CONNECTOR 2000 ASSOCIATION, INC.

ANNUAL REPORT

June 30, 2012

CUSIP Prefix 20786L

INTRODUCTION

This is the fourteenth 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 2012A, Series 2012B and Series 2012C (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 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, 2011, the Southern Connector had been open and collecting tolls for over ten 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:

	2007	**2008**	**2009**	**2010**	**2011**
ETC Trans.	1,599,926	1,652,145	1,652,726	1,574,335	2,778,641
% of Total Trans.	27%	29%	30%	34%	34%
ETC Revenue	$1,158,749	$1,208,608	$1,274,709	$1,540,310	$1,664,462
% of Total Rev.	21%	23%	24%	27%	29%
Total Trans.	5,839,205	5,653,527	5,455,974	4,538,473	4,884,705
Total Revenue	$5,448,214	$5,238,429	$5,254,463	$5,645,289	$5,782,063

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 "***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. Please refer to the Association's Annual Report for the year ending December 31, 2010 for the toll rates and discounts charged prior to January 1, 2012.

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.

Events of Default and Bankruptcy Restructuring. Due to persistent disappointing toll revenues, the Association had been in default of its obligations under the Association's Toll Road Revenue Bonds, Series 1998A, Series 1998B and Series 1998C (the "***Original Bonds***") since January 2008. U.S. Bank National Association, as successor in trust to First Union National Bank (the "***1998 Senior Bonds Trustee***"), was able to pay amounts owing on such indebtedness by supplementing net toll revenues with monies disbursed from its reserve accounts. On January 1, 2010, $9,018,502 of both senior and subordinated debt service was due to be paid; however, there were insufficient funds available in the Debt Service and Debt Service Reserve Funds to make that payment in full. Consequently, the Trustee advised the Association it would not pay any of the debt service then due. Therefore, a payment default on the Original Bonds occurred.

The Amended and Restated Bonds were delivered to bondholders on April 21, 2011 in exchange for the Original Bonds which were issued by the Association on February 11, 1998 to finance substantially all of the costs of the Southern Connector. The exchange of the Amended and Restated Bonds completed the adjustment of the debts of the Association under 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 "***Plan***"). On April 1, 2012 the U.S. Bankruptcy Court for the State of South Carolina confirmed the Plan which became effective April 21, 2011.

Beginning in June 2011, the Association was advised by the Trustee that a number of institutional holders of the Series 2011 Bonds could not trade their obligations in the secondary securities market. The beneficial owners of a majority of the Series 2011 Bonds requested the Association to undertake an exchange of the 2011 Term Bonds (the “***Pro-Rata Bonds***”) for new term bonds (the “***By-lot Bonds***”). On April 17, 2012, the Trustee caused to be delivered to the beneficial owners of the Series 2011 Bonds a notice of mandatory exchange with option to retain under which each such beneficial owner’s Pro-rata Bonds will be exchanged on May 31, 2012 for By-lot Bonds providing for the distribution of payments made by the Association to the beneficial owners thereof by lot (the “***Exchanging Bondholders***”), provided that each such beneficial owner may instead affirmatively elect to retain such beneficial owner’s Pro-rata Bonds and thus to opt out of the exchange and not become an Exchanging Bondholder if such beneficial owner prefers to retain the current Pro-rata Bonds with the right to have redemptions of its Term Bonds done on a pro rata basis.

The holders of $364,357.00, $85,103.00 and $17,943.00 in Original Principal Amount of Series 2011A Term Bonds, Series 2011B Term Bonds and Series 2011C Term Bonds elected to opt out of the exchange so that there remain those respective amounts of Original Principal Amount of the Pro-rata Bonds. The rest of the Pro-rata Bonds were exchanged for By-lot Bonds on May 31, 2012. Please see the attached financial statements of the Association for more information concerning the defaults leading to the bankruptcy proceeding, the exchange of the Amended and Restated Bonds for the Original Bonds, and the terms of the Plan.

AUDITED FINANCIAL STATEMENTS

The financial statements of the Association for the period ended December 31, 2011 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, 2011, 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, 2011. The Association exchanged the Amended and Restated Bonds for the Original Bonds during its fiscal year ended December 31, 2011. The Association did not issue or remarket any other bonded indebtedness during its fiscal year ended December 31, 2011.

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, 2011.

[Attached]

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

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

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

TABLE OF CONTENTS

YEAR ENDED DECEMBER 31, 2011

GREENE FINNEY & HORTON
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net position of 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 December 31, 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, which collectively comprise the Association's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2011, and the changes in its net position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, the Association's unrestricted financial condition continued to deteriorate over the past several years and the Association was unable to comply with key provisions of its trust indenture and license agreement. The Association attempted to restructure its debt, but was unable to get a debt adjustment plan that was acceptable to both the bond holders and the SCDOT. As a result of the foregoing, on June 24, 2010, the Association filed a petition for adjustment of its obligations in the U.S. Bankruptcy Court for the State of South Carolina. After considerable negotiations, the Association's First Amended Plan for Adjustment of Debts, as amended, was confirmed by the U.S. Bankruptcy Court on April 1, 2011 and became effective on April 21, 2011. The Association has accounted for the gain resulting from the adjustment of its debts in bankruptcy as an extraordinary item in its statement of revenues, expenses, and changes in net position.

Accounting principles generally accepted in the United State 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 22, 2012

211 E. Butler Road • Suite C-6
Mauldin, SC 29662
864.232.5204 Fax: 864-232-5532

4986 Calvin Street
North Charleston, SC 29418
864.232.5204

107 Hillcrest Avenue
Simpsonville, SC 29681
864-962-1040 Fax: 864-962-1044

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 year ended December 31, 2011. Our analysis compares our 2011 information to our 2010 information. We also include a summary of significant subsequent events that occurred in 2012 that will affect our 2011 Bondholders in 2012 and following years. We ask that you read this section of our annual report in conjunction with the basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- On April 1, 2011, the U.S. 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 "Bankruptcy Plan"). The effective date of the Bankruptcy Plan was April 21, 2011. Under the terms of the Bankruptcy Plan, the Association issued Amended and Restated 2011 Toll Road Revenue Bonds (the "2011 Bonds") in exchange for the Association's 1998 Toll Road Revenue Bonds (the "1998 Bonds") and entered into a Revised License Agreement with the South Carolina Department of Transportation ("SCDOT"). The confirmation of the Association's Bankruptcy Plan represented the culmination of many years spent by the Association investigating its options for restructuring its 1998 Bonds and obligations to SCDOT, and the Association's bankruptcy proceedings which began on June 24, 2010 (the "Petition Date"). A summary of the resulting Bankruptcy Plan is included below in the "Summary of Key Provisions of the Association's Plan for Adjustment of Debts in Bankruptcy" subsection of the *Economic Factors* section of this management's discussion and analysis. During 2011, the Association recognized an extraordinary gain from the adjustment of its debts totaling $186,847,076, that included gains realized on the exchange of its 1998 Bond for its 2011 Bonds, the cancellation of its liabilities owed to SCDOT and the settlement of the Lehman Brothers' excess collateral claim.

- Upon implementation of the Association's Bankruptcy Plan, our 1998 Bonds were exchanged for our 2011 Bonds. The 2011 Bonds consisted of 2011A Senior Capital Appreciation Toll Road Revenue Bonds (the "2011A Bonds"), 2011B Senior Subordinate Capital Appreciation Toll Road Revenue Bonds (the "2011B Bonds") and 2011C Junior Subordinate Capital Appreciation Toll Road Revenue Bonds (the "2011C Bonds"). The exchange reduced the Association's overall Bonds Payable liabilities, and we recognized a gain of $175,768,400 from this exchange. That gain represents a portion of, and was included in, our 2011 extraordinary gain from the adjustment of our debts in bankruptcy as discussed in the preceding bullet. At December 31, 2011, our 2011 Bonds Payable balance was $157,677,225. That balance represented a decrease of approximately 51.7% from the balance of our 1998 Bond obligations as reported in our 2010 financial statements.

- Upon implementation of our Bankruptcy Plan, amounts payable to SCDOT for license fees, highway maintenance expense and related interest thereon were cancelled. Accordingly, $10,442,194 of liabilities that were reported in our 2010 financial statements were eliminated during 2011, and we recognized a corresponding gain from the cancellation of these debts. That gain also represents a portion of, and was included in, our 2011 extraordinary gain from the adjustment of our debts in bankruptcy as discussed in the first bullet above.

- In April 2011, the Lehman Brothers, Inc. claim against the Association for the return of excess collateral paid to the Association upon Lehman Brothers' default under a collateralized repurchase agreement was resolved by consensual resolution, and we returned $800,000. Since in prior years, $1,117,498 had been set aside by the Trustee and recorded by the Association as a Potential Excess Collateral Liability, the remaining $317,498 was deemed to belong to the Association, and was reclassified as a gain from the settlement of this claim. We recognized an additional $318,984 of gain related to the settlement of the Lehman Brothers' claim when the Trustee transferred monies related to the repurchase agreement that it had previously held in a suspense account to the Association's 2011 Cost of Issuance Fund pursuant to the mandatory exchange of our 2011 New Term Bonds for our 2011 Term Bonds as discussed in the *Subsequent Events* section of this management's discussion and analysis. Accordingly, we recognized a total gain of $636,482 from the settlement of the Lehman Brothers claim. That claim was also a component of our 2011 extraordinary gain from the adjustment of our debts in bankruptcy as discussed in the first bullet above, since the Lehman Brothers claim was named as an impaired claim in our bankruptcy proceedings.

- Annual utilization of the Southern Connector increased from 4,538,473 toll transactions in 2010 to 4,884,705 toll transactions in 2011. This increase represented a partial recovery from the decline in utilization that the Southern Connector has suffered since 2008. The increase in toll transactions from 2010 to 2011 was approximately 7.6%; however, utilization in 2010 was distorted by SCDOT's closure of the northbound lanes of Interstate 385 ("I-385"), south of the Southern Connector, for approximately 6.5 months during that year. For 2011, daily average toll transactions were 13,383 compared to 12,434 in 2010.

- Revenues from operations in 2011 increased from 2010 to $5,782,063, and consisted of toll revenues of $5,765,766 and other operating revenues of $16,297. Operating revenues in 2010 totaled $5,332,959 and consisted of toll revenues of $5,331,105 and other operating revenues of $1,854. Toll revenues increased approximately 8.2% in 2011 over 2010 amounts.

- Total operating expenses decreased from 2010 by approximately 15.4% in 2011 to $5,051,543 from $5,973,664 in 2010. This decrease was due primarily to trustee fees and costs (including Trustee counsel and advisor fees) and professional fees, which declined by approximately 36.7% and 4.7%, respectively, from 2010 amounts as our bankruptcy proceedings wound down.

- Nonoperating expenses also decreased during 2011, primarily as an effect of the implementation of our Bankruptcy Plan. The most significant decrease was realized in interest expense, which decreased by $2,482,971, or approximately 26.2% from 2010 interest expense. Although both years reflected partial years of accruals (approximately 8.5 months of interest accretions in 2011 from the April 21, 2011 issuance of the 2011 Bonds through the end of the year as compared to approximately 5.5 months of accruals/accretions of interest in 2010 through the Petition Date), our 2011 interest was lower because our overall bonds payable liabilities were reduced as a result of our bankruptcy proceedings. In addition, nonoperating license fees, highway maintenance expense and related interest owed to SCDOT was eliminated or reduced during 2011 as a result of our bankruptcy proceedings, by $725,000, $19,657 and $238,973, respectively. Amortization of 1998 Bond issuance costs and underwriters' fees were eliminated when our 1998 Bond obligations were cancelled, further reducing 2011 nonoperating costs by $26,285 and $36,888 respectively. The amortization of our Interest in License Agreement with SCDOT remained essentially unchanged, at $3,571,040 in 2011.

- During 2011, the Association applied the provisions of several new governmental accounting standards issued by the Governmental Accounting Standards Board (the "GASB"). Those standards affected both the format and content of our 2011 financial statements. In 2010, under GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* ("Statement No. 58"), the balances of our liabilities subject to adjustment in bankruptcy were frozen at the Petition Date. In 2011, upon the effective date of our Bankruptcy Plan and as a result of the cancellation of our debts in bankruptcy, we recognized an extraordinary gain totaling $186,847,076.

  In 2011, we adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* ("Statement No. 60"). Although that standard does not affect the manner in which we account for our Interest in our License Agreement with SCDOT, it does change how that asset is classified in the Association's accompanying financial statements. In 2010 and prior years, that asset was classified as a capital asset. Statement No. 60 explicitly clarifies that such an asset is an amortizable asset that is not a capital asset. Accordingly, beginning in 2011, our Interest in our License Agreement with SCDOT has been classified as an other asset rather than as a capital asset.

We also applied GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("Statement No. 63") during 2011. Under this standard, we now present our Statement of Net Position and our Statement of Revenues, Expenses and Changes in Net Position rather than a Statement of Net Assets and a Statement of Revenues, Expenses and Changes in Net Assets. Within our Statement of Net Position, GASB Statement No. 63 requires the presentation of net position rather than of net assets.

Because of the application of these new accounting and financial pronouncements, when we prepared our financial comparisons of our 2011 fiscal year with our 2010 fiscal year for discussion in this management's discussion and analysis, we reclassified 2010 amounts to conform with our 2011 presentation. For example, as mentioned above, in 2010 and prior years, our Interest in our License Agreement with SCDOT was classified as a capital asset. However, since in 2011 that asset is presented as an other asset rather than as a capital asset, for purposes of our 2011-to-2010 comparison, we calculated the differences between our 2011 and 2010 capital assets assuming that our 2010 Interest in our License Agreement with SCDOT had been presented as an other asset in 2010 as well.

