTE 1. CASH FLOWS

During fiscal year 2012, after a cash shortage in fiscal year 2011, the South Carolina Department of Transportation (the "Department") experienced an increase in cash reserves, due primarily to a decrease in spending. The major source of state funding is derived from the motor fuel user fee on gasoline and diesel, of which the rate per gallon has not increased since 1987, and this revenue source increased slightly from 2011 to 2012. The other major revenue is federal reimbursement of eligible expenditures which also increased.

The management of the Department routinely reviews prior commitments and develops various revenue strategies to continue to provide a safe and efficient transportation system for the State of South Carolina (the "State"). The Department controls its expenditures by carefully managing the amount of construction projects executed, maintaining personnel vacancies, as well as, reducing non-essential purchases. Through aggressive management and control of current and future revenues and expenditures, management expects to maintain reasonable cash reserve levels for the foreseeable future.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Department was established pursuant to Section 57-1-20 of the Code of Laws of South Carolina as an administrative agency of 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 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 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 unit of another entity and the Association is a component unit of the Department under Statements 14 and 39 of the Governmental Accounting Standards Board ("GASB"). 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 16 mile fully controlled access toll highway (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.

From February 1998 through April 20, 2011, the Association's operations were governed by a license agreement (the "Original License Agreement") with the Department that granted the Association rights and obligations to finance, acquire, construct and operate Southern Connector and to construct with financing provided by the Department, the South Carolina Highway 153 Extension (the "SC 153 Extension") (collectively, the "Projects"). Toll road revenue bonds (the "1998 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 "Original 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, 2011.

The Association's toll revenues were insufficient to allow it to pay its 1998 bond obligations and certain amounts owed to the Department when due, and the Association filed a petition for protection under Chapter 9 of the Untied Stated Bankruptcy Code on June 24, 2010 (the "Bankruptcy Petition"). On April 1, 2011, the United States Bankruptcy Court for the State of South Carolina (the "Bankruptcy Court") confirmed the Association's First Amended Plan for Adjustment of Debts, the Addendum to First Amended Plan for Adjustment of Debts, and the Debtor's Modification to the First Amended Plan for Adjustment of Debts (collectively, the "Debt Adjustment Plan").The Debt Adjustment Plan encompasses a First Amended and Restated Master Indentures of Trust (the "Amended Trust Indenture") and a First Amendment to the License Agreement between the Association and the Department (the Original License Agreement, as amended, the "Revised License Agreement"). The Debt Adjustment Plan, the Amended Trust Indenture, and the Revised License Agreement became effective April 21, 2011. The Association's operations since that date are governed by the Revised License Agreement with the Department.

The basic financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). For the purpose of applying GAAP, 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 position 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 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.

Non-operating revenues primarily include interest earned on cash equivalents and investments and realized and unrealized gains on investments. Non-operating expenses primarily include (a) amortization of (i) the Association's intangible interest in its License Agreement with the Department, and (ii) bond issuance costs, (b) interest expense on the Association's debt, and (c) realized and unrealized losses on investments.

As required by GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies,* the Association has accounted for the gain resulting from the adjustment of its liabilities in bankruptcy as an extraordinary item in its Statement of Revenues, Expenses and Changes in Net Position.

During 2011, the Association implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* GASB Statement No. 60 defines a *service concession arrangement* (an "SCA") as an arrangement between a transferor government and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration, and the operator collects and is compensated by fees from third parties. The Association's License Agreement discussed above and in greater detail in the notes constitutes a SCA between the Department as transferor and the Association as operator. The provisions of GASB Statement No. 60 require that an operator account for its rights under the SCA as an intangible asset that is amortized over the term of the SCA in a systematic and rational manner. The Association has been accounting for its interest in its License Agreement with the Department in this manner since its first financial activity, so the implementation of GASB Statement No. 60 had no material effect on the presentation of its 2011 financial statements.

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 and Amended 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 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

Both the Association's Original Trust Indenture and Amended Trust Indenture contain provisions requiring all bond proceeds and toll revenues received by the Association be held in trust to be expended in accordance with the respective indenture guidelines.

Prior to the April 21, 2011 effective date of the Association's Debt Adjustment Plan, the Association's investments were held in various Trust Fund Accounts (the "1998 Trust Fund Accounts") that were established in accordance with that Indenture. The Original Trust Indenture required all monies held in trust that were not insured by the Federal Deposit Insurance Corporation ("FDIC") were to 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.

Beginning with the April 21, 2011, the effective date of the Association's Debt Adjustment Plan, the Association's investments are governed by the Amended Trust Indenture. New Trust Fund Accounts (the"2011 Trust Fund Accounts") were opened, and monies were transferred into these accounts from the 1998 Trust Fund Accounts. Monies in the 2011 Trust Fund Accounts are expended in accordance with Amended Trust Indenture guidelines. All monies held in the 2011 Trust Fund Accounts that are not insured by the FDIC must be secured by and/or invested in investment securities as defined in the Amended 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.

The Association's investments are stated at fair market value (quoted 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 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.

Prior to the change in the statewide depreciation policy at July 1, 2011, depreciation was computed using the straight-line method over the estimated useful lives of the assets. A full year of depreciation was taken in the year the asset is placed in service and no depreciation was taken in the year of disposition. Effective July 1, 2011 Depreciation is computed using a full month's worth of depreciation booked upon the initial acquisition of the asset. A full month of depreciation will be booked during the life of the asset each month and this will continue until retirement of the asset or until full depreciation of that asset has occurred. All changes in the calculation will be applied prospectively against the ending balances from July 1, 2011. This new methodology will be computed based upon the remaining useful life of the subject asset.

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 Equipment and furniture	Any costing more than $5,000	5 – 12

Capital Asset – Component Unit

All capital and intangible assets, including the Association's intangible interest in its 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 four and ten years. The Association's intangible interest in its 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 ("FIFO").

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, 2012.

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, the current and non-current portions of bonds payable are recorded as liabilities in the accompanying Statement of Net Position. Bond issuance costs are deferred and amortized over the terms of the bonds using the straight-line method. Bond issuance costs are recorded as other 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, 2012.

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, 2011, the Association had no arbitrage liability.

Interest in License Agreement with the Department

Prior to the April 21, 2011 effective date of the Association's Debt Adjustment Plan, the Association operated under the terms of its Original License Agreement with the Department. Beginning April 21, 2011, the Association's operations are governed by the Revised License Agreement with the Department, which modifies or amends certain provisions of the Original License Agreement. Any terms of the Original License Agreement that were not amended or modified by the Revised License Agreement remain in effect.

In the Original License Agreement, the Department granted 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 provided that the Association finance and construct the Southern Connector, and with financing provided by the Department, construct the SC 153 Extension. However, the Original License Agreement specified that 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 Original License Agreement contained provisions requiring the Association to pay a monthly license fee to the Department for costs of maintaining the Southern Connector and to pay for the costs of repair, renewal or replacement of the Southern Connector. In addition, the Original License Agreement granted the Department the right to revise toll rates within prescribed parameters.

The Revised License Agreement assigns all responsibility for the maintenance, repair, renewal and replacement of the Southern Connector highway to the Department and requires the Association to deposit certain toll revenues into a 2011 Renewal and Replacement Fund (a 2011 Trust Fund Account) from which periodic payments will be made to the Department as reimbursement of its costs of maintaining and repairing the Southern Connector. The Revised License Agreement eliminates the Association's requirement to pay license fees to the Department. In conjunction with the Amended Trust Indentures, the Revised License Agreement establishes a new process for setting toll rates and limits the Department's role in that toll-setting process. The Department retains its fee simple title to the Southern Connector and the SC 153 Extension.

The Association's interest in its License Agreement with the Department constitutes a service concession arrangement as defined above that is accounted for as 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 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 toll road operations, the Association began amortizing its interest in the 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

Both the Original and Amended Trust Indentures contain certain provisions to establish certain Fund and Accounts (the "1998 Funds and Accounts" and the "2011 Funds and Accounts", respectively) to be held by the Trustee. The Indentures' terms define the amounts that may be deposited into the Funds and Accounts. The various Funds and Accounts established and the related restrictions imposed by the Original and Amended Trust Indentures are described below.

<u>*Original Trust Indenture Funds, Accounts, and Restrictions (effective prior to April 21, 2011)*</u>

Certain proceeds of the Association's 1998 bonds were restricted by applicable bond covenants for construction, payment of operating and other expenses, or were set aside as reserves for repayment of the 1998 bonds. Certain other assets were accumulated and restricted on a monthly basis in accordance with the Original Trust Indenture for the purposes of paying debt service on the 1998 Bonds and for the purpose of maintaining the 1998 reserve funds at the required levels.

The Original Trust Indenture provisions govern payments from the restricted accounts by limiting the types of expenses that were permitted to be paid from those restricted accounts. The funds and accounts were established as follows:

The 1998 Construction Fund was established for purposes of holding bond proceeds and investment earnings, which were used to pay the costs of constructing the Southern Connector.

The 1998 Revenue Fund was established to hold all revenues from toll road operations. The Original Trust Indenture provided that all revenues from the operation of the Southern Connector be delivered by the Association to the Trustee immediately upon receipt by, or on behalf of, the Association and be deposited by the Trustee into the 1998 Revenue Fund.

The Trustee was obligated to transfer money on a monthly basis from the 1998 Revenue Fund to the other various funds established under the Original Trust Indenture in the priority listed below ("the Flow of Funds")

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

2. The Association was required to transfer amounts to the 1998 Rebate Fund so that the amounts deposited equal the required amounts (if any).

3. The Trustee was required to transfer to the 1998 Senior Bonds Debt Service Account amounts which, when added to other amounts in the 1998 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 1998 Senior Bonds on the next interest payment date (within the next six months) for such 1998 Series; and

   b. Any principal installments to become due and payable on any series of outstanding 1998 Senior Bonds on or before the next date (within the next twelve months) on which such principal installment is payable.

4. If the 1998 Senior Bonds Debt Service Reserve Account contained less than the 1998 Senior Bonds Debt Service Reserve Account requirement, the Trustee was required to transfer into the 1998 Senior Bonds Debt Service Reserve Account an amount equal to 1/24 of the 1998 Senior Bonds Debt Service Reserve Account Requirement or the amount to attain the 1998 Senior Bonds Debt Service Reserve Account Requirement, whichever is less. The transfers shall continue until the 1998 Senior Bonds Debt Service Reserve Account contains the 1998 Senior Bonds Debt Service Reserve Account Requirement.

5. The Trustee was required to transfer to the 1998 Subordinate Bonds Debt Service Account amounts which, when added to other amounts in the 1998 Subordinate Bonds Debt Service Account, and available for such purposes, would provide for accumulation, in substantially equal monthly installments, or otherwise as 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 1998 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 1998 Subordinate Bonds on or before the next date (within the next twelve months) on which such principal installment was payable.

