CONNECTOR 2000 ASSOCIATION, INC.

ANNUAL REPORT

June 30, 2005

CUSIP Prefix 20786L

Submitted in compliance with the provisions of the 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 Wachovia Bank, N. A., successor to First Union National Bank (the "Trustee"), in its capacity as dissemination agent relating to the $200,177,680 Connector 2000 Association, Inc. Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 1998A, Series 1998B and Series 1998C (the "Bonds").

INTRODUCTION

This is the seventh 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 Wachovia Bank, N. A., as successor to First Union National Bank (the "Trustee"), in its capacity as dissemination agent relating to the $200,177,680 Connector 2000 Association, Inc. Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 1998A, Series 1998B and Series 1998C (the "Bonds"). Capitalized terms not otherwise defined herein have the meaning set forth in the Disclosure Agreement, if defined therein.

The Bonds were sold by the Association on January 27, 1998 to Lehman Brothers, Inc. and Mesirow Financial, Inc., as managing underwriters (the "Underwriters") pursuant to a Bond Purchase Agreement executed on that date between the Association and the Underwriters. A final Official Statement dated February 3, 1998 (the "Official Statement") was prepared in connection with the sale of the Bonds. The closing of the sale of the Bonds took place February 11, 1998 (the "Closing Date").

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 sole corporate purpose of the Association is 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 new 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. The Bonds were issued to finance substantially all of the costs of the Southern Connector. Please refer to earlier annual reports for discussion of the Traffic and Revenue Study prepared in connection with the sale of the Bonds, the construction of the Projects and the initial operations of the Southern Connector.

At December 31, 2004, the Southern Connector had been open and collecting tolls approximately thirty three and one-half months. 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. The data from the commencement of operation of the Southern Connector Project is set forth in the following table:

	2001	2002	2003	2004
ETC Transactions	300,900	579,294	866,640	1,136,544
% of Total Transactions	11%	15%	19%	22%
ETC Revenue	$200,706	$371,124	$489,942	$686,703
% of Total Revenue	10%	13%	15%	18%
Total Transactions	2,658,741	3,966,717	4,566,095	5,129,949
Total Revenue	$2,004,896	$2,953,883	$3,333,252	3,771,360

The toll rates for the Southern Connector Project were set by the SCDOT pursuant to Section 57-5-1340 of the South Carolina Code of Laws, 1976, as amended and under Section 6.4 of the License Agreement for the entire 50-year term of the License Agreement. From time to time, the Association will offer discounts or incentives for the use of ETC transponders on the Southern Connector Project. Effective January 3, 2005 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	$1.00	$1.00	$0.50	$0.50
2 axle discount rate	$0.75	$0.75	N/A	N/A
3 axles	$1.80	$1.80	$0.50	$0.50
3 axle discount rate	$1.35	$1.35	N/A	N/A
4 axles	$2.40	$2.40	$0.50	$0.50
4 axle discount rate	$1.80	$1.80	N/A	N/A
5 axles	$3.00	$3.00	$0.50	$0.50
5 axle discount rate	$2.25	$2.25	N/A	N/A
6 + axles	$3.60	$3.60	$0.50	$0.50
6 + axle discount rate	$2.70	$2.70	N/A	N/A

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 $1.00. 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 $.50 per vehicle, regardless of the number of axles, is charged at these ramps. Please refer to last year's Annual Report for the toll rates and discounts charged prior to January 1, 2005.

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 25% discount on all mainline toll plaza transactions. This 25% discount applies to all vehicles, regardless of the number of axles. No discount is applied to transactions at the unattended ramps.

The Association is required to charge tolls in each calendar year sufficient to produce net revenues after the payment of operating expenses equal to or greater than (a) 1.25 times the aggregate debt service on all outstanding senior bonds due in such year, plus (b) the amount required to replenish all previous withdrawals from the reserve funds established fund for the senior bonds. This covenant became effective January 1, 2005. In connection with the preparation of its annual budget for 2005, the Association reviewed its financial condition, projected revenue collections and operating expenses and concluded that it did not expect to achieve net revenues sufficient to meet these requirements. In compliance with its bond documents, the Association circulated a request for proposals to transportation consulting firms of recognized experience in the areas of toll road forecasting for the preparation of a toll rate study. The Association interviewed the three firms who responded to the request for proposals and engaged a consultant. At the time this Annual Report is being filed, the consultant is conducting its study. The study is expected to include an analysis of the traffic and revenues of the Southern Connector and make recommendations to the Association to maximize the net revenues collected on the highway. Such recommendation may include the revision of toll rates set forth above for all or some of the classes of vehicles using the Southern Connector. The SCDOT sets the tolls to be charged by the Association for the use of the Southern Connector. If the consultant's report determines the toll rates on the Southern

Connector should be changed, the Association will request the SCDOT to make the changes recommended by the consultant. Any such toll rate modification would be at the discretion of the SCDOT. The Association has no power to change the tolls charged on the Southern Connector nor can the Association force the SCDOT to make any requested changes to such tolls.

AUDITED FINANCIAL STATEMENTS

The financial statements of the Association for the period ended December 31, 2004 have been audited by Green Finney Horton, LLP, Certified Public Accountants. A copy of the general purpose financial statements of the Association for the period ended December 31, 2004, is attached to this Annual Report as **Appendix A**.

OTHER FINANCIAL INFORMATION

The Association did not receive any federal or State highway expansion money during the fiscal period ending December 31, 2004. The Association did not issue or remarket any bonded indebtedness during the fiscal period ending December 31, 2004.

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. Recent press releases of the Association are also available on the web page.

CONCLUDING STATEMENT

This Annual Report has been filed on behalf of the Association with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR"). 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.

The foregoing summary of the Bonds, the construction of the Southern Connector and the Operation of the Southern Connector Project is qualified by reference to the complete descriptions provided in the Official Statement. No statements contained in this report are intended to supercede or contradict any representations made in the Official Statement and in the event of any inconsistencies between the foregoing descriptions and the material contained in the Official Statement, the material contained in the Official Statement is intended to be controlling.

