CONNECTOR 2000 ASSOCIATION, INC.

ANNUAL REPORT

June 30, 2014

CUSIP Prefix 20786L

INTRODUCTION

This is the sixteenth report of annual financial information delivered pursuant to that certain Continuing Disclosure Agreement dated February 11, 1998 (the "***Disclosure Agreement***") between Connector 2000 Association, Inc., a South Carolina non-profit public benefit corporation (the "***Association***") and U. S. Bank, National Association, as successor to First Union National Bank (the "***Trustee***"), in its capacity as dissemination agent relating to the Connector 2000 Association, Inc. Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 2011A, Series 2011B and Series 2011C (the "***Amended and Restated Bonds***"). Capitalized terms not otherwise defined herein have the meaning set forth in the Disclosure Agreement, if defined therein.

For a narrative description of the Association, the Projects and the Construction of the Projects, see the annual reports previously filed by the Association pursuant to the Disclosure Agreement.

OPERATION OF THE SOUTHERN CONNECTOR PROJECT

The Association was incorporated for the design, financing, acquisition, construction and operation of the Southern Connector. The Southern Connector is an approximately 16-mile four-lane tollway facility constructed to interstate standards on new location. The Southern Connector extends from existing I-85 at its interchange with I-185, in Greenville County, South Carolina, proceeds southeast and interchanges with the S.C. 153 Extension, continues east and interchanges with S.C. 20, with U.S. 25 south of the South Carolina Technology and Aviation Center (formerly Donaldson Center Industrial Park) and with Fork Shoals Road before turning northeast and interchanging with I-385 at its intersection with U.S. 276 and Standing Springs Road east of the City of Greenville, South Carolina, between the cities of Mauldin, South Carolina and Simpsonville, South Carolina.

At December 31, 2013, the Southern Connector had been open and collecting tolls for over eleven and one-half years. As required by Section 4 of the Disclosure Agreement, the Annual Report of the Association must present selected data relating to the operation of the Southern Connector Project and penetration of electronic toll collections ("***ETC***") for the preceding five years which is set forth in the following table:

	2009	**2010**	**2011**	**2012**	**2013**
ETC Trans.	1,652,726	1,574,335	1,677,287	1,594,497	1,611,206
% of Total Trans.	30%	34%	34%	35%	35%
ETC Revenue	$1,274,709	$1,540,310	$1,664,462	$2,155,414	$2,223,419
% of Total Rev.	24%	27%	29%	32%	32%
Total Trans.	5,455,974	4,538,473	4,884,705	4,617,246	4,688,005
Total Revenue	$5,254,463	$5,645,289	$5,782,063	$6,755,172	$6,963,035

The toll rates for the Southern Connector Project are set pursuant to Section 6.4 of the License Agreement dated February 11, 1998 between the Association and the South Carolina Department of Transportation ("***SCDOT***") as amended by Section VIII of the First Amendment to License Agreement dated April 1, 2011 between the Association and SCDOT (the "***Revised License Agreement***"). From time to time, the Association will offer discounts or incentives for the use of ETC transponders ("***Pal Pass***") on the Southern Connector Project. Such toll rates were most recently adjusted January 1, 2012.

The toll rates and discounts charged by the Association for the use of the Southern Connector are as follows:

LOCATION	East Plaza	West Plaza	SC 20 (on/off ramps)	Fork Shoals Rd. (on/off ramps)
2 axles	$1.50	$1.50	$0.75	$0.75
2 axle discount rate	$1.35	$1.35	$0.75	$0.75
3 axles	$3.00	$3.00	$0.75	$0.75
3 axle discount rate	$2.55	$2.55	$0.75	$0.75
4 axles	$4.00	$4.00	$0.75	$0.75
4 axle discount rate	$3.40	$3.40	$0.75	$0.75
5 axles	$5.00	$5.00	$0.75	$0.75
5 axle discount rate	$4.25	$4.25	$0.75	$0.75
6 + axles	$6.00	$6.00	$0.75	$0.75
6 + axle discount rate	$5.10	$5.10	$0.75	$0.75

One mainline toll plaza is located at the east end and one at the west end of the Southern Connector. The toll for all 2-axle vehicles at the mainline plazas is $1.50. At both mainline plazas a higher toll is required for vehicles having more than 2 axles. Unattended ramps are located at Fork Shoals Road and SC Route 20. A flat rate of $0.75 per vehicle, regardless of the number of axles, is charged at these ramps.

Motorists have the option of establishing an ETC prepaid toll account (Pal Pass), which allows them to travel through dedicated lanes without stopping and have their tolls automatically deducted from their prepaid toll account. Motorists with a Pal Pass account receive a discount on all mainline toll plaza transactions. This discount applies to all vehicles, regardless of the number of axles. No discount is applied to transactions at the unattended ramps.

AUDITED FINANCIAL STATEMENTS

The financial statements of the Association for the period ended December 31, 2013 have been audited by Green Finney & Horton, LLP, Certified Public Accountants. Their examination report and the audited financial statements of the Association for its fiscal year ended December 31, 2013, are attached hereto as **Exhibit "A"**.

OTHER FINANCIAL INFORMATION

The Association did not receive any federal or State highway expansion money during its fiscal year ended December 31, 2013. The Association exchanged the Amended and Restated Bonds for the Original Bonds during its fiscal year ended December 31, 2013. The Association did not issue or remarket any other bonded indebtedness during its fiscal year ended December 31, 2013.

The Association has established a web site with the address: "www.southernconnector.com". Additional information is posted from time to time on the Association's web site. The Association regularly prepares and updates daily toll transactions and revenues on the web page. Copies of official filings, bankruptcy documents and press releases of the Association are also available on the web page.

CONCLUDING STATEMENT

The Association has been advised that the Disclosure Agreement was terminated in connection with the exchange under the Plan. The Association is electing to continue to make secondary market disclosure as an accommodation to the holders of its Amended and Restated Bonds. The Association reserves the right to discontinue such disclosure at any time without notice.

This Annual Report has been filed on behalf of the Association with the Municipal Securities Rulemaking Board under its EMMA system. To the knowledge of the Association, the State of South Carolina has not created a State Information Depository. The Association has received no notice under the Disclosure Agreement and is not aware that any event of default has occurred thereunder.

EXHIBIT "A"

AUDITED FINANCIAL STATEMENTS OF THE ASSOCIATION FOR THE YEAR ENDED DECEMBER 31, 2013.

[Attached]

CONNECTOR 2000 ASSOCIATION, INC.

(A Component Unit of the State of South Carolina and of the South Carolina Department of Transportation)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

CONNECTOR 2000 ASSOCIATION, INC., GREENVILLE, SOUTH CAROLINA
(A Component Unit of the State of South Carolina and of the South Carolina Department of Transportation)

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YEARS ENDED DECEMBER 31, 2013 AND 2012

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Connector 2000 Association, Inc.
Piedmont, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Connector 2000 Association, Inc. (the "Association"), a component unit of the State of South Carolina and of the South Carolina Department of Transportation ("SCDOT"), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1, items B. and M., and Note 11 to the financial statements, the Association adopted and changed its method of accounting for bond issuance costs in 2012 as required by Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

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

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
Mauldin, South Carolina
June 20, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Connector 2000 Association, Inc. (the "Association") annual financial report presents a discussion and analysis of the Association's financial performance for the years ended December 31, 2013 and 2012. Our analysis includes comparisons of 2013, 2012 and 2011 information. We also summarize significant events that occurred in 2014 that affect our Bonds in 2014 and following years. We ask that you read this section of our annual report in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- In August 2012, following the Association's exchange of certain 2011 Pro-Rata Series A, B and C Term Bonds for certain 2011 By-Lot Series A1, B1 and C1 Term Bonds (the "Bond Exchange") and payment of outstanding issuance costs of the 2011 Bonds, the United States Bankruptcy Court for the State of South Carolina (the "Bankruptcy Court") issued the Final Decree closing the Association's Chapter 9 Bankruptcy case.

- Annual utilization of the Southern Connector increased 1.5% during 2013 to 4,688,005 toll transactions. This represented a partial recovery from 2012, when toll transactions decreased to 4,617,237 from the 2011 total of 4,884,705. The 2012 decrease in toll transactions was 5.5% and occurred following an increase in toll rates that was implemented January 1, 2012. Average daily toll transactions were 12,950 in 2013, 12,615 in 2012 and 13,383 in 2011.

- Operating revenues in 2013 increased to $7,105,313, the highest level since the Southern Connector opened to traffic, consisting of $6,908,930 of toll revenues and $196,383 of other operating revenues. In 2012, despite the decrease in utilization of the Southern Connector attributable to the January increase in toll rates, revenues from operations rose to $6,755,172, consisting of toll revenues of $6,744,166 and other operating revenues of $11,006. Operating revenues in 2011 totaled $5,782,063, consisting of toll revenues of $5,765,766 and other operating revenues of $16,297. Increases in the toll revenue portion of operating revenues were 2.4% and 17.0% in 2013 and 2012, respectively.

- In 2013, total operating expenses continued to decrease, dropping 2.9% from the 2012 level, or $80,157, to $2,677,921. Our 2012 total operating expenses of $2,758,078 represented a 45.4% decrease from the 2011 operating expenses of $5,051,543. The reductions were attributable primarily to decreases in Trustee fees and costs in 2013, and to reductions in both Trustee fees and costs (including Trustee counsel and advisor fees) and professional fees in 2012, which declined significantly upon conclusion of our bankruptcy proceedings. Such decreases in Trustee fees and costs were 78.5% and 92.7% in 2013 and 2012, respectively, while the 2012 decline in professional fees was 70.5%.

- During 2013, the Association's net nonoperating expenses increased by 4.6% to $14,852,314 from $14,196,222 in 2012. The 2012 increase was 33.9% over the 2011 net nonoperating expenses of $10,602,969. In both 2013 and 2012, the change in nonoperating expenses was attributable primarily to interest expense accretions on our 2011 Bonds, which increased 5.4% in 2013 to $11,126,574 and 51.2% in 2012 to $10,560,340. Note that in 2011, interest did not accrete during the pendency of the bankruptcy proceedings; therefore, the significant increase in 2012 results from comparison of full-year 2012 amounts with part-year 2011 amounts. The balances of our 2011 Bonds Payable were $173,624,165 and $166,123,939 in 2013 and 2012, respectively. Those balances represented net increases of 4.5% and 5.4% over the respective 2012 and 2011 amounts. The Bond Exchange had no effect on our financial obligations under the 2011 Bonds.

- During 2012, we adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("Statement No. 65"). That standard requires that bond issuance costs be expensed as incurred, and requires any previously capitalized bond issuance costs to be written off. Accordingly in 2012, we recognized a cumulative adjustment to beginning net position of $238,705, the amount of our unamortized 2011 Bond issuance costs.

ECONOMIC FACTORS AND CURRENT CONDITIONS

During 2012, the Association completed the last few actions necessary to fully implement our Debt Adjustment Plan and close our bankruptcy case. In May 2012, we completed the Bond Exchange as discussed more fully in the following *Debt Administration* subsection of the *Capital Assets and Debt Administration* section of this management's discussion and analysis. We also paid outstanding issuance costs of the 2011 Bonds. On August 27, 2012, the Bankruptcy Court issued the Final Decree closing our Chapter 9 Bankruptcy case. (For detailed information regarding our bankruptcy case and Debt Adjustment Plan, including complete copies of the Amended Trust Indenture and the Revised License Agreement, see the *Bankruptcy Filing* link of the *News & Filings* tab of our website, www.SouthernConnector.com. For a detailed discussion of the effects of the implementation of our Debt Adjustment Plan on the Association's operations and financial position, see our 2011 Annual Report under the *Official Filings* link of the *News & Filings* tab.)