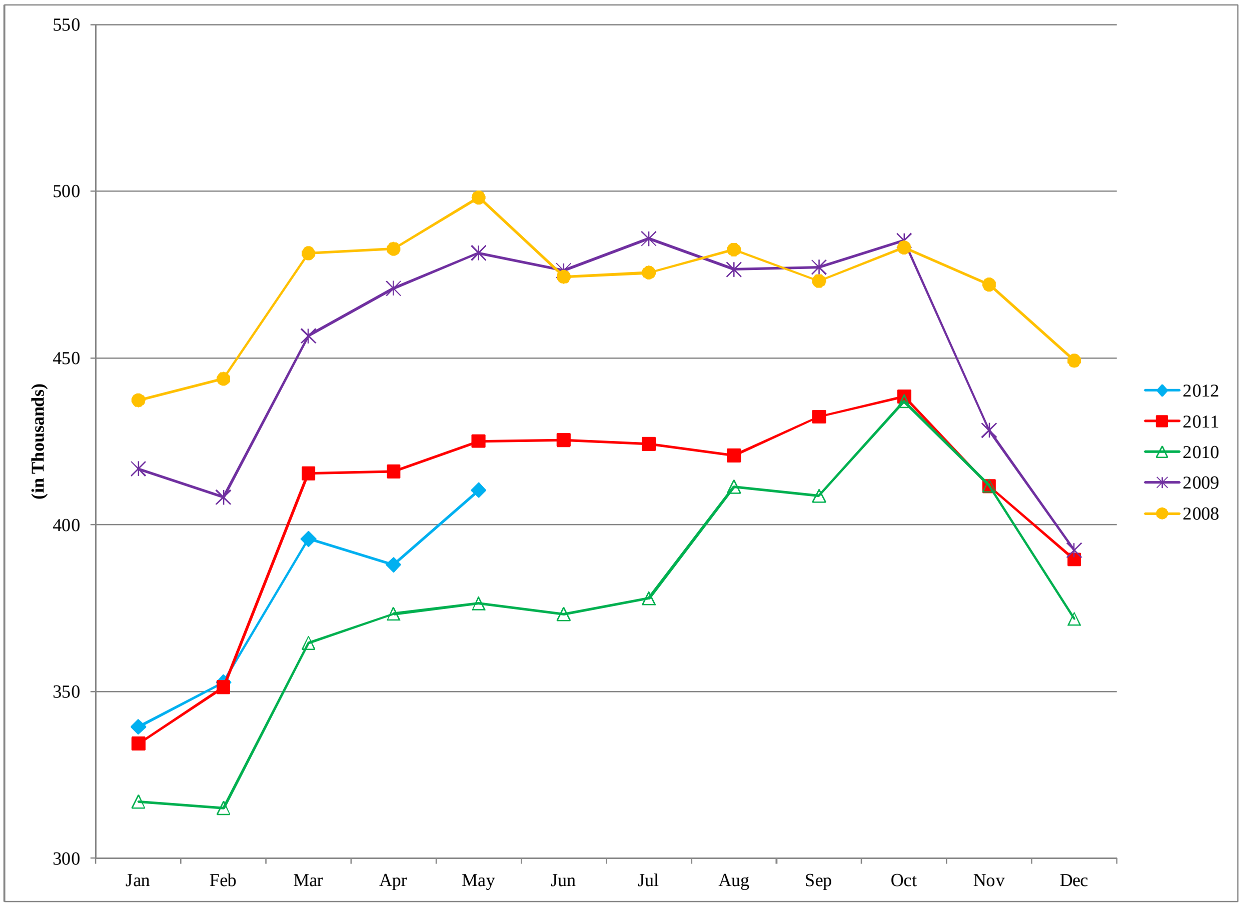
ECONOMIC FACTORS

Purpose of the Association and Utilization and Toll Revenues of the Southern Connector

The Association was incorporated to design, finance, acquire, construct and operate the Southern Connector Toll Road. On February 11, 1998, we issued $200,177,680 of Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 1998 ("1998 Bonds") to finance substantially all of the costs of the Southern Connector. A Traffic and Revenue Study (the "Original Study") was prepared in connection with the sale of the 1998 Bonds. The Original Study was undertaken in order to determine an estimate of the utilization of the road, the appropriate toll rates for the highway, an estimate of the costs of operation and the resulting revenue the Association could reasonably expect to receive from the operation of the Southern Connector. From the time that the Southern Connector Toll Road opened in February 2001, utilization of the Southern Connector has been significantly lower than the Original Study estimated. The Southern Connector was constructed in southern Greenville County in an area with no other similar roads, and was expected to further industrial and commercial development in that portion of Greenville County. However, the expected growth in the region has yet to materialize. Globalization of industrial production has adversely affected industrial development in the Southern Connector corridor. In addition, the recession and consumer resistance to the payment of tolls (the Southern Connector Toll Road is the only toll road in Upstate South Carolina) contributed to the lower-than-forecasted traffic contemplated in the Original Study.

Since operations of the Southern Connector began, the Association has worked diligently to publicize the Southern Connector and promote traffic growth. We employ a management team that is experienced in toll road operations and we work with local entities to promote and publicize development opportunities along the Southern Connector corridor. We have worked with SCDOT to rectify signage deficiencies. We have undertaken aggressive, award-winning advertising campaigns to make the public aware of the highway and the additional convenience it offers. Our staff has met individually with most of the large trucking firms located in and around the Southern Connector corridor. We have implemented a discount program for trucks that use the electronic toll system and have extended incentives to passenger cars for the acquisition of transponders. Our efforts to promote the Southern Connector and to operate the toll road in an efficient manner have been reflected in overall traffic demand and toll revenues. Average daily toll transactions grew each year from 2001 through 2004, declined slightly in 2005 following an increase in toll rates, and rebounded in 2006 and 2007. The general economic downturn in 2008 and 2009 coupled with a November 2009 toll rate increase negatively impacted utilization of the Southern Connector, and average daily toll transactions declined during those years. The continuing effects of the recession and the November 2009 toll rate increase were compounded during 2010 by SCDOT's complete closure of approximately 15 miles of the northbound lanes of I-385 for rehabilitation. I-385 is one of the main thoroughfares with which the Southern Connector intersects, and its closure in 2010 lasted approximately 6.5 months. All of these factors contributed to the 2010 decrease in average daily toll transactions. However, in 2011, utilization of the Southern Connector began to improve once again, and average daily toll transactions increased approximately 7.6% over 2010 levels.

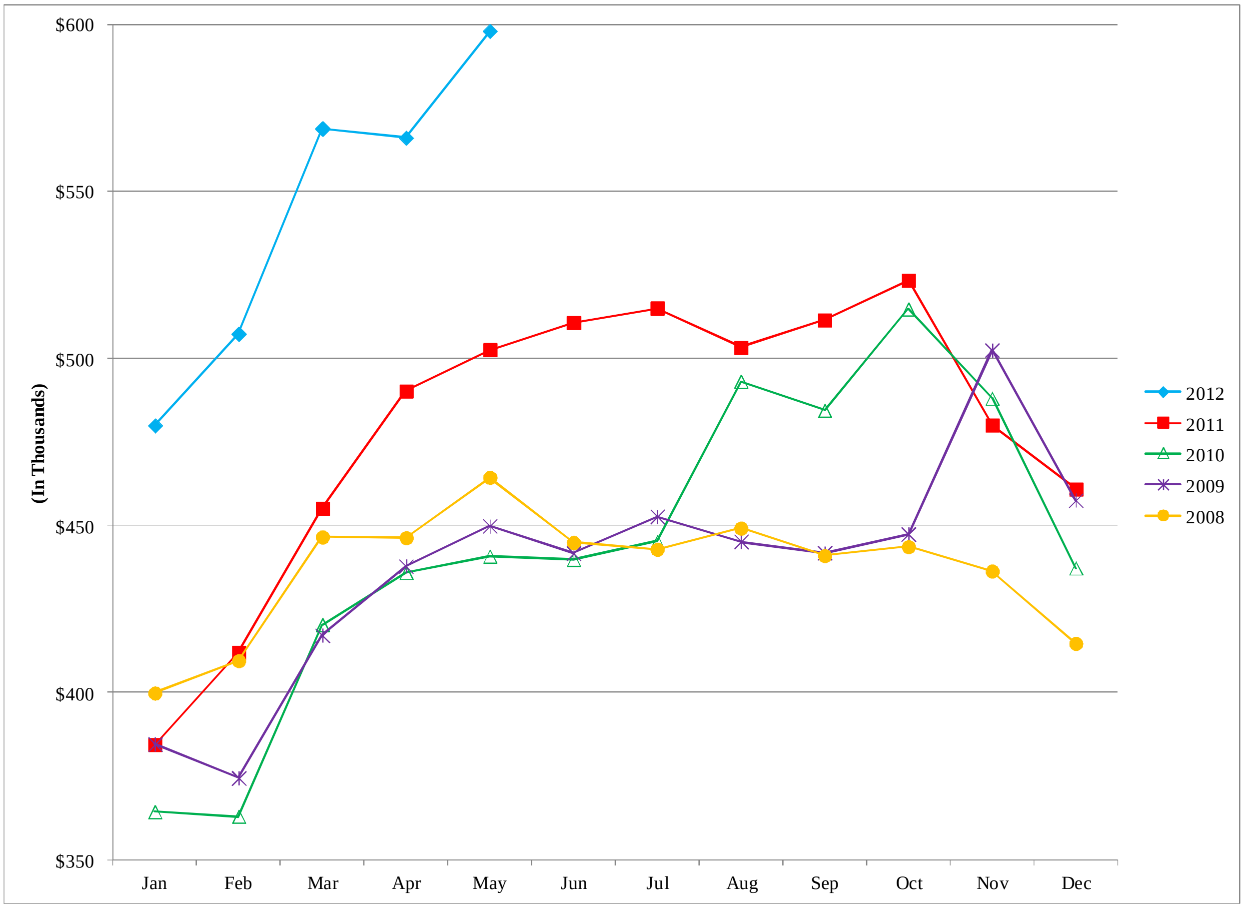
Transactions by Month



Toll revenues rose steadily each year from the time the Southern Connector opened through 2007. The Southern Connector was unable to escape the effects of the recession on its toll revenues in 2008, and for the first time since operation of the toll road began, toll revenues declined. Although the decline in utilization of the Southern Connector continued in 2009 and 2010, the increase in toll rates effective in November 2009 more than compensated for the decrease in traffic, and in 2010, we began to recover some of the toll revenues that had been lost. With the 2011 rebound in utilization of the Southern Connector discussed above, the Association's toll revenues rose to their highest point ever, increasing approximately 8.2% over 2010 amounts.

In January 2012, we implemented a toll rate increase approved by the Bankruptcy Court as part of our plan to emerge from bankruptcy. So far in 2012, although utilization of the Southern Connector has declined slightly following the toll rate increase, toll revenues have continued to rise. Through May 2012, toll transactions decreased approximately 2.9% from the first five months of 2011, but toll revenues increased approximately 21.2% over the same period in 2011.

Revenues by Month



Association Operations and Financial Obligations Prior to Confirmation of the Association's Plan for Adjustment of Debts in Bankruptcy

Although the Association was legally formed in 1996, our first financial activity occurred on or about February 1998. At that time, we entered into a License Agreement (the "Original License Agreement") with SCDOT that granted us certain rights and obligations to finance, acquire, construct, and operate the Southern Connector, and to construct the SC 153 Extension with financing provided by SCDOT. To finance construction of the Southern Connector, we issued $200,177,680 original principal amount of Connector 2000 Association, Inc. Toll Road Revenue Bonds, Series 1998A, 1998B and 1998C pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, both dated February 1, 1998 (collectively, the "Original Trust Indenture").

The terms of the Original Trust Indenture and the Original License Agreement collectively governed the Association's operations of the Southern Connector, collection of tolls and distribution of net toll revenues from the issuance of the 1998 Bonds through April 21, 2011, the effective date of the Association's Bankruptcy Plan.

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

The Original Trust Indenture required the Association to charge tolls in each calendar year sufficient to produce net revenues, after the payment of operating expenses, equal to or that exceeded the greater of (a) 1.25 times the aggregate debt service on all outstanding 1998 Senior Bonds due in such year, and (b) the amount required to replenish all previous withdrawals from the reserve fund established for the 1998 Senior Bonds and to equal not less than 1.10 times the aggregate debt service on all outstanding 1998 Bonds due in such year. This 1998 Bond revenue covenant became effective in 2005, and a failure to comply with the covenant for a period of 36 consecutive months constituted an event of default under the Original Trust Indenture. In January 2008 and again in May 2009, we received notices of such default from the 1998 Senior Bonds Trustee in which the Trustee acknowledged and reserved its various remedies provided in the Original Trust Indenture, but did not identify which, if any, actions were to be taken on behalf of the holders of the 1998 Bonds.

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

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

The Association's operations through April 21, 2011, were governed by its Original License Agreement with SCDOT. That Original License Agreement specified that the 1998 Bonds issued by the Association to finance construction of the Southern Connector were not and would never constitute indebtedness of the State of South Carolina, SCDOT, or any agency, department or political subdivision of the State of South Carolina. The Original License Agreement required SCDOT to determine the toll rates to be charged by the Association. It obligated the Association to pay license fees and roadway maintenance amounts to SCDOT and to periodically repair, renew and replace the Southern Connector at the Association's cost.

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

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

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

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

As of June 24, 2010, and through the effective date of the Association's Bankruptcy Plan, the Association's liabilities subject to adjustment in bankruptcy (the 1998 Bonds payable liabilities, all amounts owed to SCDOT and the excess collateral liability) were frozen in accordance with U.S. Bankruptcy law. Accordingly, under the terms of GASB Statement No. 58, no accruals or adjustments were made to these liabilities between the Petition Date and the Bankruptcy Plan's April 21, 2011 effective date.

During the remainder of 2010 and during the pendency of the bankruptcy proceeding, we continued to operate the Southern Connector as usual and paid our non-Bondholder and non-SCDOT creditors in the ordinary course of business. As mentioned previously, payments were no longer made to the bondholders, although the 1998 Senior Bonds Trustee, the Subordinate Bonds Trustee, their respective counsel and advisors were paid their fees and expenses from the toll revenues collected. We continued our negotiations with the 1998 Senior Bonds Trustee, the Subordinate Bonds Trustee, the Restricted Owners and SCDOT, and filed a First Amended Plan for Adjustment of Debts in November 2010. That document, along with the Addendum to First Amended Plan for Adjustment of Debts filed in January 2011 and Debtor's Modification to the First Amended Plan for Adjustment of Debts filed in March 2011, form the Bankruptcy Plan that was later confirmed by the U.S. Bankruptcy Court on April 1, 2011. Since no appeals to the Bankruptcy Court's Confirmation Order were filed and the other conditions to effectiveness were satisfied, the Bankruptcy Plan became effective April 21, 2011.

The Bankruptcy Plan was implemented by the First Amended and Restated Master Indenture of Trust (the "Amended Trust Indenture"), and the First Amendment to the License Agreement between the Association and SCDOT (the "Revised License Agreement"). Under the Bankruptcy Plan, the 2011 Bonds were issued in exchange for the 1998 Bonds, the Association's prior obligations to SCDOT for license fees and roadway maintenance reimbursements were cancelled, and $800,000 of the excess collateral Repurchase Agreement securities was repaid to Lehman Brothers, Inc. The Amended Trust Indenture established new 2011 Trust Funds and Accounts and a new flow of funds schedule (the "New Waterfall") that defined the order and priority in which amounts deposited into the 2011 Revenue Fund may be distributed. The Revised License Agreement with SCDOT eliminated our obligations to SCDOT for future highway maintenance, repair, renewal and replacement costs beyond making certain deposits into the 2011 Renewal and Replacement Fund (the "2011 R&R Fund") as discussed below, amended the manner in which toll rates for the Southern Connector are set and eliminated any default or right of termination due to the insolvency of the Association.

