SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2014

State of South Carolina

Office of the State Auditor

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

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

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

October 28, 2014

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, 2014, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

RHGjr/cwc

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. 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, 2013 were audited by other auditors whose report dated June 20, 2014, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Scott and Company LLC
CERTIFIED PUBLIC ACCOUNTANTS
scottandco.com

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

115 Whitsett Street
Greenville, South Carolina 29601
TEL (864) 232-1545 | FAX (864) 232-4637

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of June 30, 2014, 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, 2013, and the changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Department has adopted and changed its method of accounting for bond issuance costs and deferred losses on bond refundings for the year ended June 30, 2014 as required by the Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note 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 governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of South Carolina that is attributable to the transactions of the Department 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, 2014, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–12 and 68-71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, combining statement of changes in assets and liabilities – all agency funds is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Scott and Company LLC

Columbia, SC
October 28, 2014

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, 2014 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, The *Connector 2000 Association, Inc.(the Association)*, 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 is dated June 20, 2014. We refer readers to that report and our financial statements for more detailed information.

CASH FLOWS

During fiscal year 2014, the Department experienced an increase in cash reserves. 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 14.1% from 2013 to 2014. This is primarily due to an additional revenue stream associated with car sales tax which was reallocated to the Department by the SC General Assembly. An additional major revenue is federal reimbursement of eligible expenditures which increased 3.8%.

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

PRIMARY ENTITY

Net Position - The assets of the Department exceeded its liabilities at fiscal year ending June 30, 2014 by **$12.9** billion (presented as "Net Position"). Of this amount, **$158.8** million was reported as "unrestricted net position". Unrestricted net position represents the amount available to be used to meet the Department's ongoing obligations to citizens and creditors. The Department's component unit, the Association, reported a *net position* of (**$31.3** million) as of December 31, 2013, the close of its fiscal year.

Changes in Net Position - The Department's total net position increased by **$412.5** million, or **3.1%** in fiscal year 2014. The balance of the increase in net position can be attributed to an increase in self-constructed infrastructure assets net of accumulated depreciation. The Department's component unit net position decreased by **$10.4** million. The Association experienced **$10.6** million in non-cash interest expense accretion on their 2011 Bonds.

Capital Assets – Capital Assets, net of depreciation, which include infrastructure, were approximately **$13.4** billion at June 30, 2014 for the Department. Capital additions for the year totaled **$530.6** million. The carrying value of capital assets removed from the records this year was **$5.5** million. Capital assets of the component unit, net of depreciation, were approximately **$308** thousand at December 31, 2013 which is comprised of equipment.

Long-term Obligations - The Department's total long-term obligations decreased by **$62.1** million (**8.6**%) during the current fiscal year to **$658.0** million. This change is attributable to a net decrease in bonds payable of **$41.3** million, a net decrease in the amount due the South Carolina State Transportation Infrastructure Bank of **$22.1** million and other decreases of **$1.3 million**.

FUND ACTIVITY

Governmental Funds - Fund Balances - As of the close of fiscal year 2014, the Department's governmental funds reported a combined ending fund balance of **$196.3** million, an increase of **$17.0** million in comparison with the prior year. Revenues exceeded expenditures by **$15.9** million. Overall agency expenditures were up **16.8%** from the previous year**.** In the current fiscal year, highway maintenance expenditures decreased **7.7%** over the previous year while capital expenditures increased **78.0%**. Operating expenditures, excluding debt service increased **4.8%,** debt service decreased **0.8%,** and allocations decreased by **4.0%.** Overall revenues increased **19.3%.** Federal revenues increased **3.8%** over last year; and motor fuel and fee revenues were up **14.1%** from the previous year. Of this total amount, **$166.9** 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) government-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:

Government-Wide Financial Statements

The Government-*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 government-wide financial statements include two statements:

The S*tatement of Net Position* presents all of the Department's assets and liabilities with the difference between the two reported as "net position". Over time, increases or decreases in the Department's net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as 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, the Association, 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 government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources 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, the Association, 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 Government-wide financial statements. However, unlike the Government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the 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 Government-wide financial statements, it is useful to compare the information presented in governmental funds with similar information presented for governmental activities in the Government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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 Government-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 Association, 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 Government-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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial condition. The Department's assets (all classified as governmental activities) exceeded liabilities by **$12.9** billion at the close of business on June 30, 2014 (See **Table A-1** for a summary of net position for fiscal years 2013-2014 and 2012-2013). The largest portion of the Department's net position **(97.0%)** 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 Position
(expressed in millions)

	Governmental Activities	
	2013 (restated)	2014
Current Assets	$ 336.3	$ 398.9
Capital Assets	13,042.0	13,373.4
Other Assets and Deferred Outflow	21.9	25.6
Total Assets and Deferred Outflow	**$ 13,400.2**	**$ 13,797.9**
Current Liabilities	$ 256.0	$ 305.6
Non-current Liabilities	633.7	569.3
Total Liabilities	**889.7**	**874.9**
Net Position:		
Net investments in capital assets	12,356.8	12,754.2
Restricted	10.0	10.0
Unrestricted	143.7	158.8
Total Net Position	**12,510.5**	**12,923.0**
Total Liabilities & Net Position	**$ 13,400.2**	**$ 13,797.9**

At June 30, 2014, the Department's net position includes resources that are subject to external restrictions on how they may be used. The remaining balance of net position **(1.1% or $158.8 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 position. At the end of the current fiscal year, the Department is able to report positive balances in all three categories of net position.

Changes in Net Position

The Department's net position increased by **$412.5** million, or **3.3**%. The balance of the increase in net position 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 2014, the Department implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, during fiscal year 2014. GASB Statement No. 65 establishes accounting and financial reporting standards that require reclassification of certain items that, in prior years, were properly reported as assets and liabilities. The implementation of GASB 65 resulted in a decrease of $1.404 million to beginning net position. A reconciliation of beginning net position and further explanation of this pronouncement is provided in Note 2.

In 2014, the Department's program expenditures exceeded program revenues by **$328.8** million. A breakdown of the **$1.452** billion in gross revenues reveals that motor fuel taxes of **$635.8** million represented **45.3**%, while federal highway and transit allocations and grants of **$639.9** million represented **45.6**%. Other revenue sources represent **9.1%** of revenues came from various sources including toll revenues, motor vehicle fees, charges for services, and interest income. Increased fuel efficiency of vehicles coupled with the decline in vehicle miles traveled has resulted in general and steady decline in the federal motor fuel revenues going into the Highway Trust Fund.

Table A-2 presents a breakdown of these revenues and expenses for fiscal year 2013-2014 with comparative figures for the prior year.

Table A-2

SCDOT Changes in Net Position
(Expressed in Millions)

	Governmental Activities			
Revenues:	Restated 2013	% of Revenue	2014	% of Revenue
Program Revenues:				
Capital Grants and Contributions	$ 519.5	43%	$ 527.8	36%
Operating Grants and Contributions	108.0	9%	112.0	8%
Charges for Services	29.3	2%	70.4	5%
General Revenues:				
Motor Fuel Taxes	557.2	46%	635.8	44%
State Appropriations	0.1	0%	102.5	7%
Investment Earnings	1.9	0%	3.1	0%
Total Revenues	**1,216.0**	**100%**	**1,451.6**	**100%**
Expenses:				
Public Transportation	1,016.8		1,039.1	
Total Expenses	**1,016.8**		**1,039.1**	
Changes in Net Position	**199.2**		**412.5**	
Net Position, Beginning of Year, as restated	12,311.3		12,510.5	
Net Position, End of Year	**$ 12,510.5**		**$ 12,923.0**	

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 **$196.3** million, an increase of **$17.0** million in comparison with the prior year. "Committed" fund balance is **90.3%** of the total fund balance or **$177.4** million, 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" for (1) for inventories and pre-paid expenses (**$6.3** million), (2) for long-term receivables and other assets (**$2.6** million).

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 lower than planned due to the delayed execution of projects and weather related delays. As a result federal reimbursements were lower than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Department's investment in capital assets for its governmental activities as of June 30, 2014, amounts to **$16.9 billion**, less accumulated depreciation of **$3.5 billion**, leaving a net book value of **$13.4** 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, 2014 and June 30, 2013.

Table A-3

SCDOT Capital Assets
(expressed in millions)

	Primary Government	
	2013	2014
Land	$ 3.4	$ 3.4
Buildings and Improvements	83.7	83.4
Furniture, Vehicles and Equipment	246.8	245.6
Infrastructure		
Right of Way	1,447.3	1,464.5
Roads	9,936.8	10,180.3
Bridges	2,401.3	2,439.8
Construction in Progress	2,285.2	2,486.3
Total Cost	$ 16,404.5	$ 16,903.3
Less Accumulated Depreciation	3,362.5	3,529.9
Net Capital Assets	**$ 13,042.0**	**$ 13,373.4**

The total increase in the Department's investment in capital assets for the current fiscal year was about **0.4%** in terms of net book value. However, actual expenditures to purchase or construct capital assets were **$530.6** million for the year. Depreciation charges for the year totaled **$193.7** 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 **$62.0** million during the current fiscal year to **$658.0** million. The net decrease is primarily attributed to the payment of principal on outstanding debt of **$64.0** million. Other long-term debt includes **$272.8** million due to the South Carolina State Transportation Infrastructure Bank for financial assistance on transportation projects managed by the entity and accrued compensated absences of **$26.6** million (net increase for the year of **$1.3 million**). Due within one year for all long-term obligations is **$88.7** 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 began October 1, 2012 with an estimated federal amount for South Carolina of $609 million per year. 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. This legislation was extended until May 2015.

