SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

State of South Carolina

Office of the State Auditor

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

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November 20, 2002

The Honorable Jim Hodges, Governor
and
Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Transportation for the fiscal year ended June 30, 2002, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

Tom Wagner

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

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ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental and business-type 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, 2002 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Connector 2000 Association, Inc. (the Association), a component unit of the Department. The financial statements of the Association as of and for the year ended December 31, 2001 were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors.

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

As described in Note 1 to the financial statements, the Department's financial statements are intended to present the financial position, results of operations, and cash flows of only that portion of the funds and account groups of the State of South Carolina that is attributable to the transactions of the Department, an agency of the State, and its discretely presented component unit. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2002, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, based on our audit and the aforementioned report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Department as of June 30, 2002 and its component unit as of December 31, 2001, and the results of its operations for the year ended June 30,2002 and the results of operations and the cash flows of its component unit for the year ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

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The Management's Discussion and Analysis on pages 3 through 11 and the budgetary comparison information are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

As discussed in Note 1 to the basic financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus as of July 1, 2001. The component unit adopted these provisions as of January 1, 2001. This results in a change in the format and content of the financial statements as detailed in Note 1. Also, as of July 1, 2001, the Department changed its capitalization policy and an adjustment was made to remove those capital assets that were less than the new policy capitalization level; adopted the consumption method for reporting prepaid expenses and an adjustment was made to record the unused portion; and, discovered errors in the application of accounting principles regarding unrecorded receivables for gasoline and special fuels taxes and sales for goods and services and the liability for the portion of gasoline taxes collected and due to another State agency. The required adjustments and corrections of these errors were accounted for as prior period adjustments and are detailed in Note 21.

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2002, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Rogers + Laban PA

October 21, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the South Carolina Department of Transportation (SCDOT), we provide this *Management's Discussion and Analysis* of the Department of Transportation Financial Statements for the fiscal year ended June 30, 2002 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.*, 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 auditor's opinion dated May 9, 2002 has been issued. We refer readers to that report for more detailed information.

Because SCDOT is implementing new reporting standards required by Governmental Accounting Standards Board (GASB) Statement No. 34 for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Department's financial position and results of operations.

FINANCIAL HIGHLIGHTS

GOVERNMENT-WIDE

Net Assets - The assets of the Department exceeded its liabilities at fiscal year ending June 30, 2002 by **$8.5** billion (presented as "net assets"). Of this amount, **$141.6** million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the Department's ongoing obligations to citizens and creditors. The Department's component unit, Connector 2000 Association, Inc. reported a ***net deficit*** of **$15.5** million as of December 31, 2001, the close of its fiscal year.

Changes in Net Assets - The Department's total net assets increased by **$651.5** million (an **8%** increase) in fiscal year 2002. All or the activities of the Department are considered governmental activities in the Government-wide financial statements. The Department's component unit net deficit increased by **$14.4** million, **$11.0** million of which was interest expense.

Capital Assets – Capital Assets net of depreciation, which include infrastructure and are depreciated for the first time this year, were approximately **$9.0** billion at June 30, 2002 for the Department. Capital additions for the year, including **$348.4** million donated from the South Carolina Transportation Infrastructure Bank, totaled **$926.3** million. Capital assets removed from the records this year were **$22.1** million. Capital assets of the component unit, net of depreciation were approximately **$184.8** million at December 31, 2001. The Association classified the capital costs ($188.3 million) of building the Southern Connector toll road, including construction period interest as a license agreement with the Department. The Department, as legal owner of the toll highway, has recorded a like amount in its records as infrastructure. See the Capital Assets section of this management's discussion and analysis for more information about the accounting treatment of capital assets.

Long-term Debt - The Department's total long-term debt obligations increased by **$6.7** million (.7**%**) during the current fiscal year to **$861.6** million. This change is attributable to a net decrease in bonds payable of **$21.0** million, a net increase in the amount due to the South Carolina State Infrastructure Bank of **$26.8** million, and other increases of **$.9** million.

FUND ACTIVITY

Governmental Funds - Fund Balances - As of the close of fiscal year 2002, the Department's governmental funds reported a combined ending fund balance of **$374.2** million, a decrease of **$144.3** million in comparison with the prior year. Of this total amount, **$160.0** million represents the "unreserved fund balance" which is available for spending at the Department's discretion on future road and bridge construction and maintenance or other necessary activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Governmental Activities – The activities in this column are mostly supported by motor fuel taxes and Intergovernmental revenues (federal grants). All services normally associated with SCDOT fall into this category.
Business Type Activities – This is the discretely presented component unit, Connector 2000 Association, Inc., for which SCDOT is considered financially accountable, but it has many independent qualities as well. The Association is a nonprofit corporation for which SCDOT from a legal standpoint, has no legal or financial responsibility.

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

Fund Financial Statements

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

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

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

The Department has two governmental funds which are presented in separate columns in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The Department's governmental funds are – the General Fund, consisting of funds appropriated from the State General Fund for public transportation and the Special Revenue Fund which records expenditures of revenues that are restricted to specific programs or projects.

The basic governmental funds 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 SCDOT. Fiduciary funds are not reflected in the Department-wide financial statements because the resources of these funds are not available to support the Department's own programs. Fiduciary funds financial statements use the accrual basis of accounting. The Department's fiduciary funds are the County Transportation Program Fund, The Right of Ways Fund and the Special Deposits Fund.

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

Notes to the Financial Statements

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

Required Supplementary Information and Combining Statement

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

DEPARTMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Department's assets (all classified as governmental activities) exceeded liabilities by **$8.5** billion at the close of business on June 30, 2002 (**See Table A-1**). The largest portion of the Department's net assets (96.0**%**) 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 is still outstanding. The Department uses these capital assets to fulfill its primary mission to provide a safe and efficient transportation system for the state of South Carolina. Consequentially, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Department's net assets (2.4**%**) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the

Department's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. At the end of the current fiscal year, the Department is able to report positive balances in all three categories of net assets.

Table A-1
SCDOT Net Assets
(Expressed in millions)

	Governmental Activities
Current Assets	$ 269.2
Capital Assets	8,978.5
Other Assets	210.9
Total Assets	**$ 9,458.6**
Current Liabilities	$ 170.4
Non-current Liabilities	805.1
Total Liabilities	**$ 975.5**
Net Assets:	
Invested in Capital Assets, Net of Related Debt	$ 8,136.3
Restricted	205.2
Unrestricted	141.6
Total Net Assets	**$ 8,483.1**
Total Liabilities & Net Assets	**$ 9,458.6**

Changes in Net Assets

The Department's net assets increased by **$651.5** million or **8.3%.** Approximately **$348.4** million of this increase came from the donation of infrastructure capital assets to the Department by the South Carolina Transportation Infrastructure Bank, a sister state agency established to finance major transportation projects. The balance of the increase in net assets can be attributed to an increase in self-constructed infrastructure assets net of accumulated depreciation. As stated earlier, the primary purpose of the Department is to build and maintain these infrastructure assets.

In 2002, the Department's program revenues exceeded expenses by **$251.0** million. A breakdown of gross revenue reveals that motor fuel taxes represented **32%**, while **29%** resulted from Federal highway allocations and grants, **29%** were in the form of contributed infrastructure assets and the balance, **10%**, of revenues came from various sources including toll revenues, motor vehicle fees and interest income.

Table A-2 presents a breakdown of these revenues and expenses.

Table A-2

SCDOT Changes in Net Assets
(Expressed in millions)

			Governmental Activities
Revenues:			
	Program Revenues:		
		Capital Grants and Contributions	$ 691.9
		Operating Grants and Contributions	82.7
		Charges for Services	22.1
	General Revenues:		
		Motor Fuel Taxes	386.0
		State Appropriations	0.5
		Investment Earnings	19.0
		Total Revenues	**$ 1,202.2**
Expenses:			
	Public Transportation		545.7
		Total Expenses	**$ 545.7**
		Increase (Decrease) in Net Assets Before Transfers	$ 656.5
	Transfers to General Fund of the State		5.0
		Change in Net Assets	**$ 651.5**
Net Assets, Beginning of Year (as restated)			7,831.6
Net Assets, End of Year			**$ 8,483.1**

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 Funds

The focus of the Department's governmental funds 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 governmental funds reported ending fund balances of **$374.2** million, a decrease of **$144.3** million in comparison with the prior year. **42.8%** of these total fund balances or **$160.0** million constitute unreserved fund balances, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to bond funded projects (**$201.8** million), 2) to pay debt service (**$3.4** million), for long-term receivables (**$8.3** million), and to purchase right-of way (**$.8** million).

As a measure of the governmental fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents **15.2%** of total governmental fund expenditures, while total fund balance represents **35.5%** of that same amount.

GENERAL FUND BUDGETARY HIGHLIGHTS

Not all revenues and expenditures of the Department's *state highway fund* are budgeted and, therefore, a legal operating budget is not adopted for this fund. Budgetary analysis is not provided for the state highway fund.

All of the activity in the Department's *general fund* is funded by annual appropriations for public transportation by the General Assembly. The appropriation as enacted becomes the legal operating budget for the general fund. The difference between the original budget and the final amended budget is **$33.7** thousand and represents budget reductions initiated by central state government as part of statewide budget cuts. All of the balance of general funds available was expended creating no variance between final budget and actual.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Department's investment in capital assets for its governmental activities as of June 30, 2002, amounts to **$10.8** billion, less accumulated depreciation of **$1.8** billion, leaving a net book value of **$9.0** billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. For 2002 the Department adopted the provisions of GASG 34, which required the recording of both Infrastructure and depreciation for the first time. Infrastructure assets are items that are normally stationary in nature and can be preserved for a significantly longer period then most capital assets. In the case of the Department, infrastructure assets are classified into **three networks**: roads, bridges and right of way. Cost or estimated cost of infrastructure and related depreciation were recorded retroactively back to the year 1914. The Department has chosen to depreciate Infrastructure assets (excluding right of way). **Table A-3** summarizes capital assets at June 30, 2002.

Table A-3
SCDOT Capital Assets
(Expressed in millions)

		Primary Government
Land		$ 3.7
Building and Improvements		53.5
Furniture and Equipment		197.3
Infrastructure		
Right of Way	$ 402.7	
Roads	6,241.3	
Bridges	776.9	7,420.9
Construction in Progress		3,119.3
Total Cost		$ 10,794.7
Less Accumulated Depreciation		1,816.2
Net Capital Assets		**$ 8,978.5**

The total increase in the Department's investment in capital assets for the current fiscal year was about **10.0%** in terms of net book value. However, actual expenditures to purchase or construct capital assets were **$535.5** million for the year. **$348.4** million in infrastructure assets were constructed by and donated to the Department by the South Carolina Infrastructure State Bank. Depreciation charges for the year totaled **$114.5** billion.

Debt Administration

The authority of the Department to incur debt is described in Sections 57-11-210,etseq.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 bonded debt decreased by **$21.0** million during the current fiscal year to $**651.1** million. The decrease is attributed to scheduled bond payments. No new bond issues occurred during the fiscal year. Other long-term debt includes **$190.9** million due to the SC Infrastructure State Bank and various local governments for financial assistance on transportation projects managed by those entities (net increase for the year of **$26.8** million); and accrued compensated absences of **$19.3** million (net increase for the year of **$1.0** million). Due within one year for all long-term debt is **$56.5** million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Downturns in the U.S. economy that began in March 2001 had a similar impact on the State of South Carolina general fund revenue sources. Fuel tax revenues however, which are primarily devoted to the Department's activities, remained stationary preventing the need for drastic cuts in needed spending. For several years these state fuel taxes have risen minimally if at all, while construction and other Department costs have continued to rise with inflation. In order to continue to match all available Federal highway funds, expenditures for maintaining existing highways have been decreased. Requests for additional state funding to fund needed maintenance projects for the last two years have been turned down by the Legislature but renewed efforts in the 2003 legislative session are hoped to be more successful.

During the period 1998-2002 we have experienced significant increases in Federal highway funding. Federal highway funding is authorized in six (6) year increments because of the long-range nature of highway construction commitments. The current funding legislation, the Transportation Equity Act for the 21st Century (TEA-21), expires on September 30, 2003.