Summary of Key Provisions of the Association's Plan for Adjustment of Debts in Bankruptcy

This section of our management's discussion and analysis presents a summary of certain key provisions of the Association's Bankruptcy Plan that was confirmed by the U.S. Bankruptcy Court on April 1, 2011 and that became effective April 21, 2011. More detailed information regarding our bankruptcy proceedings may be found on our website, www.SouthernConnector.com. Specifically, complete copies of the Association's Bankruptcy Plan, the Bankruptcy Plan documents and other bankruptcy filings, notices and Court Orders may be found on our website under the *Bankruptcy Filing* link under the *News & Filings* tab.

2011 Bonds and Terms of the Amended Trust Indenture

Upon the exchange of our 1998 Bonds for our 2011 Bonds, the Association recognized an extraordinary gain of $175,768,400 from the cancellation of 1998 Bonds and the write-off of related unamortized 1998 Bond issuance costs and underwriters' fees. A more detailed description of the 2011 Bonds is found in the "Debt Administration" subsection of the *Capital Assets and Debt Administration* section of this management's discussion and analysis and in the accompanying notes to the Association's basic financial statements.

Under the terms of the Amended Trust Indenture, beginning April 1, 2011, the Association's revenues are delivered to the Trustee for deposit into the 2011 Revenue Fund. The New Waterfall defined in Section 505 of the Amended Trust Indenture establishes the flow of funds schedule under which the Trustee may withdraw amounts deposited into the 2011 Revenue Fund.

Whether or not an event of default has occurred under the Amended Trust Indenture, amounts in the 2011 Revenue Fund are to be applied for the purposes and in the priority set forth in the New Waterfall. The New Waterfall sets the priority of deposits to the 2011 R&R Fund to reimburse SCDOT for a portion of the highway maintenance costs as described below and transfers to pay debt service on the 2011 Bonds. (For additional information, see section VII. B. 2, Distribution of Net Revenues, beginning at page 38 of the Amended Disclosure Statement, and Section 505 of the Amended Trust Indenture, each of which is available for review on the Association's website under the *Bankruptcy Filing* link under the *News & Filings* tab.)

The Amended Trust Indenture also established a 2011 Debt Service Reserve Fund to pay shortfalls in debt service on the Series 2011A Bonds (and, once all Series 2011A Bonds have been redeemed, on the Series 2011B Bonds, and once all Series 2011B Bonds have been redeemed, on the Series 2011C Bonds). The 2011 Debt Service Reserve Fund was initially funded by amounts remaining in the 1998 Revenue, 1998 Debt Service and 1998 Debt Service Reserve Funds established under the Original Trust Indenture after payment of costs of the bankruptcy proceeding. According to the terms of the Amended Trust Indenture, if any payments are made from the 2011 Debt Reserve Fund, the balance in that Fund must be restored before any payments may be made on the 2011B or 2011C Bonds.

Revised License Agreement with SCDOT

Under the terms of the Bankruptcy Plan, in exchange for the Association's agreement under the Amended Trust Indenture to make transfers from the 2011 Revenue Fund to the 2011 R&R Fund equal to a percentage of net revenues from operation of the Southern Connector, SCDOT entered into the Revised License Agreement and released all its claims against the Association that existed as of the Bankruptcy Plan's effective date of April 21, 2011. Accordingly, in 2011, we recognized a gain of $10,442,194 from the cancellation of unpaid license fees, roadway maintenance fees and related interest payable to SCDOT, which gain was included in our extraordinary gain from adjustment of debts in bankruptcy.

The Association's Revised License Agreement with SCDOT became effective April 21, 2011. Under the Revised License Agreement, SCDOT has assumed the obligations for the future highway maintenance, repair, renewal and replacement and related costs of the Southern Connector in the same manner as any other State-owned interstate road. Neither the Association nor the Trustee or 2011 Bondholders will be responsible for any highway maintenance, repair, renewal or replacement. Instead, the Association's sole obligation related to highway maintenance, repair, renewal or replacement is to make certain deposits into the 2011 R&R Fund as required under the New Waterfall discussed in Section 505 of the Amended Trust Indenture. The Association is not responsible for maintaining insurance against any casualty or damage to the Southern Connector other than to the toll facilities. The Association is responsible for future toll facilities maintenance and related costs, which will be payable as an operating cost from available toll revenues.

In accordance with the New Waterfall, monies are periodically deposited into the 2011 R&R Fund. Disbursements from the 2011 R&R Fund may be made quarterly when, upon request of SCDOT, the Association will submit requisitions to the Trustee to distribute monies from the 2011 R&R Fund to SCDOT as reimbursement for SCDOT's actual costs of maintaining, repairing, renewing and replacing the Southern Connector. The Association is not and will not become obligated to pay SCDOT for any requisitioned highway maintenance costs and related interest thereon that exceed the balance accumulated in the 2011 R&R Fund, unless and until all of the 2011 Bonds have been repaid, redeemed or defeased, and the terms of the Revised License Agreement have been extended to allow the Association to continue to collect tolls in order to repay such unreimbursed maintenance costs

The contractual expiration date of the Revised License Agreement is July 22, 2051. Under the Revised License Agreement, SCDOT has no right to terminate the Revised License Agreement based upon the Association's insolvency.

Toll Rates

Toll rates under the Amended Trust Indenture and the Revised License Agreement were initially established at amounts equal to the revised toll rates set forth in the Revised Traffic Study. (See the "Association Operations and Financial Obligations Prior to Confirmation of the Association's Plan for Adjustment of Debts in Bankruptcy" subsection of the *Economic Factors* section of this management's discussion and analysis for more information regarding the Revised Traffic Study.) The Amended Trust Indenture sets forth the circumstances under which we are required to retain a toll rate consultant to perform a new toll rate study. Although the Revised License Agreement contains provisions that allow SCDOT to approve the consultant hired by us to perform any new toll rate study, neither SCDOT nor the State of South Carolina will be responsible for the adequacy of any toll rates charged by the Association for purposes of satisfying our obligations to third parties.

Lehman Brothers, Inc. Claim for Return of Excess Collateral

Although the Lehman Brothers, Inc. claim for the return of excess collateral paid to the Association (discussed above in the *Financial Highlights* section of this management's discussion and analysis) was identified as an impaired claim in the Bankruptcy Plan, its resolution was settled consensually among the pertinent parties during April 2011. Under the terms of the resolution, we returned $800,000 to Lehman Brothers, Inc. The remainder of the liability that we had recorded to reflect this contingency was written off, and monies held by the Trustee in the 1998 Repurchase Agreement Suspense Account were deemed to be the Association's property. Accordingly, in 2011, we recognized a gain totaling $636,482 from the settlement of the Lehman Brothers' claim, which gain was included in the extraordinary gain from the adjustment of our debts in bankruptcy in our accompanying Statement of Revenues, Expenses and Changes in Net Position.

Permanent Injunction

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Association's 2011 annual report consists of two parts – management's discussion and analysis (this section), and the basic financial statements, including the notes to the basic financial statements.

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

The Association follows governmental accounting principles generally accepted in the United States of America. We present our basic financial statements on an accrual basis of accounting that is similar to the accounting basis used by most private-sector companies. Under the accrual basis of accounting, our revenues earned and expenses incurred are accounted for regardless of when cash is received or paid.
During 2011, we implemented provisions of various governmental accounting principles and made other changes in the presentation of our financial statements as follows:

- The Association implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* during 2012. This statement defines a service concession arrangement (an "SCA") as an arrangement between a transferor government and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration, and the operator collects and is compensated by fees from third parties. The Association's License Agreement with SCDOT constitutes an SCA subject to the provisions of GASB Statement No. 60, which requires the operator to account for its rights under an SCA as an intangible asset that is amortized over the duration of the SCA. Since the Association was already accounting for its Interest in its License Agreement with SCDOT in this manner, the implementation of GASB Statement No. 60 had no effect on the relevant account balances. However, GASB Statement No. 60 states that the SCA intangible asset is not a capital asset, and should be presented separately from capital assets in the operator's financial statements. In prior years, we presented our Interest in our License Agreement with SCDOT as an intangible capital asset, in accordance with accounting principles then in effect. For 2011, in accordance with GASB Statement No. 60, we have reclassified our Interest in our License Agreement with SCDOT as an other asset that is reported separately from capital assets. (See Note 1, item B. to the basic financial statements for more information regarding Statement No. 60.)

- Under GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* we now present a Statement of Net Position rather than the Statement of Net Assets that was presented in prior years. The new Statement of Net Position is similar to the former Statement of Net Assets, except that the residual element of Proprietary Fund equity – formerly presented as *net assets* – is now called *net position.* In addition, the Statement of Net Position also includes two new financial statement elements, *deferred outflows of resources* and *deferred inflows of resources,* both of which are defined in another GASB statement, its Concepts Statement No. 4, *Elements of Financial Statements.* Under these new GASB pronouncements, net position presents the difference between (a) assets plus deferred outflows of resources and (b) liabilities plus deferred inflows of resources. Because the Association had neither of the new financial statement elements in 2011, those elements are not presented in the Association's 2011 Statement of Net Position. (See Note 1, items B. and O. to the basic financial statements for more detailed information regarding Statement No. 63 and net position.) Because of the adoption of GASB Statement No. 63, the financial statement formerly titled the Statement of Revenues, Expenses, and Changes in Net Assets is now presented as our Statement of Revenues, Expenses, and Changes in Net Position.

- In 2011, due to the provisions of Statement Nos. 60 and 63, we reclassified our Interest in the License Agreement with SCDOT and related 2011 Bonds payable from the net investment in capital assets component of net position to the unrestricted component of net position.

- In 2011, the content of our Statement of Revenues, Expenses, and Changes in Net Position was significantly affected by GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies,* when we accounted for the gain that resulted from the implementation of our Bankruptcy Plan as an extraordinary item in that financial statement.

- The Association also changed its 2011 financial statement presentation to that of stand-alone, rather than comparative, financial statements. We did so because we determined that the implementation of our Bankruptcy Plan for Adjustment of Debts and the application of the governmental accounting principles discussed above impacted our 2011 financial statements in such an unusual and significant manner, that a stand-alone presentation of the 2011 financial statements was warranted and would be most meaningful to users of our financial statements. However, in this management's discussion and analysis, we are required to compare current year financial statements with those of the prior year. Therefore, in our discussions within this section, we have identified significant differences between our 2011 and 2010 financial presentations, and for numerical comparisons, have treated 2010 amounts as if they were classified in the same manner as 2011 amounts.

Net position, as defined above, is one measure of the Association's financial health or financial position. Because our liabilities plus deferred inflows of resources exceed our assets plus deferred outflows of resources, the Association's net position is a deficit, or negative, balance. 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), development along the Southern Connector corridor and the physical condition of the Southern Connector, should be considered in order to assess the Association's overall financial position.

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 2011. In this section, we discuss significant transactions that occurred during the year, and compare our 2011 activities with those of 2010.

Net Position (Deficit)

In 2011, although our total revenues exceeded our operating expenses for the year, such revenues were not sufficient to completely offset our 2011 nonoperating expenses, including interest expense accretions on our 2011 Capital Appreciation Bonds and amortization of our interest in our License Agreement with SCDOT. However, the extraordinary gain that we recognized from the adjustment of our debts in bankruptcy more than offset the 2011 net revenues less expenses shortfall. Accordingly, for the first time since the Association's inception, during 2011, our net position deficit decreased by approximately 94.4%, or $176,974,627, to $10,528,621. In addition, during 2011, total assets decreased approximately 4.5% to $147,972,912, while total liabilities decreased approximately 53.7% to $158,501,533.

Table 1
Net Position (Deficit)
December 31

	2011	2010
Current and Other Assets	$ 147,526,852	$ 154,721,349 [1]
Capital Assets, Net	446,060	245,371 [1]
Total Assets	147,972,912	154,966,720
Long-Term Liabilities (Bonds Payable):		
2011A Senior Capital Appreciation Bonds	(131,236,486)	-
2011B Senior Subordinate Capital Appreciation Bonds	(22,054,499)	-
2011C Junior Subordinate Capital Appreciation Bonds	(2,272,614)	-
1998 Senior Bonds	-	(228,354,277)
1998 Subordinate Bonds	-	(90,684,677)
Total Long-Term Liabilities	(155,563,599)	(319,038,954)
Other Liabilities:		
2011A Senior Capital Appreciation Bonds, current portion	(1,678,098)	-
2011B Senior Subordinate Capital Appreciation Bonds, current portion	(387,620)	-
2011C Junior Subordinate Capital Appreciation Bonds, current portion	(47,908)	-
1998 Senior Bonds, current portion	-	(4,400,000)
1998 Subordinate Bonds, current portion	-	(2,900,000)
Interest Payable to 1998 Bondholders	-	(3,625,194)
Potential Excess Collateral Liability	-	(1,117,498)
Accounts Payable, Deferred Revenue and Deposits	(804,150)	(946,128)
Amounts Payable to SCDOT	(20,158)	(10,442,194)
Total Other Liabilities	(2,937,934)	(23,431,014)
Total Liabilities	(158,501,533)	(342,469,968)
Net Position (Deficit):		
Net Investment in Capital Assets	446,060	245,371 [2]
Restricted for:		
SCDOT Maintenance	219,177	-
Other	258,692	-
Unrestricted	(11,452,550)	(187,748,619) [2]
Total Net Position (Deficit)	$ (10,528,621)	$ (187,503,248)

[1] For purposes of this comparison, the Association's 2010 Interest in its License Agreement with SCDOT has been reclassified from Capital Assets to Current and Other Assets.

[2] For purposes of this comparison, the Association's 2010 Interest in its License Agreement with SCDOT and related Bonds Payable have been reclassified from the Net Investment in Capital Assets category to the Unrestricted category.

The Association's single largest asset is our Interest in our License Agreement with SCDOT. In prior years, this asset was presented as a capital asset; however, because of the provisions of GASB Statement No. 60 discussed above and in Note 1, item B., to the basic financial statements, beginning in 2011, our Interest in our License Agreement has been presented as an other asset. The December 31, 2011 balance of that asset will be amortized over the remaining term of the License Agreement, or a period of approximately 39.5 years. At December 31, 2011, the net book value of that asset was $141,358,625, and represented 95.8% of the Association's 2011 current and other assets as shown in Table 1. During 2011, the balance of that asset decreased by a net amount of $3,560,625, or 2.5%, from the 2010 balance. That decrease was due to $3,571,040 of amortization of the License Agreement offset by $10,415 of capitalized costs for soil stabilization work performed on the Southern Connector in 2011.