State motor fuel user fees were projected to have a small increase for the 2013-2014 fiscal year. State leaders have not granted an increase in state fuel user fee rates since 1987. During the legislative session ended in June 2013 the legislature increased annual funding for non-federal aid secondary road maintenance by approximately $41 million. Total additional revenues of approximately $59.5 million were received by the Department as a result of the increased funding which was more than originally anticipated under the legislation. $50 million of one-time funding designated for bridge work was also funded in FY2014, which will cover bridge project expenditures for fiscal year 2013-2014. Various legislative increases, such as retirement, insurance contribution, and personal services compete for the limited Department resources. 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. Revenues must grow in order for the Department to completely address the needs for maintenance and rehabilitation of the highway system. Additional funding 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 nine member Commission is comprised of seven members elected by the members of the South Carolina General Assembly based on the State's Congressional Districts. One at large member is appointed by the Governor and one at large member's term expires January 2014. The Commission will be comprised of eight members going forward as one position was eliminated in January 2014. 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, the Association, 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 POSITION
JUNE 30, 2014

(In Thousands)

	Primary Entity Governmental Activities	Component Unit
ASSETS AND DEFERRED OUTFLOWS		
Current assets:		
Cash and cash equivalents	$ 216,579	$ 947
Invested securities lending collateral	121	-
Receivables:		
Federal government	68,003	-
State agencies	92,280	-
Local governments	828	-
Other entities-net of allowances	14,454	-
Accrued interest receivable	340	-
Prepaid items	3,683	38
Inventories	2,635	329
Total current assets	398,923	1,314
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	10,747	6,694
Total restricted assets	10,747	6,694
Receivables, net of current portion:		
Local governments	2,242	-
Other entities	127	-
Other assets	215	-
Non-depreciable capital assets	3,954,242	-
Capital assets, net of accumulated depreciation	9,419,172	308
Interest in license agreement, net of accumulated amortization	-	134,339
Total non-current assets	13,386,745	141,341
Total assets	13,785,668	142,655
Deferred outflows:		
Deferred loss on refunding bonds	12,260	-
Total deferred outflows	12,260	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 13,797,928	$ 142,655

See accompanying Notes to Financial Statements.

(continued)

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2014

(In Thousands)

LIABILITIES AND NET POSITION	Primary Entity Governmental Activities	Component Unit
Liabilities:		
Current liabilities:		
Bonds payable	$ 47,450	$ 3,848
Accrued interest payable	3,180	-
Accounts payable	153,107	78
Unearned toll revenue	-	263
Transponder deposits	-	17
Intergovernmental payable:		-
Due to State agency	23,872	-
Contract retainages payable	74	-
Accrued payroll and related liabilities	19,526	-
Due to Agency Fund - County Transportation Program	12,558	-
SCDOT maintenance payable	-	64
Capital lease payable	47	-
Accrued compensated absences	18,512	-
Unearned revenue	26,832	-
Securities lending collateral	432	-
Total current liabilities	305,590	4,270
Noncurrent liabilities:		
Bonds payable, including unamortized premium and net of current portion and unamortized discounts	311,033	169,777
Intergovernmental payable:		
Due to State agency, net of current portion	250,114	-
Capital lease payable	72	-
Accrued compensated absences, net of current portion	8,055	-
Total noncurrent liabilities	569,274	169,777
TOTAL LIABILITIES	874,864	174,047
Net position:		
Net investment in capital assets	12,754,238	308
Restricted:		
State infrastructure agreement	10,000	-
State agency payable	-	745
Unrestricted	158,826	(32,444)
TOTAL NET POSITION	12,923,064	(31,391)
TOTAL LIABILITIES AND NET POSITION	$ 13,797,928	$ 142,656

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Component Unit
Primary entity:						
Public transportation	$ 1,015,025	$ 70,375	$ 112,053	$ 527,825	$ (304,772)	$ -
Unallocated interest expense	23,977	-	-	-	(23,977)	-
Total primary entity	1,039,002	70,375	112,053	527,825	(328,749)	-
Component unit:						
Toll operations	$ 17,530	$ 7,106	$ -	$ -	-	(10,424)
Totals					(328,749)	(10,424)
General revenues:						
State appropriations-unrestricted					102,456	-
Motor fuel taxes and other fees					635,768	-
Interest/Investment Income					3,055	-
Total general revenues					741,279	-
Change in net position					412,530	(10,424)
Net position - Beginning, as restated					12,510,534	(20,967)
Net position - Ending					$ 12,923,064	$ (31,391)

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2014

(In Thousands)

ASSETS		
Current assets:		
Cash and cash equivalents	$	216,579
Invested securities lending collateral		121
Receivables:		
Federal government		68,003
State agencies		92,280
Local governments		828
Other entities		14,454
Accrued interest receivable		340
Prepaid items		3,683
Inventories		2,635
Total current assets		398,923
Non-current assets:		
Restricted assets:		
Cash and cash equivalents		10,747
Total restricted assets		10,747
Receivables, net of current portion		
Local governments		2,242
Other entities		127
Other assets		215
Total non-current assets		13,331
TOTAL ASSETS	$	412,254
LIABILITIES AND FUND BALANCE		
Liabilities:		
Current liabilities:		
Accounts payable	$	153,107
Intergovernmental payables:		
Due to State agencies		1,152
Contract retainages payable		74
Accrued payroll and related liabilities		19,526
Due to Agency Fund - County Transportation Program		12,558
Unearned revenue		29,074
Securities lending collateral		432
TOTAL LIABILITIES		215,923
Fund Balance:		
Nonspendable		
Inventories and prepaid items		6,319
Long-term receivables		2,369
Other assets		215
Restricted		10,000
Committed		177,428
TOTAL FUND BALANCE		196,331
TOTAL LIABILITIES AND FUND BALANCE	$	412,254

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

(In Thousands)

FUND BALANCE - GOVERNMENTAL FUND		$ 196,331
Amounts reported for governmental activities in the statement of net position are different because:		
Assets are capitalized and depreciated or amortized in the statement of net position and are charged to expenditures in the governmental fund:		
Capital assets, net of accumulated depreciation		13,373,414
Unearned revenues are recognized on an accrual basis in the statement of net position and on the modified accrual basis in the governmental fund:		
Participation agreements, net of allowance for bad debts		2,242
Deferred outflow of resources are recognized in the statement of net position, but are not reported on in the governmental fund		
Deferred loss on refunding bonds		12,260
Liabilities are not due and payable in the current period, therefore, are not reported in the governmental fund:		
Bonds payable including unamortized premium	$ (358,483)	
Intergovernmental payable:		
Due to State agency	(272,834)	
Capital lease payable	(119)	
Accrued compensated absences	(26,567)	
Accrued interest payable	(3,180)	(661,183)
NET POSITION - GOVERNMENTAL ACTIVITIES		$ 12,923,064

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, 2014

(In Thousands)

REVENUES:	
Motor fuel taxes	$ 635,768
State appropriations	102,456
Federal grants	639,878
Reimbursements from Agency Fund	1,820
Interest/investment income	3,055
Sales of goods and fees for services	13,851
Other Revenues	10,189
Participation agreement/project revenues	44,850
TOTAL REVENUES	1,451,867
EXPENDITURES:	
Current:	
General administration	53,664
Engineering	61,028
Toll facilities	3,712
Public transportation	22,215
Highway maintenance	520,301
Capital outlay:	
Rights of way land	21,753
Construction in progress	
Infrastructure - road and bridge network	487,855
Other	3,889
Equipment and furniture	12,474
Vehicles	4,655
Debt service:	
Principal	63,991
Interest	23,878
Bond Issuance Costs	434
Allocations to other entities:	
State agency - State Infrastructure Bank	26,534
State agency - State Infrastructure Bank - Act 98	50,000
Agency Fund - County Transportation Program	79,543
TOTAL EXPENDITURES	1,435,926
EXCESS OF REVENUES OVER EXPENDITURES	15,941
Other financing Sources	
Proceeds from sale of capital assets	547
Proceeds from refunding bond issuance	86,575
Premium from refunding bond issuance	15,000
Other financing Uses	
Payment of refunded bond proceeds to escrow agent	(101,062)
TOTAL OTHER FINANCING SOURCES (USES)	1,060
NET CHANGE IN FUND BALANCE	17,001
FUND BALANCE, beginning of year	179,330
FUND BALANCE, end of year	$ 196,331

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, 2014

(In Thousands)

INCREASE IN FUND BALANCE - GOVERNMENTAL FUND		$ 17,001
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 position		530,626
Depreciation of capital assets is reported as expenses in the statement of activities		(193,676)
Unearned revenues are reported on a modified accrual basis in the governmental fund and on accrual basis in the statement of activities		(293)
Amortization of deferred losses on refunding of bonds is reported as expenses in the statement of activities		(1,466)
Increase in accrued interest payable is reported as an expense in statement of activities		(99)
Proceeds from long-term 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 position		(86,575)
Proceeds from premiums on bond financing are reported as other financing sources in the governmental fund and are reported as an increase in liabilities in the statement of net position		(15,000)
Amortization of premium on bonds is reported as a reduction of expenses in the statement of activities		3,796
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 position:		
Bonds payable	$ 41,895	
Intergovernmental payable:		
Due to State agency - SIB	22,027	
Capital leases	45	
Due to State Agency - Energy Note Payable	24	
		63,991
Payments to the escrow agent related to bond refundings are reported as expenditures in governmental fund and are reported as a reduction o reduction of liabilities and increases in deferred outflows in the statement of net position:		
Bonds payable	96,630	
Deferred loss on refunding	4,432	
		101,062
Increases in accrued compensated absences is reported as expense in the statement of activities		(1,291)
Costs less accumulated depreciation of capital assets disposed of are reported as expenses in the statement of activities		(5,546)
INCREASE IN NET POSITION - GOVERNMENTAL ACTIVITIES		$ 412,530

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

(In Thousands)

		Agency Funds
ASSETS:		
Cash and cash equivalents	$	130,496
Accrued interest receivable		222
Due from State Highway Fund		12,558
Total assets	$	143,276
LIABILITIES:		
Accounts payable and Other liabilities	$	7,890
Deposits for rights of way		175
Special deposits and bonds		3,015
Funds held for counties		132,196
Total liabilities	$	143,276

See accompanying Notes to Financial Statements.