6. If the 1998 Subordinate Bonds Debt Service Reserve Account contains less than the 1998 Subordinate Bonds Debt Service Reserve Account Requirement, the Trustee was required to transfer into the 1998 Subordinate Bonds Debt Service Reserve Account, an amount equal to 1/60 of the 1998 Subordinate Bonds Debt service Reserve Account Requirement or the amount needed to attain the 1998 Subordinate Bonds Debt Service Reserve Account Requirement, whichever is less. All transfers were to continue until the 1998 Subordinate Bonds Debt Service Reserve Account contained the 1998 Subordinate Bonds Debt Service Reserve Account Requirement.

7. After the date of Final Completion of the Southern Connector Project, the Trustee was required to deposit into the 1998 Renewal and Replacement Fund the amounts included in the annual budget of Association, which were required pursuant to the Renewal and Replacement Plan then in effect under the Original License Agreement.

8. The Trustee was required to 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 was required to 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 1998 Revenue Fund was required to 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 was not a 1998 Senior Bond or 1998 Subordinate Bond, at the time and in the amount provided for in such instrument.
11. The Trustee was required to transfer any money remaining in the 1998 Revenue Fund at the end of any fiscal year to the 1998 Program Fund.

The 1998 Debt Service Fund, which consisted of the 1998 Senior Bonds Debt Service Account and the 1998 Subordinate Bonds Debt Service Account, was established as a sinking fund for the payment of interest and principal on the 1998 Bonds.

The 1998 Debt Service Reserve Fund, which consisted of the 1998 Senior Bonds Debt Service Reserve Account and the 1998 Subordinate Bonds Debt Service Reserve Account, was established for the purpose of paying 1998 Bond interest and maturing principal in the event that monies held in the 1998 Debt Service Fund and other 1998 funds would be insufficient for such purposes.

The 1998 Renewal and Replacement Fund ("1998 R&R 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. The 1998 R&R Fund was not a part of the 1998 Trust Estate.

The 1998 Program Fund, which consisted of the 1998 Retained Balance and the 1998 General Account was established to hold monies in reserve to pay debt service on 1998 Bonds if monies in other accounts *were* insufficient for such purpose and to pay other fees and costs as defined in the Original Trust Indenture.

The 1998 Rebate Fund was *established* for the purpose of holding and paying arbitrage investment earnings to the United States Treasury. The 1998 Rebate Fund was not a part of the 1998 Trust Estate.

Amended Trust Indenture Funds, Accounts, and Restrictions (effective April 21, 2011)

The Amended Trust Indenture established new 2011 Funds and Accounts and required the transfer of amounts remaining in the 1998 Funds and Accounts to certain of the 2011 Funds and Accounts. The Amended Trust Indenture directs the deposit of all revenues and other deposits in the 2011 Funds and Accounts, and restricts the payments from the 2011 Funds and Accounts. The funds and accounts established are as follows.

The 2011 Cost of Issuance Fund was established to pay or reimburse the Association for costs of implementing the Debt Adjustment Plan. Upon issuance of the 2011 Bonds, monies remaining in the 1998 Funds and Accounts were transferred into this fund. Costs of implementing the Debt Adjustment Plan and issuing the 2011 Bonds were paid from this fund in accordance with the Amended Trust Indenture. Once such costs are paid, the 2011 Cost of Issuance Fund will be closed and the remaining monies in the fund will be transferred to the 2011 A Bonds Debt Service Reserve Account in accordance with the terms of the Amended Trust Indenture.

The 2011 Revenue Fund was established to hold all revenues from toll road operations. The Amended Trust Indenture provides that all revenues received from the operation of the Southern Connector after March 31, 2011, shall be delivered to the Trustee immediately upon receipt by, or on behalf of, the Association and shall be deposited into the 2011 Revenue Fund.

The order and priority of permissible payments from the 2011 Revenue Fund (the "New Waterfall") is as follows:

Whether or not an event of default has occurred under the Amended Trust Indenture, the Trustee may withdraw its fees and expenses from the 2011 Revenue Fund from time to time, and is obligated to notify the Association of such fees and expenses withdrawn. Thereafter, the Trustee is obligated to transfer monies from the 2011 Revenue Fund for the following purposes in the priority listed below:

1. Operating costs budget for the next succeeding month shall be distributed to the Association. All amounts remaining in the 2011 Revenue Fund (other than proceeds from liability or casualty insurance, condemnation awards and loans) after distribution of Trustee fees and costs and Association operating costs are deemed to be Distributable Cash. On the business day prior to each 2011 Bond payment date, the Trustee shall transfer Distributable Cash as follows:
2. The Trustee will deposit into the 2011 Renewal and Replacement fund (the"2011 R&R Fund"):
   i. or 2011 bond payment dates on or before January, 1, 2016, an amount equal to 5.0% of the amount of Distributable Cash and,
   ii. or 2011 Bond payment dates after January 1, 2016, an amount equal to 2.5% of the amount of Distributable Cash.
3. The Trustee shall transfer to the 2011 Senior Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Senior Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Senior Bonds required to be paid on such 2011 Bond payment date, including any amounts representing Arrearages as defined in the Amended Trust Indentures on the 2011 Senior Bonds from earlier 2011 Bond payment dates.

   The Trustee shall deposit into the 2011 R&R Fund:
   i. for 2011 Bond payment dates on or before January 1, 2016, an amount equal to 0.0% of the amount of Distributable Cash and,
   ii. for 2011 Bond payment dates after January 1, 2016, an amount not to exceed 2.5% of the amount of Distributable Cash.
4. If any Account in the 2011 Debt Service Reserve Fund contains less than the 2011 Debt Service Reserve Fund Requirement for such Account, the Trustee shall transfer into such Account an amount equal to the amount needed to restore the balance in such Account to the 2011 Debt Service Reserve Fund Requirement for such Account.
5. The Trustee shall transfer to the 2011 Senior Subordinate Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Senior Subordinate Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Senior Subordinate Bonds required to be paid on such 2011 Bond payment date, including any amounts representing Arrearages as defined in the

Amended Trust Indenture on the 2011 Senior Subordinate Bonds from earlier 2011 Bond payment dates.

6. The Trustee shall transfer to the 2011 R&R Fund an amount not to exceed 2.5% of the amount of Distributable Cash.
7. The Trustee shall transfer to the 2011 Junior Subordinate Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Junior Subordinate Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Junior Subordinate Bonds required to be paid on such 2011 Bond payment date, including any amount representing Arrearages as defined in the Amended Trust Indenture on the 2011 Junior Subordinate Bonds from earlier 2011 "Bond payment dates.
8. The Trustee will deposit into the 2011 R&R Fund an amount not to exceed 2.5% of the amount of Distributable Cash.

Any Distributable Cash remaining after making the distributions listed above ("Excess net Revenues") will be deposited into the Extraordinary Prepayment Fund to be used (if the amount on deposit in the 2011 Extraordinary Prepayment Fund exceeds $50,000) towards the repayment of the 2011 Senior Bonds in accordance with provisions of the Amended Trust Indenture.

The Amended Trust Indenture specifies that nonpayment of amounts to the 2011 R&R Fund due to the insufficiency of Distributable Cash will not result in a default under the Revised License Agreement or the Amended Trust Indentures, and shall not be added to the R&R Fund deposits for future 2011 Bond payment dates.

The 2011 *Debt Service Fund*, which consists of the 2011 Senior Bonds Debt Service Account, the 2011 Senior Subordinate Bonds Debt Service Account, and the 2011 Junior Subordinate Bonds Debt Service Account, was established for the payment of debt service on the 2011 Bonds. Amounts in the 2011 Senior Bonds Debt Service Account, the 2011 Senior Subordinate Bonds Debt Service Account, and the 2011 Junior Subordinate Bonds Debt Service Account may only be applied to pay debt service on 2011 Bonds of the same tier.

The 2011 *Debt Service Reserve Fund,* which consists of the 2011 Senior Bonds Debt Service Reserve Account, the 2011 Senior Subordinate Bonds Debt Service Reserve Account and the 2011 Junior Subordinate Bonds Debt Service Reserve Account, was established to pay shortfall in debt service on the 2011A Bonds initially; and once all 2011A Bonds have been redeemed, on the 2011B Bonds; and once all 2011B Bonds have been redeemed, on the 2011C Bonds. The amended Trust Indentures contains provisions allowing transfers from Accounts of the 2011 Debt Service Reserve Fund to the corresponding Accounts of the 2011 Debt Service Fund of amounts needed to pay debt service on the respective tier of 2011 Bonds or to fully pay such tier of 2011 bond when prescribed conditions have been met. Minimum balances for each of the Accounts of the 2011 Debt Service Reserve Fund are determined in accordance with terms prescribed in the Amended Trust Indenture. If any debt service payments are made from any 2011 Debt Service Reserve Fund Account, the Amended Trust Indentures requires that the minimum balance of such Account be restored before any debt service payments made be made in respect of the 2011B or 2011C Bonds. Amounts in excess of the minimum balance requirement for any 2011 Debt Service Reserve Fund Account are transferred to the 2011 Extraordinary Repayment fund. The Amended Trust Indenture describes circumstances in which amounts in a 2011 Debt Service Reserve Account will be transferred to the 2011 Debt Service Reserve Account of a subordinate tier of 2011 Bonds. If such transfers are made, the minimum balance requirement for the recipient 2011 Debt Service Reserve Account will be reset.

The 2011 R&R fund was established to reimburse the Department to the extent of available fund for Highway Maintenance Costs of the Southern Connector, as provided in the Revised License Agreement. The Trustee shall transfer amounts from the 2011 Revenue fund to the R&R Fund on or before each 2011 Bond payment date as described above in the New Waterfall. The 2011 R&"R Fund is not a part of the 2011 Trust Estate.

The 2011 *Extraordinary Prepayment Fund* was established to make mandatory prepayments of the 2011 Bonds in accordance with the Amended Trust Indenture. The 2011 Extraordinary Prepayment Fund will receive transfers from the 2011 Revenue Fund and/or the 2011 Debt Service Reserve Fund, and shall apply amounts to the Extraordinary Mandatory Prepayment of the Series 2011 Bonds in accordance with the terms of the Amended Trust Indenture.

The 2011 *Rebate Fund* was established for the purpose of holding and paying arbitrage investment earnings to the U.S. Treasury. As a result of investing tax exempt bond proceeds at rates of return not exceeding the maximum amount that is permitted under applicable tax code, at December 31, 2011, there were no funds on deposit in this Fund. The 2011 Rebate Fund is not a part of the 2011 Trust Estate.

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, 2012. 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, 2011, 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, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the basic 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 net of related debt".

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 net of related debt".

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, 2011, 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.