For the first time since 1998, Federal Highway Trust Fund receipts are projected to decrease in the federal fiscal year ended September 30, 2002. If Federal Highway Trust Fund receipts continue to decline, new funding strategies would be needed at the Federal level to prevent possible decline in our Department federal revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Department of Transportation finances for all of the Department's taxpayers, customers, and 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
Office of Financial Management
955 Park Street, Suite 304
Columbia, South Carolina 29202-0191

The Department's component unit, Connector 2000 Association, Inc. issues its own separately audited financial statements. These statements may be obtained by directly contacting Southern Connector at 880 S. Pleasantburg Drive, Suite 2D, Greenville, SC 29607.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF NET ASSETS
JUNE 30, 2002

	Primary Entity Governmental Activities	Component Unit
ASSETS		
Current assets:		
Cash and cash equivalents	$ 126,680,854	$ 1,483,104
Restricted assets:		
Cash and cash equivalents		3,172,247
Receivables:		
Federal government	87,029,532	
State agencies	37,036,394	
Local governments	1,750,701	
Other entities	2,128,429	
Accrued interest receivable	3,709,219	
Prepaid expenses	4,518,857	157,610
Inventories	6,381,094	
Total current assets	269,235,080	4,812,961
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	201,791,015	5,405,149
Investments		19,748,373
Accrued interest receivable		10,044
Refunds receivable		7,400
Total restricted assets	201,791,015	25,170,966
Receivables, net of current portion:		
State agencies	2,288,165	
Local governments	4,931,875	
Other entities	1,035,280	
Other assets	774,475	
Capital assets, net of accumulated depreciation	8,978,527,073	184,808,672
Other assets:		
Bond issuance costs, net of accumulated amortization		4,684,235
Total non-current assets	9,189,347,883	214,663,873
TOTAL ASSETS	$ 9,458,582,963	$ 219,476,834

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2002

	Primary Entity Governmental Activities	Component Unit
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Liabilities payable from restricted assets:		
Requisitions payable	$ -	$ 1,057,801
Other		39,692
Total		1,097,493
Bonds payable	21,925,000	
Accrued interest payable	8,080,739	1,765,750
Accounts payable/other liabilities	72,482,746	152,526
Intergovernmental payables:		
Due to State agencies	24,806,498	23,375
Contract retainages payable	3,203,585	
Accrued payroll and related liabilities	15,318,323	
Due to Agency Fund - County Transportation Program	5,161,769	
Due to General Fund of the State	8,171	
Capital leases payable	106,031	
Accrued compensated absences	13,006,491	
Deferred revenue - participation agreements	6,250,158	
Total current liabilities	170,349,511	3,039,144
Noncurrent liabilities:		
Bonds payable, net of current portion and unamortized discounts	629,210,000	231,977,718
Intergovernmental payables:		
Due to State agencies, net of current portion	169,491,553	
Capital leases payable, net of current portion	108,071	
Accrued compensated absences, net of current portion	6,334,958	
Total noncurrent liabilities	805,144,582	231,977,718
TOTAL LIABILITIES	975,494,093	235,016,862
Net assets:		
Invested in capital assets, net of related debt (deficit)	8,136,274,620	(14,692,829)
Restricted:		
Debt service	3,409,961	309,912
Bond funded projects	201,791,015	5,422,593
Unrestricted:		
Balance (deficit)	141,613,274	(6,579,704)
TOTAL NET ASSETS (DEFICIT)	8,483,088,870	(15,540,028)
TOTAL LIABILITIES AND NET ASSETS	$ 9,458,582,963	$ 219,476,834

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Unit
Primary entity:						
Public transportation	$ 545,742,174	$ 22,108,484	$ 82,687,437	$ 691,920,594	$ 250,974,341	$ -
Component unit:						
Toll operations	$ 17,111,963	$ 2,067,396	$ -	$ -		(15,044,567)
Totals					250,974,341	(15,044,567)
General revenues:						
State appropriations					490,752	
Taxes and fees					385,944,118	
Interest/investment income					19,010,741	1,411,838
Total general revenues					405,445,611	1,411,838
Transfers:						
Transfers to General Fund of the State					(4,946,046)	
Special Items:						
Grand opening promotional expenses						(764,497)
Changes in net assets					651,473,906	(14,397,226)
Net assets - Beginning, as restated					7,831,614,964	(1,142,802)
Net assets - Ending					$ 8,483,088,870	$ (15,540,028)

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2002

ASSETS	General Fund	State Highway Fund	Totals
Current assets:			
Cash and cash equivalents	$ 7,652	$ 126,673,202	$ 126,680,854
Receivables:			
Federal government		87,029,532	87,029,532
State agencies		37,036,394	37,036,394
Local governments		1,750,701	1,750,701
Other		2,128,429	2,128,429
Accrued interest receivable		3,709,219	3,709,219
Prepaid expenses		4,518,857	4,518,857
Inventories		6,381,094	6,381,094
Total current assets	7,652	269,227,428	269,235,080
Non-current assets:			
Restricted assets:			
Cash and cash equivalents		201,791,015	201,791,015
Total restricted assets		201,791,015	201,791,015
Receivables, net of current portion			
State agency		2,288,165	2,288,165
Local governments		4,931,875	4,931,875
Other		1,035,280	1,035,280
Other assets		774,475	774,475
Total non-current assets		210,820,810	210,820,810
TOTAL ASSETS	$ 7,652	$ 480,048,238	$ 480,055,890
LIABILITIES AND FUND BALANCE			
Liabilities:			
Current liabilities:			
Accounts payable/other liabilities	$ -	$ 72,482,746	$ 72,482,746
Intergovernmental payables:			
Due to State agencies		3,394,700	3,394,700
Contract retainage payable		3,203,585	3,203,585
Accrued payroll and related liabilities		15,318,323	15,318,323
Due to Agency Fund - County Transportation Program		5,161,769	5,161,769
Due to General Fund of the State	7,652	519	8,171
Deferred revenue - participation agreements		6,250,158	6,250,158
TOTAL LIABILITIES	7,652	105,811,800	105,819,452
Fund Balance:			
Reserved:			
Long-term receivables		8,255,320	8,255,320
Other assets		774,475	774,475
Debt service		3,409,961	3,409,961
Bond funded projects		201,791,015	201,791,015
Unreserved		160,005,667	160,005,667
TOTAL FUND BALANCES		374,236,438	374,236,438
TOTAL LIABILITIES AND FUND BALANCES	$ 7,652	$ 480,048,238	$ 480,055,890

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

BALANCE SHEETS - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2002

RECONCILIATION TO THE STATEMENT OF NET ASSETS:

Fund balances - governmental funds		$ 374,236,438
Amounts reported for governmental activities in the statement of net assets are different because:		
Liabilities are not due and payable in the current period, therefore, are not reported in the fund:		
Bonds payable	(651,135,000)	
Intergovernmental payable:		
Due to State agency	(190,903,351)	
Capital leases payable	(214,102)	
Accrued compensated absences	(19,341,449)	
Accrued interest payable	(8,080,739)	(869,674,641)
Assets capitalized and depreciated in statement of net assets and charged to expenditures in the governmental fund:		
Capital assets, net of accumulated depreciation		8,978,527,073
Net assets of governmental funds		$ 8,483,088,870

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2002

	General Fund	State Highway Fund	Totals
REVENUES:			
Taxes and fees	$ -	$ 385,944,118	$ 385,944,118
Restricted taxes		60,241,208	60,241,208
State appropriations	490,752		490,752
Federal grants		426,223,901	426,223,901
Reimbursements from Agency Fund -			
County Transportation Program		3,351,171	3,351,171
Interest/investment income		19,010,741	19,010,741
Sales of goods and fees for services		7,641,208	7,641,208
Participation agreement revenues		4,091,281	4,091,281
Other revenues		5,780,359	5,780,359
TOTAL REVENUES	490,752	912,283,987	912,774,739
EXPENDITURES:			
Current:			
General administration		33,556,845	33,556,845
Engineering		34,307,234	34,307,234
Toll facilities		2,731,653	2,731,653
Public transportation	490,752	11,461,586	11,952,338
Highway maintenance		273,605,866	273,605,866
Capital outlay:			
Land		357,601	357,601
Right of ways land		38,732,640	38,732,640
Construction in progress			
Infrastructure - road and bridge network	675,960	481,567,682	482,243,642
Other		1,561,092	1,561,092
Equipment and furniture	682,008	5,777,838	6,459,846
Vehicles		6,156,720	6,156,720
Debt service:			
Principal		34,427,151	34,427,151
Interest		36,059,631	36,059,631
Other		46,509	46,509
Allocations to other entities:			
State agency		22,738,285	22,738,285
Agency Fund - County Transportation Program		69,741,208	69,741,208
TOTAL EXPENDITURES	1,848,720	1,052,829,541	1,054,678,261
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,357,968)	(140,545,554)	(141,903,522)
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of capital assets		2,542,495	2,542,495
Remitted to General Fund of the State		(4,946,046)	(4,946,046)
TOTAL OTHER FINANCING SOURCES (USES)		(2,403,551)	(2,403,551)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(1,357,968)	(142,949,105)	(144,307,073)
FUND BALANCES, beginning of year, as restated	1,357,968	517,185,543	518,543,511
FUND BALANCES, end of year	$ -	$ 374,236,438	$ 374,236,438

See accompanying Notes to Financial Statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2002

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Revenues and other financing sources over (under) expenditures for the governmental fund	$ (144,307,073)
Amounts reported for governmental activities in the statement of activities are different because:	
Cost of capital assets are reported as expenditures in the governmental funds, but are recorded as capital asset additions in the statement of net assets	883,895,671
Amortization of capital assets is reported as an expense in the statement of activities	(114,484,236)
Increase in accrued interest payable is reported as an expense in statement of activities	(546,917)
Repayments of long-term debt are reported as expenditures in the governmental funds, but the repayments reduce liabilities in the statement of net assets	
Bonds payable	21,000,000
Intergovernmental payables:	
Due to State agencies	13,254,788
Capital leases	172,363
Increase in accrued compensated absences reported as an expense in the statement of activities	(1,031,033)
Loss on disposals of capital assets are reported as an expense in the statement of activities	(6,479,657)
INCREASE IN NET ASSETS	$ 651,473,906

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2002

	Agency Funds
ASSETS:	
Cash and cash equivalents	$ 109,542,705
Due from State Highway Fund	5,161,769
Accrued interest receivable	1,136,881
Total assets	$ 115,841,355
LIABILITIES:	
Accounts payable/other liabilities	$ 6,942,586
Deposits for right of ways	328,347
Special deposits and bonds	404,704
Funds held for counties	108,165,718
Total liabilities	$ 115,841,355

See accompanying Notes to Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

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

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

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

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

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

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

The Association is a South Carolina nonprofit corporation organized as a "public benefit corporation" under the South Carolina Nonprofit Corporation Act of 1994. The Articles of Incorporation of the Association were originally filed with the South Carolina Secretary of State on January 12, 1996 and were amended by a filing on March 5, 1997. The Internal Revenue Service has issued a letter dated October 20, 1997 determining that the Association is an exempt organization that is not a private foundation under Section 501(c)(3) of the Internal Revenue Code. The Association was formed to assist the Department in the financing, acquisition, construction and operation of turnpikes, highway projects and other transportation facilities pursuant to Section 57-3-200 of the Code of Laws of South Carolina.

The Association is considered a component unit of the Department because the Department initially fixed the toll rates for the Southern Connector in Greenville County, South Carolina and, after consultation with the Association, has the right (but not the obligation) to revise the toll rates from time to time to rates which are not less than 90% and not more than 120% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. Rates set by the Department must satisfy the applicable revenue covenants contained in the Association's financing documents. Also, the Association is governed by a Board of Directors approved by the Department.

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

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

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

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

The Department is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the Department. Generally, all State departments, agencies, and colleges are included in the State's reporting entity, which is the primary government of the State of South Carolina. These entities are financially accountable to and fiscally dependent on the State. Although the Department operates somewhat autonomously, it lacks full corporate powers. In addition, the Governor and/or the General Assembly appoints most of its board members and budgets a significant portion of its funds.

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

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 Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. In accordance with Governmental Accounting Standards Board Statement No. 20. Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Association elected to apply only those standards issued by the Financial Accounting Standards Board on or before November 30, 1989.

These government-wide financial statements are prepared in accordance with GASB statement No. 34, “Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments” and No. 37 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”. The primary impact of using these Statements involved the presentation of the Department-wide financial statements on an accrual basis of accounting and the inclusion of a “Statement of Activities”, which demonstrates the degree to which the direct expenses of the Department’s programs are offset by program revenues, and a “Management’s Discussion and Analysis”.

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

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

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

Governmental Funds:

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.

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

State Highway Fund – The State Highway Fund generally records the expenditure of revenues that are restricted to specific programs or projects. The 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 agreement 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.

Fiduciary Funds:

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

- The County Transportation Program Fund was established pursuant to Section 12-28-2740 of the South Carolina Code of Laws to provide for the receipts from distribution and use of the 2.66 cents per gallon gasoline tax collected by the South Carolina Department of Revenue and remitted to the Department. In addition to the gasoline tax, the Department is required to transfer $9,500,000 annually from the State Highway Fund to the Program. Each county has a county transportation committee that is appointed by the county legislative delegation to administer the use of these funds. Based on the legally prescribed allocation formula, these monies are either paid directly to the counties for infrastructure projects that are administered by the counties or to vendors on behalf of the counties for expenditures incurred on projects that the county transportation committees have contracted the Department to administer.