NOTE 1. CASH FLOWS

During fiscal year 2014, after a continued cash surplus in fiscal year 2013, the South Carolina Department of Transportation (the "Department") continued to experience an increase in cash reserves, due primarily to a continued decrease in overall 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 from 2013 to 2014. The other major revenue is federal reimbursement of eligible expenditures which also increased. The Department also experienced an increase in its general fund state appropriations.

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 management and control of current and future revenues and expenditures, management expects to maintain reasonable and prudent 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 eight members, seven of whom are elected by the Legislative Delegations of each of the State's Congressional Districts. 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, 39 and 61 of the Governmental Accounting Standards Board ("GASB"). This financial reporting entity includes only the Department (a primary entity) and its component unit.

Component Unit

The Association was initially designated 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.

Connector 2000 Association, Inc. (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 Association was formed to assist the South Carolina Department of Transportation (the "SCDOT") in the financing, acquisition, construction, and operation of turnpikes, highway projects, and other transportation facilities.

From February 1998 through April 20, 2011, the Association's operations were governed by a license agreement (the "Original License Agreement") with the SCDOT that granted the Association rights and obligations to finance, acquire, construct, and operate an approximately 16 mile fully controlled access toll highway (the "Southern Connector") and to construct with financing provided by the SCDOT 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 of February 1, 1998 (together, the "Original Trust Indenture") to finance the construction of the Southern Connector.

The Association's toll revenues were insufficient to allow it to pay its 1998 Bond obligations and certain amounts owed to SCDOT when due, and the Association filed a petition for protection under Chapter 9 of the United States 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 Indenture of Trust and a First Supplemental Indenture of Trust (collectively, the "Amended Trust Indenture") and a First Amendment to the License Agreement between the Association and SCDOT (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 SCDOT.

Upon implementation of its Debt Adjustment Plan in 2011, the Association issued new toll road revenue bonds (the "2011 Bonds") in exchange for its 1998 Bonds. In 2012, the Association completed a mandatory exchange of certain of its 2011 Pro-Rata Term Bonds for 2011 By-Lot Bonds and paid outstanding issuance costs of its 2011 Bonds. These actions completed the full implementation of the Associations' Debt Adjustment Plan, and on August 27, 2012, the Bankruptcy Court issued the Final Decree closing the Association's Bankruptcy case. See note 13 for additional information pertaining to the Association's Bankruptcy proceedings, its License Agreement with SCDOT and its 2011 Bonds and Amended Trust Indenture.

The State of South Carolina Office of Comptroller General has determined that the Association is a component unit of the State of South Carolina and of the SCDOT because of its fiscal dependence upon the SCDOT. The Association is governed by a Board of Directors, the members of which are subject to approval of the SCDOT, and because of a possible benefit/burden relationship with SCDOT, in that SCDOT has to provide repairs and maintenance of the road.

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 are subject to the approval of the SCDOT, and (c) upon dissolution of the Association, all of the Association's net position will revert to the SCDOT, 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 Association has no component units.

The financial statements of a component unit are blended in as though it were part of the primary entity if it is, in substance, part of its operations. Since the Association is not a part of the operations of the Department, the Association's financial activity is presented discretely outside of the Department's primary entity financial statements. A complete copy of the Association's financial statements can be obtained from Connector 2000 Association, Inc., PO Box 408, Piedmont, South Carolina 29673.

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

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and the results of operations of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Department and its component unit and do not include any other funds or component units of the State of South Carolina. The presentation of the Department's financial position and Statement of Revenues, Expenditures, and Changes in Fund Balance, differs from the State of South Carolina's Comprehensive Annual Financial Report primarily due to adjusting certain transactions that exist between the Department and the South Carolina Transportation Infrastructure Bank (the "Bank" or "SIB").

Government-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.

Government-Wide Financial Statements

The Government-wide financial statements are prepared on the accrual basis of accounting and include a "Statement of Net Position" 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 Government-wide financial statements (i.e., the Statement of Net Position 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 $9.5 million 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 Way 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 Government-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.

Component Unit

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 nonoperating 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. Nonoperating revenues primarily include interest earned on cash equivalents and investments and realized and unrealized gains on investments. Nonoperating expenses primarily include (a) interest expense on the Association's debt (b) amortization of the Association's intangible interest in its License Agreement with SCDOT, (c) reimbursements of SCDOT highway maintenance expense from the 2011 Renewal and Replacement Fund, and (c) realized and unrealized losses on investments.

Revenues – Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, exchange transaction 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 are 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.

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.

Component Unit

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 a modified accrual (non-GAAP) basis for Revenue Fund expenses (as defined in the Amended Trust Indenture). 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.

Component Unit

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

Investments – Component Unit

The Association's Amended Trust Indenture contains provisions requiring all bond proceeds and toll revenues received by the Association to be held in trust and expended in accordance with the Amended Trust Indenture guidelines. Accordingly, at the April 21, 2011 effective date of the Association's Debt Adjustment Plan, new 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 SCDOT, are stated at cost. The Association generally follows capitalization policies recommended by the State of South Carolina's Office of Comptroller General.

Pursuant to this policy, equipment with individual or group costs greater than $5,000 and intangible assets with costs generally 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 SCDOT is amortized as described in Note 13. When capital assets are disposed of, the cost and accumulated depreciation are removed from the books. The resulting gain or loss is included in non-operating revenues or expenses.

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.

Component Unit

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

Prepaid Expenses

The Department makes certain payments to vendors which include 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, 2014.

Bonds Payable, Bond Discounts, Bond Premiums and Bond Issuance.

The Department reports bonds payable in the governmental activities in the government-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 expensed as incurred unless it is insurance. The Department reports bonds payable net of the applicable bond premium or discount and the deferred losses on refundings.

Component Unit

The current and noncurrent portions of bonds payable are recorded as liabilities in the accompanying Statement of Net Position. Beginning in 2012 with the Association’s adoption of GASB Statement No. 65, bond issuance costs, excluding those related to prepaid insurance costs, are expensed as incurred. Pursuant to the Association’s adoption of GASB Statement No. 65 in 2012, its unamortized bond issuance costs that were incurred and capitalized in 2011 were written off as an adjustment of beginning net position. See Associations Notes for more information pertaining to this Adjustment.

Deferred Outflows and Inflows

Deferred outflows consist of deferred losses on refunding of bonds. As discussed previously in this note, the implementation of GASB 65 required that deferred losses on refunding of bonds be reclassified to deferred outflows of resources. Previously, these balances were netted against the bonds payable balance. The deferred losses on refunding of bonds result from the current or advance refunding of bonds resulting in the defeasance of debt. The difference between the reacquisition price and the net carrying amount of the old debt is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

GASB 65 also requires that deferred inflows be recorded in the governmental fund that are not considered available. See the Measurement Focus, Basis of Accounting, and Financial Statement Presentation section of this note for information regarding availability criteria. The amounts recorded represent state agency receivables that were subsequently collected after sixty days of year end.

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, 2014.

Component Unit

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, 2013, the Association had no arbitrage liability.

Interest in License Agreement with the Department - Component Unit

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 SCDOT. Beginning April 21, 2011, the Association’s operations are governed by the Revised License Agreement with SCDOT, 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. See Note 13 for a detailed discussion of the terms of the Revised License Agreement.

The Association’s interest in its License Agreement with SCDOT constitutes a service concession arrangement (an “SCA”) that is accounted for as an intangible asset relating to the Southern Connector that began generating revenues upon commencement of toll road operations. An SCA is 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. 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. See note 13 for a description of this amortization.

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

Restricted Assets – Component Unit

The Amended Trust Indenture contains provisions to establish certain Funds and Accounts (the "2011 Funds and Accounts") to be held by the Trustee. The Amended Trust Indenture's terms define the amounts that may be deposited into the Funds and Accounts, and restrict payments from such Funds and Accounts. The various Funds and Accounts established and the related restrictions imposed by the Amended Trust Indenture are described below.

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 its 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. In 2012, following the Association's payment of the costs of issuing the 2011 By-Lot Term Bonds discussed below in Note 9, the 2011 Cost of Issuance Fund was closed.

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 budgeted 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) for 2011 Bond payment dates on or before January 1, 2016, an amount equal to 5.0% of the amount of Distributable Cash, and

   (ii) for 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 Indenture (see Note 9) on the 2011 Senior Bonds from earlier 2011 Bond payment dates.

4. 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.

5. 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.

6. 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 (see Note 9) on the 2011 Senior Subordinate Bonds from earlier 2011 Bond payment dates.

7. The Trustee shall deposit into the 2011 R&R Fund an amount not to exceed 2.5% of the amount of Distributable Cash.

8. 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 amounts representing Arrearages as defined in the Amended Trust Indenture (see Note 9) on the 2011 Junior Subordinate Bonds from earlier 2011 Bond payment dates.

Any Distributable Cash remaining after making the distributions listed above ("Excess Net Revenues") will be deposited into the 2011 Extraordinary Prepayment Fund to be used (if the amount on deposit in the 2011 Extraordinary Prepayment Fund exceeds $50,000) towards the prepayment of 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 Indenture, and shall not be added to the 2011 R&R Fund deposits for future 2011 Bond payment dates.