Total liabilities decreased significantly during 2011, by approximately 53.7%, due to the implementation of our Plan for Adjustment of Debts as approved by the Bankruptcy Court. At the April 21, 2011 implementation date of our Bankruptcy Plan, our 1998 Bond obligations were exchanged for our 2011 Bond obligations, eliminating a net balance (after write-off of related 1998 Bond issuance costs and underwriters' fees) of $175,768,400 of accumulated 1998 Bond and related interest payable obligations. In addition, accumulated license fees, maintenance fees and related interest payable to SCDOT were cancelled, further reducing our liabilities by $10,442,194. The Lehman Brothers, Inc. claim for return of excess collateral was settled consensually in April 2011 for $800,000, eliminating $317,498 of the liability that had been accrued in prior years.

The overall improvement in the Association's net position deficit of $176,974,627 that occurred in 2011 was primarily attributable to the extraordinary gain that we realized from the adjustment of our debts in bankruptcy. Under GASB Statement No. 63, the Association's 2011 net position was classified in three categories as follows:

- The "net investment in capital assets" category of net position (which corresponds to the "invested in capital assets, net of related debt" category of net assets presented in prior years) represents amounts invested in capital assets, less accumulated depreciation and amortization on those assets, less any liabilities attributable to those assets. Beginning in 2011, this category also includes any 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, 2011, the balance of this category of net position was $446,060, an increase of $200,689, or approximately 81.8%, over the 2010 balance. (The preceding sentence assumes that, for this comparison, our 2010 Investment in our License Agreement with SCDOT and the related 1998 Bonds Payable have been reclassified out of this category of net position into the "unrestricted" category of net position.)

- The "restricted" category represents the portion of net position (which corresponds to the "restricted" category of net assets presented in prior years) 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, beginning in 2011, by any related deferred inflows of resources (if any). Governmental GAAP does not allow this category of net position to be negative. At December 31, 2011, the Association reported $219,177 of net position restricted for reimbursement of SCDOT maintenance costs, which included amounts transferred to the Association's 2011 R&R Fund offset by amounts accrued for a SCDOT maintenance expense reimbursement requisition. 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. This amount included amounts transferred to the Association's 2011 Cost of Issuance Fund offset by amounts accrued for payment of 2011 bond issuance costs. At December 31, 2010, the Association reported no restricted net position.

- The "unrestricted" category represents the remainder of net position (which corresponds to the "unrestricted" category of net assets presented in prior years) that is not included in the determination of the net investment in capital assets or restricted net position categories as defined above. This category includes assets and liabilities, and beginning in 2011, deferred outflows of resources and deferred inflows of resources (if any), that may be used to finance daily operations and upon which no constraints have been imposed. At December 31, 2011, unrestricted net position was a deficit balance of $11,452,550, an improvement of $176,296,069, or 93.9%, from the 2010 unrestricted net position deficit. (The preceding sentence assumes that, for this comparison, our 2010 Investment in our License Agreement with SCDOT and the related 1998 Bonds Payable have been reclassified into this category of net position from the "net investment in capital assets" category of net position.) This improvement occurred because the exchange of our 1998 Bonds for our 2011 Bonds reduced the amount of liabilities that offset our unrestricted net position.

Changes in Net Position (Deficit)

As presented in Table 2, the Association's total revenues were not sufficient to cover its total expenses.

The 2011 rebound in utilization of the Southern Connector Toll Road coupled with a decrease in its operating expenses caused the Association's results of operations to swing from an operating loss of $640,705 in 2010 to operating income of $730,520 in 2011. Total operating revenues increased approximately 8.4% in 2011, while operating expenses decreased approximately 15.4%.

In 2011, the Association's operating expenses decreased by a net amount of $922,121, or 15.4%, from 2010 amounts. The largest decrease occurred in Trustee fees and costs, which included both amounts paid directly to the 1998 Senior Bonds/2011 Bonds Trustee for its services and costs, as well as amounts withdrawn by the Trustee from toll revenues to pay its legal and financial advisory services and costs incurred pursuant to our bankruptcy proceedings as permitted by the terms of the Original Trust Indenture. In 2011, such Trustee fees and costs totaled $1,917,493, a decrease of approximately 36.7%, or $1,113,261, from 2010 amounts. The Association had no control over the amount of such Trustee fees and costs that were incurred during 2011.

In 2011, the Association realized savings in other operating expense categories as well. As our bankruptcy proceedings wound down, professional fees declined by $38,369, or approximately 4.7%, from 2010 amounts. As a result of our efforts to contain costs during 2011, we were able to trim non-health insurance expense by $14,276, or approximately 10.1% and repairs and maintenance by $12,152, or approximately 11.7%.

However, the savings discussed above were offset by increases in certain 2011 operating expenses. During 2011, our largest expense increase of $152,181, or approximately 915.5%, occurred in equipment expense categorized within miscellaneous expenses. That increase was due to our write off of $147,432 of obsolete toll equipment inventory. Our personnel costs also rose in 2011. Though we kept our increase in salaries to a minimum of approximately 1.4%, or $17,287, our employee benefits cost increased by $21,234, or approximately 9.9%, due primarily to the ever-increasing cost of employee health insurance.

In 2011, the Association's nonoperating interest income decreased by $104,428, or approximately 47.1%, from 2010 amounts as our Trust Fund balances declined during the year. In addition, at December 31, 2011, we recognized unrealized losses of $138,568 on the market price of our Trust Fund investments. The 2011 losses represented a swing of $229,294 from the amount of unrealized gains recognized on such investments in 2010.

Other 2011 nonoperating expenses decreased as well, primarily due to the implementation of our Bankruptcy Plan. The most significant decrease was realized in 2011 interest expense, which declined by $2,482,971, or approximately 26.2%, from 2010 amounts. Our 2011 interest expense included approximately 8.5 months of accretions on the 2011 Bonds, while our 2010 interest expense included approximately 5.5 months of accruals and accretions on the 1998 Bonds. All of our 2011 interest expense was attributable to accretions on our 2011 Bonds, while our 2010 interest expense included accruals and accretions on our 1998 Bonds as well as interest accruals on the unpaid license fees and highway maintenance expense due to SDCOT. For 2011, a partial year of interest expense was incurred because the 2011 Bonds were issued on April 21, 2011. The 2010 partial year of interest expense was incurred because bankruptcy accounting principles required the Association to freeze the balances of the liabilities subject to adjustment from the June 24, 2010 Bankruptcy Petition date through the April 21, 2011 date of implementation of the Association's Bankruptcy Plan. No portion of the $6,986,359 of interest expense recognized in 2011 represented actual cash outlays in 2011, though $61,281 of that interest expense was included in the debt service payment made by the Association in January 2012. None of the 2010 interest expense represented cash outlays.

Table 2
Changes in Net Position
Years ended December 31

	2011	2010
Revenues:		
Operating revenues:		
Charges for Services (Toll Revenues)	$ 5,765,766	$ 5,331,105
Other	16,297	1,854
Nonoperating Revenues:		
Interest and Investment Earnings	117,176	312,330
Total Revenues	5,899,239	5,645,289
Expenses:		
Operating Expenses	5,051,543	5,973,664
Nonoperating Expenses:		
Interest Expense on Bonds	6,986,359	9,230,357
Amortization	3,575,060	3,638,102
SCDOT License Fees, Highway Maintenance Costs and Accrued Interest	20,158	1,003,788
Investment Losses	138,568	-
Total Expenses	15,771,688	19,845,911
Loss before Extraordinary Item	(9,872,449)	(14,200,622)
Extraordinary Item:		
Extraordinary Gain on Adjustment of Debts from Bankruptcy	186,847,076	-
Increase (Decrease) in Net Position (Deficit)	176,974,627	(14,200,622)
Beginning Net Position (Deficit)	(187,503,248)	(173,302,626)
Ending Net Position (Deficit)	$ (10,528,621)	$ (187,503,248)

Decreases in 2011 nonoperating expenses were also realized as a result of the changes implemented in the Association's Amended Trust Indenture and its Revised License Agreement with SCDOT, which became effective April 21, 2011. Under the Revised License Agreement, the Association is no longer obligated to pay license fees or related interest thereon to SCDOT. Accordingly, the 2010 license fee expense of $725,000 that was accrued through the June 24, 2010 Bankruptcy Petition date, was totally eliminated in 2011. In addition, beginning April 21, 2011, the Association's only present obligation to SCDOT for highway maintenance expenses is to make the prescribed periodic deposits into the 2011 R&R Fund. The Association is then deemed to incur highway maintenance expenses when SCDOT submits quarterly requisitions for reimbursement of its actual highway maintenance costs to be paid from the 2011 R&R Fund. Under these new provisions, our 2011 highway maintenance expenses totaled $20,158, a decrease of $19,657, or approximately 49.4%, from the highway maintenance expense amounts that had been accrued in 2010 through the Petition date.

In 2011, we recognized no amortization of issuance costs or underwriters' fees related to the 1998 Bonds, since amortization of those costs ceased when the account balances were frozen at the June 24, 2010 Bankruptcy Petition date. Upon implementation of our Bankruptcy Plan in April 2011, the remaining unamortized balances of those accounts were written off when the 1998 Bonds were exchanged for the 2011 Bonds. Instead, the only costs that were amortized in 2011 were the issuance costs that had been paid for the 2011 Bonds. No underwriters' fees were in paid in connection with the issuance of the 2011 Bonds. Accordingly, in 2011, bond issuance cost amortization decreased by $26,285, or approximately 86.7% to $4,020, and $36,888 of amortization of underwriters' fees was eliminated entirely.

In accordance with bankruptcy accounting principles, in 2011, the Association recognized a net extraordinary gain on the adjustment of its debts upon implementation of its Bankruptcy Plan. That gain represented the difference between the balances of the various 1998 assets and liabilities (1998 Bonds and related interest payable; issuance costs and underwriters' fees related to 1998 Bonds; license fees, maintenance fees and related interest payable to SCDOT; and the remaining Potential Excess Collateral liability related to Lehman Brothers' claim for return of excess collateral paid to the Association) that were cancelled in the bankruptcy proceedings, offset by the balances of the 2011 Bonds at their issuance on April 21, 2011. Details of the 2011 extraordinary gain are shown in Table 3.

Table 3
Extraordinary Gain on Adjustment of Debts
Year ended December 31, 2011

	Balances of 1998 Bonds and Other Accounts Cancelled in Bankruptcy	Accreted Balances of 2011 Bonds at Issuance on April 21, 2011	Extraordinary Gain Recognized on Adjustment of Debts
Bonds Payable:			
Series A and B Bonds	$ 232,754,277	148,518,962	$ 84,235,315
Series C Bonds	93,584,677	2,171,904	91,412,773
Subtotal Bonds Payable	326,338,954	150,690,866	175,648,088
Accrued Interest Payable on Bonds	3,625,194	-	3,625,194
Bond Issuance Costs on 1998 Bonds	(1,580,650)	-	(1,580,650)
Underwriters' Fees on 1998 Bonds	(1,924,232)	-	(1,924,232)
Total Bonds Payable	326,459,266	150,690,866	175,768,400
Amounts Payable to SCDOT:			
License Fees	8,225,000	-	8,225,000
Highway Maintenance Fees	815,601	-	815,601
Accrued Interest on License and Maintenance Fees	1,401,593	-	1,401,593
Total Amounts Payable to SCDOT	$ 10,442,194	-	10,442,194
Extraordinary Gain from Liabilities and Accounts Cancelled			186,210,594
Settlement of Lehman Brothers Excess Collateral Claim:			
Portion of Accrued Liability Retained by Association			317,498
Monies Retained by Trustee and Transferred to the Association			318,984
Subtotal Settlement of Lehman Brothers Excess Collateral Claim			636,482
Total Extraordinary Gain Recognized on Adjustment of Debts			$ 186,847,076

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As discussed above in the *Overview of the Financial Statements* section of this management's discussion and analysis, in 2010 and prior years, our Interest in our License Agreement with SCDOT was properly classified as a capital asset. However, since the provisions of GASB Statement No. 63 have removed that type of asset from the capital asset classification, in 2011, our Interest in our License Agreement with SCDOT is excluded from our capital asset presentation. For purposes of our comparison below, we have removed that asset from 2010 amounts as well.

Table 4
Changes in Capital Assets at Year-End
(Net of Depreciation)

	2011	2010
Total Capital Assets, Net:		
Equipment, Net	$ 446,060	$ 245,371

At December 31, 2011, the Association's capital assets consisted of equipment with a net book value of $446,060, a net increase of $200,689, or approximately 81.8%, over the 2010 balance of capital assets. During 2011, we upgraded our electronic toll collection system, moving from the primary use of hard-case transponders to sticker style transponders. Accordingly, we made significant investments in the new transponder sticker tags and the related equipment and computer software necessary to read the new transponders. Our 2011 additions to capital assets included purchases of $8,120 of office furniture, $34,542 of new transponders, $6,421 of credit card machines, $35,038 on a new server and related upgrades, $7,933 of new touch-screens and $176,488 of sticker tag readers. We also spent $22,270 on website upgrades. We scrapped fully-depreciated transponders that originally cost $52,781. Depreciation expense for 2011 totaled $90,123.

Debt Administration

The Association began its 2011 fiscal year with balances of its 1998 Bond and related interest payable liabilities totaling $326,338,954 and $3,625,194, respectively. The balances of those liability accounts had previously been frozen at the June 24, 2010 Petition date.

On the April 21, 2011 effective date of the Association's Bankruptcy Plan as confirmed by the Bankruptcy Court, the Association's 1998 Bonds were exchanged for its 2011 Bonds pursuant to the terms of our Bankruptcy Plan and the Amended Trust Indenture, and we were relieved of all obligations related to our 1998 Bonds. The 2011 Bonds are tax-exempt as to interest and were issued to the existing holders of our 1998 Bonds on a pro rata basis, based on the unpaid principal and accrued/accreted interest balances as of the June 24, 2010 Petition date. All of our 2011 Bonds are dated April 1, 2011, and accrete interest from that date. The 2011 Bonds consist of Series 2011A Bonds and Series 2011B Bonds (exchanged for the 1998 Senior Bonds) and Series 2011C Bonds (exchanged for the 1998 Subordinate Bonds).