APPENDIX A

AUDITED FINANCIAL STATEMENTS

CONNECTOR 2000 ASSOCIATION, INC.

BASIC FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

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YEARS ENDED DECEMBER 31, 2004 AND 2003

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Connector 2000 Association, Inc., a component unit of the State of South Carolina and of the South Carolina Department of Transportation, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of Connector 2000 Association, Inc. 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 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 Connector 2000 Association, Inc. as of December 31, 2004 and 2003, and its changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
March 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Connector 2000 Association, Inc. (the "Association") annual financial report presents a discussion and analysis of the Association's financial performance for the years ended December 31, 2004 and 2003. Our analysis includes comparisons of 2004, 2003 and 2002 information. We ask that you read this section of the report in conjunction with the basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- In 2004, operating revenues consisted of toll revenues of $3,769,428. For 2003, operating revenues consisted of toll and other operating revenues and were $3,335,751. Of that amount, toll revenues were $3,333,252. Toll revenues increased 13.1% in 2004 over 2003, and 12.8% in 2003 over 2002. The number of toll transactions in 2004 was 5,129,949, or 12.3% greater than 2003. Toll transactions for 2003 increased 15.1% over 2002 transactions to 4,566,095. Daily average toll transactions were 14,016 in 2004 compared to 12,510 in 2003 and 10,868 in 2002. Both toll transactions and toll revenues were still significantly less than amounts projected in the 1997 Traffic and Revenue Study prepared by Wilbur Smith Associates (discussed in the "Economic Factors and Next Year's Budget" section below).

- Total operating expenses in 2004 were $2,547,373 compared to $2,573,634 in 2003, a decrease of 1.0%. Total operating expenses in 2003 increased 3.4% over the 2002 total of $2,488,023.

- Nonoperating revenues from interest earned on repurchase agreements and money market accounts decreased 3.6% to $1,017,596 in 2004. In 2003, the decrease was 11.3%, to $1,055,826. Nonoperating expenses in 2004 were $20,322,925, and consisted primarily of $14,940,897 of interest expense and $5,243,008 of amortization expense related to the Association's Interest in its License Agreement with the South Carolina Department of Transportation ("SCDOT"). In 2003, nonoperating expenses were $19,772,694, and consisted primarily of $14,395,797 of interest expense and $5,237,877 of amortization expense related to the Association's Interest in its License Agreement with the South Carolina Department of Transportation ("SCDOT").

- The Association's total net deficit in 2004 increased by $18,083,274 over the course of the year's operations to $68,803,893. Of this increase, $14,940,897 was attributable to interest expense, of which $3,531,500 was cash payments of bond interest, $11,322,962 was accreted bond interest, $80,280 was amortization of original issue discount, and $6,156 was miscellaneous interest expense. The Association's 2003 increase in total net deficit was $17,954,751. Of the 2003 increase in the net deficit, $14,395,797 was attributable to interest expense, of which $3,531,500 was cash payments of bond interest, $10,783,141 was accreted bond interest, $80,280 was amortization of original issue discount, and $876 was miscellaneous interest expense.

- Capital assets net of accumulated depreciation were $173,220,585 at December 31, 2004, a decrease of approximately 3.0% from December 31, 2003. The December 31, 2003, capital assets net of accumulated depreciation decreased approximately 2.5% from December 31, 2002 to $178,530,430. The decreases resulted primarily from amortization of the Association's interest in its License Agreement with the SCDOT. (See the "Capital Assets" section of this management's discussion and analysis and Note 1, item J and Note 5 to the basic financial statements for information about the accounting treatment of the Association's interest in the License Agreement.)

- SCDOT approved Final Completion of the Southern Connector effective December 22, 2003.

- The balance of bonds payable increased by 4.5% in both 2004 and 2003 (to $264,444,140 in 2004 and to $253,040,898 in 2003) due to accretions on the capital appreciation bonds. Approximately $2,988,139 of monies from our Senior Bonds Debt Service Reserve Account was used to pay portions of the debt service payments due from July 2003 through January 2005.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The sole corporate purpose of the Association is the design, financing, acquisition, construction and operation of the Southern Connector Toll Road. We issued $200,177,680 of Toll Road Revenue Bonds ("Southern Connector Project"), Series 1998 on February 11, 1998, to finance substantially all of the costs of the Southern Connector. Wilbur Smith Associates ("Wilbur Smith") prepared a Traffic and Revenue Study in connection with the sale of the Bonds. The Traffic and Revenue Study was undertaken in order to determine an estimate of the utilization of the road, the appropriate toll rates for the highway and the resulting revenue the Association could reasonably expect to receive from the operation of the Southern Connector. Wilbur Smith assumed that the Southern Connector would be open to traffic on November 17, 2001, since that was the Guaranteed Completion Date under the construction documents. Due to favorable weather and other circumstances, the highway opened to traffic nearly nine months earlier, on February 27, 2001.

In the Traffic and Revenue Study, Wilbur Smith estimated that the traffic on the newly opened road would increase rapidly from the opening date to a stabilized volume over an approximately nine-month period. This was called the "ramp-up" period since the traffic would begin at essentially zero and build to a stabilized base, which would be inflated annually according to various assumptions contained in the study. At the end of this nine-month ramp-up period, Wilbur Smith projected the average number of "transactions" on the highway to be approximately 28,000 per day. When we say "transactions," we mean toll transactions. In other words, one vehicle passing through one tollgate and paying one toll equals one transaction. If a passenger car drove from Simpsonville (on the east side of the highway) to Anderson (on the west side of the highway) and back in a single day, that car would result in four "transactions" in that single round trip. It would pass through the east and west main line toll plazas once each way. Transactions occur at the two main line plazas and at the four ramp plazas. The main line plazas and the ramp plazas have different tolls. Different vehicle classifications (such as trucks and cars) also pay different tolls, so the translation of the number of transactions into toll revenues is a complicated process involving an estimate of where the traffic is going and the mix of vehicles traveling on the road.