Traffic and Revenue Summary

Even though no significant industrial or commercial development occurred along the Southern Connector corridor during 2013 and 2012, the Association realized its highest levels of toll revenues since operation of the toll road began. The Association's January 2012 implementation of a toll rate increase approved by the Bankruptcy Court as part of our Debt Adjustment Plan had a significant impact on toll revenues and a lesser impact on traffic counts. In 2012, cash toll rates for two-axle vehicles increased by 25¢ to $1.50 and PalPass toll rates for two-axle vehicles increased by 35¢ to $1.35. As a result of the toll rate increase, 2012 toll transactions decreased 5.5% from 2011 levels. However, the increase in toll rates more than compensated for the decline in utilization of the Southern Connector, resulting in an increase in 2012 toll revenues of 17.0% over 2011 amounts.

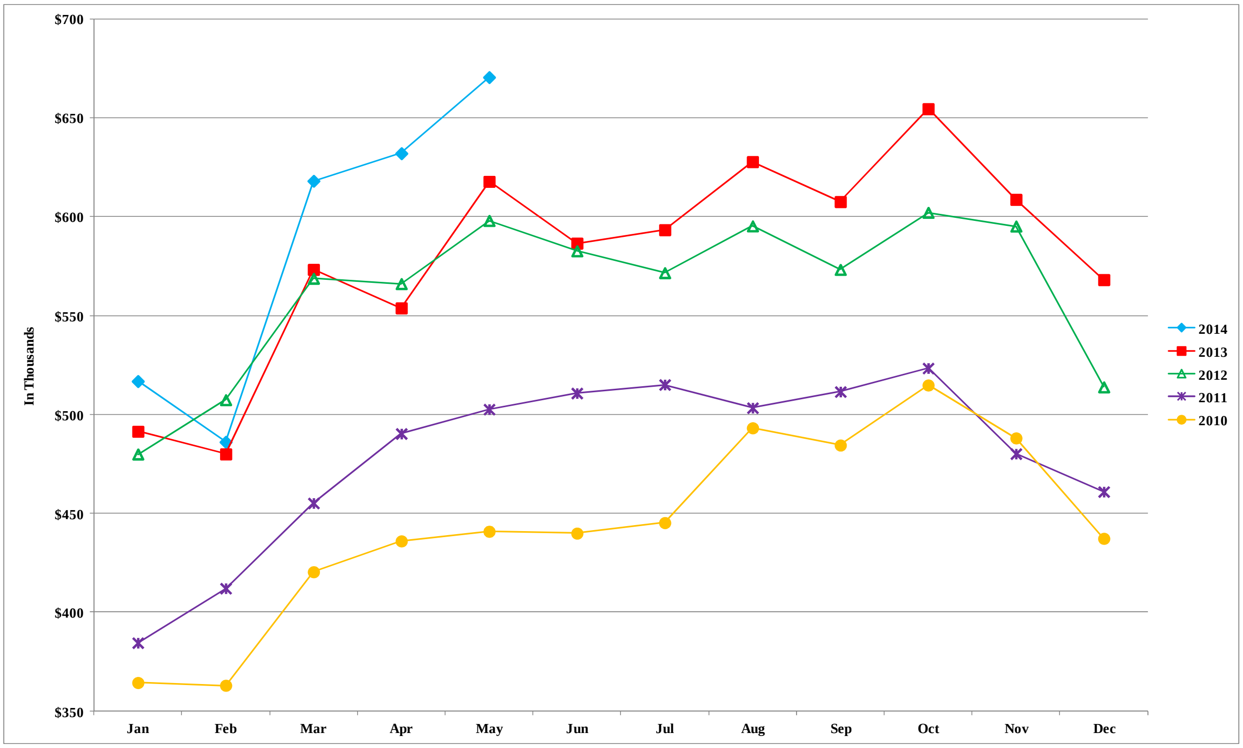
During 2013, toll revenues continued to increase while overall utilization of the Southern Connector began to improve once again. Our 2013 toll revenues increased by 2.4% over 2012 amounts, while toll transactions increased 1.5% over 2012 levels. The 2013 increase in toll transactions translated to a recovery of 26.5% of the toll transactions that we had lost during 2012. In addition, our 2013 other revenues included $60,000 received as compensation for the use of the Southern Connector during the filming of an action sequence for a Cinemax series. That amount represents the estimated tolls lost during the days the Southern Connector was closed to traffic.

In 2014, as we continue our efforts to publicize and promote the Southern Connector and to operate the toll road in an efficient manner, our toll revenue and utilization levels continue to improve. So far through May 2014, average daily toll transactions for the first five months of the year have increased by 8.5% from 2013 levels, while average daily toll revenues have increased by 5.5% over amounts for the same period in 2013.

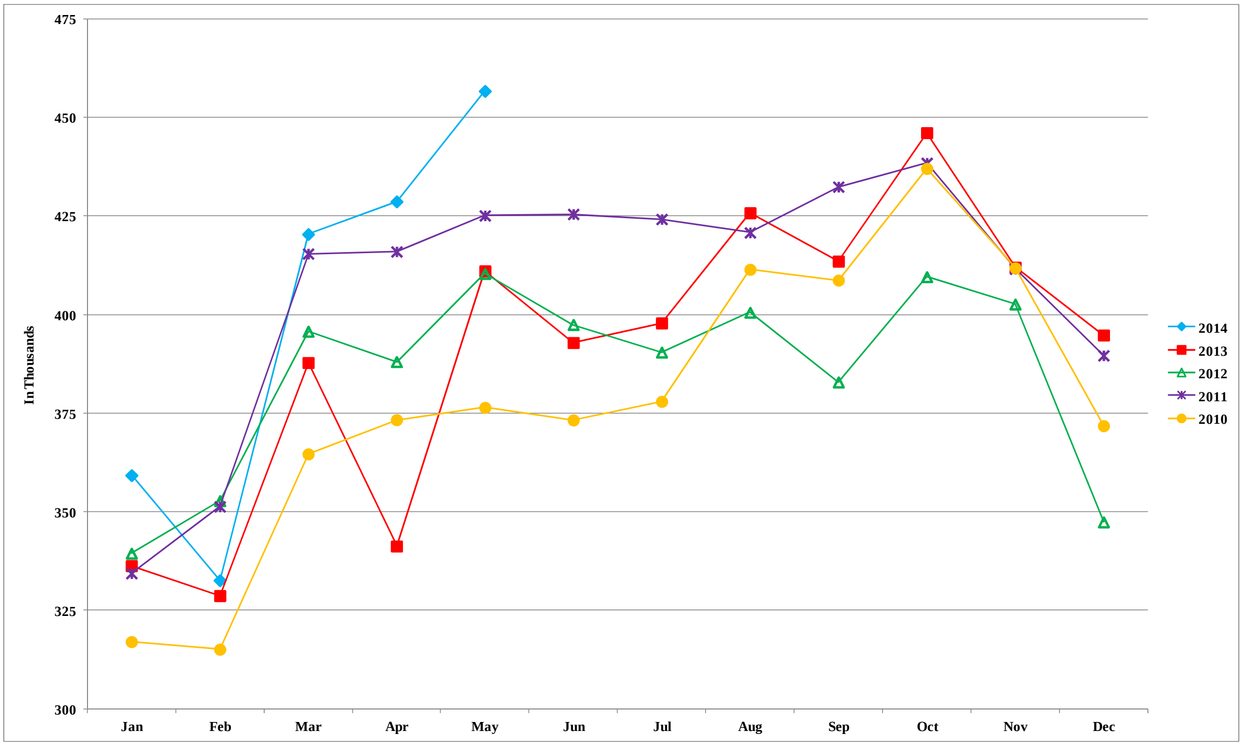
OVERVIEW OF THE FINANCIAL STATEMENTS

The Association's 2013 financial statements consist of two parts – management's discussion and analysis (this section) and the financial statements, including the notes to the financial statements.

Revenues by Month



Transactions by Month



The financial statements provide short-term and long-term information about the Association's overall financial status. The financial statements also include disclosures that explain some of the information in the financial statements and provide more detailed data.

The Association follows governmental accounting principles generally accepted in the United States of America. We present our financial statements on the accrual basis of accounting, similar to the accounting basis used by most private-sector companies. Under the accrual basis of accounting, all of the Association's assets and liabilities are included in our Statements of Net Position, and our revenues earned and expenses incurred are accounted for in our Statements of Revenues, Expenses, and Changes in Net Position regardless of when cash is received or paid.

During 2012, we implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement supplements and extends the reach of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which was adopted by the Association in 2011. GASB Statement No. 65 establishes accounting and financial reporting standards that require reclassification of certain items that, in prior years, were properly reported as assets and liabilities. The only item in the Association's 2012 financial statements that was affected by the implementation of GASB Statement No. 65 was our unamortized bond issuance costs. Under that Statement, all bond issuance costs, excluding those related to prepaid insurance costs, are to be expensed in the period incurred rather than capitalized. However, since the Association's unamortized bond issuance costs were incurred and capitalized in 2011, we wrote off such costs in accordance with GASB Statement No. 65 by restating 2012 beginning net position. Accordingly in 2012, the Association recognized a cumulative decrease in its beginning net position of $238,705. By handling the adjustment in this manner, the decrease in the Association's 2012 net position as shown in the accompanying 2012 Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund was not distorted by the write-off. (For an explanation of the effect that implementation of GASB Statement No. 63 had on our financial statements, see our 2011 Annual Report as posted on our website, www.SouthernConnector.com, under the *Official Filings* link of the *News & Filings* tab.)

Net position is one measure of the Association's financial health or financial position. It represents the difference between (a) assets plus deferred outflows of resources and (b) liabilities plus deferred inflows of resources. Because the Association had neither deferred outflows of resources nor deferred inflows of resources in 2013 and 2012, those elements are not presented in the Association's Statements of Net Position. Because our liabilities exceeded our assets, the Association's net position at December 31, 2013 and 2012 was a deficit, or negative, balance. (See the *Net Position (Deficit)* subsection of the *Financial Analysis* section of this management's discussion and analysis for more information.) Over time, decreases or increases in the Association's net position deficit provide an indicator that our financial health is improving or deteriorating. However, other factors such as transactions (including vehicle class and toll rates) and development along the Southern Connector corridor should also be considered in order to assess the Association's overall financial condition.

FINANCIAL ANALYSIS

This section of our management's discussion and analysis presents our analysis of the Association's overall financial position and results of operations for 2013 and 2012. In this section, we discuss significant transactions that occurred during the years, and compare each year's activities with those of the immediately preceding year. Please note that amounts shown in the 2011 columns of Tables 1 and 2 below are those reported in our 2011 Annual Report. The 2011 amounts have not been adjusted to reflect the reclassifications of 2011 Bond Issuance Costs that would have been made had GASB Statement No. 65 been adopted during 2011.

Net Position (Deficit)

Our financial position deteriorated during 2013 and 2012 because, although our total revenues covered our operating expenses for each year, such revenues were not sufficient to cover our nonoperating expenses, which included interest expense accretions on our 2011 Capital Appreciation Bonds and amortization of our interest in our License Agreement with SCDOT. Neither the interest expense accretions nor the amortization of our interest in our License Agreement represented cash outlays by the Association.

During the year ended December 31, 2013, the Association's total assets decreased by $2,917,804, or 2.0%, to $142,655,010, and total liabilities increased by $7,507,118, or 4.5%, to $174,046,386. In 2012, total assets decreased by $2,400,098, or 1.6%, to $145,572,814, while total liabilities increased by $8,037,735, or 5.1%, to $166,539,268.