Our 2011 Bonds include the following:

- Series 2011A Senior Capital Appreciation Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina) include eleven serial bonds and three term bonds with aggregate original principal amounts totaling $126,899,826. These bonds include:
    - Eleven serial bonds (with an original principal amount totaling $36,625,650) mature January 1 of the years 2012 through 2022 inclusive and accrete interest at rates ranging from 3.25% to 6.0%.

- One term bond (with an original principal amount of $40,619,653) is subject to annual pro rata paydown payments on January 1 of the years 2023 through 2031, with final maturity at January 1, 2032. Interest accretes on this bond at 6.5%.

- One term bond (with an original principal amount of $31,463,671) is subject to annual pro rata paydown payments on January 1 of the years 2033 through 2041, with final maturity at January 1, 2042. Interest accretes on this bond at 7.0%.

- One term bond (with an original principal amount of $18,190,852) is subject to annual pro rata paydown payments on January 1 of the years 2043 through 2051, with final maturity at July 22, 2051. Interest accretes on this bond at 7.5%.

- Series 2011B Senior Subordinate Capital Appreciation Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina) include two terms bonds with aggregate original principal amounts totaling $21,085,708. These bonds include:

    - One term bond (with an original principal amount of $14,027,683) is subject to annual pro rata paydown payments on January 1 of the years 2012 through 2031, with final maturity at January 1, 2032. Interest accretes on this bond at 8.5%.

    - One term bond (with an original principal amount of $7,058,025) is subject to annual pro rata paydown payments on January 1 of the years 2033 through 2051, with final maturity at July 22, 2051. Interest accretes on this bond at 9.0%.

- The Series 2011C Junior Subordinate Capital Appreciation Toll Road Revenue Bond (Southern Connector Project, Greenville, South Carolina) includes one term bond with an original principal amount of $2,160,434. This bond is subject to annual pro rata paydown payments on January 1 of the years 2012 through 2051, with final maturity at July 22, 2051. Interest accretes on this bond at 10.0%.

The Amended Trust Indenture describes circumstances in which additional payments may be made on the Association's 2011 Bonds other than the regularly scheduled debt service payments described above. At any time on or after April 1, 2026, we may elect to make optional prepayments of our 2011 Bonds if certain prescribed conditions are met. If other prescribed conditions are met, the Amended Trust Indenture requires us to apply excess toll revenues to the mandatory prepayments of our 2011 Bonds.

All of 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 2011B and 2011C Bonds' liens are subordinate to those of higher tiers of 2011 Bonds. Accordingly, the 2011B Bonds are subordinated to the 2011A Bonds in all respects, including in right of payment and priority of liens, and the 2011C Bonds are subordinated to both the 2011A Bonds and the 2011B 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

In accordance with bankruptcy accounting principles, the 2011 Bonds were first recorded on the Association's books on April 21, 2011, the effective date of our Bankruptcy Plan and the date of exchange of our 1998 Bonds for our 2011 Bonds. At that time, the 2011 Bonds had accreted in value from their original principal amounts totaling $150,145,968 to $150,690,866. The cancellation of our 1998 Bond obligations and the write-off of related unamortized 1998 Bond issuance costs and underwriters' fees resulted in a gain of $175,768,400, which is included in our 2011 Statement of

Revenues, Expenses and Changes in Net Position in the extraordinary gain realized from the adjustment of our debts in bankruptcy.

Since all of the Association's 2011 Bonds are capital appreciation bonds, accretions are accounted for as interest expense and additions to principal. Additional accretions of the 2011 Bonds from April 21, 2011 through December 31, 2011 totaled $6,986,359 and are reported in our 2011 Statement of Revenues, Expenses and Changes in Net Position as interest expense. Accordingly, the balance of our 2011 Bonds Payable at December 31, 2011 was $157,677,225. Of that balance, $2,113,626 represented the debt service payment due and paid in January 2012. That debt service payment consisted of the maturity value of a 2011A serial bond and pro rata paydown payments on one of the 2011B term bonds and on the 2011C term bond.

The terms of the Amended Trust Indenture state that, if at any 2011 Bond payment date, all of the 2011 Bonds of a particular tier have been paid in full, then the 2011 Bonds of subordinate tiers will ascend to the next higher tier. For example, if no 2011A Bonds are outstanding on a particular bond payment date, then the outstanding 2011B Bonds will be treated as if they were 2011A Bonds, and the outstanding 2011C Bonds will be treated as if they were 2011B Bonds.

Under the Amended Trust Indenture, the 2011 Bonds are subject to covenants other than those concerning payment of debt service. Those other covenants include:

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

- The Association is required to engage an engineer to annually inspect and assess the physical condition of the Southern Connector and its maintenance needs.

- The Association is required to, at prescribed times, hire an independent consultant to perform a study to determine the optimal toll rates to be charged for the Southern Connector and set actual toll rates in accordance with the study unless certain 2011 Bondholders object.

- The Association is required to hire a traffic and revenue consultant if it fails to maintain certain debt service coverage ratios.

- The Association is required to annually submit to the Trustee an operating budget for the next fiscal year.

The Amended Trust Indenture provides certain remedies if the Association fails to make any payment in respect of the Series 2011A Bonds or if another event of default occurs, but like the Original Trust Indenture, does not provide any right to accelerate the maturity of the 2011 Bonds. Also, at present, only a payment default on the Series 2011A Bonds will constitute an event of default under the Amended Trust Indenture. Any payment defaults on the Series 2011B or 2011C Bonds will instead cause those unpaid amounts to accrue interest at the respective 2011 Bond interest rate as "Arrearages" which are payable at a later date when distributable cash is sufficient. Once all 2011A Bonds have been paid in full, any failure to pay scheduled or mandatory debt service payments on the Association's 2011B Bonds will constitute an event of default under the Amended Trust Indenture. Once all 2011A and 2011B Bonds have been paid in full, any failure to pay scheduled or mandatory debt service payments on the Association's 2011C Bonds will constitute an event of default under the Amended Trust Indenture.

In the event that we fail to make any debt service payment on any tier of our 2011 Bonds when due, the Amended Trust Indenture contains provisions addressing the application of subsequent debt service payments made by the Association on that tier of 2011 Bonds. Any such subsequent payments of debt service will be applied *first*, to Arrearages on that tier of 2011 Bonds, and *second*, to the then current debt service that is owed on that tier of 2011 Bonds.

The Amended Trust Indenture describes events other than those relating to payment of the 2011 Bonds that, should any one of the events occur, would constitute default under the Amended Trust Indenture. These events include, but are not limited to, the Association's failure to perform or meet its 2011 Bond covenants; the filing of voluntary or involuntary petitions for relief of the Association's debts under bankruptcy or insolvency laws; the application for the appointment of a receiver of the Association's property; and the Association's inability to pay its debts (other than its 2011 Bonds) when due.

If an event of default occurs, the Amended Trust Indenture allows the 2011 Bonds Trustee to retain, or require the Association to retain, independent consultants to recommend optimum toll rates for the Southern Connector, and to examine and make recommendations regarding the Association's operations and operating costs. The Association will be then required to implement such recommendations to the extent it is able, unless certain 2011 Bondholders object to those recommendations.

Following the issuance of our 2011 Bonds in April, certain 2011 Bondholders notified the Association and the 2011 Trustee that the form of registration of certain bonds prohibited them from being traded in the public secondary market. We began investigating solutions to the registration problems and submitted a proposed resolution to the Bankruptcy Court in the form of a First Supplemental Indenture of Trust (the "Supplemental Indenture") that called for the exchange of the nonmarketable 2011 Bonds for marketable 2011 Bonds. However, the Supplemental Indenture was not confirmed and implemented until 2012. See the *Subsequent Events* section of this management's discussion and analysis below for more details.

SUBSEQUENT EVENTS

The 2011 Bonds are "book entry" securities registered on the books of the Depository Trust Corporation ("DTC") and its direct and indirect participants. The 2011 Bonds specify that payments of debt service thereon are to be distributed by DTC to the beneficial owners of the Bonds on a pro rata basis under DTC's "pro-rata paydown" program which listed the holdings of beneficial owners at their original principal amount and accreted value over time to mature in an amount larger than $1.00. Beginning in June 2011, the Association was advised by the Trustee that a number of institutional holders of the Series 2011 Bonds could not trade their obligations in the secondary securities market since the brokers' and industry pricing systems for trading such bonds were set up on the assumption that zero coupon bonds such as the Series 2011 Bonds would be listed by DTC at a maturity value equal to their authorized denominations (i.e., $1.00) rather than at a multiple of their authorized denominations (over $1.00). This problem did not affect the ability to trade the Series 2011A serial bonds maturing January 1 of the years 2012 through 2022 (inclusive) but only applied to the Series 2011 Bonds which are term bonds (the "Pro-Rata Bonds").

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

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

Bankruptcy Plan. The Exchange Order also permitted the Association to use the balance in the Costs of Issuance Fund (currently equal to $583,464) to pay the costs of effecting the exchange.

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

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

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

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

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 section 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.

(This page intentionally left blank.)

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)

STATEMENT OF NET POSITION - PROPRIETARY FUND

DECEMBER 31, 2011

	Business-Type Activities - Enterprise Fund 2011
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 616,849
Prepaid Expenses	55,895
Inventory	250,282
Total Current Assets	923,026
Noncurrent Assets:	
Restricted Assets:	
Cash and Cash Equivalents	3,681,485
Investments	1,325,011
Total Restricted Assets	5,006,496
Capital Assets:	
Equipment	1,140,105
Less: Accumulated Depreciation	(694,045)
Total Capital Assets	446,060
Other Assets:	
Interest in License Agreement with SCDOT (Net of Accumulated Amortization of $51,138,616)	141,358,625
Bond Issuance Costs (Net of Accumulated Amortization of $4,020)	238,705
Total Other Assets	141,597,330
TOTAL ASSETS	**147,972,912**
LIABILITIES	
Current Liabilities:	
Accounts Payable	534,496
Deferred Toll Revenue	252,420
Transponder Deposits	17,234
Revenue Bonds Payable, Current Portion	2,113,626
SCDOT Maintenance Payable	20,158
Total Current Liabilities	2,937,934
Noncurrent Liabilities:	
Revenue Bonds Payable, Less Current Portion	155,563,599
Total Noncurrent Liabilities	155,563,599
TOTAL LIABILITIES	**158,501,533**
NET POSITION	
Net Investment in Capital Assets	446,060
Restricted for:	
SCDOT Maintenance	219,177
Other	258,692
Unrestricted	(11,452,550)
TOTAL NET POSITION (DEFICIT)	**$ (10,528,621)**

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' 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)

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

FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Fund
OPERATING REVENUES	**2011**
Toll Revenues	$ 5,765,766
Other Toll Road Revenues	16,297
TOTAL OPERATING REVENUES	**5,782,063**
OPERATING EXPENSES	
Automobile	25,836
Bank Fees and Charges	1,065
Contract Labor	18,447
Contract Services	39,391
Credit Card Discount Fees	68,447
Employee Benefits	235,458
Miscellaneous	168,803
Office Supplies	25,954
Payroll Taxes	97,019
Repairs and Maintenance	91,859
Salaries	1,212,753
Telephone	23,621
Engineer Highway Inspection Fees	15,497
Utilities	89,106
Advertising	4,198
Depreciation	90,123
Insurance	126,393
Marketing	30,368
Professional Fees	769,712
Trustee Fees and Costs	1,917,493
TOTAL OPERATING EXPENSES	**5,051,543**
OPERATING INCOME	**730,520**
NONOPERATING REVENUES (EXPENSES)	
Interest Earned on Cash Equivalents and Investments	117,176
Realized and Unrealized Gain (Loss) on Investments	(138,568)
Interest Expense	(6,986,359)
SCDOT Maintenance Expense	(20,158)
Amortization for:	
Interest in License Agreement with SCDOT	(3,571,040)
Bond Issuance Costs	(4,020)
TOTAL NONOPERATING REVENUES (EXPENSES)	(10,602,969)
LOSS BEFORE EXTRAORDINARY ITEM	(9,872,449)
EXTRAORDINARY ITEM	
Extraordinary Gain on Adjustment of Debts from Bankruptcy	186,847,076
INCREASE IN NET POSITION	176,974,627
NET POSITION (DEFICIT), Beginning of Year	(187,503,248)
NET POSITION (DEFICIT), End of Year	**$ (10,528,621)**

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' 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)

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Fund 2011
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from:	
Toll Collections	$ 5,781,642
Other Toll Road Operations	16,297
Payments for:	
Toll Road Employees and Contract Labor	(1,563,677)
Vendors and Service Providers	(3,498,155)
NET CASH PROVIDED BY OPERATING ACTIVITIES	736,107
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of Capital Assets	(301,227)
Cash Received in Adjustment of Debts from Bankruptcy	318,984
Bond Issuance Costs Paid	(242,725)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(224,968)
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in Investments	2,110,513
Interest Received	117,176
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,227,689
INCREASE IN CASH AND CASH EQUIVALENTS	**2,738,828**
CASH AND CASH EQUIVALENTS, Beginning of Year	1,559,506
CASH AND CASH EQUIVALENTS, End of Year	**$ 4,298,334**

Reconciliation of Cash and Cash Equivalents -
Statements of Cash Flows to Statements of Net Position

Unrestricted Cash and Cash Equivalents - Current Assets	$ 616,849
Restricted Cash and Cash Equivalents - Noncurrent Assets	3,681,485
Total Cash and Cash Equivalents Shown on Statement of Net Position	**$ 4,298,334**

(CONTINUED)

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' report.

STATEMENT OF CASH FLOWS - PROPRIETARY FUND **(CONTINUED)**

FOR THE YEAR ENDED DECEMBER 31, 2011

		Business-Type Activities - Enterprise Fund 2011
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income	$	730,520
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		90,123
Change In:		
Prepaid Expenses		(11,240)
Inventory		68,682
Accounts Payable		(157,854)
Deferred Toll Revenue		15,564
Transponder Deposits		312
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	736,107
NONCASH INVESTING, CAPITAL, AND FINANCING ITEMS		
Amortization of Interest in License Agreement with SCDOT	$	3,571,040
Amortization of Bond Issuance Costs		4,020
Interest Accreted on Series 2011 Revenue Bonds		6,986,359
Extraordinary Gain on Adjustment of Debts from Bankruptcy		
Bond Issuance Costs on 1998 Revenue Bonds Written Off		1,580,650
Underwriters' Fees on 1998 Revenue Bonds Written Off		1,924,232
Potential Excess Collateral Liability Written Off		(317,498)
SCDOT Deferred Maintenance Written Off		(815,601)
SCDOT Deferred License Payable Written Off		(8,225,000)
Accrued Interest on SCDOT Deferred Maintenance and License Fee Written Off		(1,401,593)
Accrued Interest Payable Written Off		(3,625,194)
Revenue Bonds, Net Written Off	$	(175,648,088)

The notes to the basic financial statements are an integral part of these statements.
See accompanying independent auditors' 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 "Code"). The Association was formed to assist the South Carolina Department of Transportation ("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") between the Association and U.S. Bank, National Association, as successor in trust to First Union National Bank, as trustee (the "Original Trustee"), to finance the construction of the Southern Connector.