Since opening, actual demand for the Southern Connector Toll Road has been well below Wilbur Smith's projection. Additionally, the percentage of the traffic consisting of trucks (which pay a higher toll) has been substantially less than what was projected. Consequently, our toll revenue has been substantially less than what was forecasted in the study. Although toll transactions and revenues have increased each year, they are still far short of Wilbur Smith's projections, with toll transactions averaging 14,016 per day for 2004, 12,510 per day for 2003, and 10,868 per day for 2002.

In 2001, Wilbur Smith explained to us why the actual utilization of the toll road was so much less than what was projected in the study. They listed four general factors. These were a longer ramp-up period; the current weak state of the economy; certain signing and promotional concerns; and low transponder use for electronic toll collection.

Wilbur Smith explained that the ramp-up time is driven by how long it takes the motoring public to become familiar with the route, to "try it out" and ultimately build travel habits that result in the total demand for a facility. The Traffic and Revenue Study assumed a ramp-up period of less than one year. However, the ramp-up period has continued through 2004. One important factor contributing to the duration of the ramp-up period is signing and promotion, which are addressed below.

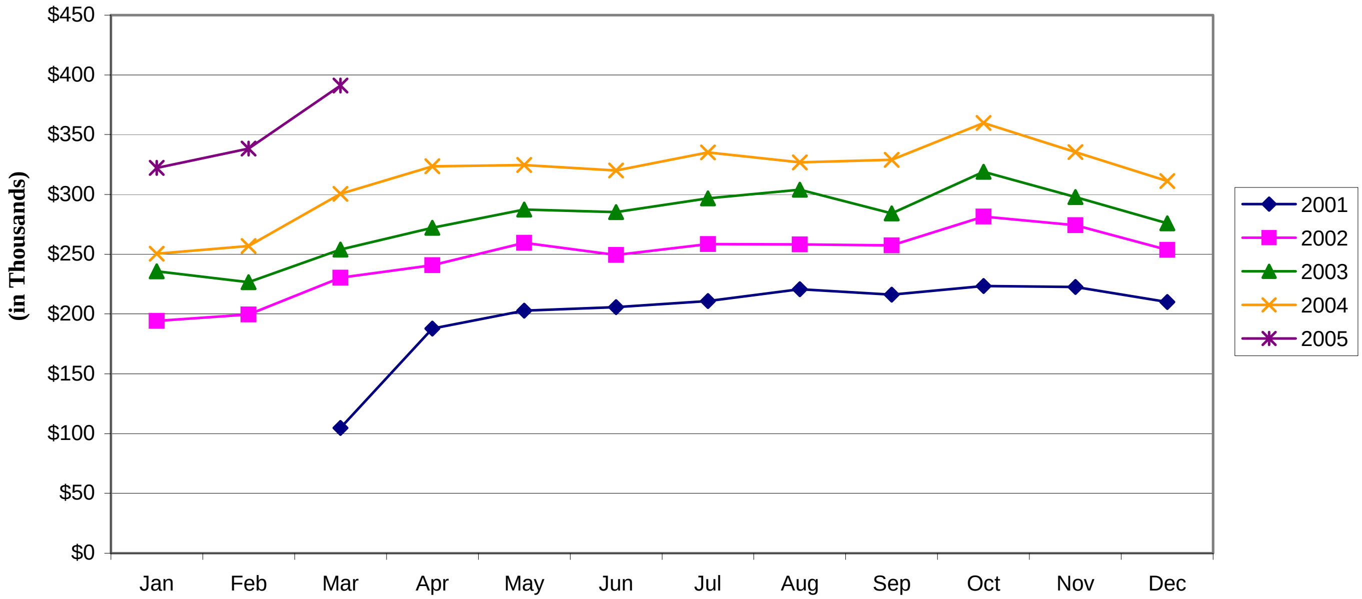
One of the principal purposes of the highway was to open southern Greenville County to new development. Greenville County has a very strong manufacturing base and has been actively trying to diversify its industrial output from what was historically textiles. From 1998 through 2004, the manufacturing sector of the economy has been very weak. The State of South Carolina has lost numerous manufacturing jobs and the South Carolina Department of Commerce has been actively recruiting industries to the State. Much of this activity has been focused on the replacement of lost industries in rural or economically underdeveloped areas and the reuse of existing industrial plants that have been abandoned by earlier industries. Greenville County, with its relatively low unemployment rate, has not been a priority for development efforts by the State Department of Commerce. Greenville County has redoubled its efforts to attract industry to the Southern Connector corridor. Given the continuing soft manufacturing economy, this development has not occurred as rapidly as expected. This slower development has adversely affected utilization of the highway.

Many of the circumstances identified by Wilbur Smith, which have led to the lower utilization of the highway, are beyond our control. We can do little to remedy the general economic conditions in Greenville County. However, since opening the road, we have made concerted efforts to address factors that we can influence in order to promote demand for the Southern Connector. We are actively working with the Greenville Area Development Corporation to promote and publicize development opportunities along the Southern Connector corridor. We have worked with the South Carolina Department of Transportation to rectify many of the signage deficiencies identified by Wilbur Smith. We have undertaken aggressive advertising campaigns to make the public aware of the highway and the additional convenience it offers. Our advertising and marketing contractor received several awards for these efforts. 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. We have reduced our operating budget on several occasions and have established an operating reserve to be sure that revenues will be sufficient to cover operating expenses so that the highway can stay open even if there is a temporary downturn in traffic. We have undertaken to operate the Southern Connector as efficiently as possible while maintaining a level of customer service we believe necessary to grow traffic.