- The Right of Ways Fund is used to account for payments for the purchase of right of ways land which has been contested by the property owner. In those cases, the property owner is paid 75% of the offer and 25% of the offer is transferred to the county clerk of court. Current year's activity represents receipt of funds from various clerks of court and disbursement to property owners upon settlement of contested cases.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned 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 be used to pay obligations of the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within one year of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Financial resources of fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The Association uses the accrual basis of accounting in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

In years prior to 2001, the Association was considered to be in the development stage since its activities consisted only of the construction of the Southern Connector. In 2001, upon commencement of toll road operations, the Association ceased development stage accounting for its activities.

The Association's adoption of GASB statements No. 34 and No. 38 had no impact on the value of the Association's beginning net assets (deficit). The Association's fund deficit at December 31, 2000, as previously reported in the Association's general purpose financial statements, equals the Association's net deficit at December 31, 2000, as reported in these financial statements.

Revenues – Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Department, available means expected to be received within one year of the fiscal year-end.

Nonexchange transactions, in which the Department receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, 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. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Budget Policy

All of the activity in the Department's general fund is funded by annual appropriations for public transportation by the General Assembly. The appropriation as enacted becomes the legal operating budget for the general fund. A budget versus actual comparison is not presented as required supplementary information for the State Highway Fund since all revenues and expenditures of this fund are not budgeted.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" of the Department represent petty cash, cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool. The amounts shown in the financial statements as "cash and cash equivalents" of the Association represent cash on deposit in banks and funds invested in open-end money market mutual funds.

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

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Department records and reports its deposits in the general deposit account at cost, and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department's account at the end of each month and is retained. Interest/investment earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the income receivable of the pool. Reported income includes interest earnings at the stated rate, realized gains/losses and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

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

Investments

The Trust Agreement requires that all bond proceeds received by the Association be held in trust to be expended in accordance with the indenture guidelines. All monies held in trust that are not insured by the Federal Deposit Insurance Corporation (FDIC) must be secured by and/or invested in investment securities as defined in the Trust Agreement. 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 accounts for its investments at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Capital Assets

Capitalized assets include land, improvements to land, easements, right-of-ways, buildings, building improvements, vehicles, equipment, furniture, and infrastructure, and all other tangible or intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period. 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 market value at the date of donation in the case of gift. Assets contributed by another state agency are recorded at the acquisition cost of that agency. The Department follows capitalization guidelines established by the State of South Carolina. Major additions, renovations, and other improvements which provide new uses, or extend the useful life of an existing capital asset, are capitalized. Routine repairs and maintenance are charged to operations in the year in which the expense is incurred.

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

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

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

Receivables

All of the receivables of the Department 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 contracts are related to costs shared by other entities in construction projects. No allowance for uncollectible amounts was provided for based on management's evaluation of the collectibility of the receivable balances at June 30, 2002.

Prepaid Expenses

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

Inventories

The Department maintains inventories for its use and resale to other State agencies, local governments, and other entities. All inventories are valued at cost using the weighted average method. Expenditures for inventory are accounted for using the consumption method of accounting, in which inventory purchases are recorded as expenses when used.

Other Assets

Other assets consist of right of ways land the Department has to purchase for economic reasons that is not allocable to project construction costs. These purchases are held until they are disposed of and are reflected in the accompanying 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 an 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, 2002.

Bonds Discounts, Premiums, Issuance Costs, and Amortization

The Department amortizes bond discounts and premiums over the term of the bonds using the bonds outstanding method, which results in amortization being computed using the percentage of bonds retired to the original amount of bonds issued. Costs incurred in connection with the bond issues are deferred and amortized on the straight-line method over the lives of the related issues. Amortization of bond discounts is included in expenses as an addition to interest expense. Amortization of bond premiums is included in revenues as a separate line item. Amortization of bond issuance costs is included in expenses as other debt service expenses.

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

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than $5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. Liability is established to be liquidated when determined. The Department incurred expenditures of $40,285 in arbitrage costs for the year ended June 30, 2002. $291,405 was paid on the arbitrage liability as of June 30, 2001 during fiscal year 2002 leaving $250,671 unpaid at June 30, 2002.

Interest In License Agreement with Department

The Association's License Agreement with the Department dated February 11, 1998 grants the Association various rights and obligations pertaining to the financing, acquisition, construction and operation of the Southern Connector and to the construction of the SC 153 Extension.

The terms of the License Agreement provide that the Association will finance and construct the Southern Connector and will construct the SC 153 Extension with financing provided by the Department. However, the Department at all times retained fee simple title to the Southern Connector and to the SC 153 Extension, to all real property and improvements thereon, and to all rights of way acquired during construction. The Southern Connector was opened for traffic on February 27, 2001 and began collecting tolls on March 14, 2001. On July 22, 2001, the Southern Connector attained Substantial Completion. Beginning one year after the date of Substantial Completion of construction of the Southern Connector, the Association is required to pay monthly license fees to the Department.

The Association's interest in the License Agreement constitutes an intangible asset relating to the Southern Connector that will generate revenues upon completion of construction and commencement of operations. In order to account for its interest in the License Agreement, the Association capitalized all costs of acquisition and construction of the Southern Connector, including interest expense incurred during the construction period. Upon commencement of operations, the Association began amortizing on a straight-line basis over the remaining term of the License Agreement through 2038. In accordance with State of Financial Accounting Standards No. 62, <u>Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants</u>, the Association capitalized interest costs incurred during the construction of the Southern Connector. The amount of interest capitalized for assets constructed with tax-exempt borrowings is equal to the interest cost of the borrowings, including amortization of original issue discount, less interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings. The Association's financial statements do not reflect any of the costs of construction of the SC 153 Extension, since those costs were directly financed and paid by the Department.

Deferred Revenue

Deferred revenue 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.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 2002. 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.

Use of Estimates

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

Net Assets

Net assets are classified and presented in three components:

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

Restricted – Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The Association's net deficit at December 31, 2001 resulted from start-up construction activities incurred since inception while the Association was in the development stage and shortfalls since commencement of operations due to lower than expected traffic counts and toll revenue. The Association anticipates that future development along the Southern Connector corridor will encourage increased traffic counts, generating toll revenues that will reduce the deficit.

Special Items - Association

In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Association reported significant transactions or events within its control that are either unusual in nature or infrequent in occurrence as "special items."

NOTE 2. DEPOSITS AND INVESTMENTS:

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

Financial Statements		Footnotes	
Primary entity:			
Unrestricted current assets:	$ -	Cash on hand	$ 250
Cash and cash equivalents	126,680,854	Deposits held by State	
Restricted noncurrent assets:		Treasurer	438,014,324
Cash and cash equivalents	201,791,015		
Fiduciary - Agency Funds			
Cash and cash equivalents	109,542,705		
Total primary entity	438,014,574		438,014,574
Component unit:			
Unrestricted current assets:			
Cash and cash equivalents	1,483,104		
Restricted current assets:		Cash on hand	4,500
Cash and cash equivalents	3,172,247	Deposits in transit	22,504
Restricted noncurrent assets:		Bank deposits	2,310,514
Cash and cash equivalents	5,405,149	Investments	27,471,355
Investments	19,748,373		
Total component unit	29,808,873		29,808,873
Total	$ 467,823,447		$ 467,823,447

PRIMARY ENTITY:

Deposits Held by State Treasurer

The deposits of the Department held by the State Treasurer are under the control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to carrying amounts, fair value, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Cash and cash equivalents reported include unrealized appreciation of $7,860,191 for the governmental funds and $2,808,704 for the fiduciary fund as of June 30, 2002 arising from changes in the fair value. The interest/investment income includes an unrealized gain of $413,559 for the year ended June 30, 2002.

Deposits at fair value at June 30, 2002 held by the State Treasurer include $201,791,015 of unexpended funds from bond issues which are to be used for projects in progress and $3,409,961 for advance funding for debt service.

COMPONENT UNIT:

Deposits

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

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

(1) Insured or collateralized with securities held by the Association or by its agent in the Association name
(2) Collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name and
(3) Uninsured and uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Association's name.

The Association's bank balances and carrying amounts at December 31, 2001, were as follows:

	Risk Category			Bank Balance	Carrying
	1	2	3	Total	Amount
Insured deposits	$ 100,000	$	$	$ 100,000	$ 100,000
Uninsured deposits:					
Uncollateralized			2,210,514	2,210,514	2,233,018
Total deposits	$ 100,000	$	$ 2,210,514	$ 2,310,514	$ 2,333,018

At December 31, 2001, the Association's bank balance of category 3 deposits of $2,210,514 were disbursed or invested the next business day. During the year ended December 31, 2001, certain deposits were received by the bank after the bank's investment processing time. These category 3 deposits were disbursed or invested the next business day. Deposits that were made after the bank's investment processing time on any given day have been collateralized by the bank, but with securities that are not in the Association's name. This type of collateralization is permitted by the bond indenture.

Investments

Pursuant to requirements of GASB Statement No. 3, at December 31, 2001, the Association’s investments in repurchase agreements were categorized to give an indication of the level of risk assumed by the Association at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of investment risk which are as follows:

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

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

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

	Category 1	Category 2	Category 3	Investments-Carrying Amount/Fair Value
Repurchase agreements	$	$ 19,748,373	$	$ 19,748,373
Not categorized:				
Open-end money market mutual funds				7,722,982
Total investments	$	$ 19,748,375	$	$ 27,471,355

The investment types listed above include all investment types in which monies were held during the year ended December 31, 2001.

At December 31, 2001, the Association's restricted assets included $8,577,396 of cash and cash equivalents and $19,748,373 of investments.

NOTE 3. STATE APPROPRIATIONS:

The original appropriation is the Department's base budget amount as presented in the General Funds column of Section 53, Part IA of the 2001-02 Appropriation Act.

Original appropriation	$ 524,415
State budget reductions:	
Mid-year - 4%	(20,977)
Interim - 1%	(5,034)
Sequestered amount - 1.5%	(7,652)
Total	$ 490,752

The sequestered budget reduction amount of $7,652 was not paid as of June 30, 2002 and is included in the liability account Due to the General Fund of the State.

Pursuant to Section 2 of May 2000 Joint Resolution H3699/R310, the Department carried forward unspent supplemental appropriations of $1,357,968 at June 30, 2001 for emergency evaluation message boards and advisory ratio. During fiscal year 2002, these supplemental appropriations were expended for their designated purposes.

NOTE 4. RECEIVABLES:

A summary of various notes, contracts and accounts receivable at June 30, 2002 is as follows:

Due From/Description	Current Portion	Long-term Portion (A)	Total
Intergovernmental:			
Federal government:			
Amounts due under			
various grant programs and reimbursable contracts	$ 87,029,532	$ -	$ 87,029,532
State Agencies:			
South Carolina Department of Public Safety			
Note receivable:			
Sales of goods and services		2,049,819	2,049,819
Accounts receivable:			
Utilities and other costs	57,461	238,346	295,807
Sales of goods and services	4,058,395		4,058,395
South Carolina Department of Revenue			
Gasoline and special fuels taxes	31,834,178		31,834,178
Other agencies			
Sales of goods and services	1,086,360		1,086,360
Total	37,036,394	2,288,165	39,324,559
Local governments:			
Long term contracts for			
construction projects	307,770	4,931,875	5,239,645
Participation agreements	1,260,442		1,260,442
Other receivables (sales of goods			
and services)	182,489		182,489
Total	1,750,701	4,931,875	6,682,576
Other			
Long term contracts for construction projects	160,584	1,035,280	1,195,864
Sales of goods and services	1,967,845		1,967,845
Total	2,128,429	1,035,280	3,163,709
Total receivables	$ 127,945,056	$ 8,255,320	$ 136,200,376

(A) Due to the long-term nature of this portion of the receivables, the entire amount has been offset as a reservation of fund balance as not being currently available.

Federal Government:

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

State Agencies:

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

Local Governments:

The Department has entered into various long term contracts for construction projects with local governments for sharing of the costs. A schedule of those long term contracts with balances at June 30, 2002 follows:

Due From	Contract Date	Original Amount	Terms	Unpaid Balances 6/30/02
Richland County	12/13/78	$ 1,697,810	$50,000 annually; no interest	$ 537,810
Town of St. Stephens	12/16/94	$ 250,000	$20,833 annually for 12 years beginning 3/15/97; no interest	117,815
Dorchester County	03/01/99	$ 2,000,000	Annual average principal payments of $100,000 beginning 5/1/00 over 20 years plus interest at an annual rate range of 4.5 - 4.6%	1,920,000
Cherokee County School District	08/27/98	$ 600,000	$120,000 annually for 5 years beginning 7/01/02; no interest	600,000
Williamsburg County	01/01/01	$ 2,000,000 (B)	Annual average principal payments of $100,000 beginning 1/01/02 over 20 years at an annual rate ranges of 4.5 - 6.0%	1,945,000
Town of Saluda	06/01/01	$ 80,000	$3,443 quarterly beginning 8/01/01 through 5/01/08, no interest	70,307

Due From	Contract Date	Original Amount	Terms	Unpaid Balances 6/30/02
Fairfield County	4/21/94	$64,500	$8,212 annually for ten years at the rate of 4.651%	$ 24,635
City of Gaffney	6/15/71	$49,500	$1,000 annually, no interest	24,078
Total				$ 5,239,645

(B) Proceeds from 2001A Bonds loaned to Williamsburg County.