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 (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. See Notes 2, 6 and 8 for additional information pertaining to the Association's Bankruptcy proceedings, its License Agreements with SCDOT, and its Bonds and Trust Indentures.

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 approved by the SCDOT.

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

The Association has no component units.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Presentation, and Accounting

Government-wide basic 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-type activities.

Government-wide basic 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 basic financial statements – Since the Association is a special purpose entity engaged in only business-type activities, it is required to only present basic financial statement information as required for enterprise funds (not allowed to present government-wide basic 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.

> ***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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

As required by GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies,* the Association has accounted for the gain resulting from the adjustment of its liabilities in bankruptcy as an extraordinary item in its Statement of Revenues, Expenses and Changes in Net Position. See Note 2 for additional information.

During 2011, the Association implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* GASB Statement No. 60 defines a *service concession arrangement* (an "SCA") as an arrangement between a transferor government and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration, and the operator collects and is compensated by fees from third parties. The Association's License Agreement discussed above and in greater detail in Note 6 constitutes an SCA between SCDOT as transferor and the Association as operator. The provisions of GASB Statement No. 60 require that an operator account for its rights under the SCA as an intangible asset that is amortized over the term of the SCA in a systematic and rational manner. The Association has been accounting for its Interest in its License Agreement with SCDOT in this manner since its first financial activity, so the implementation of GASB Statement No. 60 had no material effect on the presentation of its 2011 financial statements.

The Association also implemented GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2011. This Statement establishes financial reporting requirements and related disclosures for certain elements of a statement of financial position that were discussed in the GASB's 2007 Concepts Statement No. 4, *Elements of Financial Statements.* In Concepts Statement No. 4, the GASB defines a *deferred outflow of resources* as a consumption of net assets by a government that is applicable to a future reporting period; a *deferred inflow of resources* as an acquisition of net assets by a government that is applicable to a future reporting period; and *net position* as the residual of all other elements presented in a statement of financial position (the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources). Under GASB Statement No. 63, amounts for items that the GASB has designated to be deferred outflows of resources are to be presented in a statement of financial position in a separate section following assets, while amounts for items that the GASB has designated to be deferred inflows of resources are to be presented in a separate section following liabilities. The residual of assets and deferred outflows of resources over liabilities and deferred inflows of resources is to be reported as net position rather than as net assets in a statement of financial position. Since the Association had no deferred outflows or inflows of resources at December 31, 2011, the Association's implementation of GASB Statement No. 63 had no material effect on the presentation of its 2011 financial statements.

C. Use of Estimates

The preparation of basic 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 basic 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 (as defined in the Original and Amended Trust Indentures) expenses. Expenses are recognized in the period in which they are paid rather than the period in which they are incurred for budgetary control purposes. Depreciation and amortization are not recognized as expenses, but capital outlays are recognized as expenses, for budgetary control purposes. The expenses are reclassified for the purpose of preparing basic financial statements in accordance with governmental GAAP. Since the Association's activities are accounted for in a proprietary fund, a budget-to-actual comparison is not presented in the accompanying basic financial statements.

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 basic 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

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

Prior to the April 21, 2011 effective date of the Association's Debt Adjustment Plan, the Association's investments were governed by the Original Trust Indenture and were held in various Trust Fund Accounts (the "1998 Trust Fund Accounts") that were established in accordance with that Indenture. The Original Trust Indenture required all monies held in trust that were not insured by the Federal Deposit Insurance Corporation ("FDIC") to be secured by and/or invested in investment securities as defined in the Original Trust Indenture. Investment securities included, but were not limited to, direct obligations of, or obligations guaranteed by, the United States of America or an agency thereof.

Beginning with the April 21, 2011, effective date of the Association's Debt Adjustment Plan, the Association's investments are governed by the Amended Trust Indenture. New Trust Fund Accounts (the "2011 Trust Fund Accounts") were opened, and monies were transferred into these accounts from the 1998 Trust Fund Accounts. Monies in the 2011 Trust Fund Accounts are expended in accordance with Amended Trust Indenture guidelines. All monies held in the 2011 Trust Fund Accounts that are not insured by the FDIC must be secured by and/or invested in investment securities as defined in the Amended Trust Indenture. Investment securities include, but are not limited to, direct obligations of, or obligations guaranteed by, the United States of America or an agency thereof. (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 basic financial statements. All inventories are valued at cost using the first-in/first-out method ("FIFO").

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

In the Original License Agreement, the SCDOT granted to the Association various rights and obligations pertaining to the financing, acquisition, construction, and operation of the Southern Connector and construction of the SC 153 Extension. The terms of the Original License Agreement provided that the Association finance and construct the Southern Connector and, with financing provided by the SCDOT, construct the SC 153 Extension. However, the Original License Agreement specified that SCDOT at all times retains fee simple title to the Southern Connector and to the SC 153 Extension, to all real property and improvements thereon, and to all rights-of-way acquired during construction. The Original License Agreement contained provisions requiring the Association to pay a monthly license fee to SCDOT, to reimburse SCDOT for costs of maintaining the Southern Connector and to pay for the costs of repair, renewal or replacement of the Southern Connector. In addition, the Original License Agreement granted SCDOT the right to revise toll rates within prescribed parameters.

The Revised License Agreement assigns all responsibility for the maintenance, repair, renewal and replacement of the Southern Connector highway to SCDOT and requires the Association to deposit certain toll revenues into a 2011 Renewal and Replacement Fund (a 2011 Trust Fund Account) from which periodic payments will be made to SCDOT as reimbursement of its costs of maintaining and repairing the Southern Connector. The Revised License Agreement eliminates the Association's requirement to pay license fees to SCDOT. In conjunction with the Amended Trust Indenture, the Revised License Agreement establishes a new process for setting toll rates and limits SCDOT's role in that toll-setting process. (See Note 6 for further details.) The SCDOT retains its fee simple title to the Southern Connector and the SC 153 Extension.

The Association's interest in its License Agreement with SCDOT constitutes a service concession arrangement as defined in item B above that is accounted for as an intangible asset relating to the Southern Connector that began generating revenues upon commencement of toll road operations. In order to account for its interest in the License Agreement, the Association capitalized all costs of acquisition and construction of the Southern Connector, including interest expense incurred during the construction period. Upon commencement of toll road operations, the Association began amortizing its interest in the License Agreement. See Note 6 for a description of this amortization.

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

J. Restricted Assets

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

Original Trust Indenture Funds, Accounts and Restrictions (effective prior to April 21, 2011)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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

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

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

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

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

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

3. The Trustee was required to transfer to the 1998 Senior Bonds Debt Service Account amounts which, when added to other amounts in the 1998 Senior Bonds Debt Service Account, and available for such purposes, would provide for the accumulation, in substantially equal monthly installments, of the amounts required to pay the sum of:

   a. any interest to become due and payable on each series of outstanding 1998 Senior Bonds on the next interest payment date (within the next six months) for such 1998 Series; and

   b. any principal installments to become due and payable on any series of outstanding 1998 Senior Bonds on or before the next date (within the next 12 months) on which such principal installment was payable.

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

5. The Trustee was required to transfer to the 1998 Subordinate Bonds Debt Service Account amounts which, when added to other amounts in the 1998 Subordinate Bonds Debt Service Account and available for such purposes, would provide for the accumulation, in substantially equal monthly installments, or otherwise as provided in any Supplemental Indenture, of the amounts required to pay the sum of:

   a. any interest to become due and payable on each series of outstanding 1998 Subordinate Bonds (within the next six months) on the next interest payment date for such 1998 Series; and

   b. any principal installments to become due and payable on any series of outstanding 1998 Subordinate Bonds on or before the next date (within the next 12 months) on which such principal installment was payable.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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

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

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

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

10. Money remaining in the 1998 Revenue Fund was required to be used by the Trustee to make or provide for all deposits, payments, or transfers certified by an Authorized Association Representative as being required by any agreement or other instrument creating or evidencing any obligation of the Association which was not a 1998 Senior Bond or 1998 Subordinate Bond, at the time and in the amount provided for in such instrument.

11. The Trustee was required to transfer any money remaining in the 1998 Revenue Fund at the end of any fiscal year to the 1998 Program Fund.

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

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

The 1998 *Renewal and Replacement Fund* ("1998 R&R Fund") was established for the purpose of holding monies in reserve to pay the costs of reconstruction, renewal, repair, and replacement of the Southern Connector. The 1998 R&R Fund was not a part of the 1998 Trust Estate.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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

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

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

The 2011 *Cost of Issuance Fund* was established to pay or reimburse the Association for costs of implementing 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. Once such costs are paid, the 2011 Cost of Issuance Fund will be closed and the remaining monies in the fund will be transferred to the 2011 A Bonds Debt Service Reserve Account in accordance with the terms of the Amended Trust Indenture.

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

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

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

1. Operating costs 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 Notes 2 and 8) on the 2011 Senior Bonds from earlier 2011 Bond payment dates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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 Notes 2 and 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.

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 Notes 2 and 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 and 8, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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 2011A Bonds initially; and once all 2011A Bonds have been redeemed, on the 2011B Bonds; and once all 2011B Bonds have been redeemed, on the 2011C Bonds. The Amended Trust 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 made be made in respect of the 2011B or 2011C Bonds. Amounts in excess of the minimum balance requirement for any 2011 Debt Service Reserve Fund Account are transferred to the 2011 Extraordinary Prepayment Fund. The Amended Trust Indenture describes circumstances in which amounts in a 2011 Debt Service Reserve Account will be transferred to the 2011 Debt Service Reserve Account of a subordinate tier of 2011 Bonds. If such transfers are made, the minimum balance requirement for the recipient 2011 Debt Service Reserve Account will be reset.

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

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

The 2011 *Rebate Fund* was established for the purpose of holding and paying arbitrage investment earnings to the U.S. Treasury. As a result of investing tax exempt bond proceeds at rates of return not exceeding the maximum amount that is permitted under the applicable tax code, at December 31, 2011, 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 10 paid vacation days 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 there is no liability that must be recognized. At December 31, 2011, no liability or expense was recorded in the basic financial statements for such items.

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 adopted asset capitalization policies recommended by the State of South Carolina’s Office of Comptroller General.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets and Intangible Assets (Continued)

Pursuant to this policy, equipment with 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 operations.

M. Bonds Payable and Related Bond Issuance Costs, Discounts, and Fees

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

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, 2011, the Association had no arbitrage liability.

O. Net Position (Deficit)

Proprietary Fund equity, classified as net assets (deficit) in prior years, is now classified as net position (deficit) under GASB Statement No. 63 and is displayed as the following three components:

Net investment in capital assets — Consists of capital assets, net of accumulated depreciation and amortization, 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, 2011 represents accumulated shortfalls since commencement of operations due to lower than expected traffic and toll revenue.

NOTE 2 – BANKRUPTCY PROCEEDINGS, DEBT ADJUSTMENT PLAN AND EXTRAORDINARY GAIN FROM ADJUSTMENT OF DEBTS

Bankruptcy Proceedings

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

Through July 2007, the Association's toll revenues were sufficient to allow it to pay its debt service obligations on its 1998 Bonds, which consisted solely of interest payments due on the Senior Series 1998A Bonds. However, beginning in 2008, the Association's annual financial obligations began to increase significantly as the Series 1998B and 1998C Capital Appreciation Bonds began to mature and as sinking fund principal installments came due on the Series 1998A Bonds. The Association found that toll revenues were no longer sufficient to pay its debt service obligations when due. The Association was forced to withdraw monies from its 1998 Senior and Subordinate Bonds Debt Service Reserve Accounts in order to pay its debt service obligations, and by the end of December 2008, the Association had essentially depleted the reserves in its 1998 Subordinate Bonds Debt Service Reserve Account. By July 2009, the Association's withdrawals from the 1998 Senior Bonds Debt Service Reserve Account reduced the balance in that account to a point where the remaining funds in that account, along with tolls collected and available for payment of debt service, were insufficient to pay the debt service due in January 2010. Since sufficient funds were not available to pay the entire debt service due in January 2010, the 1998 Senior Bonds Trustee made no payment on the 1998 Senior or 1998 Subordinate Bonds at that date, and the Association's first payment default on its 1998 Bonds occurred.

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

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

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

Because of the factors discussed above, in 2005, the Association began actively investigating its options to restructure the 1998 Bonds. The Association interviewed international companies engaged in the acquisition of concessions for the financing and operation of toll facilities worldwide, but after over a year of negotiations, discontinued this effort. The Association hired Goldman Sachs & Co. ("Goldman") in early 2008 as its special financial advisor to investigate its ability to restructure its obligations outside of bankruptcy. Possibilities which were considered included consensual restructuring, conventional refunding, a tender and exchange of new securities for the 1998 Bonds, and a sale by SCDOT of a concession to operate the Southern Connector to a for-profit third party. Goldman advised the Association that any restructuring of its obligations within the remaining term of the Original License Agreement would require a substantial reduction in the principal amount of the 1998 Bonds, and that restructuring its debt outside of bankruptcy would be extremely difficult. Goldman also advised the Association that any successful restructuring of the 1998 Bonds, either as part of a bankruptcy proceeding or otherwise, would require an investment grade traffic and revenue study. Accordingly, the Association engaged Stantec Engineering to perform a Revised Traffic Study to forecast traffic and revenue and revenue potential for a period of 50 years.

NOTE 2 – BANKRUPTCY PROCEEDINGS, DEBT ADJUSTMENT PLAN AND EXTRAORDINARY GAIN FROM ADJUSTMENT OF DEBTS (CONTINUED)

Bankruptcy Proceedings (Continued)

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

Previously on January 20, 2010, the Association's Board of Directors adopted a resolution authorizing the Association's management, when management so deemed it appropriate, to file a petition for bankruptcy protection under the United States Bankruptcy Code and to take related actions in connection with the bankruptcy. On June 24, 2010, following the failure of the negotiations discussed above, the Association filed its Chapter 9 Bankruptcy Petition in the U.S. Bankruptcy Court at the direction of its Executive Vice President and General Manager. At that date, in accordance with U.S. Bankruptcy Law, all liabilities subject to adjustment in the bankruptcy proceedings were frozen. Accordingly, no additional amounts pertaining to the Association's 1998 Bonds, its amounts owed to SCDOT or to the excess collateral liability discussed further in Note 11 were accrued after June 24, 2010.