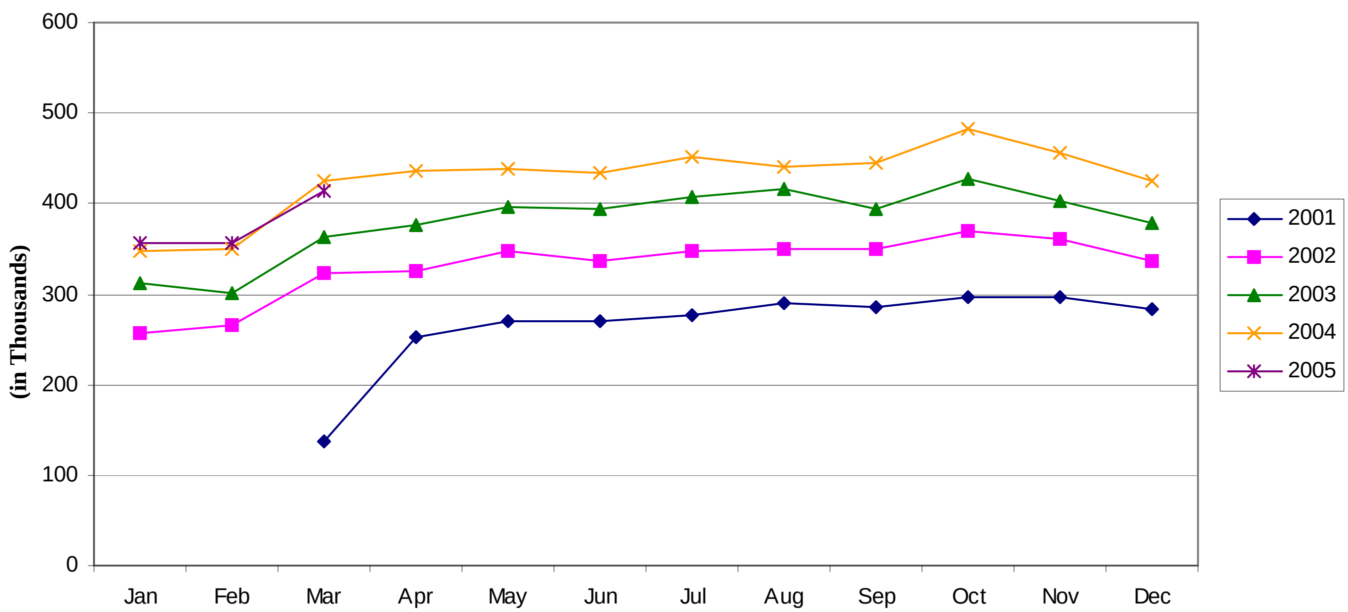
We believe that our efforts have been somewhat successful. As the following charts present, from the Southern Connector's opening in late February 2001 through 2004, both transactions and revenues have increased. The charts also show results through March 2005, since this management's discussion and analysis was written in early April. The 2005 results are discussed below.

In January 2005, a scheduled toll rate increase approved by SCDOT went into effect. This 2005 toll increase is the first increase specified in the Association's License Agreement with SCDOT, which sets the toll rates for the entire 50-year term of the Agreement. Accordingly, revenues for the first quarter of 2005 have increased 30.1% over the same quarter in 2004. However, although transactions increased in January and February, the increase (compared to the same month in 2004) was less than 3.0% each month, and in March, transactions decreased by 2.7% from March of 2004. The change in transactions is not unexpected following an increase in toll rates. This change could simply signify the general public's initial negative reaction to a price increase. That initial reaction may moderate over time. However, this change could truly signify a stabilization of the demand for the Southern Connector Toll Road, and the end of its ramp-up period.

Revenues by Month



Transactions by Month



Our 2005 operating budget continues to reflect our quest to hold operating costs down yet still provide efficient service to our customers. At $2,650,640, it represents a 4.1% increase over 2004 actual operating costs. The budget increase resulted primarily from increased personnel costs and professional fees.

A schedule and explanation of the increased toll rates for 2005 follows.

	Location			
	East Plaza	**West Plaza**	**SC Route 20 (On/Off Ramps)**	**Fork Shoals Rd. (On/Off Ramps)**
2 Axles	$1.00	$1.00	$0.50	$0.50
2 Axle Discount Rate	$0.75	$0.75	N/A	N/A
3 Axles	$1.80	$1.80	$0.50	$0.50
3 Axle Discount Rate	$1.35	$1.35	N/A	N/A
4 Axles	$2.40	$2.40	$0.50	$0.50
4 Axle Discount Rate	$1.80	$1.80	N/A	N/A
5 Axles	$3.00	$3.00	$0.50	$0.50
5 Axle Discount Rate	$2.25	$2.25	N/A	N/A
6 Axles	$3.60	$3.60	$0.50	$0.50
6 Axle Discount Rate	$2.70	$2.70	N/A	N/A

One mainline toll plaza is located at the east end and one at the west end of the Southern Connector Toll Road. The toll for all 2-axle vehicles at the mainline plazas is $1.00. 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 $.50 per vehicle, regardless of the number of axles, is charged at these ramps.

Motorists have the option of establishing a 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 25% discount on all mainline toll plaza transactions. This 25% discount applies to all vehicles, regardless of the number of axles. No discount is applied to transactions at the unattended ramps.

The Association is required to charge tolls in each calendar year sufficient to produce net revenues after the payment of operating expenses equal to or greater than (a) 1.25 times the aggregate debt service on all outstanding senior bonds due in such year, plus (b) the amount required to replenish all previous withdrawals from the reserve funds established fund for the senior bonds. This covenant became effective January 1, 2005. The Association reviewed its financial condition, projected revenue collections and operating budget for 2005 and concluded that it did not expect to achieve net revenues sufficient to meet these requirements. In compliance with its bond documents, the Association circulated a request for proposals to transportation consulting firms of recognized experience in the areas of toll road forecasting for the preparation of a toll rate study. The Association interviewed the three firms who responded to the request for proposals and engaged a consultant. At the time this Management's Discussion and Analysis is being drafted, the consultant is conducting the study. The Association expects to receive the results of the toll rate study by the end of April 2005. The study is expected to include an analysis of the traffic and revenues of the Southern Connector and make recommendations to the Association to maximize the net revenues collected on the highway. Such recommendation may include the revision of toll rates for all or some of the classes of vehicles using the Southern Connector. The South Carolina Department of Transportation Commission (the "Commission") sets the tolls to be charged by the Association for the use of the Southern Connector. If the consultant's report determines the toll rates on the Southern Connector should be changed, the Association will request the Commission to make the changes recommended by the consultant. Any such toll rate modification would be at the discretion of the Commission. The Association has no power to change the tolls charged on the Southern Connector nor can the Association force the Commission to make any requested changes to such tolls.