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 shortfalls in debt service on the 2011 Senior Bonds initially; and once all 2011 Senior Bonds have been redeemed, on the 2011 Senior Subordinate Bonds; and once all 2011 Senior Subordinate Bonds have been redeemed, on the 2011 Junior Subordinate Bonds. The Amended Trust Indenture 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 Bonds 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 Indenture requires that the minimum balance of such Account be restored before any debt service payments be made in respect of the 2011 Senior Subordinate or 2011 Junior Subordinate Bonds. Amounts in excess of the minimum balance requirement for any 2011 Debt Service Reserve Fund Account are transferred to the 2011 Extraordinary Prepayment 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 SCDOT to the extent of available funds 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 2011 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 the applicable tax code, at December 31, 2013, there were no funds on deposit in this Fund. The 2011 Rebate Fund is not a part of the 2011 Trust Estate.

Unearned Revenue

Unearned revenue in the government-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.

Unearned 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 compensated absence 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, 2014. 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.

Component Unit

The Association grants its regular full time employees paid vacation days based on years of service and 10 paid 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 no liability for such items was recognized at December 31, 2013.

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 Position

Primary Entity:

The Department presents the following classifications of net position in the Statement of Net Position in accordance with GASB Statement No. 63.

Net Investment in Capital Assets – 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 net position – 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 position.

Unrestricted net position – 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 restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Component Unit

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

Net Investment in Capital Assets – 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 Net Position – 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 position.

Unrestricted Net Position – All other net position 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 position is available.

The Association's negative net position at December 31, 2013, resulted from shortfalls since commencement of operations due to lower than expected traffic counts and toll revenue.

Fund Balance

The following categories of fund balance are being used in the fund level financial statement of the governmental fund in accordance with GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions:

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.

Implementation of New Accounting Standards

The Department implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, during fiscal year 2014. GASB Statement No. 65 establishes accounting and financial reporting standards that require reclassification of certain items that, in prior years, were properly reported as assets and liabilities. This Statement supplements and extends the reach of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which was adopted by the department in 2013. The Department's financial statements were affected by the implementation of GASB Statement No. 65. Under the guidance of the Statement, all bond issuance costs, excluding those related to prepaid insurance costs, are to be expensed in the period incurred rather than capitalized. Any such unamortized bond issuance costs that were incurred and capitalized in a previous year should be written off by a cumulative adjustment of beginning net position. This resulted in an adjustment of $1.404 million to beginning net position. A reconciliation of beginning net position is provided below. Additionally, the Statement required that deferred gains and losses resulting from the refunding of bonds be segregated from bonds payable as either deferred outflows or inflows. This differs from prior year presentation as these amounts were recorded as a reduction to the bonds payable balance. As a result $12.260 million was classified as deferred outflows related bond refundings for the year ended June 30, 2014.

	(in thousands)
Net position as of June 30, 2013, as previously reported:	$ 12,511,938
Adjustment to net position to write off capitalized bond issuance costs:	(1,404)
Net position as of June 30, 2013, as restated:	$ 12,510,534

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	$ 216,579	Deposits held by State Treasurer	$	357,822
Restricted noncurrent assets:				
Cash and cash equivalents	10,747			-
Fiduciary - Agency Funds				
Cash and cash equivalents	130,496			-
Total Primary Entity	357,822			357,822
Component Unit				
Unrestricted current assets:				
Cash and cash equivalents	947			-
Restricted current assets:				
Cash and cash equivalents	-	Bank Deposits		966
Restricted noncurrent assets:				
Cash and cash equivalents	6,694	Investments		6,675
Total component unit	7,641			7,641
TOTAL	$ 365,463		$	365,463

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 loss of $374 thousand for the governmental funds and an unrealized loss of $ 223 thousand for the fiduciary funds as of June 30, 2014 arising from changes in the fair value. Interest/investment income includes an unrealized loss of $374 thousand for the year ended June 30, 2014.

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, 2014. At June 30, 2014, 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, 2014, 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 $311 thousand of this loss that the State experienced.

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, 2014, 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, 2014, the State recorded these investments of cash collateral as assets in the financial statements. 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 FDIC 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 investment 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: 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, 2013, approximately $671,400 of the Association's bank balances of approximately $939,900 (with a carrying value of $965,425) were uninsured and uncollateralized. None of the deposits noted above were held by the South Carolina State Treasurer.

Investments

None of the investments noted below were held by the South Carolina State Treasurer. As of December 31, 2013, 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)
First American Prime Obligation Fund	AAAm, Aaa-mf, AAAmmf			
Total Fair value/weighted average maturity		$ 6,675	100.00%	0.112

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

NOTE 4. STATE APPROPRIATIONS:

The original appropriation is the Department's base budget amount as presented in Section 84, Part IA of the 2013-2014 Appropriation Act. The Department received $1,594,380,860 in appropriations. In fiscal year 2014, the Department expended $1,291,499,269. Of the total appropriations, $60,304,721, are state general funds and were fully expended.

NOTE 5. RECEIVABLES:

PRIMARY ENTITY:

The following schedule summarizes receivables at June 30, 2014, which include various notes, contracts and other accounts receivable.

(In Thousands)

Due From / Description	Current Portion	Long-term Portion	Totals
Intergovernmental:			
Federal Government:			
Amounts due under various grant programs and reimbursable contracts	$ 68,003	$ -	$ 68,003
	68,003	-	68,003
State Agencies:			
South Carolina Department of Motor Vehicles License Fees	2,290	-	2,290
South Carolina Department of Revenue Gasoline and special fuels taxes	85,370	-	85,370
Various Agencies: Sales of good and services	4,620	-	4,620
	92,280	-	92,280
Local Governments:			
Long-term contracts for construction projects	426	2,242	2,668
Participation agreements	402	-	402
	828	2,242	3,070
Other:			
Long-term contracts for construction projects	713	127	840
Participation agreements	33	-	33
Sales of goods and services	15,745	-	15,745
Less: allowance for doubtful accounts	(2,037)	-	(2,037)
	14,454	127	14,581
Total Receivables	$ 175,565	$ 2,369	$ 177,934

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

The Association had no outstanding receivables at December 31, 2013.

NOTE 6. INVENTORIES:

The following schedule summarizes inventories at June 30, 2014:

(In Thousands)		
Sign Shops	$	773
Repair Shops		1,185
Supply Depot		677
	$	2,635

NOTE 7. CAPITAL ASSETS:

PRIMARY ENTITY:

The following schedule summarizes additions to capital assets and their funding sources for the year ended June 30, 2014:

(In Thousands)

	Beginning Balances June 30, 2013	Increases	Decreases	Ending Balances June 30, 2014
Capital assets not being depreciated:				
Land and improvements	$ 3,353	$ -	$ -	$ 3,353
Right of ways land	1,447,297	21,753	4,501	1,464,549
Construction in progress:				
Infrastructure - road and bridge network	2,281,473	487,855	290,605	2,478,723
Other	3,728	3,889	-	7,617
Total capital assets not being depreciated	3,735,851	513,497	295,106	3,954,242
Other capital assets:				
Infrastructure - road and bridge network	12,338,108	290,605	8,724	12,619,989
Buildings and improvements	83,714	-	266	83,448
Equipment and furniture	140,518	12,474	9,026	143,966
Vehicles	106,289	4,655	9,263	101,681
Total other capital assets	12,668,629	307,734	27,279	12,949,084
Less accumulated depreciation for:				
Infrastructure - road and bridge network	3,137,423	176,881	8,158	3,306,146
Buildings and improvements	39,928	2,330	185	42,073
Equipment and furniture	103,164	8,214	8,648	102,730
Vehicles	81,955	6,251	9,243	78,963
Total accumulated depreciation	3,362,470	193,676	26,234	3,529,912
Other capital assets, net	9,306,159	114,058	1,045	9,419,172
Total capital assets for governmental activities, net	$ 13,042,010	$ 627,555	$ 296,151	$ 13,373,414

The following schedule further summarizes additions to capital assets and their funding sources for the year ended June 30, 2014:

		(in Thousands)
Additions:		
Increases per above:		
Capital assets not being depreciated	$	513,497
Other capital assets		307,734
Less, transfers from construction in progress:		(290,605)
Total additions	$	530,626
Funding Sources:		
Governmental funds	$	530,626
Total funding Sources	$	530,626

Depreciation expense for the year ended June 30, 2014 was approximately $193.676 million. Included in the Department's capital assets as of June 30, 2014 is $192.48 million that was paid for by the Association for the Southern Connector. SCDOT released all its claims against the Association.

At June 30, 2014, the estimated total costs of Department projects in progress to construct, acquire and maintain various capitalized assets amounted to approximately $10.0 million for facilities capital projects and approximately $8.21 billion for infrastructure projects including capital and non-capital. The estimated costs to complete the facilities capital projects amounted to approximately $2.39 million and the infrastructure projects amounted to approximately $2.43 billion at June 30, 2014. The outstanding contractual obligations attributable to the facilities capital projects were approximately $1.42 million and to the infrastructure projects were approximately $546.18 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 Department revenues. 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, 2013:

(In Thousands)

	Balance December 31, 2012	Increases	Decreases	Balance December 31, 2013
Capital assets:				
Equipment	$ 1,175	$ 3	$ (248)	$ 930
Less accumulated depreciation	(746)	(124)	248	(622)
Total capital assets for component unit, net	$ 429	$ (121)	$ -	$ 308

For the year ended December 31, 2013, depreciation expense related to capital assets was $124,039. The Association had no significant construction commitments outstanding at December 31, 2013.