Other Entities:

The Department has entered into various long term contracts for construction projects with other local entities for sharing of the costs. A schedule of those long-term contracts with balances at June 30, 2002 follows:

Due From	Contract Date	Original Amount	Terms	Unpaid Balances
Laurens County Water and Sewer Commission	06/23/98	$ 659,802	$83,084 annually for 8 years beginning 1/1/00; no interest	$ 410,534
Gilbert-Summit Water District	08/16/98	$ 203,690	$27,500 annually for 8 years beginning 6/1/99; no interest	175,065
Chester Metropolitan District	04/06/99	$ 600,000	$ 50,000 annually for 12 years beginning 01/01/02; no interest	550,000
Mortgage Receivable	02/15/01	$ 33,100	$278 monthly for 30 years at an annual interest rate of 9.5%	33,050
Various Individuals (C)				27,215
Total				$ 1,195,864

(C) These receivables are less than $5,000 each and are due from individuals for damages to the Department's road and bridge network infrastructure and equipment.

NOTE 5. INVENTORIES:

Inventories as of June 30, 2002 consist of the following:

Sign shops	$4,233,094
Repair shops	1,252,134
Supply depot	824,877
Office supplies	70,989
Total	$6,381,094

NOTE 6. CAPITAL ASSETS:

PRIMARY ENTITY:

The following schedule summarizes capital assets activity for the Department for the fiscal year 2002:

	Beginning Balances as Restated June 30, 2001	Increases	Decreases	Ending Balances June 30, 2002
Capital assets not being depreciated:				
Land and improvements	$ 3,337,429	$ 357,601	$ (13,348)	$ 3,681,682
Right of ways land	367,036,092	38,732,640	(3,057,090)	402,711,642
Construction in progress				
Infrastructure - road and bridge network	2,409,586,961	870,710,474	(164,126,429)	3,116,171,006
Other	3,896,136	1,561,092	(2,281,051)	3,176,177
Total capital assets not being depreciated	2,783,856,618	911,361,807	(169,477,918)	3,525,740,507
Other capital assets:				
Infrastructure - road and bridge network	6,856,984,286	164,126,429	(2,906,576)	7,018,204,139
Buildings and improvements	51,259,055	2,281,051		53,540,106
Equipment and furniture	112,619,932	6,459,846	(9,629,545)	109,450,233
Vehicles	85,929,418	6,156,720	(4,244,345)	87,841,793
Total other capital assets	7,106,792,691	179,024,046	(16,780,466)	7,269,036,271
Less accumulated depreciation for				
Infrastructure - road and bridge network	1,564,692,030	97,769,644	(2,335,557)	1,660,126,117
Buildings and improvements	15,165,556	1,720,884		16,886,440
Equipment and furniture	77,213,585	8,250,352	(6,985,314)	78,478,623
Vehicles	58,065,545	6,743,356	(4,050,376)	60,758,525
Total accumulated depreciation	1,715,136,716	114,484,236	(13,371,247)	1,816,249,705
Other capital assets, net	5,391,655,975	64,539,810	(3,409,219)	5,452,786,566
Total capital assets for governmental activities, net	$ 8,175,512,593	$ 975,901,617	$ (172,887,137)	$ 8,978,527,073

Included in the above increases were donated capital assets of right of ways land and infrastructure – road and bridge network totaling $348,384,130 by the South Carolina State Infrastructure Bank.

Included in the Department's capital assets as of June 30, 2001 is $188,286,854 that was paid by the Association for the Southern Connector. This same amount was also capitalized by the Association as the capital asset Interest in License Agreement with the Department – See Note 8. Accumulated depreciation on these assets was $5,197,498 at June 30, 2002. Current year's depreciation expense on these assets was $2,598,749.

At June 30, 2002, the estimated total costs of the Department's projects in progress to construct, acquire and maintain various capitalized facilities amounted to approximately $21,675,000 and the infrastructure projects approximately $3,441,000,000. The estimated costs to complete the capital projects amounted to approximately $18,499,000 and the infrastructure projects approximately $1,060,000,000; and, the outstanding contractual obligations attributable to the capital projects were approximately $12,190,000 and the infrastructure projects approximately $444,000,000. The estimated time frame for completion of these projects is several years. The costs of the projects in progress and future projects will be funded from State taxes and fees, federal grants, bond proceeds and other revenues of the Department.

COMPONENT UNIT:

The following schedule summarizes capital assets activity for the Association for the year ended December 31, 2001:

	Beginning Balance at December 31, 2000	Increases	Decreases	Ending Balance at December 31, 2001
Capital assets, being depreciated/amortized:				
Interest in License Agreement with Department	$ 179,773,561	$ 8,513,293	$	$ 188,286,854
Equipment		440,284		440,284
Total capital assets, being depreciated/ amortized	179,773,561	8,953,577		188,727,138
Accumulated depreciation/amortization:				
Interest in License Agreement with Department		(3,830,409)		(3,830,409)
Equipment		(88,057)		(88,057)
Total accumulated depreciation/amortization		(3,918,466)		(3,918,466)
Total capital assets, net	$ 179,773,561	$ 5,035,111	$	$ 184,808,672

NOTE 7. CHANGES IN LONG-TERM OBLIGATIONS:

Changes in long-term obligations of the Department for the year ended June 30, 2002 were as follows:

	Beginning Balances June 30, 2001	Increases	Decreases	Ending Balances June 30, 2002	Due Within One Year
General obligation bonds payable	$ 672,135,000	$ -	$ 21,000,000	$ 651,135,000	$ 21,925,000
Contributions payable-State agency	164,075,437	40,082,702	13,254,788	190,903,351	21,411,798
Capital leases payable	386,465		172,363	214,102	106,031
Accrued compensated absences	18,310,416	14,457,804	13,426,771	19,341,449	13,006,491
Total governmental activities	$ 854,907,318	$ 54,540,506	$ 47,853,922	$ 861,593,902	$ 56,449,320

A recap of principal paid and interest expenditures/expenses for fiscal year 2002 are as follows:

	Principal	Interest	Totals
Bonds payable	$ 21,000,000	$ 31,699,169	$ 52,699,169
Contributions payable	13,254,788	4,345,212	17,600,000
Capital lease	172,363	15,250	187,613
Total expenditures	$ 34,427,151	$ 36,059,631	$ 70,486,782
Change in interest accruals - bonds payable		546,917	
Total interest expense		$ 36,606,548	

Bonds Payable – Primary Entity

Sections 57-11-210, et seq. of the South Carolina Code (the "State Highway Bond Act"), as continued and amended by Section 11-27-30 thereof, authorized the issuance of general obligation State Highway Bonds for highway construction and related purposes backed by the full faith, credit, and taxing power of the State. State Highway Bonds are additionally secured by a pledge of so much of the revenues as may be made applicable by the General Assembly for State highway purposes from any and all taxes or licenses imposed upon individuals or vehicles for the privilege of using the public highways of the State. Such taxes include the gasoline tax, the fuel oil tax, the road tax and the motor vehicle license tax described herein.

So long as any State Highway Bonds are outstanding the amount of revenues made applicable thereto by the General Assembly may not be less than the amounts needed to fund the general operations budget of the Department and meet debt service requirements for annual principal and interest payments on such bonds. Section 57-11-240 provides that the debt limit for State Highway Bonds is the maximum annual debt service limitation of approximately $80,200,000 which results from the application of the constitutional limitation imposed by said Paragraph 6(a) of Section 13 of the Article X of the South Carolina Constitution. From time to time, the State Budget and Control Board may authorize the issuance of various amounts of State Highway Bonds for specific types of projects or individual projects and may authorize the total to be issued in one or more series depending on the projections of the timing of project expenditures to be funded from the proceeds.

A summary of the bonds payable as of June 30, 2002 is as follows:

Issue Date	Series	Original Face Amount	Maturity Date	Interest Rates	Unpaid Principal Balance June 30, 2002
08/01/95	1995	$ 20,000,000	08/01/10	3.500-5.400%	$ 13,800,000
01/01/96	1996A	30,000,000	02/01/11	4.125-5.000%	20,425,000
07/01/96	1996B	45,000,000	07/01/21	5.625-5.650%	44,525,000
10/01/97	1997A	30,000,000	10/01/12	4.500-5.000%	24,185,000
04/01/98	1998A	17,500,000	04/01/23	4.500-6.500%	15,965,000
03/01/99	1999A	200,000,000	05/01/19	4.500-4.600%	192,000,000
01/01/01	2001A	2,000,000	01/01/21	4.500-6.000%	1,945,000
04/01/01	2001B	350,000,000	04/01/21	4.750-5.500%	338,290,000
Total bonds payable					$ 651,135,000

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

On March 1, 1999, the Department issued $200,000,000 of State Highway Bonds (Series 1999A) which were designated to be used for projects under the Metropolitan Planning Organizations Project Acceleration Program and the Dorchester County Transportation Committee.

On April 1, 1998, the Department issued $17,500,000 of State Highway Bonds (Series 1998A) which were designated to be used by the Department for the Greenville Southern Connector Project.

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

On July 1, 1996, the Department issued $45,000,000 of State Highway Bonds (Series 1996B) which were designated to be used to pay a portion of the cost of the Hilton Head Island Cross-Island Parkway. The Department currently imposes tolls on the Parkway in order to reimburse the State Highway Fund for the costs thereof, including debt service on the bonds. The revenues from the tolls are not pledged to secure the bonds. Toll revenues of $5,358,382 were realized during fiscal year 2002.

Annual payments of principal and interest are due on the bonds and are being paid semiannually. Details of annual debt service, including interest, for each year are as follows:

	Principal	Interest	Totals
Year Ending June 30			
2003	$ 21,925,000	$ 31,482,631	$ 53,407,631
2004	24,810,000	30,405,203	55,215,203
2005	25,720,000	29,159,629	54,879,629
2006	26,825,000	27,846,522	54,671,522
2007	29,775,000	26,511,073	56,286,073
	129,055,000	145,405,058	274,460,058
Five years ending June 30			
2008 - 2012	185,460,000	107,086,000	292,546,000
2013 - 2017	188,755,000	63,113,779	251,868,779
2018 - 2022	146,655,000	17,301,418	163,956,418
2023	1,210,000	54,450	1,264,450
Total debt service for bonds payable	$ 651,135,000	$ 332,960,705	$ 984,095,705

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

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

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

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

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

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

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

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

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

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

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

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

The Series 2001A General Obligations State Highway Bonds maturing on and after January 1, 2012, shall be subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on and after January 1, 2011, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

Redemption Dates	Redemption Price
January 1, 2011 through December 31, 2011	101%
January 1, 2012 and thereafter	100%

The Series 2001B State Highway Bonds maturing on and after April 1, 2009, are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after April 1, 2008, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

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

Bonds Payable – Component Unit

The Association issued three series of tax-exempt toll road revenue bonds pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, both dated February 1, 1998. All of the bonds were issued on February 11, 1998. The bonds are special, limited obligations of the Association that are not, and shall never, constitute an indebtedness of the State of South Carolina, of the Department, or of any agency, department or political subdivision of the State of South Carolina, including the County of Greenville, South Carolina and the City of Greenville, South Carolina.

Changes in bonds payable of the Association during 2001 were as follows:

	Beginning Balance December, 30 2000	Increases	Decreases	Ending Balance December, 31 2001	Due Within One Year
Senior Bonds:					
Series 1998A Senior Current Interest Toll Road Revenue Bonds, dated February 1, 1998; $66,200,000 original principal amount at issuance; interest payable semi-annually on January 1 and July 1 at rates of 5.25% and 5.375%; $21,400,000 of bonds mature January, 2023; $44,800,000 of bonds mature January, 2038	$ 66,200,000	$ -	$ -	$ 66,200,000	$ -
Original issue discount on Series 1998A bonds; $2,693,952 original discount amount at issuance	(2,459,802)	80,280	-	(2,379,522)	-
	63,740,198	80,280	-	63,820,478	-
Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds, dated February 11, 1998; $87,385,622 original principal amount at issuance; interest accretes at various rates ranging from 5.3% to 5.85%; $438,100,000 of bonds mature at various dates from January, 2008 to January, 2038	102,970,524	6,018,217	-	108,988,741	-
Subordinate bonds:					
Series 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds, dated February 11, 1998; $46,592,058 original principal amount at issuance; interest accretes at various rates ranging from 6.15% to 6.3%; $241,800,000 of bonds mature at various dates from January, 2008 to January, 2038	55,642,600	3,525,900	-	59,168,500	
	$ 222,353,322	$ 9,624,397	$ -	$ 231,977,719	$ -

Additions to bonds payable represent the amortization of original issue discount on the Series 1998A Senior Current Interest Bonds, and accretions on the Series 1998B and 1998C Capital Appreciation Bonds. At December 31, 2001, no principal payments on bonds were due within one year.