OVERVIEW OF THE FINANCIAL STATEMENTS

The 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 the 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, the current year's revenues earned and expenses incurred are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid. All of the Association's assets and liabilities are included in the Statement of Net Assets. *Net assets* – the difference between assets and liabilities – is one measure of the Association's financial health or financial position. (Please note that we use the term *net deficit* throughout this section and in the basic financial statements to describe our situation, where liabilities exceed assets, and the resulting amount of net assets is negative.) Over time, increases or decreases in the Association's net assets or deficit are one indicator of whether 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

Net Assets (Deficit)

During the year ended December 31, 2004, the Association's net deficit increased by $18,083,274 to $68,803,893. Total assets decreased approximately 3.2% to $197,815,537 while total liabilities increased approximately 4.5% to $266,619,430. For the year ended December 31, 2003, the Association's increase in its net deficit was $17,954,751, to $50,720,619. Total assets decreased by 4.2% to $204,295,895, and total liabilities increased by 3.7% to $255,016,514. (See Table 1 below.)

The net decrease in total assets for both years 2004 and 2003 resulted primarily from the fact that total revenues in these years were not sufficient to completely offset such nonoperating expenses as debt service interest payments and amortization of the Association's interest in its License Agreement with SCDOT.

The increase in total liabilities for both years 2004 and 2003 was due mainly to accretions on the capital appreciation bonds. These accretions caused the bonds payable portion of total liabilities to increase by approximately 4.5% in both years 2004 and 2003. Capital appreciation bonds, or zero coupon bonds, are issued and initially recorded at amounts significantly less than their maturity values. Interest on capital appreciation bonds is not paid annually; instead, interest accretions simply increase the balance due on such bonds. Accordingly, such accretions are recorded as increases in interest expense and the corresponding bonds payable liability. In 2004, other liabilities increased by 10.1% mainly due to an accrual for maintenance costs payable to SCDOT. See page 11 for a full discussion of these maintenance costs. Other 2003 liabilities decreased approximately 48.5% to $1,975,616 due primarily to the 2003 payment of the balance of the early completion bonus mediation settlement that was due by the Association to the Developer of the Southern Connector at December 31, 2002.

Table 1
Net Assets (Deficit)

	2004	2003	2002
Current and Other Assets	$ 24,594,952	$ 25,765,465	$ 30,197,732
Capital Assets	173,220,585	178,530,430	183,051,195
Total Assets	197,815,537	204,295,895	213,248,927
Long-term Liabilities (Bonds Payable)	(264,444,140)	(253,040,898)	(242,177,477)
Other Liabilities	(2,175,290)	(1,975,616)	(3,837,318)
Total Liabilities	(266,619,430)	(255,016,514)	(246,014,795)
Net Assets (Deficit):			
Invested in Capital Assets, Net of Related Debt	(29,673,841)	(23,125,663)	(16,589,326)
Restricted for Debt Service	253,923	-	
Restricted for Capital and Other Projects	11,452	800,188	1,792,208
Unrestricted	(39,395,427)	(28,395,144)	(17,968,750)
Total Net Assets (Deficit)	$ (68,803,893)	$ (50,720,619)	$ (32,765,868)

U.S Generally Accepted Accounting Principles for governmental entities require the Association to classify its net assets in three categories as follows.

- The category "invested in capital assets, net of related debt" represents amounts invested in capital assets, less accumulated depreciation and amortization on those assets and less any liabilities (including bonds payable) that are attributable to the construction, acquisition, or improvement of those assets. However, if there are any bond proceeds that have not been spent yet, as was true for the Association at December 31, 2004 and 2003, the portion of bonds payable related to those unspent bond proceeds is not to be included in this category as a reduction of amounts invested in capital assets. Instead, the unspent portion of bonds payable is used to offset the appropriate restricted net asset category as discussed below. At December 31, 2004, the balance of this category of net assets was a deficit of $29,673,841, an increase of 28.3% over the 2003 deficit. The 2003 balance of this category of net assets was a deficit of $23,125,663, an increase of 39.4% over the 2002 deficit.

- The category “restricted net assets” represents the portion of net assets 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. This category includes any unspent bond proceeds restricted for certain purposes offset by bonds payable related to those unspent bond proceeds and interest accretions on capital appreciation bonds after project completion. Negative balances of restricted net assets are reclassified to the unrestricted net asset category. At December 31, 2004, the Association’s restricted net assets consisted of $11,452 of net assets restricted for construction of the Southern Connector (a decrease of 98.6% from the 2003 balance) and $253,923 of net assets restricted for debt service. The Association’s 2003 balance of restricted net assets consisted solely of net assets restricted for construction of the Southern Connector of $800,188, a decrease of 55.4% from the 2002 balance.

- The category “unrestricted net assets” represents the portion of net assets that can be used to finance daily operations and that have no constraints imposed. The balance of unrestricted net assets at December 31, 2004 was a deficit of $39,395,427, while the 2003 deficit was $28,395,144. The net deficit in this category increased 38.7% in 2004 and 58.0% in 2003, due primarily to the reclassification of negative balances of net assets restricted for debt service and debt service reserves.

Tables 2 and 3 below present the Association’s allocation of assets and liabilities at December 31, 2004 and 2003 to the various categories of net assets.