The Department pre-defines the use of committed fund balance with two key actions. 1) The Commission submits a budget to the governor, the budget, in some revised form, is later approved by the legislature and governor, which generally governs the purpose and use of departmental funds and resources. 2) The Commission also produces and approves, following public comment, the Statewide Transportation Improvement Plan ("STIP") which further prioritizes the use of Departmental funds and resources for the following six years. Amendments to either the annual budget or the STIP require formal submission to the State Budget Office or to the Commission respectively.

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	$ 144,943	Deposits held by State Treasurer	$ 279,051
Restricted noncurrent assets:			
Cash and cash equivalents	10,564		
Fiduciary - Agency Funds			
Cash and cash equivalents	123,544		
Total Primary Entity	279,051		279,051
Component Unit			
Unrestricted current assets:			
Cash and cash equivalents	617		
Restricted current assets:			
Cash and cash equivalents	3,681	Bank Deposits	617
Restricted noncurrent assets:			
Investments	1,325	Investments	5,006
Total component unit	5,623		5,623
TOTAL	$ 284,674		$ 284,674

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 of the State of South Carolina.

Cash and cash equivalents reported include an unrealized gain of $3.6 million for the governmental funds and an unrealized loss of $5.6 thousand for the fiduciary funds as of June 30, 2012 arising from changes in the fair value. Interest/investment income includes an unrealized gain of $3.6 million for the year ended June 30, 2012.

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, 2012. At June 30, 2012, 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, 2012, the State experienced realized losses on its securities lending transactions from substantial valuation fluctuations in the collateral provided by a borrower. The Department's proportionate share was $652,705 thousand of this loss that the State experienced. Additional losses are expected in FY2013.

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, 2012, 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, 2012, 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 are the Department's proportionate share of the invested securities lending collateral.

COMPONENT UNIT:

Deposits

The Association's Amended Trust Indenture requires that all trust 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: direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States of America or certain of its agencies; repurchase agreements with underlying securities that are obligations of, or guaranteed by, the United States of America or certain of its agencies; certain obligations of, or guaranteed by, any state within the territorial United States of America; agreements that provide for the forward delivery of any securities previously described; investments in money market mutual funds rated "AAAm", "AAm", "AAAmG" or better; unsecured investments agreements with any bank or financial institution, the unsecured debt or counterparty rating of which is "investment grade" rated as of the date of acquisition; and any other obligation which, at the date of acquisition, is rated by a rating agency in one of the two highest rating categories for long-term obligations or in the highest rating category for short-term obligations.

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 Amended Trust Indenture (as noted earlier) which are consistent with federal and South Carolina law. As of December 31, 2011 none of the Association's bank balances of approximately $574 thousand (with a carrying value of $617 thousand), were uninsured and uncollateralized. None of the deposits noted above were held by 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 investment requirements outlined in the Association's Amended Trust Indenture (as noted earlier) which are consistent with federal and South Carolina Law.

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 Association's Amended Trust Indenture (as noted earlier). As of December 31, 2011, 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 Amended Trust Indenture (as noted earlier) which are consistent with federal and South Carolina Law.

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 (agency securities) to the Trustee.

None of the investments noted above were held by the South Carolina State Treasurer. As of December 31, 2011, the Association had the following investments as defined by GASB:

(In Thousands)

Investment Type	Credit Rating^		Fair Value	Percentage of Total Investment	Weighted Average maturity (In Years)
FNMA Securities*	NR	$	1,325	26.5%	20.414
First American Prime Obligation Fund	AAAm, Aaa-mf, AAAmmf		3,681	73.5%	0.211
Total Fair value/weighted average maturity		$	5,006		5.560

^ - If available, credit ratings are from Standard & Poor's, Moodys Investors Service, and Fitch Ratings.

* - Fannie Mae guaranteed REMIC pass-through certificates.

NR - Not Rated

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 2011-2012 Appropriation Act. The Department received $57 thousand in General Fund Appropriations. There are two earmarked funds appropriated for specific purposes. The appropriations have a carry-forward provision. In fiscal year 2012, the Department expended $2.7 million of the $3.9 million available from prior years carry-forward. The unexpended balance of $1.2 million for the second of these two funds is carried forward into the next fiscal year.

NOTE 5. RECEIVABLES:

PRIMARY ENTITY:

The following schedule summarizes receivables at June 30, 2012, 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	$ 95,330	$ -	$ 95,330
	95,330	-	95,330
State Agencies:			
South Carolina Department of Motor Vehicles			
License Fees	1,218	-	1,218
South Carolina Department of Revenue			
Gasoline and special fuels taxes	93,746	-	93,746
Various Agencies:			
Sales of good and services	45	-	45
	95,009	-	95,009
Local Governments:			
Long-term contracts for construction projects	1,596	3,023	4,619
Participation agreements	2,690	-	2,690
	4,286	3,023	7,309
Other:			
Long-term contracts for construction projects	709	131	840
Participation agreements	25	-	25
Sales of goods and services	2,585	-	2,585
Less: allowance for doubtful accounts	(941)	-	(941)
	2,378	131	2,509
Total Receivables	$ 197,003	$ 3,154	$ 200,157

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.

NOTE 6. INVENTORIES:

The following schedule summarizes inventories at June 30, 2012:

(In Thousands)

Sign Shops	$	919
Repair Shops		819
Supply Depot		1,638
		3,376

NOTE 7. CAPITAL ASSETS:

PRIMARY ENTITY:

The following schedule summarizes changes in capital assets of the Department for the year ended June 30, 2012:

(In Thousands)

	Beginning Balances June 30, 2011	Increases	Decreases	Ending Balances June 30, 2012
Capital assets not being depreciated:				
Land and improvements	$ 3,711	$ -	$ 358	$ 3,353
Right of ways land	1,403,821	22,348	1,104	1,425,065
Construction in progress:				
Infrastructure - road and bridge network	2,772,500	322,433	903,157	2,191,776
Other	1,401	1,333	921	1,813
Total capital assets not being depreciated	4,181,433	346,114	905,540	3,622,007
Other capital assets:				
Infrastructure - road and bridge network	11,260,749	903,157	2,658	12,161,248
Buildings and improvements	82,793	921	-	83,714
Equipment and furniture	123,952	921	359	124,514
Vehicles	95,458	15,446	-	110,904
Total other capital assets	11,562,952	920,445	3,017	12,480,380
Less accumulated depreciation for:				
Infrastructure - road and bridge network	2,805,292	163,641	2,566	2,966,367
Buildings and improvements	35,277	2,314	-	37,591
Equipment and furniture	90,048	6,695	359	96,384
Vehicles	70,985	5,251	-	76,236
Total accumulated depreciation	3,001,602	177,901	2,925	3,176,578
Other capital assets, net	8,561,350	742,544	92	9,303,802
Total capital assets for governmental activities, net	$ 12,742,783	$ 1,088,658	$ 905,632	$ 12,925,809

The following schedule summarizes additions to capital assets and their funding sources for the year ended June 30, 2012:

		(in Thousands)
Additions:		
Increases per above:		
Capital assets not being depreciated	$	346,114
Other capital assets		920,444
Less, transfers from construction in progress:		
Capital assets not being depreciated		(904,077)
Total additions	$	362,481
Funding Sources:		
Governmental funds	$	333,185
Donated capital assets:		
South Carolina Transportation Intrastructure Bank		29,251
Other		45
Total funding Sources	$	362,481

Included in the Department's capital assets as of June 30, 2012 is $192.48 million that was paid for by the Association for the Southern Connector. As referenced in note 12, SCDOT released all its claims against the Association.

At June 30, 2012, the estimated total costs of Department projects in progress to construct, acquire and maintain various capitalized assets amounted to approximately $6.74 million for facilities capital projects and approximately $6.59 billion for infrastructure projects including capital and non-capital. The estimated costs to complete the facilities capital projects amounted to approximately $4.92 million and the infrastructure projects amounted to approximately $2.25 billion at June 30, 2012. The outstanding contractual obligations attributable to the facilities capital projects were approximately $663.0 thousand and to the infrastructure projects were approximately $533.35 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 during the past year and their balances at December 31, 2011:

(In Thousands)

	Balance December 31, 2010	Increases	Decreases	Balance December 31, 2011
Capital assets:				
Equipment	$ 902	$ 291	$ (53)	$ 1,140
Less accumulated depreciation	(657)	(90)	53	(694)
Total capital assets for component unit, net	$ 245	$ 201	$ -	$ 446

For the year ended December 31, 2011, depreciation expense related to capital assets was approximately $90 thousand. The Association had no significant construction commitments outstanding at December 31, 2011.

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, 2012:

(In Thousands)

	Beginning Balances June 30, 2011	Increases	Decreases	Ending Balances June 30, 2012	Due Within One Year
General obligation					
bonds payable	$ 450,265	$ -	$ 39,635	$ 410,630	$ 40,915
Unamortized discounts, premiums	32,399	1,357	-	33,756	3,659
Unamortized deferred loss					
on refunding of bonds	(12,539)	-	(1,419)	(11,120)	(1,419)
Total Bonds Payable	470,125	1,357	38,216	433,266	43,155
Intergovernmental Payable					
Due to State Agency - SIB	326,770	12,000	22,543	316,227	21,367
Due to State Agency - Energy Note	-	72	24	48	24
Capital Lease	-	230	22	208	44
Accrued Compensated					
absences	24,037	19,410	18,771	24,676	17,587
Total Governmental Activities	$ 820,932	$ 33,069	$ 79,576	$ 774,425	$ 82,177

The Department has an additional amount due to the state agencies of $2.176 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, 2012:

(in Thousands)

	Principal	Interest	Totals
Bonds Payable	$ 39,635	$ 19,196	$ 58,831
Contributions Payable	22,543	10,171	32,714
Notes Payable	24	-	24
Capital Lease	22	3	25
Total Expenditures	$ 62,224	$ 29,370	$ 91,594
Adjustments to Department-wide statements			
Change in interest accrual - bonds payable		(3,157)	
Total Interest Expense		$ 26,213	

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 $34.9 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, 2012 is as follows:

(In Thousands)

Issue Date	Series	Original Face Amount	Maturity Date	Interest Rates	Ending Principal Balance
10/1/2003	2003A	2,200	10/1/2018	5.000%	$ 1,225
6/1/2003	2003B	46,080	7/1/2021	2.000-4.000%	31,595
4/1/2005	2005A	146,495	8/1/2022	3.000-5.000%	102,525
4/1/2010	2010A	299,860	6/1/2021	3.000-5.000%	275,285
					410,630
Add, unamortized premium					33,756
Less, unamortized deferred loss on refundings of bonds					(11,120)
Total bonds payable					$ 433,266

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:			
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	45,195	10,468	55,663
2018 - 2022	184,365	20,540	204,905
2023	11,230	168	11,398
Total debt service for bonds payable	$ 410,630	$ 90,925	$ 501,555

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	(199.2)
Balance of unamortized issuance costs	$ 197.4

Amortization of bond issuance costs for the year ended June 30, 2012 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 was reported in the accompanying financial statements as a reduction of bonds payable and was 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, 2012, 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	(194.2)
Balance of unamortized issuance costs	$ 270.3

Amortization of bond issuance costs for the year ended June 30, 2012 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	(312.3)
Balance of unamortized issuance costs	$ 1,129.5

Amortization of bond issuance costs for the year ended June 30, 2012 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. There is a zero balance on this escrow account.