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

The accounts established by the bond indenture and the balances therein at December 31, 2001 were as follows:

Construction Fund	$ 6,462,950
Revenue Fund	1,273,505
Debt Service Fund	2,075,662
Debt Service Reserve Fund	19,748,373
Total	$ 29,560,490

A summary of the debt service requirements (principal and interest payments) to maturity for the bonds follows:

	Principal	Interest	Totals
Year ending December 31,			
2002	$ -	$ 3,531,500	$ 3,531,500
2003		3,531,500	3,531,500
2004		3,531,500	3,531,500
2005		3,531,500	3,531,500
2006		3,531,500	3,531,500
		17,657,500	17,657,500
Five years ending December 31,			
2007-2011	28,300,000	17,269,000	45,569,000
2012-2016	55,400,000	15,885,625	71,285,625
2017-2021	87,700,000	14,071,750	101,771,750
2022-2026	122,000,000	11,739,688	133,739,688
2027-2031	161,600,000	8,643,001	170,243,001
2032-2036	192,000,000	4,598,313	196,598,313
2037-2038	99,100,000	90,311,012	189,411,012
Totals	$ 746,100,000	$ 180,175,889	$ 926,275,889

During the year ended December 31, 2001, payments from the various accounts were made in accordance with the terms of the bond indenture, except for certain operating expenses paid from the Construction Fund in error. At December 31, 2001, approximately $312,000 was due to the Construction Fund from the Revenue Fund. This amount will be reimbursed as monies become available.

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

- The Association is prohibited from taking any action or omitting to take any action that would cause the bonds to lose their tax-exempt status.
- After the Southern Connector is completed and operational, the Association's Engineer must inspect the toll road annually and submit a report documenting the physical condition of the toll road, offering advice, recommendations and a cost estimate as to the proper operation of the toll road during the ensuing fiscal year, offering advice and recommendations regarding the insurance to be carried, and stating the amount to be deposited into the Renewal and Replacement Fund for the next fiscal year.
- Prior to the end of each fiscal year, the Association is required to file an annual budget for the next fiscal year with the Trustee.
- Beginning on the first day of the second full fiscal year immediately following the later of (i) the Final Completion date of the Southern Connector, and (ii) the last date through which interest on any of the bonds is to be paid from proceeds of the bonds, the tolls charged by the Association shall equal or exceed the greater of (a) 1.25 times the aggregate debt service on all outstanding Senior Bonds due in that fiscal year, and (b) the amount required to fund all transfers to the Senior Bonds Debt Service Reserve Fund as defined in the Trust Agreement and to equal not less than 1.10 times the aggregate debt service on all outstanding bonds due in that fiscal year. The Trust Agreement also specifies actions to be taken if the Association determines that revenues may be inadequate to meet this covenant.

The Association monitors the covenants for compliance throughout the year. The Association was in compliance with its bond covenants throughout 2001.

Contributions Payable – State Agency – Primary Entity

The Department entered into various intergovernmental agreements with the South Carolina Transportation Infrastructure Bank (the Bank) and various local governments that 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 approved costs for this project are estimated to be $888 million. Funding consists of a $340 million financial assistance award by the Bank of which a $114 million contribution which is being paid to the Bank by the Department of Transportation in annual installments of $10 million each for eleven years and $4 million in the 12th year and an additional $95 million contribution which is being paid to the Bank by the Department in annual installments of $7.6 million including 5% interest per annum for 20 years; a $300 million interest free loan to Horry County; and, a $247,577,664 interest bearing loan to Horry County

Charleston County Project. The total estimated project costs are $636.6 million. Funding for the Charleston County Project consists of a $540 million financial assistance award by the Bank and the funding of $96.6 million of expenditures by the Department and claimed as federal expenditures. In addition, the Department is to contribute $200 million to the Bank at the rate of $8 million per year for 25 years without interest commencing in fiscal year 2003.

Lexington County Project The total project costs are estimated to be $115 million. Funding for the project consists of a $113 million financial assistance award by the Bank and a $2 million in-kind services contribution by Lexington County. Contributions to be paid to the Bank in connection with this project include $6 million from the Department and $59 million by South Carolina Electric and Gas Company ("SCE&G"). No costs were incurred on this project as of June 30, 2002.

Aiken County Project The project consists of construction of a new bridge over the Savannah River and the extension into South Carolina of Interstate 520 from Georgia. Total project costs are estimated to be $200 million. Funding consists of a contribution from the State of Georgia for one-half of the cost of the new bridge of approximately $16 million, a contribution from Aiken County in the amount of approximately $16 million, a $2.35 million contribution by the Department and $165 million financial assistance award by the Bank. Currently, the Bank has authorized $65 million for the project with the balance to be authorized as funding becomes available, as determined by the Bank.

A summary of the changes in contributions payable to the South Carolina Transportation Infrastructure Bank is as follows:

Project	Beginning Balance June 30, 2001	Increases	Decreases	Ending Balance June 30, 2002
Horry County Ride Project				
Phase I	$ 74,000,000	$ -	$ 10,000,000	$ 64,000,000
Phase II	90,075,437		3,254,788	86,820,649
Charleston County Project		40,082,702		40,082,702
Totals	$ 164,075,437	$ 40,082,702	$ 13,254,788	$ 190,903,351

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

	Principal	Interest	Totals
Year Ending June 30			
2003	$ 21,411,798	$ 4,188,202	$ 25,600,000
2004	21,576,383	4,023,617	25,600,000
2005	21,748,906	3,851,094	25,600,000
2006	21,929,752	3,670,248	25,600,000
2007	22,119,322	3,480,678	25,600,000
	108,786,161	19,213,839	128,000,000
Five years ending June 30			
2008 - 2012	37,858,827	14,223,875	52,082,702
2013 - 2017	30,091,517	7,908,483	38,000,000
2018 - 2019	14,166,846	1,033,154	15,200,000
Total debt service for contributions payable	$ 190,903,351	$ 42,379,351	$ 233,282,702

Capital Leases – Primary Entity

See Note 16 regarding capital lease obligations.

NOTE 8. INTEREST IN LICENSE AGREEMENT WITH THE DEPARTMENT – COMPONENT UNIT:

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

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

In order to finance the Southern Connector, the Association issued three series of toll road revenue bonds pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, both dated February 1, 1998. Interest on the bonds is exempt from federal income tax and from South Carolina income tax. The bonds are special, limited obligations of the Association, payable solely from net revenues and monies held in certain accounts and other property included in the trust estate. The bonds are not, and shall never, constitute an indebtedness of the State of South Carolina, of the Department, or of any agency, department or political subdivision of the State of South Carolina.

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

In order to fulfill its responsibilities under the License Agreement, the Association has entered into an agreement (the Development Agreement) with Interwest Carolina Transportation Group, LLC (the Developer) whereby the Developer has agreed to perform the obligations of the Association under the License Agreement with respect to construction of the Southern Connector and has assumed various additional responsibilities with respect to the construction. In order to fulfill its responsibilities under the Development Agreement, the Developer has in turn entered into contracts with various subcontractors for the performance of certain obligations. The Developer has agreed to complete the construction of the Southern Connector at a guaranteed price of $173,802,263, which includes acquisition of all rights of way, relocation of utilities and railroads, and all design and construction activities including toll plazas, toll collection equipment, operations systems and other costs. The Developer commenced construction on February 27, 1998. On February 23, 2001, the Association received notification from the Department of its acceptance of the roadways and bridges, thereby permitting the Association to commence operations of the South Connector. ON February 27, 2001, the Southern Connector was opened to the public. At that time, traffic was allowed on the Southern Connector for free for a two-week introductory period. Toll collection operations began on March 14, 2001. Substantial completion was reached on July 22, 2001.

On December 28, 2000 the Association entered into a contract (the Operations Contract) with Southern Interwest, LLC (the Contractor) whereby the Contractor will operate the Southern Connector on behalf of the Association for a fee. This initial Operations Contract is for a period of four years. Under the Operations Contract, tolls for the use of the southern Connector will be collected on behalf of the Association. From these tolls, the Association will be required to pay a license fee to the Department in the amount of $125,000 per month for a period of 25 years, and of $1 per month thereafter for the remainder of the term of the License Agreement. Payment of the monthly license fees will commence on the first day of the calendar month following the first anniversary of the final completion date of the Southern Connector. So long as any project debt remains outstanding, any license fees not paid when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually.

The Association's rights under the License Agreement as described above constitute an intangible asset that is valued and recorded at an amount equal to the cost of construction of the Southern Connector, including related capitalized interest.

The Department will be responsible for maintaining the Southern Connector (costs of maintenance are to be reimbursed by the Association) and will be responsible for setting the toll rates in accordance with the terms of the license Agreement. The SC 153 Extension, the costs of which are not included in the Association's financial statements, will be operated, maintained, renewed and replaced by the Department as part of the South Carolina highway system.

Also, under the terms of the Operations Contract, the Contractor is responsible for all work relating to operations of the Southern Connector and all obligations of the Association under the License Agreement relating to the operation, toll operation, repair, maintenance and insurance of the Southern Connector. The Operations Contract expires December 31, 2004, and provides renewal options of successive one-year terms, upon the mutual agreement of the parties. As compensation for the Contractor's performance under the Operations contract, the Association is paying the Contractor for certain costs of work (including costs incurred pursuant to start-up of the Southern Connector), as defined in the Operations Contract plus an annual management fee of $200,000. The annual management fee consists of a basic fee of $100,000 and a subordinated fee of $100,000, payable in monthly installments.

The contract provided that any subordinated fee not paid when due would be deferred and would accrue interest at a rate of 10% per annum compounded annually. Monthly payments commenced in February 2001. The total management fee incurred during the year ended December 31, 2001 was $183,333, of which $25,000 was capitalized in the Association's interest in the License Agreement with SCDOT prior to the opening of the toll road, and $158,333 was expensed. The Association considers the management fee incurred following the opening of the toll road to be an operating expense. The terms of the bond indenture dictate that payment of the management fee shall be made from an account specified in the indenture. Effective March 1, 2002, the Association renegotiated the amount of the annual management fee. The annual fee was reduced to $100,000 payable in monthly installments. The subordinated fee of $100,000 was eliminated. All employees who assist the Contractor in fulfilling its obligations and responsibilities under the Operations Contract will be under the direction and control of the Contractor and will not be considered employees of the Association. Accordingly, the Contractor will be responsible for payment and reporting of all salaries and wages, payroll taxes, employee benefits and insurance.

The $188,286,854 interest in the License Agreement was also capitalized by the Department. See Note 6.

NOTE 9. PENSION PLANS:

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

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

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

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

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

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.40 percent which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 2002, 2001 and 2000 were approximately $11,727,000, $11,575,000 and $10,758,000 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately $233,000 in the current fiscal year at the rate of .15 percent of compensation.

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

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2000, the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The Department's actual contributions to the PORS for the years ended June 30, 2002, 2001 and 2000 were approximately $13,200, $9,900 and $5,900, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately $260 and accidental death insurance contributions of approximately $260 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

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

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

NOTE 10. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Department are eligible to receive these benefits.

The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Department for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately, 22,000 State retirees met these eligibility requirements at June 30, 2001.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately $17,373,000 for the year ended June 30, 2002. As discussed in Note 9, the Department paid approximately $4,427,000 applicable to the 2.85 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 11. DEFERRED COMPENSATION PLANS:

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

NOTE 12. RETIREMENT INCENTIVE:

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

The Department recorded and paid expenditures of approximately $663,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2002.

NOTE 13. TRANSACTIONS WITH STATE ENTITIES:

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 $8,168,000 for the year ended June 30, 2002.

The Department sells supply items and provides services for various State agencies. Total sales to State agencies were approximately $1,439,000 for the year ended June 30, 2002.

The gasoline and special fuels tax is collected by the South Carolina Department of Revenue (DOR) and remitted to the Department on a monthly basis. Taxes collected by DOR for the State Highway Fund amounted to $438,077,081 for the year ended June 30, 2002. $31,834,178 was unremitted and due to the Department by DOR at June 30, 2002. Gasoline tax revenues allocated for the County Transportation Program Agency Fund amounted to $60,241,208 for the year ended June 30, 2002. $5,161,769 was unremitted and due to the County Transportation Program at June 30, 2002.

Section 56-3-910 of the South Carolina Code of Laws provides for 20% of the motor vehicle fees collected by the South Carolina Department of Public Safety are to be credited to the Department beginning with fiscal year 2002. $6,494,345 was allocated to the Department for fiscal year 2002.