By far, the Association's most significant asset is our Interest in our License Agreement with SCDOT. The net book value of that asset was $134,339,267 and $137,787,456 at December 31, 2013 and 2012, respectively. The Association's Interest in our License Agreement with SCDOT is included in current and other assets in Table 1, and represented 94.2% of the our total assets at December 31, 2013, and 94.7% of our total assets at December 31, 2012. In both 2013 and 2012, the net book value of that asset decreased by 2.5% from the previous year's net book value. The 2013 net decrease totaled $3,448,189 and consisted of $126,251 of costs of new LED roadway lighting capitalized during the year offset by amortization of $3,574,440. The 2012 decrease of $3,571,169 consisted solely of amortization for the year. The Association is amortizing the Interest in our License Agreement with SCDOT over the remaining term of the License Agreement, or a period of 37.5 years as of December 31, 2013.

Table 1
Net Position (Deficit)
December 31

	2013	2012	2011
Current and Other Assets	$ 142,346,866	$ 145,144,076	$ 147,526,852
Capital Assets	308,144	428,738	446,060
Total Assets	142,655,010	145,572,814	147,972,912
Long-Term Liabilities (Bonds Payable):			
2011A Senior Capital Appreciation Bonds	(142,576,969)	(136,778,265)	(131,236,486)
2011B Senior Subordinate Capital Appreciation Bonds	(24,626,538)	(23,301,537)	(22,054,499)
2011C Junior Subordinate Capital Appreciation Bonds	(2,573,117)	(2,417,789)	(2,272,614)
Total Long-Term Liabilities	(169,776,624)	(162,497,591)	(155,563,599)
Other Liabilities:			
Current Portion of:			
2011A Senior Capital Appreciation Bonds	(3,065,969)	(2,879,119)	(1,678,098)
2011B Senior Subordinate Capital Appreciation Bonds	(695,607)	(665,029)	(387,620)
2011C Junior Subordinate Capital Appreciation Bonds	(85,965)	(82,200)	(47,908)
Accounts Payable, Unearned Revenue and Deposits	(357,976)	(397,329)	(804,150)
Amounts Payable to SCDOT	(64,245)	(18,000)	(20,158)
Total Other Liabilities	(4,269,762)	(4,041,677)	(2,937,934)
Total Liabilities	(174,046,386)	(166,539,268)	(158,501,533)
Net Position (Deficit):			
Net Investment in Capital Assets	308,144	428,738	446,060
Restricted for:			
SCDOT Maintenance	744,872	471,793	219,177
Other	-	-	258,692
Unrestricted	(32,444,392)	(21,866,985)	(11,452,550)
Total Net Position (Deficit)	$ (31,391,376)	$ (20,966,454)	$ (10,528,621)

The Association's Capital Appreciation Bonds Payable totaled $173,624,165 and $166,123,939 at December 31, 2013 and 2012, and comprised our most significant liabilities, representing 99.8% of total liabilities in both years. The balance of our Capital Appreciation Bonds Payable increased by 4.5% and 5.4% in 2013 and 2012, respectively, due to accretions during the years.

Our overall net position deficit deteriorated in both years 2013 and 2012. In 2013, the deficit increased by $10,424,922, or 49.7%, to $31,391,376, while the 2012 deficit increased by $10,437,833, or 99.1%, to $20,966,454. The Association's net position was classified in three categories as follows:

- The "net investment in capital assets" category of net position represents amounts invested in capital assets, less accumulated depreciation on those assets, less any liabilities attributable to those assets. This category also includes deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of such capital assets or related debt (if any). At December 31, 2013, the balance of this category of net position was $308,144, a decrease of $120,594, or 28.1%, from the 2012 balance. The December 31, 2012 balance of this category of net position totaled $428,738. That balance represented a decrease of $17,322, or 3.9%, from the 2011 balance.

- The "restricted" category represents the portion of net position with attached constraints on the use of the assets. The constraints are externally imposed by such means or parties as debt covenants, laws, enabling legislation or creditors. The restricted assets in this category are offset by any related liabilities and by any related deferred inflows of resources. Governmental generally accepted accounting principles does not allow this category of net position to be negative. At December 31, 2013 and 2012, amounts in this category of net position were restricted for reimbursement of SCDOT maintenance costs and totaled $744,872 and $471,793, respectively. The 2013 balance represented an increase of $273,079, or 57.9%, over the 2012 balance, while the 2012 balance increased by $252,616, or 115.3%, over the 2011 balance. Such 2013 and 2012 balances represented amounts transferred to the Association's Renewal & Replacement Fund offset by amounts accrued for any SCDOT maintenance expense reimbursement requisitions. In 2011, the Association also reported $258,692 of net position restricted by the 2011 Amended Trust Indenture for payment of issuance costs related to its 2011 Bonds. All of the issuance costs for 2011 Bonds were paid in 2012, so at December 31, 2013 and 2012, no amounts restricted for that purpose remained in restricted net position.

- The "unrestricted" category represents the residual net position that is not included in the net investment in capital assets or restricted net position categories as defined above. This category includes assets and any deferred outflows of resources, offset by liabilities and any deferred inflows of resources, and may be used to finance daily operations. No constraints have been imposed upon this category of net position. At December 31, 2013, unrestricted net position was a deficit balance of $32,444,392, while the balance at December 31, 2012 was a deficit of $21,866,985. The 2013 deterioration of unrestricted net position deficit totaled $10,577,407, which represented a 48.4% increase from the 2012 balance. The 2012 change in unrestricted net position deficit was $10,414,435, an increase of 90.9% over the 2011 balance. The 2012 change in unrestricted net position deficit included the $238,705 cumulative adjustment to net position that was required to write off the Association's remaining unamortized bond issuance costs when GASB Statement No. 65 was implemented.

<u>Changes in Net Position (Deficit)</u>

Although as presented in Table 2, the Association's total revenues were not sufficient to cover its total expenses in 2013 and 2012, its operating revenues far exceeded its operating expenses in both years, and operating income of $4,427,392 and $3,997,094, respectively, was realized. The 2013 operating income represented an increase of $430,298, or 10.8%, over 2012 operating income. The 2012 operating income increased 447.2%, or $3,266,574, over 2011 operating income.

Table 2
Changes in Net Position
Years Ended December 31

	2013	2012	2011
Revenues:			
Operating revenues:			
Charges for Services (Toll Revenues)	$ 6,908,930	$ 6,744,166	$ 5,765,766
Other	196,383	11,006	16,297
Nonoperating Revenues:			
Interest and Investment Earnings	235	20,001	117,176
Gain on Disposal of Capital Assets	-	12,500	-
Total Revenues	7,105,548	6,787,673	5,899,239
Expenses:			
Operating Expenses	2,677,921	2,758,078	5,051,543
Nonoperating Expenses:			
Interest Expense on Bonds	11,126,574	10,560,340	6,986,359
Amortization	3,574,440	3,571,169	3,575,060
SCDOT Highway Maintenance Costs	151,535	62,555	20,158
Investment Losses	-	34,659	138,568
Total Expenses	17,530,470	16,986,801	15,771,688
Income (Loss) before Extraordinary Item	(10,424,922)	(10,199,128)	(9,872,449)
Extraordinary Item:			
Extraordinary Gain on Adjustment of Debts from Bankruptcy	-	-	186,847,076
Increase (Decrease) in Net Position (Deficit)	(10,424,922)	(10,199,128)	176,974,627
Beginning Net Position (Deficit)	(20,966,454)	(10,528,621)	(187,503,248)
Cumulative Adjustment, Adoption of GASB Statement No. 65, Write-off of Bond Issuance Costs	-	(238,705)	-
Beginning Net Position (Deficit), as Restated	(20,966,454)	(10,767,326)	(187,503,248)
Ending Net Position (Deficit)	$ (31,391,376)	$ (20,966,454)	$ (10,528,621)

In 2013, total operating revenues rose to their highest level ever and were $7,105,313, an increase of $350,141, or 5.2% over 2012 amounts. Such 2013 operating revenues consisted of toll revenues of $6,908,930 and other revenues of $196,383, which represented increases of $164,764, or 2.4% and $185,377, or 1,684.3%, respectively, over 2012 amounts. The 2013 other revenues consisted of $60,000 of compensation for the April closure of the Southern Connector for filming the Cinemax action sequence and $136,383 of toll road equipment inventory donated to the Association by the Georgia 400 Tollway Demolition Project. In 2013 upon payment of bond debt associated with the Georgia 400 Toll Road, the Georgia State Road and Tollway Authority ceased collecting tolls on the Georgia 400 highway and began demolition of related toll facilities. The Association contacted parties involved with the demolition of the Georgia 400 Toll Road facilities and offered to pay scrap value for certain toll equipment, which was in good working order and compatible with the Association's toll system. Successful negotiations with relevant parties resulted in the Association's receipt of the equipment at no cost. In 2012, the Association realized total operating revenues of $6,755,172. That amount represented an increase of 16.8%, or $973,109, over 2011 operating revenues and consisted of toll revenues of $6,744,166 and other revenues of $11,006. The 2012 toll revenues increased by $978,400, or 17.0%, over 2011 amounts, and resulted primarily from the January 2012 toll rate increase. The 2012 other revenues represented a decrease of 32.5%, or $5,291, from 2011 amounts.

In both 2013 and 2012, decreases in total operating expenses contributed to the improvements recognized in operating income. Operating expenses in 2013 and 2012 totaled $2,677,921 and $2,758,078, and represented net decreases from prior year amounts of 2.9%, or $80,157, and 45.4%, or $2,293,465, respectively. The most significant individual decrease in operating expenses in each year occurred in Trustee fees and costs, which totaled $30,000 in 2013 and $139,657 in 2012. The 2013 decline in Trustee fees and costs totaled $109,657 and represented 78.5% of the 2012 balance. In 2012, such Trustee fees and costs dropped 92.7%, or $1,777,836, from 2011 amounts. The substantial decreases represented a return of Trustee fees and costs to pre-bankruptcy levels. During the bankruptcy proceedings in recent years, the Original Trust Indenture obligated the Association to reimburse the Trustee for its legal and financial advisory services and costs incurred pursuant to those bankruptcy proceedings, even though we had no control over the cost of those services. Another significant decrease in 2012 operating expenses was realized in professional fees, which totaled $227,279 in 2012. As those fees also approached pre-bankruptcy levels in 2012, they decreased by 70.5%, or $542,433, from 2011 amounts. Our other operating expenses increased by a net amount of 1.1% during both years.

During both 2013 and 2012, the Association realized increases in nonoperating expenses resulting from increased interest expense accretions on our 2011 Bonds and decreased nonoperating income offset by decreased investment losses. Overall, 2013 net nonoperating expenses increased by $656,092, or 4.6%, to $14,852,314. Our 2012 net nonoperating expenses increased by 33.9%, or $3,593,253, to $14,196,222. Nonoperating income, which totaled $235 in 2013 and $32,501 in 2012, decreased 99.3% and 72.3%, respectively, as interest rates earned on cash and investments fell to negligible levels. In both 2013 and 2012, our most significant nonoperating expense was interest expense, which increased by 5.4% and 51.2%, or $566,234 and $3,573,981, to $11,126,574 and $10,560,340, respectively. All of our interest expense was attributable to accretions on our 2011 Capital Appreciation Bonds. Cash outlays for debt service on our 2011 Bonds totaled $3,626,348 and $2,113,626 in 2013 and 2012, while debt service paid in January 2014 totaled $3,847,541. Also in 2012, we recognized $34,659 of unrealized losses on the market price of our Trust Fund investments, a decrease of 75.0% from the 2011 unrealized losses. We recognized no unrealized gains or losses on our 2013 Trust Fund investments.