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	(3,074)
Balance of unamortized deferred loss	$ 11,120

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2012 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 1998 Bonds, which were issued in accordance with the terms of the Original Trust Indenture, were outstanding through April 20, 2011. The balances of those 1998 Bonds had been frozen at June 24, 2010, when the Association filed its Bankruptcy Petition. On April 21, 2011, the effective date of the Association's Debt Adjustment Plan and its related Amended Trust Indenture, the Association's 1998 Bonds were exchanged for the Association's 2011 Bonds. Following is a discussion and description of the various issues of Association bonds that were outstanding during 2011.

The Association financed the construction of the Southern Connector by issuing the 1998 Bonds as three series of tax-exempt toll road revenue bonds pursuant to the Original Trust Indenture. All of the 1998 bonds were issued on February 11, 1998. The bonds were special limited obligations of the Association that were not, and never constituted, indebtedness of the State of South Carolina, the Department, or any agency, department or political subdivision of the State of South Carolina, including the County of Greenville, South Carolina and the City of Greenville, South Carolina. As a result of the Association's bankruptcy petition on June 24, 2010, all prepetition debt and liabilities subject to the Debt Adjustment Plan were frozen and thus no additional payments, accruals, amortization, etc., have been required or recorded after that date. The 1998 Bonds include the following:

Series 1998A Senior Current Interest Toll Road Revenue Bonds which were dated February 1, 1998 and had an original principal amount of $66.2 million at issuance. Interest was payable semi-annually on January 1 and July 1 at rates of 5.250% and 5.375%. $21.4 million of bonds were scheduled to mature January, 2023. $44.8 million of bonds were scheduled to 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 were to continue until January 1, 2038 in varying amounts from $900 thousand to $4.2 million.

Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds were dated February 1, 1998 and had an original principal amount of $87.4 million at issuance. Interest accreted at various rates ranging from 5.30% to 5.85%. $438.1 million of bonds were scheduled to mature serially from January 1, 2008 to January 1, 2038.

Series 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds were dated February 1, 1998 and had an original principal amount of $46.6 million at issuance. Interest accreted at various rates ranging from 6.15% to 6.30%. $241.8 million of bonds were scheduled to mature serially from January 1, 2008 to January 1, 2038.

The 1998 Bonds were secured by various 1998 Trust Fund Accounts established under the terms of the Original Trust Indenture and included in the Trust Estate. The 1998 Bonds were subject to payment and other bond covenants established in the Original Trust Indenture. The 1998 bond covenants included, but were not limited to requirements to (a) have an Association Engineer inspect and report on the condition of the Southern Connector, (b) charge tolls sufficient to produce revenues that would equal or exceed prescribed percentages of debt service on the 1998 Bonds (the "1998 Revenue Covenant"); and (c) file annual budgets with the Trustee. As discussed, the Association was unable to pay debt service due on its 1998 Bonds and was never able to meet the 1998 Revenue Covenant. These and other factors led to the Association's filing of its Bankruptcy Petition on June 24, 2010.

Upon confirmation by the Bankruptcy Court as a means of implementing the Association's Debt Adjustment Plan, on April 21, 2011, the Association issued its 2011 Bonds in exchange for the 1998 Bonds. At that time, the Association's obligations under the 2011 Bonds were substituted for its obligations under the 1998 Bonds, and the Association was relieved of any further obligations under the 1998 Bonds. Interest on the 2011 Bonds is tax-exempt and 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 Series 2011A Bonds and Series 2011B Bonds were exchanged for the 1998 Senior Bonds and the Series 2011C Bonds were exchanged for the 1998 Subordinate Bonds.

The Association's 2011 Bonds include the following:

Series 2011A Senior Capital Appreciation Toll Road Revenue Bonds are dated April 1, 2011, and include eleven serial bonds and three term bonds. The original principal amount of the serial bonds at issuance totaled $36.625 million. The serial bonds mature January 1 of the years 2012 through 2022 inclusive, and accrete interest at rates ranging from 3.25% to 6.00%. One of the term bonds with an original principal amount at issuance of $40.619 million is subject to annual pro rata paydown payments on January 1 of the years 2023 through 2031 in varying amounts from $8.521 million to $13.506 million, with final maturity at January 1, 2032. Interest accretes on this term bonds at 6.50%. A second term bond, with an original principal amount at issuance of $31.463 million is subject to annual pro rata paydown payments on January 1 for the years 2033 through 2041 in varying amounts from $15.762 million to $22.275 million, with final maturity at January 1, 2042. Interest accretes on this term bond at 7.00%. A third term bond, with an original principal amount at issuance of $18.190 million is subject to annual pro rata paydown payments on January 1 of the years 2043 through 2051 in varying amounts form $22.515 million to $28.013 million, with final maturity at July 22, 2051. Interest accretes on this term bond at 7.50%

Series 2011B Senior Subordinate Capital Appreciation toll Road Revenue Bonds are dated April 1, 2011, and include two term bonds. One of the term bonds with an original principal amount at issuance of $14.028 million is subject to annual pro rata paydown payments on January 1 of the years 2012 through 2031 in varying amounts from $387 thousand to $3.119 million, with final maturity at January 1, 2032. Interest accretes on this term bond at 8.50%. The second term bond, with an original principal amount at issuance of $7.058 million is subject to annual pro rata paydown payments on January 1 of the years 2033 through 2051 in varying amounts from $3.640 million to $6.470 million, with final maturity at July 22, 2051. Interest accretes on this term bond at 9.0%

Series 2011C Junior Subordinate Capital Appreciation Toll Road Revenue Bond is dated April 1, 2011, and consists of one term bond. This term bond with an original principal amount at issuance of $2.160 million is subject to annual pro rata paydown payments on January 1 of the years 2012 through 2051 in varying amounts from $47.9 thousand to $799.7 thousand, with final maturity at July 22, 2051. Interest accretes on this term bond at 10.00%.

The Association's bonds payable activity for the year ended December 31, 2011 was as follows:

(In Thousands)

	Beginning Balances December 31, 2010	Increases	Decreases	Ending Balances December 31, 2011	Amount Due in One Year
1998 Bonds:					
Senior Bonds					
Series 1998A	$ 64,400	$ -	$ 64,400	$ -	$ -
Original Issue Discount on 1998A	(1,699)	-	(1,699)	-	-
Subtotal Series 1998A	62,701	-	62,701	-	-
Series 1998B	170,053	-	170,053	-	-
Subordinate Bonds					
Series 1998C	93,584	-	93,584	-	-
Total 1998 Bonds	326,338	-	326,338	-	-
2011 Bonds:					
Senior Bonds					
Series 2011A	-	132,914	-	132,914	1,678
Subordinate Bonds					
Series 2011B	-	22,442	-	22,442	388
Series 2011C	-	2,320	-	2,320	47
Total 2011 Bonds	-	157,676	-	157,676	2,113
Total Revenue Bonds Payable	$ 326,338	$ 157,676	$ 326,338	$ 157,676	$ 2,113

Increases in bonds payable represent the sum of the accreted balances of the respective 2011 bonds at their issuance dated as of April 21, 2011, plus subsequent accretions through December 31, 2011. Decreases in bonds payable represent the write-off of the 1998 Bond obligations that occurred upon the exchange of those bonds for the 2011 Bonds at the April 21, 2011 effective date of the Association's Debt Adjustment Plan.

The following schedule summarizes the Association's debt service requirements to maturity as of December 31, 2011. Since all of the 2011 Bonds are capital appreciation bonds, accretions are accounted for as interest expense and additional principal. For purposes of the following debt service schedule, all accretions are included as principal, and no interest is shown.

(In Thousands)

Year ending December 31:	Principal	Interest	Totals
2012	$ 2,113	$ -	$ 2,113
2013	3,626	-	3,626
2014	3,793	-	3,793
2015	4,101	-	4,101
2016	4,572	-	4,572
2017-2021	38,155	-	38,155
2022-2026	58,823	-	58,823
2027-2031	77,995	-	77,995
2032-2036	98,818	-	98,818
2037-2041	125,426	-	125,426
2042-2046	148,035	-	148,035
2047-2051	188,727	-	188,727
	$ 754,184	$ -	$ 754,184

The terms of the Amended Trust Indenture require the establishment of various 2011 Trust Fund Accounts. Monies remaining in the 1998 Trust Fund Accounts at the April 21, 2011 effective date of the Association's Debt Adjustment Plan were required to be transferred to certain of the 2011 Trust Fund Accounts. The monies transferred into the 2011 Trust Fund Accounts, as well as any monies subsequently deposited into the 2011 Trust Fund Accounts, are invested as provided in the Amended Trust Indenture. The types of payments that may be made from the various 2011 Trust Fund Accounts are specified in the Amended Trust Indenture. All of the 2011 Trust Fund Accounts established under the Amended Trust Indenture except for the 2011 R&R Fund and the 2011 Rebate Fund are included in the 2011 Trust Estate, which the Association has pledged as security for payment of the 2011 Bonds. The 2011 Trust Estate also includes the Association's interest in Revenues as defined in the Amended Trust Indenture, the Association's interest in its License Agreement with the SCDOT, and any other property pledged as security for the 2011 Bonds.

At December 31, 2011, the following accounts established by the Amended Trust Indenture were included in the Trust Estate and provided security for the 2011 Bonds: (In Thousands)

Fund	Amount December 31, 2011
2011 Revenue Fund	$ 33
2011 Debt Service Fund	2,114
2011 Debt Service Reserve	2,037
2011 Cost of Issuance Fund	583
Total	$ 4,767

During the year ended December 31, 2011, payments from the various accounts were made in accordance with the terms of the Amended Trust Indenture.

In addition to the regularly scheduled debt service payments described above, the Amended Trust Indenture allows or requires the Association to make additional payments of debt service in certain situations.

At any time on or after April 1, 2026, the Association may make optional prepayments of its 2011 Bonds at prescribed percentages of the 2011 Bonds' respective accreted values. The 2011C Bonds are subject to optional prepayment only if the 2011A Bonds and the 2011B Bonds are being simultaneously prepaid in full. The Association is required to make extraordinary mandatory prepayments of its 2011 Bonds if on any January 1, the 2011 Extraordinary Prepayment Fund described in Note 1 Item J contains in excess of $50,000. In such case, the monies in the 2011 Extraordinary Prepayment Fund shall be applied toward an extraordinary mandatory prepayment of the 2011 Bonds on the immediately following February 15, at 105% of the accreted value of the respective 2011 Bonds being paid. Extraordinary mandatory prepayments shall pay the 2011A Bonds first. If there are no 2011A Bonds outstanding, then the 2011B Bonds shall be prepaid. If there are no outstanding 2011A or 2011B bonds, then the 2011C Bonds shall be prepaid.