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

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

In addition, the Department transferred the following amounts to the General Fund of the State of South Carolina for its proportionate share of the cost of administration of central state services, other specified support and pay telephone revenue pursuant to the following provisions of the fiscal year 2002 Appropriations Act:

Statewide Cost Allocation Plan (Proviso 53.4)	
Collection of highway revenues	$ 3,067,429
Central Service Agency recoveries	1,872,536
Pay Telephone Revenue (Proviso 72.69)	519
Total	$ 4,940,484

$4,939,965 was paid to the State during the year. $519 was unpaid and included in the financial statements in the account Due to the General Fund of the State at June 30, 2002.

The Department was also required to remit $5,562 to the General Fund of the State pursuant to Proviso 72.111 of the 2002 Appropriations Act.

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

Workers' compensation insurance premiums for the fiscal year 2002 of $4,225,516 were paid to the State Accident Fund.

See Note 7 regarding transactions resulting from intergovernmental agreements entered into with the South Carolina Transportation Infrastructure Bank (the Bank) and other local governments. The Department provided the Bank administrative services and clerical assistance during fiscal year 2002 for which it was paid $129,000.

See Note 14 for a summary of intergovernmental payables due to other State agencies as of June 30, 2002.

NOTE 14. INTERGOVERNMENT PAYABLES / DUE TO STATE AGENCIES:

A summary of intergovernmental payables to State agencies at June 30, 2002 is as follows:

Due To / Description	
South Carolina State Infrastructure Bank	
1cent per gallon gasoline tax	$ 2,677,285
Purchases of goods and services:	
University of South Carolina	229,143
State Budget and Control Board	168,834
S.C. Department of Health and Environmental Control	111,550
S.C. Department of Public Safety	85,106
S.C. Department of Parks, Recreation and Tourism	35,538
Clemson University	31,899
South Carolina State University	24,375
S.C. Department of Corrections	12,437
S.C. Department of Revenue	9,633
South Carolina Educational Television	8,900
Total	$ 3,394,700

NOTE 15. CAPITALIZED INTEREST- COMPONENT UNIT:

Total interest costs incurred during the year ended December 31, 2001 were $13,271,522. Interest costs incurred by the Association during construction of the Southern Connector Project were capitalized in its intangible interest in the License Agreement with SCDOT. In accordance with governmental GAAP, this policy was followed until February 27, 2001, the date that the toll road opened to the public. Interest costs incurred after February 27, 2001 were expensed.

The interest costs capitalized during the year ended December 31, 2001, were as follows:

Interest expense - Series 1998A Senior Current Interest Bonds	$ 601,964
Accreted interest expense –	
Series 1998B Senior Capital Appreciation Bonds	988,786
Series 1998C Subordinate Capital Appreciation Bonds	578,622
Interest on retainage paid	65,371
Total interest expense capitalized	2,234,743
Less: Capitalized interest income on cash, cash equivalents and investments	393,264
Net interest expense capitalized	$ 1,841,479

Interest costs expensed during the year ended December 31, 2001 totaled $11,036,779.

NOTE 16. LEASE OBLIGATIONS:

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

In prior years, the Department entered into various capital leases for the purchase of imaging equipment costing $841,912. Principal payments made to date totaled $627,810 leaving unpaid balances of $214,102. The leases are secured by the equipment purchases. Interest rates range from 4.63% to 5.34%. Certain of the capital leases provide for renewal options and none of the leases include any purchase options. Total payments on these leases during the fiscal year ended June 30, 2002 totaled $257,447 of which $172,365 was principal, $15,250 was interest and $69,832 was executory costs. The carrying value of the imaging equipment purchased with capital leases at June 30, 2002 was $239,220. Amortization for the fiscal year 2002 amounted to $122,936 and is included in depreciation expense.

The Department's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2003 through 2007. Certain operating leases provide for renewal options for periods at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. The operating lease expenditures in fiscal year 2002, including leases having remaining terms of less than one year, were approximately $270,800. In addition to the noncancelable operating leases, the Department incurred approximately $62,700 in expenditures applicable to contingent rental agreements that are based on a pay-per-copy arrangement. The pay-per-copy leases are noncancelable with maturities in 2004-2007. There is no required minimum usage requirements under the pay-per-copy leases. All operating leases are with external parties.

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

Year Ending June 30,	Capital Leases	Operating Leases
2003	$148,118	$ 214,788
2004	52,384	183,025
2005	45,834	82,199
2006	19,098	40,844
2007		24,855
Total	265,434	$ 545,711
Less:		
Interest	(15,416)	
Executory costs	(35,916)	
Capital lease obligations, at June 30, 2002	$214,102	

NOTE 17. FEDERAL GRANTS:

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

Management feels that adjustments, if any, will not have a material adverse effect on the financial position of the Department. Furthermore, there is no evidence to indicate that a liability should be recorded at June 30, 2002.

NOTE 18. RISK MANAGEMENT:

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from that carried in the prior year. Settled claims have not exceeded this coverage in the prior three years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles.

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

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

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

The Department and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

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

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The ISF's rates are determined actuarially.

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

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

The Department has not transferred the portion of the risk of loss related to insurance policy deductibles and limits for capital assets and fidelity coverages to a State or commercial insurer. The Department has not reported an estimated claims loss expenditure, and the related liability at June 30, 2002, 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, 2002 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

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

NOTE 19. OTHER MATTERS – COMPONENT UNIT:

In prior years, the Association was a Development Stage Enterprise focused on construction of the Southern Connector. During the Development Stage, expenses incurred by the Association increased its net deficit, since toll road operations had not begun and no revenues were earned. The road was opened to public traffic in early 2001 and toll collection commenced March 14, 2001.

Since commencing operations, the Southern Connector has experienced significantly lower traffic counts than those projected during the Traffic and Revenue Study performed in 1997 during the planning phase of the Southern Connector Project. An average of 9,074 toll transactions per day occurred during the first nine and one-half months of operations in 2001 – less than half of the traffic volume projected in the Study.

Several factors have contributed to the traffic situation. The Southern Connector is the first toll road in Upstate South Carolina. Since citizens in the Greenville, South Carolina vicinity are unaccustomed to using toll roads, they have been resistant to the concept of paying tolls. Furthermore, the Southern Connector was envisioned as a means of fostering development in southern Greenville County, and its corridor runs through a largely undeveloped area, serving as a thruway connecting Interstate 385 with Interstate 85. This lack of development, coupled with the fact that the Southern Connector was opened almost nine months ahead of schedule, means that the demand for the toll road is in its infancy.

Due to the factors discussed above, the Association's revenues for 2001 fell short of amounts anticipated, and the Association suffered a decrease in net assets (loss) of $14,397,226 for 2001.

In January 2002, Standard & Poor's revised its outlook on the Association's Series 1998A and 1998B bonds from stable to negative. The bond rating of BBB-minus remained unchanged.

The Association had not requested a bond rating for its Series 1998C bonds. In response to its financial difficulties, the Association's Executive Director and Board have reviewed the operating budget for 2002, and have significantly cut costs. In addition, the Association has been working with its financial advisor to develop and refine a financial model which is based on the toll road's historical results and which will project future utilization and revenue growth based upon certain critical assumptions which may or may not reflect actual results. Traffic and revenue projections during the initial operation of a toll facility are particularly difficult since the utilization is quite volatile. According to the Association's most recent financial model, it should be able to pay debt service on the Toll Road Revenue Bonds due January 1, 2003, from accumulated revenues and from current revenues from the operation of the road. However, a small withdrawal from the Senior Bonds Debt Service Reserve Trust Account may be necessary to pay a portion of the interest due on January 1, 2003.

The terms of the Trust Agreement dictate the distribution of monies in the Trust Fund accounts that have been established. Under the terms of the Trust Agreement, in order for the Association to access monies in the Debt Service Reserve Fund, it must first have depleted its Revenue Fund. Since the Revenue Fund is the only fund under the Trust Agreement from which toll road operating expenses may be paid, the Association's Board voted in 2002 to build an operating reserve from which toll road operating expenses may be paid in the event that the Revenue Fund is depleted.

NOTE 20. CONTINGENCIES AND SUBSEQUENT EVENTS:

PRIMARY ENTITY:

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

Through June 30, 2002 the State's Joint Bond Review Committee approved the issuance by the Department not to exceed $1,072,000,000 in General Obligation State Highway Bonds for projects. As of June 30, 2002, $552,000,000 in bonds have been issued. The Commission authorizes the timing and amounts of the various bond issues to be determined by the Department's staff.

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

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

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

COMPONENT UNIT:

Under the terms of the Development Agreement discussed in Note 5, an early completion bonus is due to the Developer if the date of Substantial Completion is at least 90 days prior to the Guaranteed Completion Date of November 17, 2001. The amount of the bonus is $17,500 per day for each day that the date of Substantial Completion exceeds 90 days prior to the Guaranteed Completion Date. The Developer submitted to the Association a Certificate of Substantial Completion dated February 26, 2001. However, the Association disputes that date, maintaining that Substantial Completion was not attained until July 22, 2001. The Association expects this claim to be resolved utilizing the Dispute Resolution Procedures specified in the Development Agreement. These procedures call for non-binding mediation under the Construction Industry Mediation Rules of the American Arbitration Association. In the event of a failure to resolve the dispute through mediation, the claim will be settled by a binding and non-appealable arbitration of the Claim Review Board. Based on its determined date of Substantial Completion of July 22, 2001 and accounting guidance provided in FASB Statement No. 5, *Accounting for Contingencies*, the Association accrued 30 days of early completion bonus liability in the amount of $525,000. This amount is included in requisitions payable in the accompanying statement of net assets. Should this claim be submitted for dispute resolution, the determined early completion bonus liability could be as high as $3,045,000. However, the Development Agreement specifies that, if the Association does not have monies sufficient to pay the early completion bonus when due, the Developer will accept payment from the Association, without interest, if and when excess toll revenues become available.

In May 2002, the Developer submitted a Certificate of Final Completion dated May 8, 2002. Under the Development Agreement, upon Final Completion, a final accounting is to be submitted to the Association, and any final payment of the guaranteed construction price plus any early completion bonus become due and payable to the Developer. The Association disputes the May 8, 2002 date, citing undelivered items relating to toll software. As described above, the Association expects to utilize the Dispute Resolution Procedures specified in the Development Agreement to resolve this issue.

NOTE 21. ACCOUNTING CHANGES/PRIOR PERIOD ADJUSTMENTS:

The Department made corrections of errors involving the application of accounting principles regarding unrecorded (1) account receivable for gasoline and special fuels taxes due from South Carolina Department of Revenue; (2) amount due to the South Carolina Transportation Infrastructure Bank for portion of unrecorded account receivable for gasoline taxes and (3) revenues due to the Department for sales of goods and services; and, also made an adjustment to record the effect of adopting the consumption method for reporting prepaid expenses.

All State agencies and institutions were required to adopt a capitalization limit of $5,000 for movable personal property and $100,000 for depreciable land improvements, buildings and improvements, and tangible assets, as of July 1, 2001. As a result of the change in asset capitalization policy, the Department removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels.

As a result of the adoption of GASB Statement No. 34 as discussed in Note 1, the Department was required to make certain changes in accounting principles, specifically recording in the statement of net assets certain assets and liabilities.

The effect of accounting and reporting changes on beginning fund balance in the governmental fund financial statements is as follows:

	State Highway Fund
Fund balance, June 30, 2001, as previously reported	$ 488,610,461
Effect of adopting the consumption method for reporting prepaid expenses	5,416,850
Correction of errors:	
Add:	
Account receivable for gasoline and special fuels taxes due from State agency	29,140,158
Account receivable for sales of goods and services	675,000
Deduct:	
Amount due to Agency Fund - County Transportation Program	(4,717,926)
Amount due to State agency for portion of gasoline taxes due to State agency	(1,939,000)
Total adjustments	23,158,232
Fund balance, June 30, 2001, as restated	$ 517,185,543

The effect of accounting and reporting changes on beginning net assets in the entity-wide financial statements is as follows:

Net assets, June 30, 2001 as previously reported	$ -
Record fund equity at June 30, 2001 of fund-based activities previously reported in general purpose financial statements	781,546,051
Adjustments resulting from corrections of errors involving the application of accounting principles (see prior page)	28,575,082
Adjustments resulting from increase in capitalization limit for capital assets	(34,535,652)
GASB Statement 34 restatements to record assets and liabilities:	
Capital assets - Infrastructure - road and bridge network	
Construction in progress	2,409,586,961
Right of ways land	367,036,092
Other capital assets	6,856,984,286
Accumulated depreciation on capital assets	(1,715,136,716)
Bonds payable	(672,135,000)
Contributions payable - State agency	(164,075,437)
Capital leases	(386,465)
Accrued compensated absences	(18,310,416)
Accrued interest payable on bonds	(7,533,822)
Net assets, June 30, 2001, as restated	$ 7,831,614,964