In 2013 and 2012, other nonoperating expenses consisted of SCDOT maintenance expense and amortization of our License Agreement with SCDOT. SCDOT maintenance expense totaled $151,535 in 2013, and represented an increase of $88,980, or $142.2%, over 2012 amounts. The 2012 SCDOT maintenance expense increased by 210.3%, or $42,397, to $62,555. Reimbursements of Southern Connector maintenance costs incurred by SCDOT are paid solely from and to the extent of monies deposited into the Association's 2011 Renewal and Replacement Fund ("2011 R&R Fund") as prescribed by the terms of the Amended Trust Indenture and Revised License Agreement. (See Note 1, item J and Notes 6 and 10 to the financial statements for more information about deposits into and payments from our 2011 R&R Fund.) The amortization of our License Agreement with SCDOT increased slightly in 2013, by $3,271, or 0.1%, to $3,574,440. Such 2013 increase was due to increases in the carrying value of our License Agreement with SCDOT that resulted from capitalization of LED roadway lighting discussed above in the *Net Position (Deficit)* subsection of this *Financial Analysis* section of this management's discussion and analysis. In 2012, the amortization of our License Agreement with SCDOT held steady with 2011 amounts, and totaled $3,571,169.

The most significant item that affected the Association's 2011 changes in net position was the extraordinary gain of $186,847,076 recognized when we implemented our Debt Adjustment Plan pursuant to our bankruptcy proceedings. (For detailed information concerning the extraordinary gain recognized in 2011 and its impact on the Association's financial statements, see our 2011 Annual Report on our website, www.SouthernConnector.com, under the *Official Filings* link of the *News & Filings* tab.) No extraordinary gain occurred during either 2013 or 2012.

In 2012, because we adopted GASB Statement No. 65 (discussed above in the *Overview of the Financial Statements* section of this management's discussion and analysis), we recorded a cumulative adjustment of $238,705 to our 2012 beginning net position to write off the unamortized balance of 2011 Bond issuance costs. Under the provisions of GASB Statement No. 65, such bond issuance costs are no longer capitalized; instead, they are expensed when incurred. Accordingly, $4,020 of bond issuance cost amortization was eliminated from the Association's nonoperating expenses in 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

In 2013, the Association's capital assets included equipment with a net book value of $308,144, a net decrease of $120,594, or 28.1%, from the 2012 balance. During the year, we purchased $3,445 of bumper tag transponders, while our depreciation on our capital assets totaled $124,039. In 2013, we also disposed of fully-depreciated transponders. Capital assets in 2012 decreased to $428,738, a change of 3.9%, or $17,322, from the 2011 balance. During 2012, our capital asset additions included purchases of $78,426 of vehicles, $23,759 of heating and air systems, and $5,317 of traffic signals. For 2012, depreciation expense totaled $124,824. In addition, we sold fully-depreciated vehicles at a gain of $12,500 and scrapped fully-depreciated transponders in 2012.

Table 3
Changes in Capital Assets at Year-End
(Net of Depreciation)

	2013	2012	2011
Total Capital Assets, Net:			
Equipment, Net	$ 308,144	$ 428,738	$ 446,060

Debt Administration

The Association's long-term debt at December 31, 2013 and 2012 included its 2011 Toll Road Revenue Bonds consisting of both Serial and Term Capital Appreciation Bonds issued as Series 2011A, Series 2011B, and Series 2011C Bonds. Following our January 2014 payment of debt service, the currently outstanding 2011 Serial Bonds have maturity dates ranging from 2015 to 2022 and interest rates ranging from 4.25% to 6.0%. The currently outstanding 2011 Term Bonds have maturity dates ranging from 2015 to 2051, and interest rates ranging from 6.5% to 10.0%. Our 1998 Bonds were exchanged in April 2011 for these 2011 Bonds as part of the implementation of our Debt Adjustment Plan.

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

The Bond Exchange occurred on May 31, 2012. The majority of holders of our 2011 Term Bonds participated in the Bond Exchange and received 2011 New Term Bonds; however, a small percentage of Bondholders opted out of the Bond Exchange, and instead retained their 2011 Retained Term Bonds as originally issued. The Bond Exchange did not alter the Association's financial obligations under the 2011 Term Bonds. (Detailed information pertaining to the Bond Exchange, including complete copies of the Supplemental Indenture and the related filings, notices and Court Orders, may be found under the *Bankruptcy Filing* link of the *News & Filings* tab of our website, www.SouthernConnector.com.)

All of the Association's 2011 Bonds (including the 2011 New Term Bonds issued in the Bond Exchange) are dated April 1, 2011, and accrete interest from that date. Such 2011 Bonds are tax-exempt as to interest, and include the Senior Bonds (the 2011A Serial Bonds, the 2011A Retained Term Bonds and the 2011A1 New Term Bonds), the Senior Subordinate Bonds (the 2011B Retained Term Bonds and the 2011B1 New Term Bonds) and the Junior Subordinate Bonds (the 2011C Retained Term Bonds and the 2011C1 New Term Bonds). The 2011 Bonds are secured by liens on the 2011 Trust Estate, including the revenues of the Southern Connector and a collateral assignment of the Association's rights under the Revised License Agreement. However, the Senior Subordinate Bonds are subordinated to the Senior Bonds in all respects, including in right of payment and priority of liens, and the Junior Subordinate Bonds are subordinated to both the Senior Bonds and the Senior Subordinate Bonds in all respects, including in right of payment and priority of liens. The 2011 Bonds are expressly nonrecourse to the Association, the State of South Carolina, SCDOT or any agency, department or political subdivision of the State of South Carolina, and are payable solely from the 2011 Trust Estate. The 2011 Bonds are not rated by a national rating agency.

The balance of the Association's 2011 Bonds totaled $173,624,165 and $166,123,939 at December 31, 2013 and 2012, respectively. Of those amounts, $3,847,541 and $3,626,348 were due and paid in January 2014 and 2013, respectively. The balance increased by net amounts totaling $7,500,226 and $8,446,714, or 4.5% and 5.4%, during 2013 and 2012, respectively. In both years, the net increases resulted from interest expense accretions offset by debt service paid during the month of January. In 2013 and 2012, the interest expense accretions totaled $11,126,574 and $10,560,340, respectively, while the debt service paid in January of each year totaled $3,626,348 and $2,113,626. The increases in interest expense accretions were $566,234 in 2013 and $3,573,981 in 2012 and represented 5.4% and 51.2% increases over prior year accretions. Note that since our 2011 Bonds are dated April 1, 2011, interest expense in that year reflected only a partial year of accretions. Accordingly, the 2012 percentage increase is somewhat distorted because a full year's worth of accretions are compared with 2011 part-year amounts. (For detailed information about the 2011 Bonds, including information about the Amended Trust Indenture and terms and covenants of the 2011 Bonds, see Note 1, items J and M, and Notes 8 and 13 to the financial statements.)

SUBSEQUENT EVENT

For the first time since the implementation of our Debt Adjustment Plan, the balance of our Extraordinary Prepayment Fund exceeded $50,000 at December 31, 2013. Accordingly, the Association became subject to the provisions of Sections 303 and 304 of the Amended Trust Indenture's First Supplemental Indenture of Trust. Those sections require that, whenever more than $50,000 has accumulated in the Association's Extraordinary Prepayment Fund as of January 1 of any year, the monies in that Fund are to be applied toward the mandatory prepayment or redemption of our 2011 Bonds. Those sections also prescribe the date that such prepayments/redemptions are to be paid, the amounts of such prepayments/redemptions, the order in which our 2011 Bonds are to be prepaid/redeemed, and the manner in which such prepayments/redemptions are to be applied against the schedule of future Annual Pro-Rata Paydown Payments/Sinking Funding Installments that are due on our 2011 Bonds. On February 15, 2014, pursuant to these provisions of the Amended Trust Indenture, we paid a mandatory prepayment totaling $231 towards our 2011A Retained Term Bonds and a mandatory redemption totaling $56,967 towards our 2011A1 New Term Bonds. The mandatory prepayment and redemption included premiums of $11 and $2,713, respectively. (See Note 1, item J, and Notes 8 and 13 to the financial statements for more information about the Association's Trust Fund accounts and the mandatory prepayment/redemption provisions of the Amended Trust Indenture.)

CONTACTING THE CONNECTOR 2000 ASSOCIATION, INC.

This financial report is designed to provide our Bondholders, patrons and interested parties with a general overall view of the Association's finances and to demonstrate the Association's accountability for the money it receives. If you have any questions about this report or need additional financial information, please visit the *Official Filings* link of the *News & Filings* tab of our website at www.SouthernConnector.com or contact Connector 2000 Association, Inc. at Post Office Box 408, Piedmont, South Carolina 29673 or by telephone at (864) 527-2150.

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Basic Financial Statements

CONNECTOR 2000 ASSOCIATION, INC., GREENVILLE, SOUTH CAROLINA
(A Component Unit of the State of South Carolina and of the South Carolina Department of Transportation)

STATEMENTS OF NET POSITION - PROPRIETARY FUND

DECEMBER 31, 2013 AND 2012

	Business-Type Activities - Enterprise Fund	
ASSETS	**2013**	**2012**
Current Assets:		
Cash and Cash Equivalents	$ 947,031	$ 924,605
Prepaid Expenses	38,229	56,024
Inventory	328,642	196,732
Total Current Assets	1,313,902	1,177,361
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	6,693,697	6,179,259
Capital Assets:		
Equipment	930,353	1,174,426
Less: Accumulated Depreciation	(622,209)	(745,688)
Total Capital Assets	308,144	428,738
Other Assets:		
Interest in License Agreement with SCDOT (Net of Accumulated Amortization of $58,284,225 and $54,709,785, respectively)	134,339,267	137,787,456
TOTAL ASSETS	**$ 142,655,010**	**$ 145,572,814**
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 78,050	$ 131,438
Unearned Toll Revenue	262,902	248,747
Transponder Deposits	17,024	17,144
Revenue Bonds Payable, Current Portion	3,847,541	3,626,348
SCDOT Maintenance Payable	64,245	18,000
Total Current Liabilities	4,269,762	4,041,677
Noncurrent Liabilities:		
Revenue Bonds Payable, Less Current Portion	169,776,624	162,497,591
Total Noncurrent Liabilities	169,776,624	162,497,591
TOTAL LIABILITIES	**174,046,386**	**166,539,268**
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	308,144	428,738
Restricted for:		
SCDOT Maintenance	744,872	471,793
Unrestricted	(32,444,392)	(21,866,985)
TOTAL NET POSITION (DEFICIT)	**$ (31,391,376)**	**$ (20,966,454)**

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CONNECTOR 2000 ASSOCIATION, INC., GREENVILLE, SOUTH CAROLINA
(A Component Unit of the State of South Carolina and of the South Carolina Department of Transportation)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND