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

All of the 2011 Bonds are secured by liens on the 2011 Trust Estate, including revenues of the Southern Connector and a collateral assignment of the Association's rights under the Revised License Agreement. However, the 2011B and 2011C Bonds' liens are subordinate to those of higher tiers of 2011 Bonds. The 2011B Bonds are subordinated to the 2011A Bonds in all respects, including in right of payment and priority of liens. The 2011C Bonds are subordinated to the 2011A Bonds and the 2011B Bonds in all respects, including in right of payment and priority of liens.

If any debt service payment pertaining to any tier of 2011 Bonds is not paid when due, the Amended Trust Indenture prescribes the manner in which subsequent payments of debt service in respect of such tier of 2011 Bonds shall be applied, *first,* to any arrearages, and, *second,* to the current debt service owing on such tier of 2011 Bonds.

If on any 2011 Bond payment date, no 2011 Bonds remain outstanding in any tier, the remaining 2011 Bonds of subordinate tiers will ascend to the next higher tier in the hierarchy described in the New Waterfall. For example, if no 2011A Bonds are outstanding on any 2011 Bond payment date, then any 2011B Bonds outstanding will be treated as 2011 Senior Bonds payable from the 2011 Senior Bonds Debt Service Account, and any 2011C Bonds outstanding will be treated as 2011 Senior Subordinate Bonds payable from the 2011 Senior Subordinate Bonds Debt Service Account.

The 2011 Bonds are subject to certain bond covenants other than payment covenants. The bond covenants include, but are not limited to, the following:

- The Association is prohibited from taking any action, or omitting to take any action, that would cause the 2011 Bonds to lose their tax-exempt status.

- By June 30 of each year, an Association Engineer (as defined) is required to inspect the toll road and submit a report documenting the Association Engineer's findings as to whether the Southern Connector has been maintained by SCDOT in good repair and any deficiencies in the physical condition of the toll road. The report shall identify any highway maintenance needs of the Southern Connector, an assessment of the materiality of such needs, and an estimate of the cost and appropriate timing of such needs. The latest report was completed by the Association's Engineer and will be delivered to the Trustee in June 2012.

- On or before April 30, 2016, and once every five years thereafter as prescribed in the Amended Trust Indenture, the Association shall retain an independent traffic and revenue consultant to perform a toll rate study to determine the optimum toll rates to be charged for the Southern Connector. In addition, a toll rate study will be required if (a) the Association fails to make any debt service payment on its 2011 Senior and/or Senior Subordinate Bonds, or (b) the debt service coverage ratio (as defined in the Amended Trust Indenture) for the 2011 Senior Bonds is less than (i) 1.20 for periods ending on or before January 1, 2016 and (ii) 1.25 for periods ending after January 1, 2016, or (c) the debt service coverage ratio (as defined in the Amended Trust Indenture) for the 2011 Senior Subordinate Bonds is less than 1.00 for any period. Despite the above provisions, the Association will not be required to have a toll rate study performed more frequently than once every two years.

- Copies of any toll rate study will be presented to SCDOT, the Trustee and the 2011 Bondholders. Unless the 2011 Bondholders submit an objection in accordance with the terms of the Amended Trust Indenture, the toll rates on the Southern Connector will be set at the optimum toll rates as determined by the traffic and revenue consultant and reported in the toll rate study.

- The Association shall certify to the 2011 Trustee the actual debt service coverage ratios compared to the threshold ratios set forth above. Calculations of the actual debt service coverage ratios shall accompany such certification. Prior to the end of each fiscal year, the Association is required to file an annual budget for the next fiscal year with the 2011 Trustee.

The terms of the Amended Trust Indenture provide that any of the following events will be considered an event of default under such Amended Trust Indenture:

- The Association's failure to make any scheduled debt service payment or any mandatory prepayment of the 2011A Senior Bonds will constitute an event of default. Once all of the 2011A Senior Bonds have been paid, failure to make any scheduled debt service payment or any mandatory prepayment of the 2011B Senior Subordinate Bonds will constitute an event of default under the Amended Trust Indenture. Once all of the 2011A Senior Bonds and all of the 2011B Senior Subordinate Bonds have been paid, failure to make any scheduled debt service payment or any mandatory prepayment of the 2011C Junior Subordinate Bonds will constitute an event of default under the Amended Trust Indenture. The Amended Trust Indenture clarifies that the occurrence of an event of default pertaining to any tier of 2011 Bonds as described in this bullet will not automatically cause an event of default with respect to any other tier of 2011 Bonds.

- The Association's failure to perform any covenant other than those relating to payment of the 2011 Bonds will constitute an event of default, if such failure continues 30 days after written notice of the failure has been provided to the Association by the Trustee or to the Association and the Trustee by not less than 25% of the 2011A Senior and/or 2011B Senior Subordinate Bondholders. However, if the Association has taken action to cure such failure within 30 days of receipt of the written notice, the duration of the cure period will be extended to 180 days following the date of the written notice, and no event of default will be deemed to occur, so long as the Association continues to diligently attempt to cure the failure within the 180-day cure period.

- An event of default shall be deemed to occur if the Association (i) voluntarily files a bankruptcy petition or any petition seeking reorganization, readjustment or relief of its debts under federal or State bankruptcy or insolvency act or law; (ii) takes any action consenting to, approving, or acquiescing in any such petition or proceeding; (iii) applies for, or consents to or acquiesces in the appointment of, a receiver or trustee of the Association or for all or a substantial part of our property; (iv) makes an assignment for the benefit of our creditors; or (v) is unable to, or admits in writing our inability to, pay our debts as they come due (except for any inability to make payments due on our 2011B or 2011C Bonds that would not constitute an event of default under the first bullet above)

- Involuntary bankruptcy proceedings; involuntary petitions seeking reorganization, readjustment or relief of the Association's debts under federal or State bankruptcy or insolvency act or law; or petitions seeking the involuntary appointment of a receiver or trustee of the Association for all or a substantial part of our property will constitute an event of default if such proceedings or petitions continue undismissed or undischarged for 90 days, or if such proceedings or petitions result in a ruling of bankruptcy or insolvency.

The Amended Trust Indenture does not provide any right to accelerate the maturity of the 2011 Bonds. If an event of default occurs, the 2011 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.

The Association monitors the above covenants for compliance throughout the year. The Association believes it was in compliance with and has met its 2011 bond covenants since the April 21, 2011 effective date of the bond covenants.

Subsequent to the issuance of its 2011 Bonds pursuant to the implementation of the Association's Debt Adjustment Plan, certain 2011 Bondholders notified the Association and the 2011 Trustee that problems existed with the registration of certain of the 2011 Bonds that rendered those 2011 Bonds nonmarketable in the public secondary market. In 2011, the Association began investigating a possible resolution to the registration problems. The Association submitted to the Bankruptcy Court a First Supplemental Indenture of Trust (the "Supplemental Indenture") that called for the exchange of the nonmarketable 2011 Bonds for marketable 2011 Bonds. However, the Supplemental Indenture was not confirmed and implemented until 2012. See Note 19 for more details pertaining to this subsequent event.

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.

Horry County RIDE I Project. 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 20, 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, 2012 and account balances of each year-end:

	(In Thousands)			
Project	Beginning Balance June 30, 2011	Increases	Decreases	Ending Balance June 30, 2012
Horry Ride I Project Phase II	$ 49,472	$ -	$ 5,669	$ 43,803
Charleston County Project	128,000	-	8,667	119,333
US 17	76,724	-	1,606	75,118
Multi-Project Loan	72,574	12,000	6,601	77,973
Totals	$ 326,770	$ 12,000	$ 22,543	$ 316,227

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

	(In Thousands)		
	Principal	Interest	Total
Year Ending June 30			
2013	$ 21,367	$ 9,212	$ 30,579
2014	22,027	8,553	30,580
2015	22,719	7,860	30,579
2016	23,446	7,134	30,580
2017	24,209	6,371	30,580
2018-2022	108,662	19,970	128,632
2023-2027	53,644	10,588	64,232
2028-2032	17,861	7,038	24,899
2033-3037	22,292	2,607	24,899
Totals	$ 316,227	$ 79,333	$ 395,560

NOTE 11. LEASE OBLIGATIONS:

The Department incurred approximately $282,909 Thousand in expenditures applicable to contingent lease agreements that are based on a five (5) year term in addition to a pay-per-copy arrangement. These lease agreements do not have minimum usage requirements. All contingent lease agreements are with external parties.

In October 2011, the Department entered into an agreement with Banc of America Leasing through the State Treasurer Master Lease program to purchase certain video conferencing equipment. The equipment had a cost of $234.9 thousand and at the end of the term of the loan, ownership of the equipment will transfer to the Department. The interest rate applicable to the loan is 2.8958%. For accounting purposes, it is treated as a capital lease and the equipment is included in the Department's assets and is being depreciated on the straight line method over five years. The loan through the Master Lease Program and Banc of America Leasing is also recorded as an obligation of the Department and is included in Note 8 of the financial statements.

The following schedule summarizes the debt service requirements, including the principal and interest, for the outstanding loan:

(in Thousands)

Year ending June 30	Principal	Interest	Total
2013	$ 44	$ 6	$ 50
2014	45	4	49
2015	46	3	49
2016	48	2	50
2017	25	0	25
	$ 208	$ 15	$ 223

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

Bankruptcy Proceedings

Since 2001, when the Southern Connector was opened to traffic and the Association began collecting tolls, both traffic on the highway and the resulting toll revenues generated have been substantially less than projected in the original traffic and revenue study prepared in connection with the issuance of the 1998 Bonds. Factors such as the weak economy, lack of development along the Southern Connector's corridor and patron resistance to the payment of tolls, all contributed to the less-than-forecasted traffic demands.

Through July 2007, the Association's toll revenues were sufficient to allow it to pay its debt service obligations on its 1998 Bonds, which 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 Series 1998B and 1998C Capital Appreciation Bonds began to mature and as sinking fund principal installments came due on the Series 1998A Bonds. The Association found that toll revenues were no longer sufficient to pay its debt service obligations when due. The Association was forced to withdraw monies from its 1998 Senior and Subordinate Bonds Debt Service Reserve Accounts in order to pay its debt service obligations, and 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 sufficient funds were not available to pay the entire debt service due in January 2010, the 1998 Senior Bonds Trustee made no payment on the 1998 Senior or 1998 Subordinate Bonds at that date, and the Association's first payment default on its 1998 Bonds occurred.