Table 2
Net Asset Allocations
Year Ended December 31, 2004

	Net Assets Invested in Capital Assets, Net of Related Debt	Net Assets Restricted for Debt Service Reserve	Net Assets Restricted for Debt Service	Net Assets Restricted for Other Purposes	Unrestricted Net Assets	Total Net Assets
Assets:						
Cash, cash equivalents and investments	$ -	$ 16,772,506	$ 2,019,673	$ 11,452	$ 884,954	$ 19,688,585
Receivables and other assets	4,267,175	497,431	-	-	141,761	4,906,367
Intangible and equipment, net of accumulated depreciation and amortization	173,220,585	-	-	-	-	173,220,585
Liabilities:						
Payables, deferred revenue and deposits	-	-	(1,765,750)	-	(409,540)	(2,175,290)
Bonds payable	(207,161,601)	(57,282,539)	-	-	-	(264,444,140)
Reclassification of negative balances of restricted net assets	-	40,012,602	-	-	(40,012,602)	-
Net Assets	$ (29,673,841)	$ -	$ 253,923	$ 11,452	$ (39,395,427)	$ (68,803,893)

Table 3
Net Asset Allocations
Year Ended December 31, 2003

	Net Assets Invested in Capital Assets, Net of Related Debt	Net Assets Restricted for Debt Service Reserve	Net Assets Restricted for Debt Service	Net Assets Restricted for Other Purposes	Unrestricted Net Assets	Total Net Assets
Assets:						
Cash, cash equivalents and investments	$ -	$ 18,144,701	$ 1,344,071	$ 800,188	$ 436,179	$ 20,725,139
Receivables and other assets	4,413,595	509,614	-	-	117,117	5,040,326
Intangible and equipment, net of accumulated depreciation and amortization	178,530,430	-	-	-	-	178,530,430
Liabilities:						
Payables, deferred revenue and deposits	-	-	(1,765,750)	-	(209,866)	(1,975,616)
Bonds payable	(206,069,688)	(46,971,210)	-	-	-	(253,040,898)
Reclassification of negative balances of restricted net assets	-	28,316,895	421,679	-	(28,738,574)	-
Net Assets	$ (23,125,663)	$ -	$ -	$ 800,188	$ (28,395,144)	$ (50,720,619)

A discussion of the changes in the net deficit for years 2004 and 2003 is presented below.

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

Although as presented in Table 4 on the next page, the Association's total revenues were not sufficient to cover its total expenses, there was some improvement in operations in both years 2004 and 2003.

2004 Compared to 2003

The increase in demand for the toll road during its ramp-up period coupled with the Association's efforts to control costs allowed us to generate operating income of $1,222,055 in 2004 an increase of $459,938 over 2003. Total operating revenues in 2004 increased approximately 13.0%, while 2004 operating expenses decreased approximately 1.0%. Nonoperating revenues, which consisted of interest earned on monies in bank accounts and investments, decreased 3.6% in 2004 to $1,017,596. In 2004, the nonoperating revenues fell short of nonoperating expenses by $19,305,329.

In 2004, total operating expenses decreased by 1.0%, or $26,261 from 2003. This net decrease was comprised of an increase in 2004 expenses for direct operations of the Southern Connector Toll Road of 8.0%, to $1,895,980, and a decrease in indirect expenses of 20.3%, to $651,393. The increase in expenses for direct operations was due primarily to equipment-related costs and employee health insurance. In 2004, the contract service fee for a full year of toll equipment maintenance was $311,261 compared to $135,664 in 2003, which only included five months of maintenance fees. Employee health and life insurance in 2004 was $161,772 compared to $112,968 in 2003. Several of the 2004 indirect operating expenses were reduced due to concerted efforts by management to control costs. As a result, professional fees decreased by $82,931. In addition, advertising, insurance and toll highway management fee expenses were trimmed by $59,397.

Table 4
Changes in Net Assets

	2004	2003	2002
Revenues:			
Operating revenues:			
Charges for Services (Toll Revenues)	$ 3,769,428	$ 3,333,252	$ 2,953,883
Other	-	2,499	129,558
Nonoperating Revenues:			
Interest and Investment Earnings	1,017,596	1,055,826	1,190,655
Total Revenues	4,787,024	4,391,577	4,274,096
Expenses:			
Operating Expenses	2,547,373	2,573,634	2,488,023
Nonoperating Expenses	20,322,925	19,772,694	19,011,913
Total Expenses	22,870,298	22,346,328	21,499,936
Decrease in Net Assets	(18,083,274)	(17,954,751)	(17,225,840)
Beginning Net Assets	(50,720,619)	(32,765,868)	(15,540,028)
Ending Net Assets	$ (68,803,893)	$ (50,720,619)	$ (32,765,868)

Under its License Agreement with the SCDOT, the Association is contractually obligated to reimburse SCDOT for its actual costs of routine roadway maintenance of the Southern Connector highway. These costs of roadway maintenance are to be paid from any net revenues remaining after payment of operating costs of the Southern Connector, debt service, and transfers to the Debt Service Reserve Accounts and the Renewal and Replacement Account that are required by the bond document. If revenues are not available to reimburse SCDOT for roadway maintenance costs, any unreimbursed amounts bear interest at 5% per year compounded annually. Maintenance costs for 2001 were stipulated in the License Agreement. The License Agreement states that after the first year, maintenance costs will be based on actual costs incurred by SCDOT. In 2004, we recorded SCDOT maintenance expense (an indirect operating expense) of $180,000 based on notification we received from the SCDOT of its actual costs of maintaining the Southern Connector during its fiscal year ended June 30, 2004. Since no revenues were available to pay this expense, it increased our SCDOT deferred maintenance account to $225,000 at December 31, 2004. The Southern Connector Toll Road was inspected by SCDOT in 2004 but had not received the results of this inspection at the time this management's discussion and analysis was prepared.