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual	Variance with Final
REVENUES:	Original	Final	Amounts	Budget
State appropriations	$ 578,976	$ 490,752	$ 490,752	$ -
EXPENDITURES:				
Public transportation	524,415	490,752	490,752	-
Capital outlay	1,357,968	1,357,968	1,357,968	-
Total expenditures	1,882,383	1,848,720	1,848,720	-
NET CHANGE IN FUND BALANCE	(1,303,407)	(1,357,968)	(1,357,968)	-
FUND BALANCE - BEGINNING	1,357,968	1,357,968	1,357,968	-
FUND BALANCE - ENDING	$ 54,561	$ -	$ -	$ -

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

	Assets				
	Cash and Cash Equivalents		Accrued Interest Receivable	Due from State Highway Fund	Total Assets
RIGHT OF WAYS FUND					
Balances, June 30, 2001	$ 261,946		$ -	$ -	$ 261,946
Additions	399,541				399,541
Deductions	(333,140)				(333,140)
Balances, June 30, 2002	328,347				328,347
SPECIAL DEPOSITS					
Balances, June 30, 2001	460,371				460,371
Additions	1,763,532				1,763,532
Deductions	(1,004,518)				(1,004,518)
Balances, June 30, 2002	1,219,385				1,219,385
COUNTY TRANSPORTATION PROGRAM FUND					
Balances, June 30, 2001 as restated	102,679,444		1,044,264	4,717,926	108,441,634
Additions	92,990,939		4,770,424	69,741,208	167,502,571
Deductions	(87,675,410)		(4,677,807)	(69,297,365)	(161,650,582)
Balances, June 30, 2002	107,994,973		1,136,881	5,161,769	114,293,623
TOTALS - ALL AGENCY FUNDS					
Balances, June 30, 2001 as restated	103,401,761	(1)	1,044,264	4,717,926	109,163,951
Additions	95,154,012		4,770,424	69,741,208	169,665,644
Deductions	(89,013,068)		(4,677,807)	(69,297,365)	(162,988,240)
Balances, June 30, 2002	$ 109,542,705	(1)	$ 1,136,881	$ 5,161,769	$ 115,841,355

(1) Includes unrealized appreciation of $2,808,704 at June 30, 2002 and $1,446,673 at June 30, 2001

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

	Liabilities				
	Accounts Payables/ Other Liabilities	Deposits for Right-of-Ways	Special Deposits and Bonds	Funds Held for Counties	Total Liabilities
RIGHT OF WAYS FUND					
Balances, June 30, 2001	$ 114,500	$ 147,446	$ -	$ -	$ 261,946
Additions		399,541			399,541
Deductions	(114,500)	(218,640)			(333,140)
Balances, June 30, 2002	-	328,347			328,347
SPECIAL DEPOSITS					
Balances, June 30, 2001	135,832		324,539		460,371
Additions	773,474		1,075,005		1,848,479
Deductions	(94,625)		(994,840)		(1,089,465)
Balances, June 30, 2002	814,681		404,704		1,219,385
COUNTY TRANSPORTATION PROGRAM FUND					
Balances, June 30, 2001 as restated	2,068,201			106,373,433	108,441,634
Additions	6,127,905			87,762,335	93,890,240
Deductions	(2,068,201)			(85,970,050)	(88,038,251)
Balances, June 30, 2002	6,127,905			108,165,718	114,293,623
TOTALS - ALL AGENCY FUNDS					
Balances, June 30, 2001 as restated	2,318,533	147,446	324,539	106,373,433	109,163,951
Additions	6,901,379	399,541	1,075,005	87,762,335	96,138,260
Deductions	(2,277,326)	(218,640)	(994,840)	(85,970,050)	(89,460,856)
Balances, June 30, 2002	$ 6,942,586	$ 328,347	$ 404,704	$ 108,165,718	$ 115,841,355

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures	Expenditures to Subrecipients
U.S. Department of Transportation:			
Direct Programs:			
Highway Planning and Construction	20.205	$ 418,629,796	$ 330,000
Federal Transit: Capital Investment Grants	20.500	761,233	539,602
Federal Transit: Metropolitan Planning Grants	20.505	307,862	305,048
Formula Grants for Other Than Urbanized Areas	20.509	4,834,351	2,278,543
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	798,245	696,968
Job Access: Reverse Commute	20.516	892,414	884,326
TOTAL FEDERAL FINANCIAL ASSISTANCE		$ 426,223,901	$ 3,701,215

NOTE: The Department used the accrual basis method of accounting in preparing the above schedule. This is the same basis of accounting used by the Department in the preparation of its annual financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

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

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

We have audited the financial statements of the South Carolina Department of Transportation (the Department) as of and for the year ended June 30, 2001, and have issued our report thereon dated October 21, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-1 – 02-10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs are material weaknesses. We also noted one other matter involving the internal control over financial reporting which is described as item 02-11.

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

Rogers & Laban, PA

October 21, 2002

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

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

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

Compliance

We have audited the compliance of the South Carolina Department of Transportation (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

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

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

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

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

Rogers & Laban PA

October 21, 2002

SOUTH CAROLINA STATE DEPARTMENT OF TRANSPORTATION

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued: Unqualified Opinion

2. Internal control over financial reporting:
   - Material weaknesses identified? __x__ yes ____ no
   - Reportable condition identified not considered to be material weaknesses? __x__ yes ____ no

3. Non-compliance material to the Financial Statements noted? ____ yes __x__ no

Federal Awards

4. Internal control over major programs:
   - Material weakness identified? ____ yes __x__ no
   - Reportable conditions identified not considered to be material weaknesses ____ yes __x__ no

5. Type of auditor's report issued on compliance for major programs: Unqualified Opinion

6. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? ____ yes __x__ no

7. Identification of major programs:

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

8. Dollar threshold used to be distinguished between Type A and Type B Programs: $3,000,000

9. Auditee qualified as low-risk auditee? ____ yes __x__ no

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

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

02-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Condition:

As noted in prior management letters issued to the Department, the Department does not maintain it books of accounts in accordance with generally accepted accounting principles (GAAP) for governmental entities. For fiscal year 2002, the Department posted its transactions in its general ledger system as opposed to State Transportation Accounting and Reporting System (STARS) which was used for the fiscal year 2001. Several conditions as noted below required a substantial amount of additional work and procedures to be performed at year-end to ensure that the financial statements were in accordance with GAAP.

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

- Schedules and reports that were prepared by the Department and furnished to the audit firm to support certain financial activity were incorrect and had to be reworked. The schedules and reports that provide supporting documentation should be prepared by the Department and used by management throughout its fiscal year.

- During the conversion from STARS to its general ledger system, the Department did not post all the adjusting journal entries setting up the opening balances for the current fiscal year.

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

Similar findings were included in prior management letters.

Cause:

The Department's accounting records were not properly maintained to produce accurate and complete financial statements.

Effect:

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

Criteria:

State regulations, good business practices and GAAP require the Department to maintain complete and accurate financial accounting records that reflect all of the financial activities of the Department that will support the Department's financial statements and other financial reports.

Recommendation:

We recommend that the Department:

- Establish and maintain an accounting system that includes all of the necessary self-balancing funds to properly account for the Department's financial position and all of its financial activities in accordance with GAAP.

- Ensure that all reports and schedules that are prepared throughout the year or at year end that support financial activities and account balances include accurate information.

- Review all transactions being posted to its general ledger to ensure they are properly and timely posted in accordance with GAAP.

02-2 CASH DEFICIENCIES

Condition:

One of the Department's cash accounts held with the State Treasurer's Office was not recorded in the Department's general ledger system. This account's balance at June 30, 2002 was over $500,000 and is to be used for capital improvements. In addition, several transactions involving undrawn bond proceeds from the State highway bonds were not recorded in the Department's general ledger. The year-end balance of the bond proceeds accounts surpassed $200 million.

Cause:

The Department does not record and reconcile the cash accounts related to bond issues on a monthly basis.

Effect:

Failure to prepare timely cash reconciliations and record adjustments for unrecorded and other reconciling items may result in inaccurate balances in the Department's accounting records. This will result in incomplete documentation for support of individual cash account balances.

Criteria:

The Statewide Accounting and Reporting System Manual Section 2.1.7.20C require cash reconciliations to be prepared timely and accurately. Also good accounting practices require all financial activity of an entity to be recorded in its financial records.

Recommendation:

We recommend that the Department:

- Record financial activity for all bank accounts including those for capital improvements and bond proceeds.

- Reconcile all cash accounts in the Department's Accounting System to the Comptroller General's account balances within 30 days after each month end.

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

02-3 ACCOUNTS PAYABLE/CONTRACT RETAINAGES DEFICIENCIES

Condition:

We noted several deficiencies regarding accounts payable and contract retainages. They include the following:

- The schedule of additional accounts payable for the current fiscal year included expenditures applicable to the subsequent fiscal year. This resulted in accounts payable being overstated by approximately $283,000.

- Our tests for unrecorded liabilities disclosed additional accounts payable of approximately $1.8 million not included on the schedule.

- Contract retainage payable included $1.1 million where the job had been closed and the contractor had been paid. The Department inadvertently posted the clearing entry to its records in reverse. Instead of the clearing this retainage from its subsidiary ledger, the result was to double what was owed. An adjusting entry was made to correct this situation.

Similar findings were included in the prior management letters.

<u>Cause</u>:

The Department's staff did not identify and accurately record its accounts payable and accrued expenditures as of year-end.

<u>Effect</u>:

The failure to correctly schedule all accounts payable and contract retainages will result in misstatements of liabilities and expenses/expenditures in the Department's financial statements.

<u>Criteria</u>:

Good accounting practices dictate the recording of all accounts payable/current retainages as of each year-end.

<u>Recommendation</u>:

We recommend that the Department implement fiscal year-end expenditure and liability cutoff procedures to ensure that all accounts payable of the Department are recorded as of each year-end through a more diligent search and that the schedule supporting contract retainage payable be reviewed to ensure it accurately reflects the year-end balance.

02-4 ACCOUNTS RECEIVABLE DEFICIENCIES

<u>Condition</u>:

The Department's accounts receivable balances include amounts from numerous sources, including other State agencies, local governments and other entities. During our testing of subsequent receipts, we discovered over $5 million of receipts recorded in fiscal year 2003 that should have been recorded in fiscal year 2002 and treated as a receivable. Included in this amount was a receipt for $675,000 that should have been recorded as revenue for the promotional signs displayed on the State’s interstate highway system. Since the fiscal year 2001 amount was recorded in the current year, this was treated as a prior period adjustment. In addition, we noted that several subsequent receipts were charge memorandums and denoted “remittance attached”. After further inquiry, it was determined there is sometimes a lack of communication between the accounting and engineering departments as to who and when to bill for services the Department provides.

<u>Cause</u>:

The Department's staff did not accurately identify and record all of its accounts receivable at year–end. There also appears to be a communication problem between accounting and engineering which adversely affects billing procedures.

<u>Effect</u>:

The failure to correctly record all accounts receivable will result in misstatements of assets and revenues in the Department's financial statements.

<u>Criteria</u>:

Good accounting practices dictate the recording of all accounts receivable as of each year-end.

Recommendation:

We recommend that the Department implement fiscal year-end revenue and account receivable cutoff procedures to ensure that all receivables and related revenues of the Department are recorded as of each year-end through a more diligent search. We further recommend that the accounting and engineering departments establish a more streamline approach to billing clients for goods and services the Department provides.

02-5 IMPROVEMENTS NEEDED OVER ACCOUNTING FOR PARTICIPATION AGREEMENTS

Condition:

A review of the client prepared schedule for outstanding participation agreements and supporting documentation disclosed the following deficiencies:

- Several projects on the prepared schedule did not agree with the allotment ledger posting master listing of total project costs.

- Our tests of the various contracts disclosed several old agreements for which there was no actual written agreement. Collection of amounts due from these contracts appears to be question.

- One project showed where the third party overpaid the Department and the schedule disclosed this as deferred revenue instead of as an account payable.

- We noted several errors on the Department's original schedule such as contracts paying specific amounts instead of a percentage of total project costs and contracts that involved the State Infrastructure Bank that should not have been included.

We also that changes to accounts receivable and deferred revenues are only being updated as of year-end as part of the year-end audit process.

Similar findings were included in prior management letters.

Cause:

The Department's accounting staff does not update all of the components of the schedules and prepare required adjusting entries for outstanding participation agreements on a monthly basis.

Effect:

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

Criteria:

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

Recommendation:

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

02-6 CAPITAL ASSET DEFICIENCIES

Condition:

We noted the following deficiencies during our testing of capital assets:

- Fifteen mobile signs that met the Department's capitalization policy were inadvertently left off the mobile equipment listing. The total cost of the signs was $483,525.

- For the beginning accumulated depreciation balances for mobile equipment and other equipment, the Department's reports included an additional year of depreciation for assets that had been fully depreciated before June 30, 2001. This computer reporting problem was fixed for the June 30, 2002 reports. However, the beginning balance reports overstated accumulated depreciation by $1.2 million and was corrected.