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, 2014:

(In Thousands)

	Beginning Balances June 30, 2013	Increases	Decreases	Ending Balances June 30, 2014	Due Within One Year
General obligation bonds payable	$ 369,714	$ 86,575	$ 138,525	$ 317,764	$ 43,175
Unamortized premiums	30,031	15,000	4,312	40,719	4,275
Total Bonds Payable	399,745	101,575	142,837	358,483	47,450
Intergovernmental Payable					
Due to State Agency - SIB	294,861	-	22,027	272,834	22,720
Due to State Agency - Energy Note	24	-	24	-	-
Capital Lease	164	-	45	119	47
Accrued Compensated absences	25,276	20,459	19,168	26,567	18,514
Total Governmental Activities	$ 720,070	$ 122,034	$ 184,101	$ 658,003	$ 88,731

The Department has an additional amount due to the state agencies of $1.152 million which is included in the current portion of due to state agencies in the accompanying statement of net position.

The following schedule summarizes principal and interest expenditures/expenses attributable to long-term obligations of the Department for year ended June 30, 2014:

(in Thousands)

	Principal	Interest	Totals
Bonds Payable	$ 41,895	$ 15,321	$ 57,216
Contributions Payable	22,027	8,553	30,580
Notes Payable	24	-	24
Capital Lease	45	4	49
Total Expenditures	$ 63,991	23,878	$ 87,869
Adjustments to Entity-wide statements			
Change in interest accrual - bonds payable		99	
Total Interest Expense		$ 23,977	

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, 2014 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	5.00%	$ 920
4/1/2005	2005A	146,495	8/1/2022	3.00-5.00%	16,545
4/1/2010	2010A	299,860	6/1/2021	3.00-5.00%	213,724
12/1/2013	2013A	23,165	7/1/2021	2.00-5.00%	23,165
6/1/2014	2014A	63,410	10/1/2022	5.00%	63,410
					317,764
Add, unamortized premium					40,719
Total bonds payable					$ 358,483

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:			
2015	$ 43,175	$ 16,899	$ 60,074
2016	43,675	15,568	59,243
2017	43,615	11,031	54,646
2018	45,075	8,840	53,915
2019	46,595	6,576	53,171
2020 - 2023	95,630	7,818	103,448
Total debt service for bonds payable	$ 317,765	$ 66,732	$ 384,497

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.

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 2001B are considered to be defeased and the liability for those bonds has been removed from the Government-wide statement of net position. The amount of defeased principal outstanding on the 2010A bond is zero.

On December 1, 2013, the Department issued $23.165 million in general obligation State Refunding Bonds, Series 2013A. The purpose of the issuance was for an advance refunding of $25.7 million for the Series 2003B bonds. Proceeds from the bond issue consisted of the following (in Thousands):

Face amount of bonds	$	23,165
Premium		3,196
Total	$	26,361

Issuance costs of the 2013A bonds consisted of the following (in thousands):

Underwriter's discount	$	37.3
Other issuance costs		137.9
Total	$	175.2

The Department deposited $26.2 million in an escrow account with the Bank of New York 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 $25.7 million of Series 2003B bonds are considered to be defeased and the liability for those bonds has been removed from the Government-wide statement of net position. The amount of defeased principal outstanding on 2013A bond is zero.

On June 1, 2014, the Department issued $63.410 million in general obligation State Refunding Bonds, Series 2014A. The purpose of the issuance was to advance refund $70.9 million of the Series 2005A bonds. Proceeds from the bond issue consisted of the following (in thousands):

Face amount of bonds	$	63,410
Premium		11,804
Total	$	75,214

Issuance costs of the 2014A bonds consisted of the following (in thousands):

Underwriter's discount	$	107.5
Other issuance costs		149.3
Total	$	256.8

The Department deposited $74.97 million in an escrow account with the Bank of New York 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 $70.9 million of Series 2005A bonds are considered to be defeased and the liability for this portion of the bonds have been removed from the Government-wide statement of net position. The principal balance defeased and held in escrow for the 2014A bond is $70.9 million as of June 30, 2014.

Component Unit

Upon confirmation by the Bankruptcy Court of and as a means of implementing the Association's Debt Adjustment appreciation bonds, in exchange for the Association's 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. 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 Series 2011A and 2011B Bonds were exchanged for the 1998 Senior Bonds, and the Series 2011C Bonds were exchanged for the 1998 Subordinate Bonds.

The Series 2011A, 2011B and 2011C Term Bonds as originally issued in April 2011 are registered with the Depository Trust Corporation and are Pro-Rata Term Bonds for which each holder of such Bonds will receive a pro-rata share of any debt service payment made by the Association on such Bonds. In June 2011, the Association was advised by the Trustee and certain Bondholders that the manner of DTC registration of the 2011A, 2011B and 2011C Term Bonds impaired trading of those bonds on the secondary securities market. Such Bondholders requested an exchange of their 2011A, 2011B and/or 2011C Term Bonds for new term bonds registered with the DTC in such a manner that the new term bonds would be subject to mandatory redemption by lot.

As a remedy to the marketability issue, in February 2012, the Bankruptcy Court issued an order (the "Exchange Order") which approved the Association's First Supplemental Indenture of Trust and approved and authorized a mandatory Bond Exchange (with option to retain) of 2011 Pro-Rata Term Bonds for 2011 By-Lot Term Bonds. The 2011 By-Lot Term Bonds are registered with the DTC in a form that allows such Bonds to be traded on the secondary market; however, in accordance with DTC policies and procedures, the distribution of debt service redemption payments made on such Bonds prior to maturity occurs "by-lot" under a lottery system, rather than on a pro-rata basis. Accordingly, holders of the 2011 By-Lot Term Bonds are not assured of the timing of any particular bond payment prior to maturity. The option to retain provision of the Bond Exchange allowed holders of the Association's 2011 Term Bonds to decide whether they would retain their 2011 Pro-Rata Term Bonds as originally issued (the "2011 Retained Term Bonds") and suffer the illiquidity of those obligations, or exchange those Bonds for 2011 By-Lot Term Bonds (the "2011 New Term Bonds") and accept the uncertainty of timing of debt service payments.

The Bond Exchange occurred on May 31, 2012. The majority of holders of the Association's 2011 Term Bonds participated in the Bond Exchange and received 2011 New Term Bonds; however, a small percentage of Bondholders opted out of the Bond Exchange, and instead kept their 2011 Retained Term Bonds as originally issued. Accordingly, pursuant to the Bond Exchange, the original principal amount and annual pro rata pay down amounts (as discussed below) of the 2011 Retained Term Bonds were updated to reflect that the 2011 New Term Bonds were no longer included therein.

The Bond Exchange did not alter the Association's financial obligations under its 2011 Term Bonds.

All of the Association's 2011 Bonds, including the 2011 New Term Bonds issued in the Bond Exchange on May 31, 2012, are dated April 1, 2011 and accrete interest from that date. Interest on the Association's 2011 bonds is tax-exempt.

Following the Bond Exchange on May 31, 2012, the Association's 2011 Bonds, as updated for the Bond Exchange and as remained outstanding following the Association's January 1, 2012 payment of debt service, consisted of:

The *2011 Senior Bonds* as follows:

- Series 2011A Senior Capital Appreciation Toll Road Revenue Bonds (the "Series 2011A Serial Bonds") are dated April 1, 2011, and include eleven serial bonds. The original principal amount at issuance of the remaining outstanding serial bonds totaled $34,987,331. Such remaining outstanding serial bonds mature January 1 of the years 2013 through 2022 inclusive, and accrete interest at rates ranging from 3.75% to 6.00%.

- Series 2011A Senior Capital Appreciation Toll Road Revenue Bonds (the "Series 2011A Retained Term Bonds") are dated April 1, 2011, and include three term bonds.

    - The Series 2011A term bonds maturing on January 1, 2032, with an aggregate original principal amount of $163,949 are subject to annual pro rata paydown payments on January 1 of the years 2023 through 2031 in varying amounts from $34,395 to $54,516, with a payment of $55,448 at final maturity on January 1, 2032. Interest accretes on these term bonds at 6.50%.

    - The Series 2011A term bonds maturing on January 1, 2042, with an aggregate original principal amount of $126,990 are subject to annual pro rata paydown payments on January 1 of the years 2033 through 2041 in varying amounts from $63,621 to $89,912, with a payment of $90,392 at final maturity on January 1, 2042. Interest accretes on these term bonds at 7.00%.

    - The Series 2011A term bonds maturing on July 22, 2051, with an aggregate original principal amount of $73,418 are subject to annual pro rata paydown payments on January 1 of the years 2043 through 2051 in varying amounts from $90,876 to $113,077, with a payment of $60,151 (as revised following the February 15, 2014 extraordinary mandatory prepayment discussed below) at final maturity on July 22, 2051. Interest accretes on these term bonds at 7.50%.

- Series 2011A1 Senior Capital Appreciation Toll Road Revenue Bonds (the "Series 2011A1 New Term Bonds") are dated April 1, 2011, and include three term bonds.

    - The Series 2011A1 term bonds maturing on January 1, 2032, with an aggregate original principal amount of $40,455,704 and a maturity value of $149,446,102 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2023 through 2031 in varying amounts from $8,487,008 to $13,452,215, with a payment of $13,683,044 at final maturity on January 1, 2032. Interest accretes on these term bonds at 6.50%.

    - The Series 2011A1 term bonds maturing on January 1, 2042, with an aggregate original principal amount of $31,336,681 and a maturity value of $250,959,619 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2033 through 2041 in varying amounts from $15,698,783 to $22,186,026, with a payment of $22,305,954 at final maturity on January 1, 2042. Interest accretes on these term bonds at 7.00%.