In 2004, our nonoperating interest revenues decreased by $38,230, or 3.6%, to $1,017,596. The decrease occurred because we depleted monies in our interest-bearing Construction Fund account and in the Senior

Bonds Debt Service Reserve Account. In January 2004, $725,591 was transferred from the Construction Fund to the Senior Bonds Debt Service Account to pay debt service on the Senior Bonds. The 2004 decrease in our Senior Bonds Debt Service Reserve Account occurred because we spent monies for interest payments on the bonds. Monies in the Construction Fund earned interest at approximately 1.7% per year in 2004, while monies in the Debt Service Reserve Accounts earned interest at 5.4% per year.

A significant portion of our nonoperating expenses does not require any cash outlays. In 2004, the noncash portion totaled $16,785,270. Noncash, nonoperating interest expense that increased the balance due on the bonds was $11,403,242 in 2004. Noncash, nonoperating depreciation and amortization expenses totaled $5,382,028 in 2004 and decreased the carrying amounts of certain assets. The primary asset affected by amortization was the Association's interest in its License Agreement with SCDOT. (See the "Capital Assets" section of this management's discussion and analysis for more information.) The increase in these noncash, nonoperating expenses was 3.4% in 2004 and was due to the increase in the amount of interest accretions on the Capital Appreciation Bonds under the bonds' accretion schedule.

2003 Compared to 2002

In 2003, operating income was $762,117, an increase of $166,699 over the 2002 amount of $595,418. Total operating revenues for 2003 increased approximately 8.2%, while 2003 operating expenses only increased approximately 3.4%. Nonoperating revenues, which consisted of interest earned on monies in bank accounts and investments, decreased 11.3% to $1,055,826 in 2003. In 2003, our nonoperating shortfall was $18,716,868.

In 2002, other operating revenues consisted primarily of sponsor advertising revenues. However, our contract with the sponsor ended, so other operating revenues decreased by 98.1% from 2002 to 2003.

Total operating expenses for 2003 increased by $85,611, or 3.4%. In 2003, expenses for direct operations of the Southern Connector Toll Road were $1,756,257, an increase of 9.6%. This increase was due primarily to equipment-related costs. In 2003, contract service fees for toll equipment maintenance was $135,664. In 2002, the toll equipment was maintained at the expense of the toll system vendor. In addition, the Association bought $21,373 of items such as signs, security cameras and traffic cones that were expensed because their cost was below the Association's capitalization limit of $5,000. Indirect operating expenses decreased by 7.9% to $817,377. Advertising expense decreased by $79,266 and professional fees decreased by $191,247 due to cost-cutting measures taken in 2003. Also, management fees decreased by $112,105 as the Association terminated the operations contract with the management company. (See Note 6 to the basic financial statements.)

In 2003, SCDOT maintenance expense was recorded at $212,070 based on notification we received from the SCDOT of its actual costs of maintaining the Southern Connector during its fiscal year ended June 30, 2003. Of this amount, $167,070 was a noncash expense and $45,000 was unpaid and recorded as our SCDOT deferred maintenance liability at December 31, 2003. The noncash expense occurred because we amortized prepayments of roadway maintenance that took place in 2001. As mentioned above, the 2001 cost of maintenance was stipulated in the License Agreement. Since this cost exceeded SCDOT's actual cost of maintenance in 2001, in 2002, we recognized a credit of $96,945 for SCDOT maintenance fees and recorded an asset for prepaid SCDOT maintenance costs. It was this asset that was amortized in 2003. SCDOT inspected the Southern Connector Toll Road in 2003 and gave it an excellent rating for pavement quality.

The 2003 decrease in our nonoperating interest revenues was $134,829, or 11.3%, to $1,055,826. Again, it happened because we depleted monies in our interest-bearing Construction Fund account and in the Senior Bonds Debt Service Reserve Account. The Construction Fund decreased because monies were spent to pay the early completion bonus and additional costs of building the Southern Connector Toll

Road. The Senior Bonds Debt Service Reserve Account decreased because we spent monies for interest payments on the bonds. Monies in the Construction Fund earned interest at approximately 1.1% per year in 2003, while monies in the Debt Service Reserve Accounts earned interest at 5.4% per year.

Approximately $16,240,318 of 2003 nonoperating expenses did not require any cash outlays. Noncash, nonoperating interest expense that increased the balance due on the bonds was $10,863,421 in 2003. Noncash, nonoperating depreciation and amortization expenses totaled $5,376,897, and decreased the carrying amounts of certain assets. The primary asset affected by amortization in 2003 was the Association's interest in its License Agreement with SCDOT. (See the "Capital Assets" section of this management's discussion and analysis for more information.) The 4.9% increase in these noncash, nonoperating expenses from 2002 resulted because the amount of interest accretions on the Capital Appreciation Bonds increased under the bonds' accretion schedule, and overall amortization of the License Agreement increased as other costs were capitalized.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets at December 31, 2004 and 2003 consisted of equipment and an intangible asset, the Association's interest in a License Agreement with SCDOT. This License Agreement grants the Association the rights to acquire, construct, finance and operate the Southern Connector Toll Road. Through research of governmental accounting literature and consultations with various governmental accounting specialists, we determined that our interest in the license agreement should be valued at the cost of construction of the Southern Connector, including interest capitalized during the construction period. Although the term of the License Agreement is for 50 years, it automatically terminates upon payment of all of the bonds, scheduled to happen in 2038. Therefore, we are amortizing our interest in that License Agreement over the shorter period of approximately 37 years, from opening of the Southern Connector Toll Road in 2001 to 2038.

At December 31, 2004, the Association had $173,220,585 invested in capital assets (See Table 5). This amount represents a net decrease of $5,309,845, or 3.0%, from 2003 amounts. The amount invested at December 31, 2003, was $178,530,430, a net decrease of $4,520,765 (2.5%), from 2002 amounts.

Our primary asset is our interest in the License Agreement with SCDOT. In 2004, its carrying amount decreased by 2.9% to $173,019,245, due to amortization taken during the year. Its 2003 carrying amount decreased 2.5% to $178,262,253. That net decrease was composed of $713,105 of additional costs incurred in building the Southern Connector Toll Road offset by $5,237,877 of amortization. The additional costs included payment for punch list items related to the toll system and wetlands mitigation.