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

Debt Adjustment Plan

The Association's Debt Adjustment Plan was confirmed by the U.S. Bankruptcy Court on April 1, 2011 and became effective April 21, 2011. More detailed information regarding the Association's bankruptcy proceedings may be found on the Association's website, www.SouthernConnector.com. Specifically, complete copies of the Association's Debt Adjustment Plan, related Debt Adjustment Plan documents and other bankruptcy filings, notices and Court Orders may be found on the Association's website under the *Bankruptcy Filing* link under the *News & Filings* tab.

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

The Debt Adjustment Plan is implemented by the Amended Trust Indenture and the Revised License Agreement. Under the Debt Adjustment Plan, Amended and Restated Bonds (the "2011 Bonds") were issued in exchange for the 1998 Bonds (Note 8) and the differences between the balances of the 1998 Bonds and the newly-issued 2011 Bonds were forgiven; the Association's prior obligations to SCDOT for license fees, roadway maintenance reimbursements and related interest were forgiven (Note 6); and $800,000 of the excess collateral Repurchase Agreement securities was repaid to Lehman Brothers, Inc. (Note 11).

NOTE 2 – BANKRUPTCY PROCEEDINGS, DEBT ADJUSTMENT PLAN AND EXTRAORDINARY GAIN FROM ADJUSTMENT OF DEBTS (CONTINUED)

Debt Adjustment Plan (Continued)

The Amended Trust Indenture establishes new 2011 Trust Funds and Accounts (Note 1, item J) into which toll revenues are deposited beginning April 1, 2011, and from which debt service payments on the 2011 Bonds and certain payments into the R&R Fund (for the benefit of SCDOT) are made. The Amended Trust Indenture also establishes the New Waterfall (Note 1, item J) that defines the order and priority in which amounts deposited into the 2011 Revenue Fund may be distributed. The Revised License Agreement with SCDOT (Note 6) eliminates the Association's obligations to SCDOT for future highway maintenance, repair, renewal and replacement costs beyond making certain deposits into the 2011 R&R Fund, and amends the manner in which toll rates for the Southern Connector are set.

Extraordinary Gain from Adjustment of Debts

As discussed in Note 1, Item B, the Association recorded the gain from the adjustment of its debts in bankruptcy in the accompanying financial statements as an extraordinary gain. The components of this extraordinary gain were as follows:

Classes of Liabilities	Balances of 1998 Bonds and Other Accounts Cancelled in Bankruptcy	Accreted Balances of 2011 Bonds at April 21, 2011 Issuance (Effective Date)	Extraordinary Gain Recognized on Adjustment of Debts
Bonds Payable:			
Series A and B Bonds	$ 232,754,277	148,518,962	$ 84,235,315
Series C Bonds	93,584,677	2,171,904	91,412,773
Subtotal Bonds Payable	326,338,954	150,690,866	175,648,088
Accrued Interest Payable on Bonds	3,625,194	-	3,625,194
Bond Issuance Costs on 1998 Bonds	(1,580,650)	-	(1,580,650)
Underwriters' Fees on 1998 Bonds	(1,924,232)	-	(1,924,232)
Total Bonds Payable	326,459,266	150,690,866	175,768,400
Amounts Payable to SCDOT:			
License Fees	8,225,000	-	8,225,000
Roadway Maintenance Fees	815,601	-	815,601
Accrued Interest on License and Maintenance Fees	1,401,593	-	1,401,593
Total Amounts Payable to SCDOT	$ 10,442,194	-	10,442,194
Extraordinary Gain from Liabilities and Accounts Cancelled			186,210,594
Settlement of Lehman Brothers Excess Collateral Claim:			
Portion of Excess Collateral Retained by the Association			317,498
Monies Retained by Trustee and Transferred to the Association			318,984
Extraordinary Gain from Settlement of Lehman Brothers Excess Collateral Claim			636,482
Total Extraordinary Gain Recognized on Adjustment of Debts			$ 186,847,076

Permanent Injunction

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

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, 2011, none of the Association's bank balances of approximately $574,000 (with a carrying value of $616,849), 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, 2011, 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, 2011:				
FNMA Securities *	NR	$ 1,325,011	26.5%	20.414
First American Prime Obligation Fund	AAAm, Aaa-mf, AAAmmf	3,681,485	73.5%	0.211
Total Fair Value/Weighted Average Maturity		$ 5,006,496		5.560

^ If available, credit ratings are from Standard & Poor's, Moody's Investors Service and Fitch Ratings.
* Fannie Mae guaranteed REMIC pass-through certificates.
NR – Not rated.

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, 2011, 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.

As a result of Lehman Brothers' bankruptcy in 2008, Lehman Brothers defaulted on the repurchase agreement and thus the custodian transferred the collateral/securities (agency securities) to the Trustee. See Note 11 for more details.

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

Statement of Net Position	2011	Notes	2011
Unrestricted Current Assets:			
Cash and Cash Equivalents	$ 616,849	Deposits	$ 616,849
Investments	-	Investments	5,006,496
Restricted:			
Cash and Cash Equivalents	3,681,485		
Investments	1,325,011		
	$ 5,623,345		$ 5,623,345

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, 2011.

NOTE 4 – RECEIVABLES

At December 31, 2011, 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 year and their balances at December 31, 2011:

Description	Balance December 31, 2010	Additions	Disposals	Balance December 31, 2011
Capital Assets:				
Equipment	$ 902,074	290,812	(52,781)	$ 1,140,105
Less: Accumulated Depreciation	(656,703)	(90,123)	52,781	(694,045)
Capital Assets, Net	$ 245,371	200,689	-	$ 446,060

For the year ended December 31, 2011, depreciation expense related to capital assets was $90,123. 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, 2011.

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. Under the Revised License Agreement, SCDOT released all its claims against the Association that existed as of the April 21, 2011 effective date in exchange for the Association's agreement to make transfers from the 2011 Revenue Fund to the 2011 R&R Fund equal to certain percentages of the net revenues of the operation of the toll road. The Revised License Agreement specifies that any terms of the Original License Agreement that are not amended or modified by the Revised License Agreement remain in effect.

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

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

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

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

Terms (Continued)	Original License Agreement Provisions Effective Prior to April 21, 2011 (Continued)	Revised License Agreement Provisions Effective April 21, 2011 (Continued)
License Fees Payable to SCDOT (Continued)	The Association was never able to pay the license fees when due, and at the Association's June 24, 2010 Bankruptcy Petition date, the balances of accumulated unpaid license fees and related interest payable to SCDOT were frozen at $8,225,000 and $1,228,967, respectively.	
Responsibility for and Payment of Maintenance, Repair, Renewal and Replacement of the Southern Connector	Under the Original License Agreement, SCDOT was responsible for maintenance of the Southern Connector. However, the Association was obligated to reimburse SCDOT for its costs of maintenance. The reimbursement of maintenance costs was eighth in priority according to the flow of funds set forth in the Original Trust Indenture as described in Note 1, item J. So long as any 1998 Bonds remained outstanding, any maintenance costs of SCDOT not paid by the Association when due were deferred and accrued interest at a rate of 5% per annum compounded annually. The Association was unable to reimburse SCDOT for all of its costs of maintenance, and at the Association's June 24, 2010 Bankruptcy Petition date, the balances of accumulated unpaid maintenance costs and related interest payable to SCDOT were frozen at $815,601 and $172,626, respectively. The Association was responsible for all maintenance of the Southern Connector toll facilities. Maintenance of the toll facilities was first in priority according to the flow of funds set forth in the Original Trust Indenture as described in Note 1, item J The Association was responsible for all repair, renewal and replacement of the Southern Connector. The Association was to submit a renewal and replacement plan ("R&R Plan") to SCDOT for approval. The Association was to deposit monies into the 1998 R&R Fund for payment of such repair, renewal or replacement costs.	Under the Revised License Agreement, SCDOT is responsible for performance and payment of all highway maintenance of the Southern Connector. As defined in the Revised License Agreement, highway maintenance includes all maintenance, repair, renewal, replacement, enhancement, resurfacing and restoration of the Southern Connector. The Association is no longer required to perform or pay for any highway maintenance of the Southern Connector. The Association's sole obligation related to highway maintenance is to make the periodic deposits into the 2011 R&R Fund described above in items 2, 4, 7 and 9 of the New Waterfall discussed in Note 1, item J. The Association's inability to make deposits into the 2011 R&R Fund due to insufficiency of toll revenues will not result in a default under the Revised License Agreement, and such amounts not deposited do not increase future 2011 R&R Fund deposits. Once SCDOT has incurred highway maintenance costs relating to the Southern Connector, SCDOT may, on a quarterly basis, submit to the Association a requisition for reimbursement and supporting documentation of such highway maintenance costs to be paid from monies deposited in the 2011 R&R Fund. The Association shall in turn request the 2011 Trustee to pay to SCDOT such amounts requested for reimbursement from the 2011 R&R Fund. The Association has or will appoint at its expense an Association Engineer to perform an inspection of the Southern Connector to identify, review, monitor and

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

Terms (Continued)	Original License Agreement Provisions Effective Prior to April 21, 2011 (Continued)	Revised License Agreement Provisions Effective April 21, 2011 (Continued)
Responsibility for and Payment of Maintenance, Repair, Renewal and Replacement of the Southern Connector (Continued)	The deposit of monies into the 1998 R&R Fund was seventh in priority according to the flow of funds set forth in the Original Trust Indenture as described in Note 1, Item J. The Association never had sufficient revenues to make deposits required by the Original Trust Indenture.	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 continues to be responsible for maintenance and related costs of the Southern Connector toll facilities under the Revised License Agreement. Upon confirmation of the Association's Debt Adjustment Plan by the Bankruptcy Court, the Association was released from its obligations to pay the \$815,601 of unpaid maintenance fees and \$172,626 of related interest that had accumulated at the June 24, 2010 Bankruptcy Petition date.
Responsibility for and Process of Setting Toll Rates	Under the Original License Agreement, SCDOT set the Southern Connector's initial toll rates. SCDOT had the right to subsequently revise toll rates to amounts that were not less than 90% and not more than 120% of optimum toll rates as estimated by an independent traffic consultant hired by the Association.	Under the Association's Debt Adjustment Plan, toll rates are initially set at amounts set forth in a traffic study performed for the Association by Stantec Engineering. Subsequent revisions of the Southern Connector toll rates are permitted or required in certain circumstances as prescribed by the terms of the Association's Amended Trust Indenture and the Revised License Agreement. Any revisions to the toll rates shall require a toll rate study to be performed by a qualified independent traffic and revenue consultant selected by the Association. The consultant will study the toll rates charged for use of the Southern Connector, the past and future projected traffic and other relevant factors in order to determine the toll rates which, in the opinion of the consultant, will maximize Southern Connector toll revenues over a projected period of at least five years. Prior to commencement of the toll rate study, the Association must submit the name and a summary of qualifications of the selected independent traffic and revenue consultant to SCDOT for approval.

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

Terms (Continued)	Original License Agreement Provisions Effective Prior to April 21, 2011 (Continued)	Revised License Agreement Provisions Effective April 21, 2011 (Continued)
Responsibility for and Process of Setting Toll Rates (Continued)		As prescribed in the Revised License Agreement, SCDOT may object to the Association's selection of a consultant on the basis of lack of expertise or qualifications and propose at least one alternate consultant considered acceptable by SCDOT for the performance of the toll rate study. Once the toll rate study has been completed by the independent traffic and revenue consultant, the Association will deliver a copy of such toll rate study to SCDOT and the 2011 Bonds Trustee, and, at the Association's request, SCDOT will confirm the effectiveness of and take other steps as necessary to implement the recommended revisions to the Southern Connector toll rates. The Revised License Agreement specifies that neither SCDOT nor the State of South Carolina is responsible for determining whether the toll rates charged by the Association are adequate to satisfy the Association's obligations to third parties. The Revised License Agreement allows the Association to grant toll rate discounts to encourage the use of the electronic toll collection system or to provide an incentive to fleet purchasers. Any such discounts will not be deemed to be a revision of toll rates.
Termination or Extension of License Agreement	The specified termination date of the Original License Agreement was 50 years after substantial completion of the Southern Connector (July 22, 2051), or upon repayment, redemption or defeasance of the 1998 Bonds and all other project debt. The Original License Agreement also included other termination provisions, including the right of SCDOT to terminate the agreement upon failure by the Association to pay license fees when due or upon the commencement of bankruptcy proceedings by the Association.	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.

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

Terms (Continued)	Original License Agreement Provisions Effective Prior to April 21, 2011 (Continued)	Revised License Agreement Provisions Effective April 21, 2011 (Continued)
Termination or Extension of License Agreement (Continued)	Provisions were included in the Original License Agreement to extend its term by a period equal to any length of time during which toll revenues were impaired due to events of force majeure, or upon written agreement by the Association and SCDOT.	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 SCDOR. Provisions are also included to extend the Revised License Agreement at the request of SCDOT to allow the Association to pay Unreimbursed Amounts of highway maintenance costs. However, the Revised License Agreement specifies that the Association's liability under this provision will not accrue or be deemed to accrue unless and until all 2011 Bonds and any other project debt have been repaid, redeemed or defeased. This contingency is discussed further in Note 10.

Under both the Original and Revised License Agreements, 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. Under both the Original and Revised License Agreements, 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 Original and/or Revised License Agreements.

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

The Association's rights under its License Agreement with SCDOT constitute a service concession arrangement as defined in GASB Statement No. 60 that is accounted for as an intangible asset valued and recorded at an amount equal to the cost of construction of the Southern Connector, including related capitalized interest, less cumulative amortization. (See Note 1, items B and I for additional information.) The following table summarizes the activity in the Association's Interest in License Agreement with SCDOT (intangible asset) for the year ended December 31, 2011:

Description	Balance December 31, 2010	Additions	Disposals	Balance December 31, 2011
Interest in License Agreement with SCDOT	$ 192,486,826	10,415	-	$ 192,497,241
Less: Accumulated Amortization	(47,567,576)	(3,571,040)	-	(51,138,616)
Interest in License Agreement with SCDOT, Net	$ 144,919,250	(3,560,625)	-	$ 141,358,625

NOTE 7 – INTEREST COSTS INCURRED

Interest costs expensed during the year ended December 31, 2011 totaled $6,986,359, included interest accreted on the Association's 2011 Bonds.