    - The Series 2011A1 term bonds maturing on July 22, 2051, with an aggregate original principal amount of $181,174,434 and a maturity value of $334,287,216 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2043 through 2051 in varying amounts from $22,424,076 to $27,900,334, with a payment of $14,843,507 (as revised following the February 15, 2014 extraordinary mandatory redemption discussed below) at final maturity on July 22, 2051. Interest accretes on these term bonds at 7.5%.

The *2011 Senior Subordinate Bonds* as follows:

- Series 2011B Senior Subordinate Capital Appreciation Toll Road Revenue Bonds (the "Series 2011B Retained Term Bonds") are dated April 1, 2011, and include two term bonds.

    - The Series 2011B term bonds maturing on January 1, 2032, with an aggregate original principal amount of $56,612 are subject to annual pro rata paydown payments on January 1 of the years 2013 through 2031 in varying amounts from $2,754 to $12,923, with a payment of $13,152 at final maturity on January 1, 2032. Interest accretes on these term bonds at 8.50%.

    - The Series 2011B term bonds maturing on July 22, 2051, with an aggregate original principal amount of $28,491 are subject to annual pro rata paydown payments on January 1 of the years 2033 through 2051 in varying amounts from $14,702 to $26,129, with a payment of $14,676 at final maturity on July 22, 2051. Interest accretes on these term bonds at 9.00%.

- Series 2011B1 Senior Subordinate Capital Appreciation Toll Road Revenue Bonds (the "Series 2011B1 New Term Bonds") are dated April 1, 2011, and include two term bonds.

    - The Series 2011B1 term bonds maturing on January 1, 2032, with an aggregate original principal amount of $13,606,458 and a maturity value of $73,945,516 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2013 through 2031 in varying amounts from $662,275 to $3,106,955, with a payment of $3,160,274 at final maturity on January 1, 2032. Interest accretes on these term bonds at 8.50%.

    - The Series 2011B1 term bonds maturing on July 22, 2051, with an aggregate original principal amount of $7,029,534 and a maturity value of $226,739,016 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2033 through 2051 in varying amounts from $3,626,162 to $6,444,579, with a payment of $3,616,453 at final maturity on July 22, 2051. Interest accretes on these term bonds at 9.00%.

The *2011 Junior Subordinate Bonds* as follows:

- Series 2011C Junior Subordinate Capital Appreciation Toll Road Revenue Bonds (the "Series 2011C Retained Term Bond") are dated April 1, 2011, and include term bonds with an aggregate original principal amount of $17,943. These term bonds are subject to annual pro rata paydown payments on January 1 of the years 2013 through 2051 in varying amounts from $697 to $6,762, with a payment of $3,775 at final maturity on July 22, 2051. Interest accretes on these term bonds at 10.00%.

- Series 2011C1 Junior Subordinate Capital Appreciation Toll Road Revenue Bonds (the "Series 2011C1 New Term Bond") are dated April 1, 2011, and include term bonds with an aggregate original principal amount of $2,142,491 and a maturity value of $97,782,636. These term bonds are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2013 through 2051 in varying amounts from $81,503 to $792,986, with a payment of $445,033 at final maturity on July 22, 2051. Interest accretes on these term bonds at 10.00%.

The Association's bonds payable activity for the year ended December 31, 2013 was as follows:

(In Thousands)

	Balances December 31, 2012	Increases	Decreases	Balances December 31, 2013	Amount due in one year	
Senior Bonds						
Series 2011A Serial Bonds	$ 38,243	$ 1,889	$ 2,879	$ 37,253	$ 3,012	
Series 2011A Retained Term Bonds	409	28	-	437	-	#
Series 2011A 1 New Term Bonds	101,005	6,947	-	107,952	54	#
Total Senior Bonds	139,657	8,864	2,879	145,642	3,066	
Senior Subordinate Bonds:						
Series 2011B Retained Term Bonds	99	8	3	104	3	
Series 2011B 1 New Term Bonds	23,868	2,012	660	25,220	693	
Total Senior Subordinate Bonds	23,967	2,020	663	25,324	696	
Junior Subordinate Bonds:						
Series 2011C Retained Term Bonds	21	2	1	22	1	
Series 2011C 1 New Term Bonds	2,479	239	81	2,637	85	
Total Junior Subordinate Bonds	2,500	241	82	2,659	86	
Total Revenue Bonds Payable	$ 166,124	$ 11,125	$ 3,624	$ 173,625	$ 3,848	

Amounts due in one year on the Series 2011A Retained Term Bonds and the 2011A1 New Term Bonds represent the extraordinary mandatory prepayments and redemptions that were paid in February 2014.

During 2013, increases in bonds payable totaled $11,126,574 and represented accretions on the Association's bonds during the year. The 2013 decreases in bonds payable of $3,626,348 represented debt service payments that were made in January 2013.

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

The Association is required to make extraordinary mandatory prepayments of its 2011 Retained Term Bonds and redemptions of its 2011 New Term Bonds. The 2011 Extraordinary Prepayment Fund described in the contains in excess of $50,000. The monies in the 2011 Extraordinary Prepayment Fund shall be applied toward an extraordinary mandatory prepayment/redemption of the 2011 Bonds on the following February 15, at 105% of the accreted value of the respective 2011 Bonds being paid. Extraordinary mandatory prepayments/redemptions shall pay the 2011 Senior Bonds first. If there are no 2011 Senior Bonds outstanding, then the 2011 Senior Subordinate Bonds shall be prepaid/redeemed. If there are no outstanding 2011 Senior or Senior Subordinate Bonds, then the 2011 Junior Subordinate Bonds shall be prepaid/redeemed. See information regarding the extraordinary mandatory prepayments made by the Association on February 15, 2014.

At any time on or after April 1, 2026, the Association may make optional prepayments of its 2011 Retained Term Bonds or redemptions of its 2011 New Term Bonds at prescribed percentages of such 2011 Bonds' respective accreted values. If the Association makes optional partial prepayments/redemptions of its 2011 Retained/New Term Bonds, the amount of such 2011 Retained/New Term Bonds to be prepaid/redeemed will be selected ratably based upon the accreted values of the outstanding 2011 Retained/New Term Bonds as of the prepayment/redemption date.

Any extraordinary mandatory or optional prepayments of the Association's 2011 Retained Term Bonds will be distributed to Bondholders on a pro-rata basis. Any extraordinary mandatory or optional redemptions of less than all of the Association's 2011 New Term Bonds of a single maturity will be distributed to Bondholders by lot.

The following schedule summarizes the Association's debt service requirements to maturity as of December 31, 2013. Since all of the 2011 Bonds are capital appreciation bonds, accretions are accounted for as interest expense and additions to principal. For purposes of the following debt service schedule, all accretions are included as principal, and no interest is shown. The amount shown as debt service for 2014 includes the Association's extraordinary mandatory prepayments paid in February 2014.

(In Thousands)

Year ending December 31:	Principal	Interest	Totals
2014	$ 3,848	$ -	$ 3,848
2015	4,101	-	4,101
2016	4,572	-	4,572
2017	6,185	-	6,185
2018	6,835	-	6,835
2019-2023	46,020	-	46,020
2024-2028	66,309	-	66,309
2029-2033	86,782	-	86,782
2034-2038	109,498	-	109,498
2039-2043	134,156	-	134,156
2044-2048	155,096	-	155,096
2049-2051	124,283	-	124,283
	$ 747,685	$ -	$ 747,685

The terms of the Amended Trust Indenture require the establishment of various 2011 Trust Fund Accounts. The monies 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, 2013, 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, 2013
2011 Revenue Fund	$ -
2011 Debt Service Fund	3,793
2011 Debt Service Reserve	2,034
2011 Extraordinary Prepayment Fund	57
Total	$ 5,884

During the years ended December 31, 2013 and 2012, payments from the various accounts were made in accordance with the terms of the Amended Trust Indenture.

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. The 2011 Senior Subordinate Bonds are subordinated to the 2011 Senior Bonds in all respects, including in right of payment and priority of liens. The 2011 Junior Subordinate Bonds are subordinated to the 2011 Senior and Senior Subordinate 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. The Amended Trust Indenture specifies that any amounts owing on the 2011 Bonds that are unpaid due to insufficient Distributable Cash shall be deferred and bear interest from the date of non-payment at a rate equal to the interest rate or yield on the 2011 Bond to which such unpaid amount relates, compounded annually. The term *Arrearages* in the Amended Trust Indenture refers to such unpaid amounts plus interest.

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 above. For example, if no 2011 Senior Bonds are outstanding on any 2011 Bond payment date, then any 2011 Senior Subordinate Bonds outstanding will be treated as 2011 Senior Bonds payable from the 2011 Senior Bonds Debt Service Account, and any 2011 Junior Subordinate 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 was delivered to the Trustee in early June 2014.

- 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 2011 Senior Bonds will constitute an event of default. Once all of the 2011 Senior Bonds have been paid, failure to make any scheduled debt service payment or any mandatory prepayment of the 2011 Senior Subordinate Bonds will constitute an event of default under the Amended Trust Indenture. Once all of the 2011 Senior Bonds and all of the 2011 Senior Subordinate Bonds have been paid, failure to make any scheduled debt service payment or any mandatory prepayment of the 2011 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 2011 Senior and/or 2011 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 its property; (iv) makes an assignment for the benefit of its creditors; or (v) is unable to, or admits in writing its inability to, pay its debts as they come due (except for any inability to make payments due on its 2011 Senior Subordinate or 2011 Junior Subordinate Bonds that would not constitute an event of default under the first bullet above of this paragraph).

- 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 or 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 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 as of and during the year ended December 31, 2013.