- For current year additions, enhancements and labor associated with extending the useful lives of previously purchased capital assets were not separately listed on the Department's year-end depreciation schedules. For assets that were not fully depreciated, the enhancement and labor costs were added to the original cost of the asset. However, these additional costs were treated as being incurred on the original purchase date for accumulated depreciation calculation purposes. Thus, accumulated depreciation was overstated for these assets. In addition, there were two assets that met this criteria where the original asset was fully depreciated. In this event, no depreciation was calculated on the current year enhancement and labor costs and the entire amount of the enhancements and additions were added to the asset's accumulated depreciation. The net result of this overstated accumulated depreciation by approximately $511,000 and understated current year depreciation expense by approximately $50,000.

- In testing in the beginning infrastructure balance, a review of the prior year construction in progress schedule disclosed that twenty-four projects listed as open in the prior year should have been closed. The closing dates on these projects ranged from 1995 to 2000 and the cost approximated $288 million.

Cause:

The Department failed to adequately review capital asset reports to ensure accuracy. It further appears that better communication is required between the accounting and engineering departments as to whether projects are closed or open.

Effect:

The failure to ensure the accuracy of year-end capital asset reports will misstate asset and expenditure accounts.

Criteria:

Good accounting procedures require the Department to record proper amounts for capital assets as well as their associated depreciation and accumulated depreciation.

Recommendation:

We recommend that the Department:

- Adequately train personnel to recognize and record capital assets. We do recognize at the time the signs were left off the Department's capital asset listing that this asset recording process was decentralized. Since that time, the Department has centralized this operation within the accounting department.

- Review the year-end capital asset reports in regards to assets who have had their useful lives increased by enhancement and direct labor costs. The Information Technology department should revise the capital asset report to handle the correct calculation of these enhancements and improvements and still be able to link this information back to the original asset through its tag number.

- Enhance the communication process between the accounting and engineering departments to ensure the accuracy of the year-end construction in progress reports as to whether projects are open or closed.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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

OTHER MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2002

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

02-7 INVENTORY DEFICIENCIES

Condition:

We noted the following deficiencies during our testing of inventory:

- The Department's inventory tracking system was not updated at one observation site which led to discrepancies between the Department's count sheets and the observed count.
- One test count included two different air filters with the same supply depot number.
- At one maintenance site, the inventory included obsolete and defective items. Upon further investigation, it appears that the maintenance site had removed these items from the inventory shelf but was waiting for disposal processing from the district office for the past two years.

Cause:

The Department has procedures in place to eliminate obsolete and defective inventory in a timely manner. It appears that these procedures were not followed.

Effect:

The failure to eliminate obsolete and defective repair parts not only overstates assets but has the potential to cause unsafe conditions for equipment operators.

Criteria:

Good accounting procedures require the Department to write off obsolete and defective inventory in a timely manner.

Recommendation:

We recommend that the Department's personnel responsible for inventory oversight identify obsolete and defective inventory on quarterly basis. We further recommend that the Department institute follow-up procedures to ensure that this process is completed in a timely manner.

02-8 CASH DISBURSEMENT DEFICIENCIES

Condition:

We noted the following deficiencies during our testing of cash disbursements:

- For three utility invoices, late fees were paid when the voucher request was made prior to the due date. Due to the processing time from the time the request is sent to the Comptroller General's office to the time the check is actually cut, the late fees would apply.
- There were several coding misclassifications noted in our testing. For example, maintenance supplies were charged to motor vehicle supplies.

Cause:

The timing of processing payments sometimes leads itself to paying late fees that otherwise might not have to be paid. Lack of attention of detail causes coding errors.

Effect:

The Department is overpaying on some expenditures due to the timing of payment. Coding misclassifications cause the misstatement of expenditure accounts.

Criteria:

Good accounting practices require the Department to pay its bills timely and code expenditure to the proper expenditure accounts.

Recommendation:

We recommend that the Department review its payment procedures for utilities and determine if there is a way to eliminate these late fees. We further recommend that the Department train its accounting personnel who have oversight responsibility over the voucher preparation to ensure the accuracy of the coding of expenditures.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

STATUS OF PRIOR MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2002

During our current audit, we reviewed the status of corrective action taken on the management letter comments reported in the prior auditor's report on the financial statements of the Department dated November 2, 2001 resulting from the audit of the financial statements for the year ended June 30, 2001. We found that adequate corrective action was taken for the following management letter comments:

- Operating and Capital Lease Deficiencies
- Draw-Down of Federal Funds Not Timely
- Insurance Coverages

The other prior year findings are repeated in the current year's Schedule of Findings and Questioned Costs and/or Other Management Letter Comment.

APPENDIX A

CORRECTIVE ACTION PLAN

SCDOT

South Carolina
Department of Transportation

CORRECTIVE ACTION PLAN

November 20, 2002

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

Dear Mr. Wagner:

The South Carolina Department of Transportation respectfully submits the following Corrective Action Plan for the year ended June 30, 2002.

This Plan outlines actions taken, or to be taken, to address "reportable conditions" contained in the audit report prepared by Rogers and Laban, PA, CPA's dated October 21, 2002. Each audit recommendation is repeated prior to our response and numbered as in the audit report.

02-1 FINANCIAL RECORDS NOT MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Recommendation:

We recommend that the Department:

- Establish and maintain an accounting system that includes all of the necessary self-balancing funds to properly account for the Department's financial position and all of its financial activities in accordance with GAAP.

  Ensure that reports and schedules that are prepared throughout the year or at year end that support financial activities and account balances include accurate information.

  Review all transactions being posted to its general ledger to ensure they are properly and timely posted in accordance with GAAP.

SCDOT CORRECTIVE ACTION:

As of July 1, 2001, the Department successfully replaced its previous accounting system with our modified General Ledger system. This massive project was designed in stages in order to be able to process all transactions and produce financial reports needed by management while making necessary modifications to upgrade the system. We determined that alteration of the account coding structures to accommodate multiple, self-balancing funds in accordance with GAAP should occur in fiscal year 2003, after the completion of other major stages such as the adoption of GASB 34. In keeping with that plan, the accounting system is currently being modified to separate transactions by fund and to distinguish budgetary from actual transactions. The funds will be self-balancing and financial reporting will be on a GAAP basis. This project will be completed by June 30, 2003 in time for year-end GAAP reporting.

Many of the noted incorrect reports dealt with infrastructure and other capital assets. Because of the first–time implementation of the depreciation and infrastructure portions of GASB 34, some software calculation glitches were not discovered until reports were analyzed. The programs that generate these reports have been revised and are being reviewed on a monthly basis. We will always strive to prepare accurate reports for the use of our auditors and our internal customers.

Because the Department, on a day-to-day basis, primarily operates on a budgetary rather then GAAP basis we attempt to review all auditor adjusting entries and post only those deemed necessary. We will make sure in the future that all necessary adjustments are made.

CASH DEFICIENCIES

Recommendation:

We recommend that the Department:

Record financial activity for all bank accounts including those for capital improvements and bond proceeds.

Reconcile all cash accounts in the Department's Accounting System to the Comptroller General's account balances within 30 days after each month end.

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

SCDOT CORRECTIVE ACTION:

The bond cash accounts held by the Treasurer were historically reconciled on a yearly basis because of minimal activity. However, the Department will begin the process of reconciling the accounts to the Treasurer's reports on a monthly basis. This will include the interest earning, bond draws, and debt service transfers. All required adjusting entries will be recorded. All other cash accounts are properly handled.

ACCOUNTS PAYABLE/CONTRACT RETAINAGES DEFICIENCIES

Recommendation:

We recommend that the Department implement fiscal year-end expenditure and liability cutoff procedures to ensure that all accounts payable of the Department are recorded as of each year-end through a more diligent search and that the schedule supporting contract retainage payable be reviewed to ensure it accurately reflects the year-end balance.

SCDOT CORRECTIVE ACTION:

As stated in last year's report the Department believes that it employs extensive fiscal year-end expenditure and liability cutoff procedures. The fact that these errors represent just 2% of total accounts payable at year-end seems to support this statement. We will continue to diligently apply these procedures always attempting to have zero exceptions. We will maintain our contract retainage schedule on a monthly basis and a supervisor will be responsible for reviewing the accuracy of the report.

02-4 ACCOUNTS RECEIVABLE DEFICIENCIES

Recommendation:

We recommend that The Department implement fiscal year-end revenue and account receivable cutoff procedures to ensure that all receivables and related revenues of the department are recorded as of each year-end through a more diligent search. We further recommend that the accounting and engineering departments establish a more streamline approach to billing clients for goods and services the Department provides.

SCDOT CORRECTIVE ACTION:

The Accounts Receivable System was significantly enhanced over the last two years to include as many "unusual" and "non-recurring" transactions as reasonably possible. These transactions are entered into the accounting records as soon as identified and practical. Control over cash receipts and revenue and management of normal, material amounts due the agency are the primary focus of the Department on a day-to-day basis. We believe the auditor findings support the success of these efforts.

Given the above, we recognize that improvements can be made and will make a concerted effort to gather and record all amounts due the Department. We will continue to expand communication with Engineering concerning these matters to capture the receivable as early as possible.

02-5 IMPROVEMENTS NEEDED OVER ACCOUNTING FOR PARTICIPATION AGREEMENTS

Recommendation:

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

SCDOT CORRECTIVE ACTION:

Since July 2001, an accountant has completed a monthly participation agreement statement. This statement has been reconciled and balanced to the general ledger each month during the 2002 fiscal year. In order to convert to a full GAAP basis, we prepare a modified statement at year–end to reflect the deferred revenue. To determine the deferred amounts on this year-end statement, allotments are sometimes modified to reflect the actual budgeted total. These year-end GAAP adjustments are not made on a monthly basis because the information is not needed monthly.

Several old accounts are reflected on the statement where there is no written agreement. Since participating revenues were received from third parties for these projects, these items will remain on the statement until the projects are closed. We expect them to be collected.

We will continue to diligently account for participation agreements and will work closely with the contracts office to make sure accounting records are updated timely for all changes.

02-6 CAPITAL ASSET DEFICIENCIES

Recommendation:

We recommend that the Department:

> Adequately train personnel to recognize and record capital assets. We do recognize at the time the signs were left off the Department's capital asset listing that this asset recording process was decentralized. Since that time, the Department has centralized this operation within the accounting department.
>
> Review the year-end capital asset reports in regards to assets who have had their useful lives increased by enhancements and direct labor costs. The Information Technology department should revise the capital asset report to handle the correct calculation of these enhancements and improvements and still be able to link this information back to the original asset through its tag number.
>
> Enhance the communication process between the accounting and engineering departments to ensure the accuracy of the year-end construction in progress reports as to whether projects are open or closed.

SCDOT CORRECTIVE ACTION:

We believe that these capital asset audit findings confirm the overwhelming success of our adoption of the capital asset provisions of GASB 34, an extensive, complex project to accurately record and depreciate NINE BILLION DOLLARS of assets in the accounting records of the Department for the first time. We have now developed communication processes with Engineering to ensure that construction projects are closed at the proper time. As the auditors indicate, control of coding of fixed asset purchases has now been consolidated in the accounting department.

In addition, programming modifications have been discussed with Information Technology to allow alpha characters to be accepted at the end of equipment tag numbers. By using the additional characters, enhancements extending the useful life of an asset can now be linked to that original asset. This will enable the Department to accurately compute accumulated depreciation on both the original purchase as well as the enhancement. Accumulated depreciation reports for all equipment have been revised to not calculate depreciation during the final year of useful lives on equipment and fixed assets.

INVENTORY DEFICIENCIES

Recommendation:

We recommend that the Department's personnel responsible for inventory oversight identify obsolete and defective inventory on a quarterly basis. We further recommend that the Department institute follow-up procedures to ensure that this process is completed in a timely manner.

SCDOT CORRECTIVE ACTION:

Procedures are currently in place to track, dispose of, and account for inventory items in the various shop locations. The Department concurs that personnel responsible for inventory over-site should regularly inspect, count, and properly dispose of obsolete inventory. We will follow-up before year-end to make sure these policies are being followed.

CASH DISBURSEMENT DEFICIENCIES

Recommendation:

We recommend that the Department review its payment procedures for utilities and determine if there is a way to eliminate these late fees. We further recommend that the Department train its accounting personnel who have oversight responsibility over the voucher preparation to ensure the accuracy of the coding of expenditures.

SCDOT CORRECTIVE ACTION:

The Department is currently working with several utility companies to simplify the payment process and extend the payment time to alleviate late fees. We have been successful in consolidating the billing of two major utility companies and are currently working with a third. Payments are processed as quickly as possible in the disbursement area. Those utility companies invoices that have short payment cycles are now being sent directly to the accounting office for processing. This reduces the mailing and receiving time from the field offices to the central accounting office.

We agree that additional training is always helpful for disbursement personnel on expenditure classification and will see that the chart of accounts is also reviewed at these training sessions.

If you need additional information on any of these matters, please do not hesitate to contact me.

Sincerely,

Robert W. Wilkes, Jr.

Robert W. Wilkes, Jr. CPA
Director of Financial Management

CC: Rogers and Laban, PA