YEARS ENDED DECEMBER 31, 2013 AND 2012

	Business-Type Activities - Enterprise Fund	
OPERATING REVENUES	**2013**	**2012**
Toll Revenues	$ 6,908,930	$ 6,744,166
Other Toll Road Revenues	196,383	11,006
TOTAL OPERATING REVENUES	**7,105,313**	**6,755,172**
OPERATING EXPENSES		
Automobile	30,288	28,850
Bank Fees and Charges	13,610	9,278
Contract Labor	25,108	35,813
Contract Services	40,854	30,495
Credit Card Discount Fees	113,924	98,082
Employee Benefits	258,872	248,601
Miscellaneous	66,976	78,292
Office Supplies	32,240	29,729
Payroll Taxes	101,770	95,542
Repairs and Maintenance	36,696	74,971
Salaries	1,303,038	1,252,927
Telephone	22,150	24,501
Utilities	76,616	90,389
Advertising	7,052	9,173
Depreciation	124,039	124,824
Insurance	132,825	129,246
Marketing	31,089	30,429
Professional Fees	230,774	227,279
Trustee Fees and Costs	30,000	139,657
TOTAL OPERATING EXPENSES	**2,677,921**	**2,758,078**
OPERATING INCOME	**4,427,392**	**3,997,094**
NONOPERATING REVENUES (EXPENSES)		
Interest Earned on Cash Equivalents and Investments	235	20,001
Realized and Unrealized Gain (Loss) on Investments	-	(34,659)
Interest Expense	(11,126,574)	(10,560,340)
SCDOT Maintenance Expense	(151,535)	(62,555)
Gain (Loss) on Disposal of Capital Assets	-	12,500
Amortization for Interest in License Agreement with SCDOT	(3,574,440)	(3,571,169)
TOTAL NONOPERATING REVENUES (EXPENSES)	(14,852,314)	(14,196,222)
CHANGE IN NET POSITION	(10,424,922)	(10,199,128)
NET POSITION (DEFICIT), Beginning of Year - As Previously Reported	(20,966,454)	(10,528,621)
Cumulative Adjustment - Adoption of GASB Statement No. 65, Write-off of Bond Issuance Costs	-	(238,705)
NET POSITION (DEFICIT), Beginning of Year - As Restated	(20,966,454)	(10,767,326)
NET POSITION (DEFICIT), End of Year	**$ (31,391,376)**	**$ (20,966,454)**

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CONNECTOR 2000 ASSOCIATION, INC., GREENVILLE, SOUTH CAROLINA
(A Component Unit of the State of South Carolina and of the South Carolina Department of Transportation)

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

YEARS ENDED DECEMBER 31, 2013 AND 2012

	Business-Type Activities - Enterprise Fund 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from:		
Toll Collections	$ 6,922,965	$ 6,740,403
Other Toll Road Operations	60,000	11,006
Payments for:		
Toll Road Employees and Contract Labor	(1,688,788)	(1,632,883)
Vendors and Service Providers	(1,001,504)	(1,414,721)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,292,673	3,703,805
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(3,445)	(107,502)
Principal Paid on Bonds Payable	(3,626,348)	(2,113,626)
Purchases of Underlying Capital Assets Related to the Interest in License Agreement	(126,251)	-
Proceeds from Sale of Capital Assets	-	12,500
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,756,044)	(2,208,628)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Investments	-	1,290,352
Interest Received	235	20,001
NET CASH PROVIDED BY INVESTING ACTIVITIES	235	1,310,353
INCREASE IN CASH AND CASH EQUIVALENTS	**536,864**	**2,805,530**
CASH AND CASH EQUIVALENTS, Beginning of Year	7,103,864	4,298,334
CASH AND CASH EQUIVALENTS, End of Year	**$ 7,640,728**	**$ 7,103,864**
Reconciliation of Cash and Cash Equivalents - Statements of Cash Flows to Statements of Net Position		
Unrestricted Cash and Cash Equivalents - Current Assets	$ 947,031	$ 924,605
Restricted Cash and Cash Equivalents - Noncurrent Assets	6,693,697	6,179,259
Total Cash and Cash Equivalents Shown on Statements of Net Position	**$ 7,640,728**	**$ 7,103,864**
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income	$ 4,427,392	$ 3,997,094
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	124,039	124,824
SCDOT Maintenance Expense	(151,535)	(62,555)
Donated Inventory	(136,383)	
Change In:		
Prepaid Expenses	17,795	(129)
Inventory	4,473	53,550
Accounts Payable	(53,388)	(403,058)
Unearned Toll Revenue	14,155	(3,673)
Transponder Deposits	(120)	(90)
SCDOT Maintenance Payable	46,245	(2,158)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,292,673	$ 3,703,805
NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ITEMS		
Amortization of Interest in Revised License Agreement with SCDOT	$ 3,574,440	$ 3,571,169
Interest Accreted on Series 2011 Revenue Bonds	$ 11,126,574	$ 10,560,340

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Connector 2000 Association, Inc. (the "Association") is a South Carolina nonprofit corporation organized as a "public benefit corporation" under the South Carolina Nonprofit Corporation Act of 1994. The Articles of Incorporation of the Association were originally filed with the South Carolina Secretary of State on January 12, 1996, and were amended by a filing on March 5, 1997. The Internal Revenue Service has issued a letter dated October 20, 1997, determining that the Association is an exempt organization that is not a private foundation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Association was formed to assist the South Carolina Department of Transportation (the "SCDOT") in the financing, acquisition, construction, and operation of turnpikes, highway projects, and other transportation facilities.

From February 1998 through April 20, 2011, the Association's operations were governed by a license agreement (the "Original License Agreement") with the SCDOT that granted the Association rights and obligations to finance, acquire, construct, and operate an approximately 16 mile fully controlled access toll highway (the "Southern Connector") and to construct with financing provided by the SCDOT, the South Carolina Highway 153 Extension (the "SC 153 Extension") (collectively, the "Projects"). Toll road revenue bonds (the "1998 Bonds") were issued on February 11, 1998 pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, each dated as of February 1, 1998 (together, the "Original Trust Indenture") to finance the construction of the Southern Connector.

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

Upon implementation of its Debt Adjustment Plan in 2011, the Association issued new toll road revenue bonds (the "2011 Bonds") in exchange for its 1998 Bonds. In 2012, the Association completed a mandatory exchange of certain of its 2011 Pro-Rata Term Bonds for 2011 By-Lot Term Bonds and paid outstanding issuance costs of its 2011 Bonds. These actions completed the full implementation of the Associations' Debt Adjustment Plan, and on August 27, 2012, the Bankruptcy Court issued the Final Decree closing the Association's Bankruptcy case. See Notes 2, 6 and 8 for additional information pertaining to the Association's Bankruptcy proceedings, its License Agreement with SCDOT and its 2011 Bonds and Amended Trust Indenture.

The State of South Carolina Office of Comptroller General has determined that the Association is a component unit of the State of South Carolina and of the SCDOT because of its fiscal dependence upon the SCDOT. The Association is governed by a Board of Directors, the members of which are subject to approval of the SCDOT.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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

The Association has no component units.

B. Measurement Focus, Basis of Presentation, and Accounting

Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of an entity (the "Primary Government").

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support. The Association has no governmental activities.

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.

Fund financial statements – Since the Association is a special purpose entity engaged in only business-type activities, it is required to only present financial statement information as required for enterprise funds (not allowed to present government-wide financial statements). See following sections for more details on enterprise funds.

The accounts of the Association are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are a minimum number of funds maintained to keep the accounts consistent with legal and managerial requirements. The Association uses only the proprietary fund type.

Proprietary fund types are accounted for based on the economic resources measurement focus and use of the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Association has implemented the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and thus the Association applies all applicable GASB pronouncements. Proprietary funds are made up of two classes: enterprise funds and internal service funds. The Association does not have any internal service funds and has one enterprise fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Presentation, and Accounting (Continued)

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. For purposes of GAAP reporting, the Association has one major Enterprise Fund:

The **Enterprise Fund** is used to account for all of the operations of the Association. All activities of the Association in financing, acquiring, constructing and operating the toll road are accounted for in this fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Association generally follows the authoritative guidance in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* to distinguish operating from nonoperating revenues and expenses. Thus, the principal operating revenues of the Association are toll revenues received from patrons. Operating expenses of the Association primarily consist of the costs of operating the Southern Connector, including administrative expenses, depreciation of equipment, professional fees, and trustee fees and costs. Nonoperating revenues primarily include interest earned on cash equivalents and investments and realized and unrealized gains on investments. Nonoperating expenses primarily include (a) interest expense on the Association's debt (b) amortization of the Association's intangible interest in its License Agreement with SCDOT, (c) reimbursements of SCDOT highway maintenance expense from the 2011 Renewal and Replacement Fund as discussed in Note 1, item J. below, and (c) realized and unrealized losses on investments.

During 2012, the Association implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that require reclassification of certain items that, in prior years, were properly reported as assets and liabilities. This Statement supplements and extends the reach of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which was adopted by the Association in 2011. The Association's only financial statement item that was affected by the implementation of GASB Statement No. 65 was its unamortized bond issuance costs. Under that Statement, all bond issuance costs, excluding those related to prepaid insurance costs, are to be expensed in the period incurred rather than capitalized. Any such unamortized bond issuance costs that were incurred and capitalized in a previous year should be written off by a cumulative adjustment of beginning net position. See Note 1, item M. and Note 11 for more information pertaining to the Association's write-off in 2012 of the unamortized portion of its bond issuance costs that were incurred and capitalized in 2011 upon issuance of the 2011 Bonds.

C. Use of Estimates

The preparation of financial statements in conformity with governmental GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budget

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

E. Cash and Cash Equivalents

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

F. Investments

The Association's Amended Trust Indenture contains provisions requiring all bond proceeds and toll revenues received by the Association to be held in trust and expended in accordance with the Amended Trust Indenture guidelines. Accordingly, at the April 21, 2011 effective date of the Association's Debt Adjustment Plan, new 2011 Trust Fund Accounts were opened, and monies were transferred into these accounts from the 1998 Trust Fund Accounts. Monies in the 2011 Trust Fund Accounts are expended in accordance with Amended Trust Indenture guidelines. All monies held in the 2011 Trust Fund Accounts that are not insured by the FDIC must be secured by and/or invested in investment securities as defined in the Amended Trust Indenture. Investment securities include, but are not limited to, direct obligations of, or obligations guaranteed by, the United States of America or an agency thereof. (See Note 3 for additional information.)

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

G. Receivables

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

H. Prepaid Expenses and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying financial statements. All inventories are valued at cost using the first-in/first-out ("FIFO") method.

I. Interest in License Agreement with SCDOT

Prior to the April 21, 2011 effective date of the Association's Debt Adjustment Plan, the Association operated under the terms of its Original License Agreement with SCDOT. Beginning April 21, 2011, the Association's operations are governed by the Revised License Agreement with SCDOT, which modifies or amends certain provisions of the Original License Agreement. Any terms of the Original License Agreement that were not amended or modified by the Revised License Agreement remain in effect. See Note 6 for a detailed discussion of the terms of the Revised License Agreement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Interest in License Agreement with SCDOT (Continued)

The Association's interest in its License Agreement with SCDOT constitutes a service concession arrangement (an "SCA") that is accounted for as an intangible asset relating to the Southern Connector that began generating revenues upon commencement of toll road operations. An SCA is an arrangement between a transferor government and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration, and the operator collects and is compensated by fees from third parties. In order to account for its interest in the License Agreement, the Association capitalized all costs of acquisition and construction of the Southern Connector, including interest expense incurred during the construction period. Upon commencement of toll road operations, the Association began amortizing its interest in the License Agreement. See Note 6 for a description of this amortization.

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

J. Restricted Assets

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

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

The 2011 *Cost of Issuance Fund* was established to pay or reimburse the Association for costs of implementing its Debt Adjustment Plan. Upon issuance of the 2011 Bonds, monies remaining in the 1998 Funds and Accounts were transferred into this fund. Costs of implementing the Debt Adjustment Plan and issuing the 2011 Bonds were paid from this fund in accordance with the Amended Trust Indenture. In 2012, following the Association's payment of the costs of issuing the 2011 By-Lot Term Bonds discussed below in Note 8, the 2011 Cost of Issuance Fund was closed.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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

   All amounts remaining in the 2011 Revenue Fund (other than proceeds from liability or casualty insurance, condemnation awards and loans) after distribution of Trustee fees and costs and Association operating costs are deemed to be Distributable Cash. On the business day prior to each 2011 Bond payment date, the Trustee shall transfer Distributable Cash as follows:

2. The Trustee will deposit into the 2011 Renewal and Replacement Fund (the "2011 R&R Fund"):

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

   (ii) for 2011 Bond payment dates after January 1, 2016, an amount equal to 2.5% of the amount of Distributable Cash.