The Original Trust Indenture contained a provision that required the Association to meet a Revenue Covenant that became effective January 1, 2005. Failure to comply with the covenant for a period of 36 consecutive months constituted an event of default under the Original Trust Indenture. The Association was never able to meet this covenant, and was also in default under this provision of the Original Trust Indenture.

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.

The Association was also unable to pay its contractual obligations to the Department for license fees, highway maintenance costs and related interest, and was unable to make deposits into the 1998 R&R Fund to cover any future costs of renewal and replacement of the Southern Connector.

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 a Revised Traffic Study to forecast traffic and revenue and revenue potential for a period of 50 years.

The Association's restructuring efforts and various negotiations with the 1998 Senior Bonds Trustee, the 1998 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 1998 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. Although the Association and the Department attempted for three consecutive years to implement legislative amendments authorizing the extension of the term of the License Agreement to permit an alternate debt adjustment plan, such plan ultimately failed when the South Carolina General Assembly adjourned its 2010 legislative session without enacting the needed legislation. 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.

Previously on January 20, 2010, the Association's Board of Directors adopted a resolution authorizing the 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 in the U.S. Bankruptcy Court at the direction of its Executive Vice President and General Manager. At that date, in accordance with U.S. Bankruptcy Law, all liabilities subject to adjustment in the bankruptcy proceedings were frozen. Accordingly, no additional amounts pertaining to the Association's 1998 Bonds, its amounts owed to SCDOT or to the excess collateral liability discussed further in Note 11 were accrued after June 24, 2010.

During its bankruptcy proceedings, the Association continued to operate the Southern Connector as usual and continued to pay its creditors other than the 1998 Bondholders, the Department and Lehman Brothers in the ordinary course of business. Although payments were no longer made to the 1998 Bondholders, payments of fees and expenses were made to the 1998 Senior Bonds Trustee, the 1998 Subordinate Bonds Trustee, and their respective counsel and advisors from the toll revenues collected. The Association continued its negotiations with the 1998 Senior Bonds Trustee, the 1998 Subordinate Bonds Trustee, the Restricted Owners and SCDOT, which resulted in the Association's Debt Adjustment Plan discussed below.

Debt Adjustment Plan

The Association's Debt Adjustment Plan was confirmed by the U.S. Bankruptcy Court on April 1, 2011 and 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 Debt Adjustment Plan, related Debt Adjustment 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 Debt Adjustment Plan. Since no appeals to the Bankruptcy Court's Confirmation Order were filed and the other conditions to effectiveness were satisfied, the Debt Adjustment Plan became effective April 21, 2011.

The Debt Adjustment Plan is implemented by the Amended Trust Indenture and the Revised License Agreement. Under the Debt Adjustment Plan, Amended and Restated Bonds (the "2011 Bonds") were issued in exchange for the 1998 Bonds and the differences between the balances of the 1998 Bonds and the newly-issued 2011 Bonds were forgiven; the Association's prior obligations to SCDOT for license fees, roadway maintenance reimbursements and related interest 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 toll revenues are deposited beginning April 21, 2011, and from which debt service payments on the 2011 Bonds and certain payments into the R&R Fund (for the benefit of the Department) are made. The Amended Trust Indenture also establishes 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 the 2011 R&R Fund, and amends the manner in which toll rates for the Southern Connector are set.

Extraordinary Gain from Adjustment of Debts

As previously discussed the Association recorded the gain from the adjustment of its debts in bankruptcy in the accompanying financial statements as an extraordinary gain. The components of this extraordinary gain were as follows:

Classes of Liabilities	Balances of 1998 Bonds and Other Accounts Cancelled in Bankruptcy	Accreted Balances of 2011 Bonds at April 21, 2011 Issuance (Effective Date)	Extraordinary Gain Recognized on Adjustment of Debts
Bond Payable:			
Series A and B Bonds	$ 232,754	$ 148,519	$ 84,235
Series C Bonds	93,585	2,172	91,413
Subtotal Bonds Payable	326,339	150,691	175,648
Accrued Interest Payable on Bonds	3,625	-	3,625
Bond Issuance Cost on 1998 Bonds	(1,581)	-	(1,581)
Underwriter's Fees on 1998 Bonds	(1,924)	-	(1,924)
Total Bonds Payable	326,459	150,691	175,768
Amounts Payable to the Department			
License Fees	8,225	-	8,225
Roadway Maintenance Fees	816	-	816
Accrued Interest on License Agreement	1,402	-	1,402
Total Amounts Payable to the Department	$ 10,443	$ -	10,443
Extraordinary Gain from Liabilities and Accounts Cancelled			186,211
Settlement of Lehman Brothers Excess Collateral Claim:			
Portion of Excess Collateral Retained by the Association			317
Monies Retained by Trustee and Transferred to the Association			319
Extraordinary Gain from Settlement of Lehman Brothers Excess Collateral Claim			636
Total Extraordinary Gain Recognized on Adjustment of Debts			$ 186,847

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

2011 R&R Fund Activity

The Association's sole obligation related to maintenance of the Southern Connector under its Revised License Agreement with the Department is to make periodic deposits into the 2011 R&R Fund as prescribed by the New Waterfall provisions of the Amended Trust Indenture. As the Department incurs highway maintenance costs relating to the Southern Connector, the Revised License Agreement permits the Department to periodically submit to the Association requisitions for reimbursement of such highway maintenance costs. Any Department highway maintenance cost requisitions received by the Association will be paid from, and to the extent of, monies accumulated in the 2011 R&R Fund.

During the year ended December 31, 2011, $239,335 was deposited into the 2011 R&R Fund in accordance with the New Waterfall provisions of the Amended Trust Indenture. The Association accrued $20,158 for highway maintenance expense incurred by the Department in 2011 and reimbursed from the 2011 R&R Fund in 2012. Accordingly, at December 31, 2011, the net position of the 2011 R&R Fund was $219,177.

The Revised License Agreement contains provisions under which the Association may become liable to the Department for requisitioned highway maintenance costs of the Southern Connector that exceed amounts accumulated in the 2011 R&R Fund and therefore, are not paid from the 2011 R&R Fund. In order for the Association to become obligated to the Department for any such unreimbursed requisitioned highway maintenance costs, all of the Association's 2011 Bonds and any other project debt must first be repaid, redeemed or defeased. In addition, the Department must extend the term of the Revised License Agreement to allow the Association to continue to collect tolls on the Southern Connector to enable the Association to repay the unreimbursed requisitioned highway maintenance costs. If these provisions are implemented, the Association will also become liable to the Department for interest on the unreimbursed requisitioned highway maintenance costs at 5% compounded annually beginning 30 days

Interest in License Agreement with the Department

The Association's operations from its inception through April 20, 2011, were conducted in accordance with the terms of the Association's Original License Agreement with the Department, which granted to 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.

Upon confirmation by the Bankruptcy Court of and as a means of implementing the Association's Debt Adjustment Plan, the Association entered into a Revised License Agreement with SCDOT which became effective April 21, 2011. Under the Revised License Agreement, SCDOT released all its claims against the Association that existed as of the April 21, 2011 effective date in exchange for the Association's agreement to make transfers from the 2011 Revenue Fund to the 2011 R&R Fund equal to certain percentages of the net revenues of the operation of the toll road. The Revised License Agreement specifies that any terms of the Original License Agreement that are not amended or modified by the Revised License Agreement remain in effect.

The table below discusses significant terms of the Original License and Revised License Agreements.

Terms	*Original License Agreement Provisions Effective Prior to April 21, 2011*	*Revised License Agreement Provisions Effective April 21, 2011*
Rights Granted to the Association	The Association was granted the exclusive right to (1) to acquire in the name of the Department rights-of-way and other real property necessary to the development and operation of the Projects, (2) to develop and construct the Projects, (3) to finance the Southern Connector, (4) to operate, repair, renew and replace the Southern Connector in accordance with terms of the agreement, and (5) to collect tolls from the users of the Southern Connector.	The Revised License Agreement specifies that any terms of the Original License Agreement that are not amended or modified by the Revised License Agreement remain in effect. The Revised License Agreement (1) requires the Association to make periodic deposits into the 2011 R&R Fund, (2) modifies the Association's responsibility for performance and payment of highway maintenance, repair and renewal, (3) eliminates License Fees payable to SCDOT, (4) modifies the manner in which toll rates are set, (5) prohibits SCDOT from terminating the Revised License Agreement for any insolvency of or failure by the Association to pay or perform its obligations due to insufficient toll revenues, and (6) creates a contingent liability for unreimbursed highway maintenance costs payable by the Association to SCDOT only upon repayment, redemption or defeasance of all 2011 Bonds and extension of the Revised License Agreement.
License Fees Payable to the Department	The Association was required to pay a license fee to SCDOT in the amount of $125,000 per month for a period of 25 years commencing twelve months 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 was to commence on the first day of the calendar month following the first anniversary of the Final Completion date of the Southern Connector, or January 1, 2005. Payment of the license fee was ninth in priority according to the flow of funds set forth in the Original Trust Indenture as described in Note 1, Item J. So long as any 1998 Bonds remained outstanding, any license fees not paid when due were deferred and accrued interest at a rate of 5% per annum	All references to license fees are deleted in the Revised License Agreement. As a result, the Association is no longer required to pay license fees or related interest to SCDOT. Upon confirmation of the Association's Debt Adjustment Plan by the Bankruptcy Court, the Association was released from its obligations to pay the $8,225,000 of unpaid license fees and $1,228,967 of related interest that had accumulated at the June 24, 2010 Bankruptcy Petition date.

compounded annually.

The Association was never able to pay the license fees when due, and at the Association's June 24, 2010 Bankruptcy Petition date, the balances of accumulated unpaid license fees and related interest payable to SCDOT were frozen at $8,225,000 and $1,228,967, respectively

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Responsibility for and Payment of Maintenance, Repair, Renewal and Replacement of the Southern Connector

Under the Original License Agreement, SCDOT was responsible for maintenance of the Southern Connector. However, the Association was obligated to reimburse SCDOT for its costs of maintenance. The reimbursement of maintenance costs was eighth in priority according to the flow of funds set forth in the Original Trust Indenture. So long as any 1998 Bonds remained outstanding, any maintenance costs of SCDOT not paid by the Association when due compounded annually. The Association was unable to reimburse SCDOT for all of its costs of maintenance, and at the Association's June 24, 2010 Bankruptcy Petition date, the balances of accumulated unpaid maintenance costs and related interest payable to SCDOT were frozen at $815,601 and $172,626, respectively.

The Association was responsible for all maintenance of the Southern Connector toll facilities. Maintenance of the toll facilities was first in priority according to the flow of funds set forth in the Original Trust Indenture.

The Association was responsible for all repair, renewal and replacement of the Southern Connector. The Association was to submit a renewal and replacement plan ("R&R Plan") to SCDOT for approval. The Association was to deposit monies into the 1998 R&R Fund for payment of such repair, renewal or replacement costs.