NOTE 8 – BONDS PAYABLE

1998 Bonds

The Association's 1998 Bonds, which were issued in accordance with the terms of the Original Trust Indenture, were outstanding through April 20, 2011. The balances of those 1998 Bonds had been frozen at June 24, 2010, when the Association filed its Bankruptcy Petition. On April 21, 2011, the effective date of the Association's Debt Adjustment Plan and its related Amended Trust Indenture, the Association's 1998 Bonds were exchanged for the Association's 2011 Bonds. Following is a discussion and description of the various issues of Association Bonds that were outstanding during 2011. (See Note 2 for more information about the bankruptcy proceedings and the Association's accounting for the extraordinary gain that resulted from the adjustment of its debts in bankruptcy.)

As discussed in Note 1, the Association financed the construction of the Southern Connector by issuing the 1998 Bonds as three series of tax-exempt toll road revenue bonds pursuant to the Original Trust Indenture. All of the 1998 Bonds were issued on February 11, 1998. The 1998 Bonds were special limited obligations of the Association that were not, and never constituted, indebtedness of the State of South Carolina, the SCDOT, or any agency, department or political subdivision of the State of South Carolina, including the County of Greenville, South Carolina and the City of Greenville, South Carolina. As a result of the Association's Bankruptcy Petition on June 24, 2010 (see Note 2 for more details), all prepetition debt and liabilities subject to the Debt Adjustment Plan were frozen and thus no additional payments, accruals, amortization, etc., were recorded after that date. The 1998 Bonds included the following:

> *Series 1998A Senior Current Interest Toll Road Revenue Bonds* were dated February 1, 1998, and had an original principal amount of $66,200,000 at issuance. Interest was payable semi-annually on January 1 and July 1 at rates of 5.250% and 5.375%. $21,400,000 of bonds were scheduled to mature January 2023. $44,800,000 of bonds were scheduled to mature January 2038. There was an original issue discount on the Series 1998A bonds at issuance of $2,693,952. Mandatory sinking fund installments began January 1, 2008 and were to continue until January 1, 2038 in varying amounts from $900,000 to $4,200,000.
>
> *Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds* were dated February 1, 1998, and had an original principal amount of $87,385,622 at issuance. Interest accreted at various rates ranging from 5.30% to 5.85%. $438,100,000 of bonds were scheduled to mature serially from January 1, 2008 to January 1, 2038.
>
> *Series 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds* were dated February 1, 1998, and had an original principal amount of $46,592,058 at issuance. Interest accreted at various rates ranging from 6.15% to 6.30%. $241,800,000 of bonds were scheduled to mature serially from January 1, 2008 to January 1, 2038.

The 1998 Bonds were secured by various 1998 Trust Fund Accounts established under the terms of the Original Trust Indenture and included in the Trust Estate. (See Note 1, item J for more information about the 1998 Trust Fund Accounts.)

The 1998 Bonds were subject to payment and other bond covenants established in the Original Trust Indenture. The 1998 Bond covenants included, but were not limited to, requirements to (a) have an Association Engineer inspect and report on the condition of the Southern Connector; (b) charge tolls sufficient to produce revenues that would equal or exceed prescribed percentages of debt service on the 1998 Bonds (the "1998 Revenue Covenant"); and (c) file annual budgets with the Trustee. As discussed further in Note 2, the Association was unable to pay debt service due on its 1998 Bonds and was never able to meet the 1998 Revenue Covenant. These and other factors led to the Association's filing of its Bankruptcy Petition on June 24, 2010.

NOTE 8 – BONDS PAYABLE (CONTINUED)

2011 Bonds

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 in exchange for the 1998 Bonds. At that time, the Association's obligations under the 2011 Bonds were substituted for its obligations under the 1998 Bonds, and the Association was relieved of any further obligations under the 1998 Bonds. Interest on the 2011 Bonds is tax-exempt and the 2011 Bonds were issued to the existing holders of the 1998 Bonds on a pro rata basis, based on unpaid principal and accrued/accreted interest as of the Bankruptcy Petition date of June 24, 2010. The 2011 Bonds are dated April 1, 2011, and accrete interest from that date. The Series 2011A Bonds and Series 2011B Bonds were exchanged for the 1998 Senior Bonds, and the Series 2011C Bonds were exchanged for the 1998 Subordinate Bonds.

The Association's 2011 Bonds include the following:

Series 2011A Senior Capital Appreciation Toll Road Revenue Bonds are dated April 1, 2011, and include eleven serial bonds and three term bonds. The original principal amount of the serial bonds at issuance totaled $36,625,650. The serial bonds mature January 1 of the years 2012 through 2022 inclusive, and accrete interest at rates ranging from 3.25% to 6.00%. One of the term bonds with an original principal amount at issuance of $40,619,653 is subject to annual pro rata paydown payments on January 1 of the years 2023 through 2031 in varying amounts from $8,521,447 to $13,506,659, with final maturity at January 1, 2032. Interest accretes on this term bond at 6.50%. A second term bond, with an original principal amount at issuance of $31,463,671 is subject to annual pro rata paydown payments on January 1 of the years 2033 through 2041 in varying amounts from $15,762,512 to $22,275,944, with final maturity at January 1, 2042. Interest accretes on this term bond at 7.00%. A third term bond, with an original principal amount at issuance of $18,190,852 is subject to annual pro rata paydown payments on January 1 of the years 2043 through 2051 in varying amounts from $22,515,040 to $28,013,264, with final maturity at July 22, 2051. Interest accretes on this term bond at 7.50%.

Series 2011B Senior Subordinate Capital Appreciation Toll Road Revenue Bonds are dated April 1, 2011, and include two term bonds. One of the term bonds with an original principal amount at issuance of $14,027,683 is subject to annual pro rata paydown payments on January 1 of the years 2012 through 2031 in varying amounts from $387,620 to $3,119,876, with final maturity at January 1, 2032. Interest accretes on this term bond at 8.50%. The second term bond, with an original principal amount at issuance of $7,058,025 is subject to annual pro rata paydown payments on January 1 of the years 2033 through 2051 in varying amounts from $3,640,954 to $6,470,731, with final maturity at July 22, 2051. Interest accretes on this term bond at 9.00%.

Series 2011C Junior Subordinate Capital Appreciation Toll Road Revenue Bond is dated April 1, 2011, and consists of one term bond. This term bond with an original principal amount at issuance of $2,160,434 is subject to annual pro rata paydown payments on January 1 of the years 2012 through 2051 in varying amounts from $47,908 to $799,727, with final maturity at July 22, 2051. Interest accretes on this term bond at 10.00%.

NOTE 8 – BONDS PAYABLE (CONTINUED)

2011 Bonds (Continued)

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

	Balance December 31, 2010	Increases	Decreases	Balance December 31, 2011	Amount Due in One Year
1998 Bonds:					
Senior Bonds:					
Series 1998A	$ 64,400,000	-	64,400,000	-	$ -
Original Issue Discount	(1,698,480)	-	(1,698,480)	-	-
Subtotal Series 1998A	62,701,520	-	62,701,520	-	-
Series 1998B	170,052,757	-	170,052,757	-	-
Subordinate Bonds:					
Series 1998C	93,584,677	-	93,584,677	-	-
Total 1998 Bonds	326,338,954	-	326,338,954	-	-
2011 Bonds:					
Senior Bonds:					
Series 2011A	-	132,914,584	-	132,914,584	1,678,098
Subordinate Bonds:					
Series 2011B	-	22,442,119	-	22,442,119	387,620
Series 2011C	-	2,320,522	-	2,320,522	47,908
Total 2011 Bonds	-	157,677,225	-	157,677,225	2,113,626
Total Revenue Bonds Payable	$ 326,338,954	157,677,225	326,338,954	157,677,225	$ 2,113,626

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

NOTE 8 – BONDS PAYABLE (CONTINUED)

2011 Bonds (Continued)

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

Year Ending December 31	Principal	Interest	Totals
2012	$ 2,113,626	-	$ 2,113,626
2013	3,626,357	-	3,626,357
2014	3,793,092	-	3,793,092
2015	4,101,291	-	4,101,291
2016	4,571,587	-	4,571,587
2017-2021	38,154,903	-	38,154,903
2022-2026	58,823,476	-	58,823,476
2027-2031	77,994,746	-	77,994,746
2032-2036	98,818,321	-	98,818,321
2037-2041	125,425,678	-	125,425,678
2042-2046	148,035,249	-	148,035,249
2047-2051	188,727,080	-	188,727,080
Totals	$ 754,185,406	-	$ 754,185,406

As discussed in Note 1, item J, the terms of the Amended Trust Indenture require the establishment of various 2011 Trust Fund Accounts. Monies remaining in the 1998 Trust Fund Accounts at the April 21, 2011 effective date of the Association's Debt Adjustment Plan were required to be transferred to certain of the 2011 Trust Fund Accounts. The monies transferred into the 2011 Trust Fund Accounts, as well as any monies subsequently deposited into the 2011 Trust Fund Accounts, are invested as provided in the Amended Trust Indenture. The types of payments that may be made from the various 2011 Trust Fund Accounts are specified in the Amended Trust Indenture. All of the 2011 Trust Fund Accounts established under the Amended Trust Indenture except for the 2011 R&R Fund and the 2011 Rebate Fund are included in the 2011 Trust Estate, which the Association has pledged as security for payment of the 2011 Bonds. The 2011 Trust Estate also includes the Association's interest in Revenues as defined in the Amended Trust Indenture, the Association's interest in its License Agreement with the SCDOT, and any other property pledged as security for the 2011 Bonds.

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

Trust Account	Amount
2011 Revenue Fund	$ 33,304
2011 Debt Service Fund	2,113,626
2011 Debt Service Reserve Fund	2,036,768
2011 Cost of Issuance Fund	583,464
Total	$ 4,767,162

During the year ended December 31, 2011, 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).

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

NOTE 8 – BONDS PAYABLE (CONTINUED)

2011 Bonds (Continued)

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

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

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

If any debt service payment pertaining to any tier of 2011 Bonds is not paid when due, the Amended Trust Indenture prescribes the manner in which subsequent payments of debt service in respect of such tier of 2011 Bonds shall be applied, *first*, to any Arrearages (see Note 2), and, *second*, to the current debt service owing on such tier of 2011 Bonds.

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

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

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

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

NOTE 8 – BONDS PAYABLE (CONTINUED)

2011 Bonds (Continued)

- 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 2011Senior Subordinate Bonds is less than 1.00 for any period. Despite the above provisions, the Association will not be required to have a toll rate study performed more frequently than once every two years.

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

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

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

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

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

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

NOTE 8 – BONDS PAYABLE (CONTINUED)

2011 Bonds (Continued)

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

- Involuntary bankruptcy proceedings; involuntary petitions seeking reorganization, readjustment or relief of the Association's debts under federal or State bankruptcy or insolvency act or law; or petitions seeking the involuntary appointment of a receiver or trustee of the Association 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 Subordinate Bonds Trustee was eliminated under the Amended Trust Indenture.

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

Subsequent to the issuance of its 2011 Bonds pursuant to the implementation of the Association's Debt Adjustment Plan, certain 2011 Bondholders notified the Association and the 2011 Trustee that problems existed with the registration of certain of the 2011 Bonds that rendered those 2011 Bonds nonmarketable in the public secondary market. In 2011, the Association began investigating a possible resolution to the registration problems. The Association submitted to the Bankruptcy Court a First Supplemental Indenture of Trust (the "Supplemental Indenture") that called for the exchange of the nonmarketable 2011 Bonds for marketable 2011 Bonds. However, the Supplemental Indenture was not confirmed and implemented until 2012. See Note 12 for more details pertaining to this subsequent event.

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, 2011.

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.)

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

The Revised License Agreement contains provisions under which the Association may become liable to SCDOT for requisitioned highway maintenance costs of the Southern Connector that exceed amounts accumulated in the 2011 R&R Fund and therefore, are not paid from the 2011 R&R Fund. In order for the Association to become obligated to SCDOT for any such unreimbursed requisitioned highway maintenance costs, all of the Association's 2011 Bonds and any other project debt must first be repaid, redeemed or defeased. In addition, SCDOT must extend the term of the Revised License Agreement to allow the Association to continue to collect tolls on the Southern Connector to enable the Association to repay the unreimbursed requisitioned highway maintenance costs. If these provisions are implemented, the Association will also become liable to SCDOT for interest on the unreimbursed requisitioned highway maintenance costs at 5% compounded annually beginning 30 days after SCDOT submits any reimbursement requisition. (See Note 6 for additional information.) The Association believes that these provisions create a contingency for which payments are reasonably possible to occur in the future.

NOTE 11 – SETTLEMENT OF POTENTIAL EXCESS COLLATERAL LIABILITY

At the time the 1998 Bonds were issued, the Association directed the Trustee to invest monies in the 1998 Senior Bonds Debt Service Reserve Account and the 1998 Subordinate Bonds Debt Service Reserve Account in a long-term collateralized repurchase agreement ("REPO") with Lehman Brothers, Inc. ("Lehman Brothers") with Norwest Bank serving as custodian and collateral agent. As a result of Lehman Brothers' bankruptcy in 2008, Lehman Brothers defaulted on the REPO and thus the custodian transferred the collateral/securities to the Trustee. The amount of collateral/securities received by the Trustee was greater than the amount of collateral/securities required to be maintained by Lehman Brothers under the REPO, and the excess amount received was subject to a claim for return to Lehman Brothers. At the June 24, 2010, date of the Association's Bankruptcy Petition, the Association had determined that a maximum of $1,117,498 was subject to claim for return to Lehman Brothers, and had included that amount in its financial statements as a Potential Excess Collateral Liability.

Although the Potential Excess Collateral Liability was subject to adjustment in the Association's Bankruptcy Proceedings, the resolution of the amount to be returned to Lehman Brothers was settled consensually among the pertinent parties during April 2011. The Association returned $800,000 to Lehman Brothers, and retained the remaining $317,498 as an extraordinary gain realized on the adjustment of its debts in bankruptcy. (See Note 2 for more information.)

NOTE 12 – SUBSEQUENT EVENTS

The Association intended that its 2011 Bonds discussed above in Note 8 would be registered with the Depository Trust Corporation ("DTC") as "book entry" securities. Payments of debt service on the 2011 Bonds, including any payments prior to maturity, were intended to be distributed to the beneficial owners of the 2011 Bonds on a pro rata basis under the DTC's "pro-rata paydown" program which listed the holdings of beneficial owners at their original principal amount and accreted value over time to mature in an amount larger than $1.00.

NOTE 12 – SUBSEQUENT EVENTS (CONTINUED)

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

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

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

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

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

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

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

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