More detailed information pertaining to the Association's 2011 Bonds, including complete copies of the First Amended and Restated Master Indenture of Trust; the First Supplemental Indenture of Trust; and related filings, notices and Court Orders pertaining to the Bond Exchange, may be found on the Association's website, www.SouthernConnector.com under the *Official Filings* link of the *News & Filings* tab.

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 were estimated to be $888 million. Funding consisted of (1) a $340 million financial assistance awarded by the Bank, of which $114 million was re-paid to the Bank by the Department in annual installments of $10 million each for eleven years and $4 million in the twelfth year; and an additional $95 million contribution was 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.

Charleston County Project. The total estimated project costs were estimated to be $650 million. Funding for the project consisted 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 contributed $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 were estimated to be $100 million. Funding consisted 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 2009. The first loan transfer of $53 million was made July 2008 with the remaining funds of $29 million transferred July 2009.

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 extended 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 was utilized, with an imputed interest rate of 5.025%. Annual installments of $10 million began in 2010 and continue until 2023. 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.

The following schedule summarizes changes in contributions payable – State agency (the South Carolina Transportation Infrastructure Bank) for the year ended June 30, 2014 and account balances of each year-end:

	(In Thousands)			
Project	Beginning Balance June 30, 2013	Increases	Decreases	Ending Balance June 30, 2014
Horry Ride I Project Phase II	$ 38,338	$ -	$ 5,729	$ 32,609
Charleston County Project	111,333	-	8,000	103,333
US 17	73,440	-	1,754	71,686
Multi-Project Loan	71,750	-	6,544	65,206
Totals	$ 294,861	$ -	$ 22,027	$ 272,834

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			
2015	$ 22,719	$ 7,860	$ 30,579
2016	23,446	7,134	30,580
2017	24,209	6,371	30,580
2018	25,009	5,571	30,580
2019	25,393	4,553	29,946
2020-2024	79,607	14,459	94,066
2025-2029	38,971	9,261	48,232
2030-2034	19,516	5,382	24,898
2035-3037	113,964	976	114,940
Totals	$ 372,834	$ 61,567	$ 434,401

NOTE 11. Deferred Outflows

The advance refunding of the 2010A bonds resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of $14.194 million. This difference is reported in the accompanying financial statements as a deferred outflow 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: Net carrying amount		(320,249)
Deferred loss on refunding of bonds payable		14,194
Accumulated amortization of deferred loss		(5,914)
Balance of unamortized deferred loss	$	8,280

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2014 was $1.42 million.

The advance refunding of the 2013A bonds resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of $96.1 thousand. This difference is reported in the accompanying financial statements as a deferred outflow and is being amortized on a straight line basis and will be charged to operations through the fiscal year ending June 30, 2021. The Department completed the advance refunding to reduce its total debt service payments over the next 8 fiscal years by approximately $2.608 million and to obtain an economic gain of approximately $2.487 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 2013A bonds (in thousands):

Escrow deposit	$	26,200
Less: Net carrying amount		(26,104)
Deferred loss on refunding of bonds payable		96
Accumulated amortization of deferred loss		(7)
Balance of unamortized deferred loss	$	89

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2014 was $7 thousand.

The advance refunding of the 2014A bonds resulted in a difference between the reacquisition price and the net carrying amounts of the old debt of $3.931 million. This difference is reported in the accompanying financial statements as a deferred outflow and is being amortized on a straight line basis and will be charged to operations through the fiscal year ending June 30, 2023. The Department completed the advance refunding to reduce its total debt service payments over the next 10 fiscal years by approximately $4.272 million and to obtain an economic gain of approximately $4.220 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 2014A bonds (in Thousands):

Escrow deposit	$	74,974
Less: Net carrying amount		(71,042)
Deferred loss on refunding of bonds payable		3,932
Accumulated amortization of deferred loss		(39)
Balance of unamortized deferred loss	$	3,891

Amortization of the deferred loss on refunding of bonds payable for the year ended June 30, 2014 was $39 thousand.

NOTE 12. LEASE OBLIGATIONS:

The Department incurred approximately $283.8 thousand in expenditures in the current fiscal year 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 ownership of the equipment will transfer to the Department at the end of the term of the loan. 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
2015	47	3	50
2016	48	2	50
2017	24	1	25
	$ 119	$ 6	$ 125

NOTE 13. BANKRUPTCY PROCEEDINGS AND INTEREST IN LICENSE AGREEMENT WITH THE DEPARTMENT – COMPONENT UNIT:

Bankruptcy Proceedings

In 2012, the Association performed the remaining actions necessary to fully implement its Debt Adjustment Plan, including the exchange of certain 2011 Pro-Rata Term Bonds for 2011 By-Lot Bonds as discussed in Note 9 and payment of remaining outstanding costs of issuance of the 2011 Bonds in accordance with the New Waterfall as discussed in Note 2 to the financial statements. Accordingly on August 27, 2012, the Bankruptcy Court issued a Final Decree closing the Association's Chapter 9 Bankruptcy case.

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 after the Department submits any reimbursement requests.

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 SCDOT, which granted to the Association the exclusive right (1) to acquire, in the name of the SCDOT, 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 the 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. 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. All references to license fees are deleted in the Revised License Agreement. As a result, the Association is not required to pay license fees or related interest to SCDOT.

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 not 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 2 to the financial statements. 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 needs, and the Association Engineer may estimate the costs of addressing those issues and needs, and assess the appropriate timing of performing related maintenance activities. The parties will collaborate with SCDOT to schedule necessary highway maintenance activities.

The Association is responsible for maintenance and related costs of the Southern Connector toll facilities under the Revised License Agreement.

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, SCDOT 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 SCDOT 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.

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 SCDOT.

Provisions are also included to extend the Revised License Agreement at the request of SCDOT 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. This contingency is discussed further in the Association's notes.

Under the Revised License Agreement, SCDOT 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. Neither the State of South Carolina nor any political subdivision or agency thereof (including, without limitation, SCDOT, 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 Revised License Agreement.

The Association is amortizing the Revised License Agreement through its contractual termination date, or July 2051.

The Association's rights under its License Agreement with SCDOT constitute a service concession arrangement 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 SCDOT (intangible asset) for the year ended December 31, 2013:

Description	Balance December 31, 2012	Additions	Disposals	Balance December 31, 2013
Interest in License Agreement with SCDOT	$ 192,497	$ 126		$ 192,623
Less: Accumulated Amortization	(54,710)	(3,574)		(58,284)
Interest in License Agreement with SCDOT, net	$ 137,787	$ (3,448)	$ -	$ 134,339

NOTE 14. 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 Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA). Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits to eligible employees and retired members.

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

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

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

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

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

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Department's actual retirement and incidental death benefit program contributions to the SCRS for the years ended June 20, 2014, 2013, and 2012 were:

(in thousands)

Fiscal Year	Retirement			Incidental Death		
Ended	Rate		Contribution	Rate		Contribution
2014	10.450%	$	26,700	0.15%	$	258
2013	10.450%	$	26,000	0.15%	$	259
2012	9.385%	$	23,800	0.15%	$	263

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement plan. 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 PORS as a condition of employment. This plan provides for lifetime monthly annuity benefits as well as disability, survivor benefits and incidental death benefits to eligible employees and retirees. In addition, participating employers in the PORS may elect to contribute to the accidental death program 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.

Under the PORS, Class II members are eligible for a full service retirement annuity upon reaching age 55 or completion of 25 years of credited service regardless of age. Class III members are eligible for a full service retirement annuity upon reaching age 55 or 27 years of credited service. The benefit formula for full benefits for the PORS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. PORS does not have an early retirement option. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Effective July 1, 2013, employees participating in the PORS were required to contribute 7.84% of all earnable compensation. The employer contribution rate for PORS was 17.76%. Included in the total PORS employer contribution rate is a base retirement contribution of 12.44%, .20% for the incidental death benefit program, .20% for the accidental death program, and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Department's actual retirement, incidental death benefit program and accidental death program contributions to the PORS for the years ended June 30, 2014, 2013, and 2012 were:

Fiscal Year	Retirement			Incidental Death			Accidental Death		
Ended	Rate		Contribution	Rate		Contribution	Rate		Contribution
2014	12.440%	$	46,000	0.20%	$	535	0.20%	$	535
2013	11.900%	$	35,000	0.20%	$	427	0.20%	$	427
2012	11.363%	$	32,000	0.20%	$	403	0.20%	$	403

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution retirement plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and .15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2014, total contributions requirements to the ORP were approximately $710 thousand (excluding the surcharge) from the Department as employer and approximately $166 thousand from its employees as plan members.

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

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

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

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

NOTE 15. POST-EMPLOYMENT BENEFITS AND OTHER THAN PENSIONS:

Plan Description

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

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

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

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statue to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Department paid approximately $8.4 million and $8.0 million applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014 and 2013, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was $3.22 for the fiscal years ended June 30, 2014 and 2013.

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

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

NOTE 16. 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 17. 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 $24 million for the year ended June 30, 2014. The Department sells supply items and provides services for various State agencies. Total sales to State agencies were approximately $229.3 thousand for the year ended June 30, 2014.

The gasoline, special fuels user fees and car sales taxes are collected by the South Carolina Department of Revenue (DOR) and remitted on a monthly basis. The user fees and sales taxes collected by DOR for the State Highway Fund amounted to $635.768 million for the year ended June 30, 2014 of which $85.4 million was accrued as a receivable at June 30, 2014. Gasoline tax revenues collected by DOR for the County Transportation Program Agency Fund amounted to $79.543 million for the year ended June 30, 2014.