The deposit of monies into the 1998 R&R Fund was seventh in priority according to the flow of funds set forth in the Original Trust Indenture as described

Under the Revised License Agreement, SCDOT is responsible for performance and payment of all highway maintenance of the Southern Connector. As defined in the Revised License Agreement, highway maintenance includes all maintenance, repair, renewal, replacement, enhancement, resurfacing and restoration of the Southern Connector. The Association is no longer required to perform or pay for any highway maintenance of the Southern Connector.

The Association's sole obligation related to highway maintenance is to make the periodic deposits into the 2011 R&R Fund described above in items 2, 4, 7 and 9 of the New Waterfall discussed in Note 1, item J. The Association's inability to make deposits into the 2011 R&R Fund due to insufficiency of toll revenues will not result in a default under the Revised License Agreement, and such amounts not deposited do not increase future 2011 R&R Fund deposits. Once SCDOT has incurred highway maintenance costs relating to the Southern Connector, SCDOT may, on a quarterly basis, submit to the Association a requisition for reimbursement and supporting documentation of such highway maintenance costs to be paid from monies deposited in the 2011 R&R Fund. The Association shall in turn request the 2011 Trustee to pay to SCDOT such amounts requested for reimbursement from the 2011 R&R Fund.

The Association has or will appoint at its expense an Association Engineer to perform an inspection of the Southern Connector to identify, review, monitor and report highway maintenance issues and

	in Note 1, Item J. The Association never had sufficient revenues to make deposits required by the Original Trust Indenture	needs, and the Association Engineer may estimate the costs of addressing those issues and needs, and assess the appropriate timing of preforming related maintenance activities. The parties will collaborate with the Department to schedule necessary highway maintenance activities. The Association continues to be responsible for maintenance and related costs of the Southern Connector toll facilities under the Revised License Agreement. Upon confirmation of the Association's Debt Adjustment Plan by the Bankruptcy Court, the Association was released from its obligations to pay the $815,601 of unpaid maintenance fees and $172,626 of related interest that had accumulated at the June 24, 2010 Bankruptcy Petition date.
Responsibility for and Process of Setting toll Rates	Under the Original License Agreement, SCDOT set the Southern Connector's initial toll rates. SCDOT had the right to subsequently revise toll rates to amounts that were not less than 90% and not more than 120% of optimum toll rates as estimated by an independent traffic consultant hired by the Association.	Under the Association's Debt Adjustment Plan, toll rates are initially set at amounts set forth in a traffic study performed for the Association by Stantec engineering. Subsequent revisions of the Southern Connector toll rates are permitted or required in certain circumstances as prescribed by the terms of the Association's Amended Trust Indenture and the Revised License Agreement. Any revisions to the toll rates shall require a toll rate study to be performed by a qualified independent traffic and revenue consultant selected by the Association. The consultant will study the toll rates charged for use of the Southern Connector, the past and future projected traffic and other relevant factors in order to determine the toll rates which, in the opinion of the consultant, will maximize Southern Connector toll revenues over a projected period of at least five years. Prior to commencement of the toll rate study, the Association must submit the name and a summary of qualifications of the selected independent traffic and revenue consultant to SCDOT for approval. As prescribed in the Revised License Agreement, the Department may object to the Association's selection of a consultant on the basis of lack of

		expertise or qualifications and propose at least one alternate consultant considered acceptable by the Department for the performance of the toll rate study. Once the toll rate study has been completed by the independent traffic and revenue consultant, the Association will deliver a copy of such toll rate study to SCDOT and the 2011 Bonds Trustee, and, at the Association's request, SCDOT will confirm the effectiveness of and take other steps as necessary to implement the recommended revisions to the Southern Connector toll rates. The Revised License Agreement specifies that neither SCDOT nor the State of South Carolina is responsible for determining whether the toll rates charged by the Association are adequate to satisfy the Association's obligations to third parties. The Revised License Agreement allows the Association to grant toll rate discounts to encourage the use of the electronic toll collection system or to provide an incentive to fleet purchasers. Any such discounts will not be deemed to be a revision of toll rates.
Termination or Extension of License Agreement	The specified termination date of the Original License Agreement was 50 years after substantial completion of the Southern Connector (July 22, 2051), or upon repayment, redemption or defeasance of the 1998 Bonds and all other project debt. The Original License Agreement also included other termination provisions, including the right of SCDOT to terminate the agreement upon failure by the Association to pay license fees when due or upon the commencement of bankruptcy proceedings by the Association. Provisions were included in the Original License Agreement to extend its term by a period equal to any length of time during which toll revenues were impaired due to events of force majeure, or upon written agreement by the Association and the Department.	The Revised License Agreement shall expire on July 22, 2051, or upon repayment, redemption or defeasance of the 2011 Bonds and all other project debt. The Revised License Agreement also includes other termination provisions, but specifically states that the failure of the Association to pay any amounts owing or to perform any obligations under the Revised License Agreement due to insufficient toll revenues shall not be an event of default under the Revised License Agreement. Provisions are included to extend the Revised License Agreement's term by any period equal to any length of time during which toll revenues are impaired due to events of force majeure, or upon written agreement by the Association and the Department. Provisions are also included to extend the Revised License Agreement at the request of the Department to allow the Association to pay Unreimbursed

	Amounts of highway maintenance costs. However, the Revised License Agreement specifies that the Association's liability under this provision will not accrue or be deemed to accrue unless and until all 2011 Bonds and any other project debt have been repaid, redeemed or defeased.

Under both the Original and Revised License Agreements, the Department at all times retains fee simple title to the Southern Connector, all tolling facilities and all real property and improvements thereon. All machinery, equipment, furniture, fixtures and other personal property are the sole property of the Association. Under both the Original and Revised License Agreements, neither the State of South Carolina nor any political subdivision or agency thereof (including, without limitation, the Department, the County of Greenville, South Carolina, and the City of Greenville, South Carolina) have any liability whatsoever for payment of any Bonds or any other obligations secured by the Original and/or Revised License Agreements.

Although the Association originally amortized its intangible interest in the Original License Agreement with the Department through January 2038, when the 1998 Bonds were scheduled to be paid in full, the Association subsequently reevaluated the amortization period. Due to the developments described in Note 2, beginning in 2009, management determined that the amortization period of the Original License Agreement should be extended through its contractual termination date, or July 2051. Accordingly, the Association revised its amortization period. The Revised License Agreement retains the July 2051 contractual termination date, and the Association continues to amortize its License Agreement through that date.

The Association's rights under its License Agreement with the Department constitute a service concession arrangement as defined in GASB Statement No. 60 that is accounted for as an intangible asset valued and recorded at an amount equal to the cost of construction of the Southern Connector, including related capitalized interest, less cumulative amortization. The following table summarizes the activity in the Association's Interest in License Agreement with the Department (intangible asset) for the year ended December 31:

Description	Balance December 31, 2010	Additions	Deletions	Balance December 31, 2011
Interest in License Agreeemnt with SCDOT	$ 192,486	$ 10	$ -	$ 192,496
Less: Accumulated Amortization	(47,567)	(3,571)	-	(51,138)
Interest in Licnese Agreement with SCDOT, net	$ 144,919	$ (3,561)	-	$ 141,358

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 of 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%. Beginning July 1, 2007, the employees' participation percentage in the SCRS increased .25% to a total of 6.50%. Effective July 1, 2011, the employer contribution rate became 13.685%, which included a 4.30% surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 2012, 2011 and 2010 were approximately $23.8 million, $22.5 million, and $17.3 million respectively, and equaled the required contributions of 9.385% (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately $263 thousand in the current fiscal year at the rate of .15% 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 of 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 of 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, 2011, the employer contribution rate became 15.663%, which, as for the SCRS, included the 4.30% surcharge. The Department's actual contributions to the PORS for the years ended June 30, 2012, 2011 and 2010 were approximately $32 thousand, $33 thousand, and $27 thousand respectively, and approximately equal to the required contributions of 16.063 percent (including the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately $403 and accidental death insurance contributions of approximately $403 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, 4.30% of annual covered payroll.

The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Department paid approximately $ 7.5 million, $6.0 million, and $6.5 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2012, 2011, and 2010 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 $3.22 for the fiscal years ended June 30, 2012.

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 $32 million for the year ended June 30, 2012. The Department sells supply items and provides services for various State agencies. Total sales to State agencies were approximately $227,735 thousand for the year ended June 30, 2012.

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 $500.1 million for the year ended June 30, 2012 of which $87.7 million was accrued as a receivable at June 30, 2012. Gasoline tax revenues collected by DOR for the County Transportation Program Agency Fund amounted to $68.7 million for the year ended June 30, 2012.

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 2012 of $10.7 million were paid to the State Accident Fund and $516.1 thousand was paid for Unemployment Insurance.

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 2012 for which it was paid $3.803 million. The Bank also reimbursed the Department $6.425 million in direct project costs. Allocations to other entities - State agency represented amounts paid to the Bank and totaled $26.1 million for the year ended June 30, 2012. 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, 2012 is as follows:

(In Thousands) Due To / Description		
South Carolina State Infrastructure Bank		
1 cent per gallon gasoline tax	$	684
Purchases of goods and services:		
State Budget and Control Board		982
Clemson University		239
Department of Public Safety		137
S.C. Department of Motor Vehicles		77
S.C. Department of Health & Environmental Control		28
S.C. Department of Corrections		17
Archives & History		12
Total	$	2,176

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
- Motor Vehicles
- Real property and contents
- Data processing equipment
- Business Interruptions
- Torts
- 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 is 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, 2012, 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, 2012 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
- Worker's Compensation
- Directors and Officers
- Builder's Risk
- Professional Design
- Crime
- Force Majeure
- General Liability

No claim settlements have exceeded insurance coverage during the past three years. There were no materially significant reductions in insurance coverage during the year ended December 31, 2011.

NOTE 19. 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, 2012, 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, 2012, 820 million has been issued and $410.6 million is outstanding. In April 2011, the Commission authorized the department to begin procedures to issue general obligation highway bonds not to exceed $344 million in general obligation highway bonds for various significant projects. These bonds have not been approved by Joint Bond Review Committee. 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 at the appropriate time. As of June 30, 2012 none of the authorized bonds have been issued.

Participation in the TERI program after July 1, 2012 has been redefined by legislation. TERI program elements such as eligibility, employment status and rights, employee contributions, deferred annuity, incidental death benefits, unused leave and distributions have been affected. Employer and employee contributions to the program will increase next year and subsequent years. SCRS and PORS employees will contribute 8.0% and the Department will contribute 10.6% and 12.3% respectively to SCRS and PORS. Other changes to these elements take effect in different stages between July 1, 2012 and January 1, 2014. The TERI program will end on June 30, 2018, regardless of when participants enter the program. Refer to note 13. regarding the current TERI program.