3. The Trustee shall transfer to the 2011 Senior Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Senior Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Senior Bonds required to be paid on such 2011 Bond payment date, including any amounts representing Arrearages as defined in the Amended Trust Indenture (see Note 8) on the 2011 Senior Bonds from earlier 2011 Bond payment dates.

4. The Trustee shall deposit into the 2011 R&R Fund:

   (i) for 2011 Bond payment dates on or before January 1, 2016, an amount equal to 0.0% of the amount of Distributable Cash, and

   (ii) for 2011 Bond payment dates after January 1, 2016, an amount not to exceed 2.5% of the amount of Distributable Cash.

5. If any Account in the 2011 Debt Service Reserve Fund contains less than the 2011 Debt Service Reserve Fund Requirement for such Account, the Trustee shall transfer into such Account an amount equal to the amount needed to restore the balance in such Account to the 2011 Debt Service Reserve Fund Requirement for such Account.

6. The Trustee shall transfer to the 2011 Senior Subordinate Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Senior Subordinate Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Senior Subordinate Bonds required to be paid on such 2011 Bond payment date, including any amounts representing Arrearages as defined in the Amended Trust Indenture (see Note 8) on the 2011 Senior Subordinate Bonds from earlier 2011 Bond payment dates.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

8. The Trustee shall transfer to the 2011 Junior Subordinate Bonds Debt Service Account amounts which, when added to other amounts then in the 2011 Junior Subordinate Bonds Debt Service Account, and available for such purposes, shall equal the debt service on the 2011 Junior Subordinate Bonds required to be paid on such 2011 Bond payment date, including any amounts representing Arrearages as defined in the Amended Trust Indenture (see Note 8) on the 2011 Junior Subordinate Bonds from earlier 2011 Bond payment dates.

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

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

See Notes 6, 8 and 13, respectively, for additional information regarding deposits of Distributable Cash into the 2011 R&R Fund and payments of Distributable Cash for debt service on the 2011 Bonds.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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

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

The 2011 *Rebate Fund* was established for the purpose of holding and paying arbitrage investment earnings to the U.S. Treasury. As a result of investing tax exempt bond proceeds at rates of return not exceeding the maximum amount that is permitted under the applicable tax code, at December 31, 2013 and 2012, there were no funds on deposit in this Fund. The 2011 Rebate Fund is not a part of the 2011 Trust Estate.

K. Compensated Absences

The Association grants its regular full time employees paid vacation days based on years of service and 10 paid holidays per year. Employees receive no sick days but are allowed to use vacation or holiday time when sick. All vacation and holiday time must be taken in the year earned. Therefore, at year end there are no accumulating vacation or holiday benefits, thus no liability for such items was recognized at December 31, 2013 or 2012.

L. Capital Assets and Intangible Assets

All capital and intangible assets, including the Association’s intangible interest in its License Agreement with SCDOT, are stated at cost. The Association generally follows capitalization policies recommended by the State of South Carolina’s Office of Comptroller General.

Pursuant to this policy, equipment with individual or group costs greater than $5,000 and intangible assets with costs generally in excess of $100,000 are capitalized. Equipment depreciation is computed using the straight-line method over the equipment’s estimated useful life between four and ten years. The Association’s intangible interest in its License Agreement with SCDOT is amortized as described in Note 6. When capital assets are disposed of, the cost and accumulated depreciation are removed from the books. The resulting gain or loss is included in nonoperating revenues or expenses.

M. Bonds Payable and Related Bond Issuance Costs

The current and noncurrent portions of bonds payable are recorded as liabilities in the accompanying Statement of Net Position. Beginning in 2012 with the Association’s adoption of GASB Statement No. 65, bond issuance costs, excluding those related to prepaid insurance costs, are expensed as incurred. Pursuant to the Association’s adoption of GASB Statement No. 65 in 2012, its unamortized bond issuance costs that were incurred and capitalized in 2011 were written off as an adjustment of 2012 beginning net position. See Note 11 for more information pertaining to this adjustment.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Rebatable Arbitrage

Arbitrage involves the investment of proceeds resulting from the sale of tax-exempt securities in a taxable investment that yields a higher rate, which produces income in excess of interest costs. With certain exceptions, federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. The Federal Government only requires arbitrage rebates to 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, and any arbitrage rebate liability incurred is recognized at that time. The liability is recorded using the revenue reduction method, whereby the rebate is recorded as a reduction of interest revenue. At December 31, 2013 and 2012, the Association had no arbitrage liability.

O. Net Position (Deficit)

Proprietary Fund equity is classified as net position (deficit) and is displayed as the following three components:

Net investment in capital assets — Consists of capital assets, net of accumulated depreciation, 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

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

Unrestricted net position — All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

The Association's net deficit at December 31, 2013 and 2012 represents accumulated shortfalls since commencement of operations because toll revenues have been insufficient to cover interest accretions on the Association's Bonds.

NOTE 2 – CLOSING OF BANKRUPTCY CASE

In 2012, the Association performed the remaining actions necessary to fully implement its Debt Adjustment Plan, including the exchange of certain 2011 Pro-Rata Term Bonds for 2011 By-Lot Term Bonds as discussed in Note 8 and payment of remaining outstanding costs of issuance of the 2011 Bonds in accordance with the New Waterfall as discussed in Note 1, item J. Accordingly on August 27, 2012, the Bankruptcy Court issued a Final Decree closing the Association's Chapter 9 Bankruptcy case.

NOTE 3 – DEPOSITS AND INVESTMENTS

The Association's Amended Trust Indenture requires that all trust fund bank deposits that are not insured by the FDIC be collateralized by investment securities. The types of investment securities that may be used as collateral are: direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States of America or certain of its agencies; repurchase agreements with underlying securities that are obligations of, or guaranteed by, the United States of America or certain of its agencies; certain obligations of, or guaranteed by, any state within the territorial United States of America; agreements that provide for the forward delivery of any securities previously described; investments in money market mutual funds rated "AAAm", "AAm", "AAAmG", or better; unsecured investment agreements with any bank or financial institution, the unsecured debt or counterparty rating of which is "investment grade" rated as of the date of acquisition; and any other obligation which, at the date of acquisition, is rated by a rating agency in one of the two highest rating categories for long-term obligations or in the highest rating category for short-term obligations.

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Association's deposits might not be recovered. The Association does not have a formal deposit policy for custodial credit risk but follows the guidelines outlined in the Association's Amended Trust Indenture (as noted earlier) which are consistent with federal and South Carolina law. As of December 31, 2013, approximately $671,400 of the Association's bank balances of approximately $939,900 (with a carrying value of $965,425) were uninsured and uncollateralized. As of December 31, 2012, none of the Association's bank balances of approximately $976,600 (with a carrying value of $1,014,732), were uninsured and uncollateralized. None of the deposits noted above were held by the South Carolina State Treasurer.

Investments

None of the investments noted below were held by the South Carolina State Treasurer. As of December 31, 2013 and 2012, the Association had the following investments as defined by GASB:

Investment Type	Credit Rating ^	Fair Value	Percentage of Total Investments	Weighted Average Maturity (in Years)
December 31, 2013:				
First American Prime Obligations Fund	AAAm, AAA-mf, AAAmmf	$6,675,303	100.00%	0.112
December 31, 2012:				
First American Prime Obligations Fund	AAAm, AAA-mf, AAAmmf	$6,089,132	100.00%	0.115

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

Interest Rate Risk: The Association does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates but follows the investment requirements outlined in the Association's Amended Trust Indenture (as noted earlier) which are consistent with federal and South Carolina law.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association does not have a formal investment policy for custodial credit risk but follows the guidelines outlined in the Association's Amended Trust Indenture (as noted earlier). As of December 31, 2013 and 2012, none of the Association's investments were exposed to custodial credit risk.

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association does not have a formal investment policy for credit risk but follows the guidelines outlined in the Association's Amended Trust Indenture (as noted earlier) which are consistent with federal and South Carolina law.

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

The following schedule reconciles deposits and investments within the notes to the amounts in the Statement of Net Position:

Statements of Net Position			Notes		
	2013	2012		2013	2012
Unrestricted Current Assets:					
Cash and Cash Equivalents	$ 947,031	$ 924,605	Deposits	$ 965,425	$ 1,014,732
Investments	-	-	Investments	6,675,303	6,089,132
Restricted:					
Cash and Cash Equivalents	6,693,697	6,179,259			
	$ 7,640,728	$ 7,103,864		$ 7,640,728	$ 7,103,864

See Note 1, item J and Note 8 for additional information about restrictions on deposits and balances of the various Trust Funds at December 31, 2013 and 2012.

NOTE 4 – RECEIVABLES

At December 31, 2013 and 2012, the Association had no receivable balances.

NOTE 5 – CAPITAL ASSETS

The following tables summarize the changes in capital assets of the Association during the past two years and their balances at December 31, 2013 and 2012:

Description	Balance December 31, 2012	Additions	Disposals	Balance December 31, 2013
Capital Assets:				
Equipment	$ 1,174,426	$ 3,445	$ (247,518)	$ 930,353
Less: Accumulated Depreciation	(745,688)	(124,039)	247,518	(622,209)
Capital Assets, Net	$ 428,738	$ (120,594)	$ -	$ 308,144

Description	Balance December 31, 2011	Additions	Disposals	Balance December 31, 2012
Capital Assets:				
Equipment	$ 1,140,105	$ 107,502	$ (73,181)	$ 1,174,426
Less: Accumulated Depreciation	(694,045)	(124,824)	73,181	(745,688)
Capital Assets, Net	$ 446,060	$ (17,322)	$ -	$ 428,738

For the years ended December 31, 2013 and 2012, depreciation expense related to capital assets was $124,039 and $124,824, respectively. See Note 1, item L for additional information about the Association's capitalization policy, and its methods of calculating depreciation.

The Association had no significant construction commitments outstanding at December 31, 2013 or 2012.

NOTE 6 – INTEREST IN LICENSE AGREEMENT WITH SCDOT

The Association's operations from its inception through April 20, 2011, were conducted in accordance with the terms of the Association's Original License Agreement with SCDOT, which granted to the Association the exclusive right (1) to acquire, in the name of the SCDOT, rights-of-way and other real property necessary to the development and operation of the Projects, (2) to develop and construct the Projects, (3) to finance the Southern Connector, (4) to operate, repair, renew and replace the Southern Connector in accordance with the terms of the agreement, and (5) to collect tolls from the users of the Southern Connector.

Upon confirmation by the Bankruptcy Court of and as a means of implementing the Association's Debt Adjustment Plan, the Association entered into a Revised License Agreement with SCDOT which became effective April 21, 2011. The Revised License Agreement specifies that any terms of the Original License Agreement that are not amended or modified by the Revised License Agreement remain in effect.

The Revised License Agreement (1) requires the Association to make periodic deposits into the 2011 R&R Fund, (2) modifies the Association's responsibility for performance and payment of highway maintenance, repair and renewal, (3) eliminates License Fees payable to SCDOT, (4) modifies the manner in which toll rates are set, and (5) prohibits SCDOT from terminating the Revised License Agreement for any insolvency of or failure by the Association to pay or perform its obligations due to insufficient toll revenues.

All references to license fees are deleted in the Revised License Agreement. As a result, the Association is not required to pay license fees or related interest to SCDOT.