The Department participates in the International Fuel Tax Agreement (IFTA) program. This program is an agreement between the lower 48 states of the United States and the Canadian provinces, to simplify the reporting of fuel use by motor carriers that operate in more than one jurisdiction. Alaska, Hawaii, and the Canadian territories do not participate. An operating carrier with IFTA receives an IFTA license and two decals for each qualifying vehicle it operates. The carrier files a quarterly fuel tax report. This report is used to determine the net tax or refund due and to redistribute taxes from collecting states to states that it is due. This tax is required for motor vehicles used, designed, or maintained for transportation of persons or property and:

- Having two axles and a gross vehicle weight rating or registered gross vehicle weight in excess of 26,000 pounds, and/or

- Having three or more axles regardless of weight, and/or

- Is used in combination, when the weight of such combination exceeds 26,000 pounds gross vehicle or registered gross vehicle weight.

Exceptions exist for Recreational Vehicles (such as motor homes, pickup trucks with attached campers, and buses when used exclusively for personal pleasure by an individual. Some states have their own exemptions that often apply to farm vehicles or government vehicles. Additional information about the IFTA can be found at http://www.iftach.org/.

The calculation of net amount owed or due is performed by this central organization. This calculation has historically resulted in a net amount due from the Department to the central organization. The Department remitted $15.8 million of fuel oil user fee revenue to the SC Department of Motor Vehicles (DMV) in FY 2014 for the IFTA calculation. The DMV then remits that amount to the central IFTA organization for redistribution to other member states. The Department remitted $14.3 million in FY 2013 for the same calculation.

Services received at no cost from PEBA include pension plans administration and insurance plans administration; from the State Budget and Control Board, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions; and audit services from the Office of the State Auditor.

The Department had financial transactions with various State agencies during the fiscal year. Significant payments were made to PEBA for retirement plan contributions and health insurance premiums and the State Budget and Control Board for 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.

Workers' compensation insurance premiums for the fiscal year 2014 of $8.0 million were paid to the State Accident Fund and $274.5 thousand was paid for Unemployment Insurance, to the South Carolina Unemployment Trust Fund.

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

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 2014 for which it was paid $1.290 million. The Bank also reimbursed the Department $1.588 million in direct project costs. Allocations to other entities - State agency represented amounts paid to the Bank and totaled $26.5 million for the year ended June 30, 2014. 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 also transferred $50 million to the Bank as directed by the state legislature as part of additional "Act 98" funding from the general fund.

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, 2014 is as follows:

Due To / Description	(In Thousands)
Purchases of goods and services:	
Archives & History	$ 39
Clemson University	49
Office of Lieutenant Governor	116
S.C. Department of Corrections	45
S.C. Department of Health & Environmental Control	17
S.C. Department of Motor Vehicles	68
S.C. Department of Natural Resources	8
S.C. Department of Parks Recreation & Tourism	247
S.C. Department of Public Safety	11
S.C. Transportation Infrastructure	534
State Budget and Control Board	18
	$ 1,152

NOTE 18. FEDERAL GRANTS:

The Department has grants and reimbursable contracts with the Federal government and the South Carolina Emergency Management Division (SCEMD) 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 19. 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 (Department of Employment and Workforce);
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 (Public Employee Benefit Authority – Insurance Benefits); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefit Authority – Insurance Benefits).

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 participants 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, 2014, 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, 2014 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. 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, 2013.

NOTE 20. CONTINGENCIES AND SUBSEQUENT EVENTS:

CONTIGENCIES:

PRIMARY ENTITY:

The Department is a defendant in various lawsuits arising from the conduct of its normal business primarily regarding rights-of-way. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of any litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Department.

Through June 30, 2013, 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. This authorization was rescinded in 2014.
The Department experienced a significant FEMA declared disaster that affected the State's transportation infrastructure in early 2014 from winter storm "Pax". That event resulted in an estimated $162.9 million in clean-up related expenses. The Department paid approximately $113.1 million of that amount during fiscal year 2014. The Department accrued the remaining $49.8 million, which is expected to be disbursed to vendors during fiscal year 2015. As a result of the FEMA declaration, the Department is eligible for public disaster assistance under a FEMA pilot program which allows the Department to submit eligible expense for debris removal and the repair, restoration, and replacement of damaged facilities. The Department expects to collect $122 million in reimbursements from FEMA as a result of participating in this reimbursement program. However, the approval of all reimbursements has not yet occurred as of the date of these financial statements.

The Department currently receives federal grant reimbursements using the Moving Ahead for Progress in the 21st Century ("MAP-21") Act. This act was previously set to expire in late 2014 but it was extended to May 2015. This transportation funding act faces either a federal extension or replacement with an alternative transportation funding bill. The Department is dependent upon the US legislature to take action on the prospects of future transportation funding and the overall solvency of the Highway Trust Fund. As of the date of these financial statements, and extension has not been approved by the US legislature. If an extension of the existing act or alternative funding bill is not approved, there could be a significant negative effect on the Department and the State's highway infrastructure, the extent of which cannot be determined at this time.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(In Thousands)

	--------------------------------Assets	---		
	Cash and Cash Equivalents	Accrued Interest Receivable	Due from State Highway Fund	Total Assets
RIGHT OF WAYS FUND				
Balance at June 30, 2013	$ 332	$ -	$ -	$ 332
Additions	-	-	-	-
Deductions	(157)	-	-	(157)
Balance at June 30, 2014	175	-	-	175
SPECIAL DEPOSITS				
Balance at June 30, 2013	3,680	-	-	3,680
Additions	2,415	-	-	2,415
Deductions	(2,485)	-	-	(2,485)
Balance at June 30, 2014	3,610	-	-	3,610
LOCAL TAX FUND				
Balance at June 30, 2013	5,959	-	-	5,959
Additions	25,120	24,994	-	50,114
Deductions	(7,127)	(24,994)	-	(32,121)
Balance at June 30, 2014	23,952	-	-	23,952
COUNTY TRANSPORTATION FUND				
Balance at June 30, 2013	110,826	264	12,014	123,104
Additions	92,800	495	70,042	163,337
Deductions	(100,867)	(537)	(69,498)	(170,902)
Balance at June 30, 2014	102,759	222	12,558	115,539
TOTALS - ALL AGENCY FUNDS				
Balance at June 30, 2013	120,797	264	12,014	133,075
Additions	120,335	25,489	70,042	215,866
Deletions	(110,636)	(25,531)	(69,498)	(205,665)
Balance at June 30, 2014	$ 130,496	$ 222	$ 12,558	$ 143,276

South Carolina Department of Transportation
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis, Unaudited)
Budgetary General Funds
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Engineering - Construction				
General Fund Transfer	$ 58,405,214	$ 58,405,214	$ 58,405,214	$ -
Mass Transit				
Aid to other entities	57,270	57,270	57,270	-
Capital Improvements	1,842,237	1,842,237	1,842,237	-
Total Expenditures	$ 60,304,721	$ 60,304,721	$ 60,304,721	$ -

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2014

NOTE 1. BUDGETARY FUNDS

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

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

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

The 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 115 (*Recapitulations)* of the Appropriation Act includes net *source of funds* amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the 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 inter-fund payments against the preceding fiscal year's appropriations through July 14.
- The gasoline and motor fuel taxes are recorded on the modified accrual basis in accordance with State law.
- All other revenues are recorded only when the State receives the related cash.

NOTE 5: RECONCILIATION OF BUDGET TO GAAP REPORTING DIFFERENCES

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist of primarily of reclassifications from financial statement classifications to budgetary fund categories, the accrual and reversal of accounts payable and payroll and related fringe benefits, which exceed the cut off for the Department to charge the previous fiscal year's appropriations. Additionally, acquisitions of capital assets by donation and a portion of the Department's debt service are unbudgeted.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(In Thousands)

	Assets			
	Cash and Cash Equivalents	Accrued Interest Receivable	Due from State Highway Fund	Total Assets
RIGHT OF WAYS FUND				
Balance at June 30, 2013	$ 332	$ -	$ -	$ 332
Additions	-	-	-	-
Deductions	(157)	-	-	(157)
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Deductions	(2,485)	-	-	(2,485)
Balance at June 30, 2014	3,610	-	-	3,610
LOCAL TAX FUND				
Balance at June 30, 2013	5,959	-	-	5,959
Additions	25,120	24,994	-	50,114
Deductions	(7,127)	(24,994)	-	(32,121)
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Balance at June 30, 2014	$ 130,496	$ 222	$ 12,558	$ 143,276

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
(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, 2013	$ -	$ 332	$ -	$ -	$ 332
Additions	-	-	-	-	-
Deductions	-	(157)	-	-	(157)
Balance at June 30, 2014	-	175	-	-	175
SPECIAL DEPOSITS					
Balance at June 30, 2013	572	-	3,108	-	3,680
Additions	670	-	1,744	-	2,414
Deductions	(647)	-	(1,837)	-	(2,484)
Balance at June 30, 2014	595	-	3,015	-	3,610
LOCAL TAX FUND					
Balance at June 30, 2013	-	-	-	5,959	5,959
Additions	-	-	-	25,301	25,301
Deductions	-	-	-	(7,308)	(7,308)
Balance at June 30, 2014	-	-	-	23,952	23,952
COUNTY TRANSPORTATION FUND					
Balance at June 30, 2013	7,555	-	-	115,549	123,104
Additions	7,295	-	-	193,242	200,537
Deductions	(7,555)	-	-	(200,547)	(208,102)
Balance at June 30, 2014	7,295	-	-	108,244	115,539
TOTALS - ALL AGENCY FUNDS					
Balance at June 30, 2013	8,127	332	3,108	121,508	133,075
Additions	7,965	-	1,744	218,543	228,252
Deletions	(8,202)	(157)	(1,837)	(207,855)	(218,051)
Balance at June 30, 2014	$ 7,890	$ 175	$ 3,015	$ 132,196	$ 143,276