COMPONENT UNIT:

POTENTIAL EXCESS COLLATERAL RECEIVED

At the time the 1998 Bonds were issued, the Association directed the Trustee to invest monies in the 1998 Senior Bonds Debt Service Reserve Account and the 1998 Subordinate Bonds Debt Service Reserve Account in a long-term collateralized repurchase agreement ("REPO") with Lehman Brothers, Inc. ("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, and the excess amount received was subject to a claim for return to Lehman Brothers. At June 24, 2010, date of the Association's Bankruptcy Petition, the Association had determined that a maximum of $1,117,498 was subject to claim for return to Lehman Brothers and had included that amount in its financial statements as a Potential Excess Collateral Liability.

Although the Potential Excess Collateral Liability was subject to adjustment in the Association's Bankruptcy Proceedings, the resolution of the amount to be returned to Lehman Brothers was settled consensually among the pertinent parties during April 2011. The Association returned $800,000 to Lehman Brothers, and retained the remaining $317,498 as an extraordinary gain realized on the adjustment of its debts in bankruptcy.

SUBSEQUENT EVENTS:

COMPONENT UNIT:

The Association intended that its 2011 Bonds would be registered with the Depository Trust Corporation ("DTC") as "book entry" securities. Payments of debt service on the 2011 Bonds, including any payments prior to maturity, were intended to be distributed to the beneficial owners of the 2011 Bonds on a pro rata basis under the DTC's "pro-rata paydown" program which listed the holdings of beneficial owners at their original principal amount and accreted value over time to mature in an amount larger than $1.00.

Beginning in June 2011, the Association was advised by the Trustee that a number of institutional holders of the Series 2011 Bonds could not trade their obligations in the secondary securities market since the brokers' and industry pricing systems for trading such bonds were set up on the assumption that zero coupon bonds such as the Series 2011 Bonds would be listed by DTC at a maturity value equal to their authorized denominations (i.e., $1.00) rather than at a multiple of their authorized denominations (over $1.00). This problem did not affect the ability to trade the Series 2011A serial bonds maturing January 1 of the years 2012 through 2022 (inclusive) but only applied to the Series 2011 Bonds which are term bonds (the "Pro-Rata Bonds").

Upon becoming aware of the cause of the problem, the beneficial owners of a majority of the Series 2011 Bonds requested the Association to undertake an exchange of the Pro-Rata Bonds for new term bonds (the "By-Lot Bonds") which provide for the distribution of payments to beneficial owners by lot, in order to allow registration of such new term bonds by DTC at a maturity value equal to $1.00, so such new obligations would be listed at a discount for purposes of trading in the secondary market.

On February 7, 2012 the Association filed with the Bankruptcy Court its Motion for an Order (I) Authorizing Supplement to the Indenture in Aid of Implementation of the Plan; and (II) Approving Bond Exchange Materials and Procedures for Term Bonds, seeking approval of the foregoing (the "Motion"), notice of which was provided to all notice parties including the Securities Depository participants, as further set forth in the Motion. After notice and a hearing, the Bankruptcy Court entered its Order (I) Authorizing Supplement to the Indenture in Aid of Implementation of the Plan; and (II) Approving Bond Exchange Materials and Procedures for Term Bonds (the "Exchange Order") on April 10, 2012, which authorized the Association to proceed with amending the Master Indenture pursuant to a Court-approved First Supplemental Indenture and to proceed with effectuating the Court-approved exchange of By-Lot Bonds for the Pro-Rata Bonds, all in further implementation of the Bankruptcy Plan. The Exchange Order also permitted the Association to use the balance in the Costs of Issuance Fund to pay the costs of effecting the exchange.

On April 17, 2012, the Trustee caused to be delivered to the beneficial owners of the Series 2011 Bonds a notice of mandatory exchange with option to retain (the "Exchange Notice") under which each such beneficial owner's Pro-Rata Bonds would be exchanged on May 31, 2012 (the "Exchange Date") for By-lot Bonds providing for the distribution of payments made by the Association to the beneficial owners thereof by lot (the "Exchanging Bondholders"), provided that each such beneficial owner may instead affirmatively elect to retain such beneficial owner's Pro-Rata Bonds and thus to opt out of the exchange and not become an Exchanging Bondholder if such beneficial owner prefers to retain the current Pro-Rata Bonds with the right to have redemptions of its Term Bonds done on a pro rata basis.

The holders of $364,357, $85,103 and $17,943 in Original Principal Amount of Series 2011A Term Bonds, Series 2011B Term Bonds and Series 2011C Term Bonds (collectively, the "Retained Bonds"), elected to opt out of the exchange so that there remain those respective amounts of Original Principal Amount of the Pro-Rata Bonds. The rest of the Pro-Rata Bonds were exchanged for By-Lot Bonds on May 31, 2012.

The Association intends to submit a requisition to the Trustee for payment from the Costs of Issuance Fund of the costs of the exchange. After such costs are paid, the Association expects that the bankruptcy case will be closed.

Although this exchange of Pro-Rata bonds occurred in 2012, the 2011 By-Lot Bonds are dated and accrete interest from April 1, 2011, are marketable as discussed above, and have the same yields, aggregate original principal amounts, maturities and pay-down schedules as those of the 2011 Pro-Rata Bonds for which they were exchanged. Because the 2011 By-Lot Bonds merely correct technical problems with the form of and replace certain 2011 Pro-Rata Bonds, this mandatory exchange had no effect on the Association's financial obligations to its 2011 Bondholders.

For more detailed information, see complete copies of the Supplemental Indenture and the related filings, notices and Court Orders pertaining to this exchange on our website, www.SouthernConnector.com under the *Bankruptcy Filing* link under the *News & Filings* tab.

South Carolina Department of Transportation
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis)
Governmental Fund
For the Fiscal Year Ended June 30, 2012
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Earmarked	$ -	$ 6,252	$ 177	$ (6,075)
General fund	57	2,733	2,733	-
Restricted	1,137,354	1,447,104	1,410,011	(37,093)
Total Revenues	**1,137,411**	**1,456,089**	**1,412,921**	**(43,168)**
Expenditures				
General Administration				
Personal services	15,796	15,800	14,450	1,350
Other operating	22,000	31,459	28,468	2,991
Debt services	2	297	247	50
Land & Buildings				
Other operating	1,000	1,829	1,611	218
Permanent improvement	1,000	195	67	128
Engineering - Adm. Proj. Mgmt.				
Personal services	81,150	81,150	73,471	7,679
Other operating	8,500	9,724	7,310	2,414
Engineering - Construction				
Other operating	100,000	166,797	155,666	11,131
Permanent improvements	514,000	689,601	669,928	19,673
Debt services	4,980	59,894	58,778	1,116
Allocations	6,100	2,583	967	1,616
Highway Maintenance				
Personal services	98,000	98,000	86,046	11,954
Other operating	175,000	174,601	150,505	24,096
Permanent improvements	150	334	153	181
Mass Transit				
Personal services	1,110	1,162	1,127	35
Other operating	350	2,063	623	1,440
Allocations	27,057	39,082	28,018	11,064
Toll Operations				
Personal services	95	95	92	3
Other operating	3,200	3,502	3,485	17
Employer Contributions	77,921	77,921	69,939	7,982
Total Expenditures	**1,137,411**	**1,456,089**	**1,350,951**	**105,138**
Net increase (decrease) in fund balance- budgetary basis	-	-	61,970	61,970
Fund balance beginning of year-budgetary basis	29,132	29,132	29,132	-
Fund balance end of year - budgetary basis	$ 29,132	$ 29,132	$ 91,102	$ 61,970

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012

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 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, 2012

	(In Thousands) State Highway Fund
Net increase in fund balance - budgetary basis	$ 61,970
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	(62,254)
Proceeds from intergovernmental payable are shown as revenue on governmental fund statement but are not budgeted	12,302
Change in federal revenue accrual between 2010 and 2011	2,433
Revenues are recorded on the cash basis for budgetary purposes and on the modified accrual basis for financial	(48,231)
Expenditures are recorded on the cash basis for budgetary purposes and are on the modified accrual basis for financial statement purposes	92,494
Change in interest income based on fair value calculations	3,618
Other basis differences accruals of revenues (disbursements)	46,924
Net increase in fund balance - GAAP basis	$ 109,256

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
(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, 2011	$ 332	-	-	$ 332
Additions	402	-	-	402
Deductions	(402)	-	-	(402)
Balance at June 30, 2012	332	-	-	332
SPECIAL DEPOSITS				
Balance at June 30, 2011	3,284	-	-	3,284
Additions	2,588	-	-	2,588
Deductions	(2,312)	-	-	(2,312)
Balance at June 30, 2012	3,560	-	-	3,560
LOCAL TAX FUND				
Balance at June 30, 2011	4,931	4	-	4,935
Additions	76	10	-	86
Deductions	(1,979)	(8)	-	(1,987)
Balance at June 30, 2012	3,028	6	-	3,034
COUNTY TRANSPORTATION FUND				
Balance at June 30, 2011	104,753	494	11,737	116,984
Additions	104,577	857	80,963	186,397
Deductions	(92,706)	(860)	(80,775)	(174,341)
Balance at June 30, 2012	116,624	491	11,925	129,040
TOTALS - ALL AGENCY FUNDS				
Balance at June 30, 2011	113,300	498	11,737	125,535
Additions	107,643	867	80,963	189,473
Deletions	(97,399)	(868)	(80,775)	(179,042)
Balance at June 30, 2012	$ 123,544	$ 497	$ 11,925	$ 135,966

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012
(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, 2011	$ -	$ 332	$ -	$ -	$ 332
Additions	-	402	-	-	402
Deductions	-	(402)	-	-	(402)
Balance at June 30, 2012	-	332	-	-	332
SPECIAL DEPOSITS					
Balance at June 30, 2011	616	-	2,668	-	3,284
Additions	605	-	1,699	-	2,304
Deductions	(1,777)	-	(251)	-	(2,028)
Balance at June 30, 2012	(556)	-	4,116	-	3,560
LOCAL TAX FUND					
Balance at June 30, 2011	-	-	-	4,935	4,935
Additions	-	-	-	86	86
Deductions	-	-	-	(1,987)	(1,987)
Balance at June 30, 2012	-	-	-	3,034	3,034
COUNTY TRANSPORTATION FUND					
Balance at June 30, 2011	7,848	-	-	109,136	116,984
Additions	12,204	-	-	188,904	201,108
Deductions	(7,819)	-	-	(181,233)	(189,052)
Balance at June 30, 2012	12,233	-	-	116,807	129,040
TOTALS - ALL AGENCY FUNDS					
Balance at June 30, 2011	8,464	332	2,668	114,071	125,535
Additions	12,809	402	1,699	188,990	203,900
Deletions	(9,596)	(402)	(251)	(183,220)	(193,469)
Balance at June 30, 2012	$ 11,677	$ 332	$ 4,116	$ 119,841	$ 135,966