NOTE 6 – INTEREST IN LICENSE AGREEMENT WITH SCDOT (CONTINUED)

Under the Revised License Agreement, SCDOT is responsible for performance and payment of all highway maintenance of the Southern Connector. As defined in the Revised License Agreement, highway maintenance includes all maintenance, repair, renewal, replacement, enhancement, resurfacing and restoration of the Southern Connector. The Association is not required to perform or pay for any highway maintenance of the Southern Connector.

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

The Association has or will appoint at its expense an Association Engineer to perform an inspection of the Southern Connector to identify, review, monitor and report highway maintenance issues and needs, and the Association Engineer may estimate the costs of addressing those issues and needs, and assess the appropriate timing of performing related maintenance activities. The parties will collaborate with SCDOT to schedule necessary highway maintenance activities.

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

Under the Association's Debt Adjustment Plan, toll rates are initially set at amounts set forth in a traffic study performed for the Association by Stantec Engineering. Subsequent revisions of the Southern Connector toll rates are permitted or required in certain circumstances as prescribed by the terms of the Association's Amended Trust Indenture and the Revised License Agreement.

Any revisions to the toll rates shall require a toll rate study to be performed by a qualified independent traffic and revenue consultant selected by the Association. The consultant will study the toll rates charged for use of the Southern Connector, the past and future projected traffic and other relevant factors in order to determine the toll rates which, in the opinion of the consultant, will maximize Southern Connector toll revenues over a projected period of at least five years.

Prior to commencement of the toll rate study, the Association must submit the name and a summary of qualifications of the selected independent traffic and revenue consultant to SCDOT for approval.

As prescribed in the Revised License Agreement, SCDOT may object to the Association's selection of a consultant on the basis of lack of expertise or qualifications and propose at least one alternate consultant considered acceptable by SCDOT for the performance of the toll rate study.

Once the toll rate study has been completed by the independent traffic and revenue consultant, the Association will deliver a copy of such toll rate study to SCDOT and the 2011 Bonds Trustee, and, at the Association's request, SCDOT will confirm the effectiveness of and take other steps as necessary to implement the recommended revisions to the Southern Connector toll rates.

The Revised License Agreement specifies that neither SCDOT nor the State of South Carolina is responsible for determining whether the toll rates charged by the Association are adequate to satisfy the Association's obligations to third parties.

NOTE 6 – INTEREST IN LICENSE AGREEMENT WITH SCDOT (CONTINUED)

The Revised License Agreement allows the Association to grant toll rate discounts to encourage the use of the electronic toll collection system or to provide an incentive to fleet purchasers. Any such discounts will not be deemed to be a revision of toll rates.

The Revised License Agreement shall expire on July 22, 2051, or upon repayment, redemption or defeasance of the 2011 Bonds and all other project debt. The Revised License Agreement also includes other termination provisions, but specifically states that the failure of the Association to pay any amounts owing or to perform any obligations under the Revised License Agreement due to insufficient toll revenues shall not be an event of default under the Revised License Agreement.

Provisions are included to extend the Revised License Agreement's term by any period equal to any length of time during which toll revenues are impaired due to events of force majeure, or upon written agreement by the Association and SCDOT.

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

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

The Association's rights under its License Agreement with SCDOT constitute a service concession arrangement that is accounted for as an intangible asset valued and recorded at an amount equal to the cost of construction of the Southern Connector, including related capitalized interest, less cumulative amortization. (See Note 1, items I and L for additional information.) The following tables summarize the activity related to the Association's Interest in License Agreement with SCDOT (intangible asset) during the years ended December 31, 2013 and 2012:

Description	Balance December 31, 2012	Additions	Disposals	Balance December 31, 2013
Interest in License Agreement with SCDOT	$ 192,497,241	$ 126,251	$ -	$ 192,623,492
Less: Accumulated Amortization	(54,709,785)	(3,574,440)	-	(58,284,225)
Interest in License Agreement with SCDOT, Net	$ 137,787,456	$ (3,448,189)	$ -	$ 134,339,267

Description	Balance December 31, 2011	Additions	Disposals	Balance December 31, 2012
Interest in License Agreement with SCDOT	$ 192,497,241	$ -	$ -	$ 192,497,241
Less: Accumulated Amortization	(51,138,616)	(3,571,169)	-	(54,709,785)
Interest in License Agreement with SCDOT, Net	$ 141,358,625	$ (3,571,169)	$ -	$ 137,787,456

NOTE 7 –INTEREST COSTS INCURRED

Interest costs expensed during the years ended December 31, 2013 and 2012 totaled \$11,126,574 and \$10,560,340, respectively, and included interest accreted on the Association's 2011 Bonds.

NOTE 8 – BONDS PAYABLE

Upon confirmation by the Bankruptcy Court of and as a means of implementing the Association's Debt Adjustment Plan, on April 21, 2011, the Association issued its 2011 Bonds, consisting of both Serial and Term capital appreciation bonds, in exchange for the Association's 1998 Bonds. At that time, the Association's obligations under the 2011 Bonds were substituted for its obligations under the 1998 Bonds, and the Association was relieved of any further obligations under the 1998 Bonds. The 2011 Bonds were issued to the existing holders of the 1998 Bonds on a pro rata basis, based on unpaid principal and accrued/accreted interest as of the Bankruptcy Petition date of June 24, 2010. The Series 2011A and 2011B Bonds were exchanged for the 1998 Senior Bonds, and the Series 2011C Bonds were exchanged for the 1998 Subordinate Bonds.

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

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

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

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

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

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

NOTE 8 – BONDS PAYABLE (CONTINUED)

The *2011 Senior Bonds* as follows:

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

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

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

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

    - The Series 2011A term bonds maturing on July 22, 2051, with an aggregate original principal amount of $73,418 are subject to annual pro rata paydown payments on January 1 of the years 2043 through 2051 in varying amounts from $90,876 to $113,077, with a payment of $60,151 (as revised following the February 15, 2014 extraordinary mandatory prepayment discussed below and in Note 13) at final maturity on July 22, 2051. Interest accretes on these term bonds at 7.50%.

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

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

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

NOTE 8 – BONDS PAYABLE (CONTINUED)

- The Series 2011A1 term bonds maturing on July 22, 2051, with an aggregate original principal amount of $18,1174434 and a maturity value of $334,287,216 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2043 through 2051 in varying amounts from $22,424,076 to $27,900,334, with a payment of $14,843,507 (as revised following the February 15, 2014 extraordinary mandatory redemption discussed below and in Note 13) at final maturity on July 22, 2051. Interest accretes on these term bonds at 7.5%.

The *2011 Senior Subordinate Bonds* as follows:

- *Series 2011B Senior Subordinate Capital Appreciation Toll Road Revenue Bonds* (the "Series 2011B Retained Term Bonds") are dated April 1, 2011, and include two term bonds.
  - The Series 2011B term bonds maturing on January 1, 2032, with an aggregate original principal amount of $56,612 are subject to annual pro rata paydown payments on January 1 of the years 2013 through 2031 in varying amounts from $2,754 to $12,923, with a payment of $13,152 at final maturity on January 1, 2032. Interest accretes on these term bonds at 8.50%.
  - The Series 2011B term bonds maturing on July 22, 2051, with an aggregate original principal amount of $28,491 are subject to annual pro rata paydown payments on January 1 of the years 2033 through 2051 in varying amounts from $14,702 to $26,129, with a payment of $14,676 at final maturity on July 22, 2051. Interest accretes on these term bonds at 9.00%.
- *Series 2011B1 Senior Subordinate Capital Appreciation Toll Road Revenue Bonds* (the "Series 2011B1 New Term Bonds") are dated April 1, 2011, and include two term bonds.
  - The Series 2011B1 term bonds maturing on January 1, 2032, with an aggregate original principal amount of $13,606,458 and a maturity value of $73,945,516 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2013 through 2031 in varying amounts from $662,275 to $3,106,955, with a payment of $3,160,274 at final maturity on January 1, 2032. Interest accretes on these term bonds at 8.50%.
  - The Series 2011B1 term bonds maturing on July 22, 2051, with an aggregate original principal amount of $7,029,534 and a maturity value of $226,739,016 are subject to mandatory redemption pursuant to payments of sinking fund installments on January 1 of the years 2033 through 2051 in varying amounts from $3,626,162 to $6,444,579, with a payment of $3,616,453 at final maturity on July 22, 2051. Interest accretes on these term bonds at 9.00%.

The *2011 Junior Subordinate Bonds* as follows:

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

NOTE 8 – BONDS PAYABLE (CONTINUED)

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

The Association's bonds payable activity for the years ended December 31, 2013 and 2012 was as follows:

	Balance December 31, 2012	Increases	Decreases	Balance December 31, 2013	Amount Due in One Year
Senior Bonds:					
Series 2011A Serial Bonds	$ 38,242,575	$ 1,889,398	$ 2,879,119	$ 37,252,854	$ 3,011,495
Series 2011A Retained Term Bonds	409,327	28,154	-	437,481	220 #
Series 2011A1 New Term Bonds	101,005,481	6,947,122	-	107,952,603	54,254 #
Total Senior Bonds	139,657,383	8,864,674	2,879,119	145,642,938	3,065,969
Senior Subordinate Bonds:					
Series 2011B Retained Term Bonds	98,428	8,298	2,754	103,972	2,883
Series 2011B1 New Term Bonds	23,868,138	2,012,310	662,275	25,218,173	692,724
Total Senior Subordinate Bonds	23,966,566	2,020,608	665,029	25,322,145	695,607
Junior Subordinate Bonds:					
Series 2011C Retained Term Bonds	21,200	2,050	697	22,553	729
Series 2011C1 New Term Bonds	2,478,790	239,242	81,503	2,636,529	85,236
Total Junior Subordinate Bonds	2,499,990	241,292	82,200	2,659,082	85,965
Total Revenue Bonds Payable	$ 166,123,939	$ 11,126,574	$ 3,626,348	$ 173,624,165	$ 3,847,541

	Balance December 31, 2011	Increases	Decreases	Balance December 31, 2012	Amount Due in One Year
Senior Bonds:					
Series 2011A Serial Bonds	$ 38,024,399	$ 1,896,274	$ 1,678,098	$ 38,242,575	$ 2,879,119
Series 2011A Retained Term Bonds	94,890,185	26,339	94,507,197	409,327	-
Series 2011A1 New Term Bonds	-	101,005,481	-	101,005,481	-
Total Senior Bonds	132,914,584	102,928,094	96,185,295	139,657,383	2,879,119
Senior Subordinate Bonds:					
Series 2011B Retained Term Bonds	22,442,119	7,851	22,351,542	98,428	2,754
Series 2011B1 New Term Bonds	-	23,868,138	-	23,868,138	662,275
Total Senior Subordinate Bonds	22,442,119	23,875,989	22,351,542	23,966,566	665,029
Junior Subordinate Bonds:					
Series 2011C Retained Term Bonds	2,320,522	1,927	2,301,249	21,200	697
Series 2011C1 New Term Bonds	-	2,478,790	-	2,478,790	81,503
Total Junior Subordinate Bonds	2,320,522	2,480,717	2,301,249	2,499,990	82,200
Total Revenue Bonds Payable	$ 157,677,225	$ 129,284,800	$ 120,838,086	$ 166,123,939	$ 3,626,348

Amounts due in one year on the Series 2011A Retained Term Bonds and the 2011A1 New Term Bonds represent the extraordinary mandatory prepayments and redemptions (discussed below and in Note 13) that were paid in February 2014.

NOTE 8 – BONDS PAYABLE (CONTINUED)

During 2013, increases in bonds payable totaled $11,126,574 and represented accretions on the Association's bonds during the year. The 2013 decreases in bonds payable of $3,626,348 represented debt service payments that were made in January 2013. The 2012 increases in bonds payable included $10,560,340 of accretions on the Association's bonds during the year ended December 31, 2012 plus $118,724,460 of 2011 By-Lot Term Bonds that were issued at the Bond Exchange date of May 31, 2012. The 2012 decreases in bonds payable included $2,113,626 of debt service payments made in January 2012 plus $118,724,460 of 2011 Pro-Rata Term Bonds that were exchanged and cancelled at the Bond Exchange date of May 31, 2012.

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

The Association is required to make extraordinary mandatory prepayments of its 2011 Retained Term Bonds and redemptions of its 2011 New Term Bonds if on any January 1, the 2011 Extraordinary Prepayment Fund described in Note 1, item J contains in excess of $50,000. In such case, the monies in the 2011 Extraordinary Prepayment Fund shall be applied toward an extraordinary mandatory prepayment/redemption of the 2011 Bonds on the following February 15, at 105% of the accreted value of the respective 2011 Bonds being paid. Extraordinary mandatory prepayments/redemptions shall pay the 2011 Senior Bonds first. If there are no 2011 Senior Bonds outstanding, then the 2011 Senior Subordinate Bonds shall be prepaid/redeemed. If there are no outstanding 2011 Senior or Senior Subordinate Bonds, then the 2011 Junior Subordinate Bonds shall be prepaid/redeemed. See Note 13 for information regarding the extraordinary mandatory prepayments made by the Association on February 15, 2014.

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

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

The following schedule summarizes the Association's debt service requirements to maturity as of December 31, 2013. Since all of the 2011 Bonds are capital appreciation bonds, accretions are accounted for as interest expense and additions to principal. For purposes of the following debt service schedule, all accretions are included as principal, and no interest is shown. The amount shown as debt service for 2014 includes the Association's extraordinary mandatory prepayments paid in February 2014. (See Note 13 for more information.)

NOTE 8 – BONDS PAYABLE (CONTINUED)

Year Ending December 31	Principal	Interest	Totals
2014	$ 3,847,541	$ -	$ 3,847,541
2015	4,101,288	-	4,101,288
2016	4,571,599	-	4,571,599
2017	6,184,885	-	6,184,885
2018	6,835,150	-	6,835,150
2019-2023	46,019,920	-	46,019,920
2024-2028	66,308,569	-	66,308,569
2029-2033	86,782,177	-	86,782,177
2034-2038	109,498,389	-	109,498,389
2039-2043	134,155,955	-	134,155,955
2044-2048	155,095,988	-	155,095,988
2049-2051	124,282,807	-	124,282,807
Totals	$ 747,684,268	$ -	$ 747,684,268

As discussed in Note 1, item J, the terms of the Amended Trust Indenture require the establishment of various 2011 Trust Fund Accounts. The monies deposited into the 2011 Trust Fund Accounts are invested as provided in the Amended Trust Indenture. The types of payments that may be made from the various 2011 Trust Fund Accounts are specified in the Amended Trust Indenture. All of the 2011 Trust Fund Accounts established under the Amended Trust Indenture except for the 2011 R&R Fund and the 2011 Rebate Fund are included in the 2011 Trust Estate, which the Association has pledged as security for payment of the 2011 Bonds. The 2011 Trust Estate also includes the Association's interest in Revenues as defined in the Amended Trust Indenture, the Association's interest in its License Agreement with the SCDOT, and any other property pledged as security for the 2011 Bonds.

At December 31, 2013 and 2012, the following accounts established by the Amended Trust Indenture were included in the Trust Estate and provided security for the 2011 Bonds:

Trust Account	Amount	
	2013	2012
2011 Revenue Fund	$ 89	$ 6
2011 Debt Service Fund	3,793,068	3,626,348
2011 Debt Service Reserve Fund	2,034,225	2,034,225
2011 Extraordinary Prepayment Fund	57,198	28,887
Total	$ 5,884,580	$ 5,689,466

During the years ended December 31, 2013 and 2012, payments from the various accounts were made in accordance with the terms of the Amended Trust Indenture. (See Note 1, item J for more details).

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

All of the 2011 Bonds are secured by liens on the 2011 Trust Estate, including revenues of the Southern Connector and a collateral assignment of the Association's rights under the Revised License Agreement. The 2011 Senior Subordinate Bonds are subordinated to the 2011 Senior Bonds in all respects, including in right of payment and priority of liens. The 2011 Junior Subordinate Bonds are subordinated to the 2011 Senior and Senior Subordinate Bonds in all respects, including in right of payment and priority of liens.

NOTE 8 – BONDS PAYABLE (CONTINUED)

If any debt service payment pertaining to any tier of 2011 Bonds is not paid when due, the Amended Trust Indenture prescribes the manner in which subsequent payments of debt service in respect of such tier of 2011 Bonds shall be applied, first, to any Arrearages, and, second, to the current debt service owing on such tier of 2011 Bonds. The Amended Trust Indenture specifies that any amounts owing on the 2011 Bonds that are unpaid due to insufficient Distributable Cash (defined in Note 1, item J.) shall be deferred and bear interest from the date of non-payment at a rate equal to the interest rate or yield on the 2011 Bond to which such unpaid amount relates, compounded annually. The term *Arrearages* in the Amended Trust Indenture refers to such unpaid amounts plus interest.

If on any 2011 Bond payment date, no 2011 Bonds remain outstanding in any tier, the remaining 2011 Bonds of subordinate tiers will ascend to the next higher tier in the hierarchy described in the New Waterfall in Note 1, item J above. For example, if no 2011 Senior Bonds are outstanding on any 2011 Bond payment date, then any 2011 Senior Subordinate Bonds outstanding will be treated as 2011 Senior Bonds payable from the 2011 Senior Bonds Debt Service Account, and any 2011 Junior Subordinate Bonds outstanding will be treated as 2011 Senior Subordinate Bonds payable from the 2011 Senior Subordinate Bonds Debt Service Account.

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

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

- By June 30 of each year, an Association Engineer (as defined) is required to inspect the toll road and submit a report documenting the Association Engineer’s findings as to whether the Southern Connector has been maintained by SCDOT in good repair and any deficiencies in the physical condition of the toll road. The report shall identify any highway maintenance needs of the Southern Connector, an assessment of the materiality of such needs, and an estimate of the cost and appropriate timing of such needs. The latest report was completed by the Association’s Engineer and was delivered to the Trustee in early June 2014.

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

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

- The Association shall certify to the 2011 Trustee the actual debt service coverage ratios compared to the threshold ratios set forth above. Calculations of the actual debt service coverage ratios shall accompany such certification.

- Prior to the end of each fiscal year, the Association is required to file an annual budget for the next fiscal year with the 2011 Trustee.

NOTE 8 – BONDS PAYABLE (CONTINUED)

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

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

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

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

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

The Amended Trust Indenture does not provide any right to accelerate the maturity of the 2011 Bonds. If an event of default occurs, the 2011 Trustee shall have the right to retain, or cause the Association to retain, (i) an independent consultant to recommend the optimum toll rates for the Southern Connector, and (ii) a management consultant or other third party to examine and make recommendations regarding the Association's operations and operating costs. Unless certain 2011 Bondholders object to the recommendations made by such consultant or other third party, the Association will be required to implement those recommendations to the extent it is able to do so.

The Association monitors the above covenants for compliance throughout the year. The Association believes it was in compliance with and has met its 2011 Bond covenants as of and during the years ended December 31, 2013 and 2012.

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

NOTE 9 – RISK MANAGEMENT

The Association is exposed to various types of risk including loss related to torts; theft of, damage to, and destruction of assets; injuries to construction workers and others; professional design; and damage to property of others. The Association obtained commercial insurance covering known risks of loss as follows:

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

No claim settlements have exceeded insurance coverage during the past three years. There were no materially significant reductions in insurance coverage during the years ended December 31, 2013 or 2012.

NOTE 10 – 2011 R&R FUND ACTIVITY

The Association's sole obligation related to maintenance of the Southern Connector under its Revised License Agreement with SCDOT is to make periodic deposits into the 2011 R&R Fund as prescribed by the New Waterfall provisions of the Amended Trust Indenture. As SCDOT incurs highway maintenance costs relating to the Southern Connector, the Revised License Agreement permits SCDOT to periodically submit to the Association, requisitions for reimbursement of such highway maintenance costs. Any SCDOT highway maintenance cost requisitions received by the Association will be paid from, and to the extent of, monies accumulated in the 2011 R&R Fund. (See Note 1, item J and Note 6 for additional information.)

At December 31, 2012, the balance of the Association's 2011 R&R Fund account was $489,793. During 2013, deposits into the 2011 R&R Fund consisted of $424,598 deposited in accordance with the New Waterfall provisions of the Amended Trust Indenture and $16 of interest income. In 2013, the Association paid $105,290 of highway maintenance expense incurred by SCDOT, of which $18,000 was accrued and expensed in 2012. At December 31, 2013, the Association accrued $64,245 of highway maintenance expense to be reimbursed from the 2011 R&R Fund in 2014. Total highway maintenance expense recognized by the Association for the year ended December 31, 2013 was $151,535. At December 31, 2013, the balance of the 2011 R&R Fund was $809,117 and the Fund's net position was $744,872.

At December 31, 2011, the balance of the Association's 2011 R&R Fund account was $239,336. During 2012, $315,170 was deposited into the 2011 R&R Fund in accordance with the New Waterfall provisions of the Amended Trust Indenture. The Association paid $64,713 of highway maintenance expense incurred by SCDOT in 2012, of which $20,158 was accrued and expensed in 2011. At December 31, 2012, the Association accrued $18,000 of highway maintenance expense to be reimbursed from the 2011 R&R Fund in 2013. Total highway maintenance expense recognized by the Association for the year ended December 31, 2012 was $62,555. At December 31, 2012, the balance of the 2011 R&R Fund was $489,793, and the Fund's net position was $471,793.

NOTE 11 – RESTATEMENT OF 2012 BEGINNING NET POSITION

During 2012, the Association adopted GASB Statement No. 65 as discussed in Note 1, items B. and M., and accordingly wrote off its remaining unamortized bond issuance costs. Since such bond issuance costs had been incurred and capitalized in 2011 when the Association issued its 2011 Bonds, a cumulative adjustment totaling $238,705 was made to the Association's 2012 beginning net position.

NOTE 12 – GAIN CONTINGENCY

The Association has filed a $2,000,000 claim against Lehman Brothers, Inc. (“Lehman Brothers”) for losses incurred by the Association in 2008 upon Lehman Brothers’ default under a collateralized repurchase agreement held in connection with investments of monies in the Association’s 1998 Bonds Debt Service Reserve Accounts. The Association’s claim is unsecured and uncontested, and will be settled in Lehman Brothers’ bankruptcy proceedings. At December 31, 2013, the Association’s legal counsel advised that it is impossible to estimate the amount of monies, if any, that the Association might actually receive upon settlement of the Lehman Brothers’ bankruptcy case; however, it is probable that any recovery will be significantly less than the amount of the Association’s $2,000,000 unsecured claim.

NOTE 13 – SUBSEQUENT EVENT

At January 1, 2014, the balance of the Association’s 2011 Extraordinary Prepayment Fund exceeded $50,000. Accordingly on February 15, 2014, as discussed in Note 8, the Association made extraordinary mandatory prepayments of $220 accreted value to prepay certain of its 2011A Retained Term Bonds (that were scheduled to mature on July 22, 2051 with a maturity value of $3,284) and $54,254 accreted value to redeem certain of its 2011A1 New Term Bonds (that were scheduled to mature on July 21, 2051 with a maturity value of $813,091). Premiums paid on the 2011A Retained Term Bonds and the 2011A1 New Term Bonds totaled $11 and $2,713, respectively.