Equipment, Net decreased 24.9% in 2004. This net decrease was composed of $46,279 of new vehicles offset by depreciation totaling $112,451 and write-offs of defective equipment of $665. In 2003, Equipment, Net increased by 1.5%. That net increase consisted of $43,368 of new signage and $64,344 of new vehicles, offset by depreciation totaling $103,164 and write-offs of defective equipment of $541.

At December 31, 2004 and 2003, we had no construction commitments outstanding under the contract with the developer of the Southern Connector. When we refer to "construction commitments," we mean the portion of the contract price for the construction of the Southern Connector that had not yet been paid or accrued at December 31, 2004 and 2003. At December 31, 2002, construction commitments outstanding totaled $776,947 and were for the toll system and for wetlands mitigation.

Table 5
Changes in Capital Assets at Year-End
(Net of Depreciation)

	2004	2003	2002
Equipment, Net	$ 201,340	$ 268,177	$ 264,170
Interest in License Agreement with SCDOT, Net	173,019,245	178,262,253	182,787,025
Total Capital Assets, Net	$ 173,220,585	$ 178,530,430	$ 183,051,195

SCDOT approved Final Completion of the Southern Connector effective December 22, 2003. In January 2004, in accordance with the terms of the bond documents, we transferred $725,591 from the Construction Fund to the Debt Service Fund. The remaining balance in the Construction Fund is being used to pay for miscellaneous costs related to the Toll Road such as additional highway signs, reflective roadway markers and other items.

Debt Administration

Long-term debt at December 31, 2004 and 2003 included Toll Road Revenue Bonds with maturity dates ranging from 2008 to 2038. The balances of these bonds at December 31, 2004 and 2003 were $264,444,140 and $253,040,898, respectively. The balances increased 4.5% each year ($11,403,242 in 2004 and $10,863,421 in 2003) due to accretions on the Series 1998B Senior Capital Appreciation Bonds and on the Series 1998C Subordinate Capital Appreciation Bonds. Principal payments on the Series 1998A Senior Current Interest Bonds do not begin until January 2008. Due to the accretion schedule on the Capital Appreciation Bonds, the balance of bonds payable will continue to increase for the next several years. All of the bonds are payable solely by the Association from toll revenues. None are obligations of the State of South Carolina.

Currently, we are not receiving sufficient toll revenues to pay debt service on the Senior Bonds. We had to use approximately $72,320 of monies from our Senior Bonds Debt Service Reserve Account to meet the Senior Bond 2002 debt service payment due in January 2003. We used approximately $1,630,583 of monies from our Senior Bonds Debt Service Reserve Account to meet the Senior Bond 2003 debt service payments due in July 2003 and January 2004, and approximately $1,285,236 of such monies to meet the Senior Bond 2004 debt service payments due in July 2004 and January 2005. We acknowledge that unless future traffic counts and toll revenues increase to a level that will allow the Association to pay debt service as well as operating expenses, we will continue to be required to use Senior Bonds Debt Service Reserve Account monies to meet some portion of our debt service obligations. (See Note 1, item K to the basic financial statements for more information about the Funds and Accounts created under the bond indenture and the required flow of the Association's funds.)

As a result of both lack of driver demand for the Southern Connector Toll Road and our need to use debt service reserve funds to meet the Association's debt service payment, in January 2003, Standard and Poor's ("S&P") downgraded the rating of the our bonds to B-minus and changed the outlook to stable. In January 2004 and 2005, S&P affirmed that rating and outlook. The Association's Series 1998C Subordinate Capital Appreciation Bonds are not rated.

The Association's bond indenture contains provisions pertaining to the replenishment of the Debt Service Reserve Accounts in the event that monies from these accounts are used to pay debt service. In 2003, because of our inability to replenish the Senior Bonds Debt Service Reserve Account, the Trustee declared that an event of default had occurred under the indenture. We have consulted our legal counsel regarding this matter, and believe that the Trustee has misinterpreted the terms of the indenture. Although to date, we have been unable to resolve this interpretation issue with the Trustee, we have worked with the Trustee towards a resolution. In April 2003, we entered into a Tolling Agreement with the Trustee. In April 2004, the Tolling Agreement was renewed through April 2005 and shall automatically be extended from year to year unless either party gives the other at least sixty (60) days written notice that the Tolling Agreement shall expire on the next succeeding April 30. The Trustee and the Association have agreed that the Association’s inability to replenish the Senior Bonds Debt Service Reserve Account will not be considered an event of default while the Tolling Agreement is in effect. (See Note 1, item K and Note 13 to the basic financial statements for more information about the terms of the bond indenture and the debt service reserve replenishment issue.)

In January 2005, the Association became subject to the revenue covenant established in its bond documents. The terms of this revenue covenant and the Association’s response are discussed above in the “Economic Factors and Next Year’s Budget” section of this management’s discussion and analysis.

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 contact Connector 2000 Association, Inc., at Post Office Box 408, Piedmont, South Carolina 29673 or by telephone at (864) 527-2150.

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

STATEMENTS OF NET ASSETS - PROPRIETARY FUND

DECEMBER 31, 2004 AND 2003

ASSETS	**Business-Type Activities - Enterprise Fund**	
	2004	**2003**
Current Assets:		
Cash and Cash Equivalents	$ 682,006	$ 486,179
Cash and Cash Equivalents - Restricted	790,859	1,397,166
Investments	202,945	150,000
Investments - Restricted	1,240,266	747,093
Interest Receivable	24,657	734
Prepaid Expenses	51,251	44,505
Inventory	89,997	72,001
Total Current Assets	3,081,981	2,897,678
Noncurrent Assets:		
Restricted Assets for Debt Service Reserve Funds:		
Interest Receivable	473,287	509,491
Accounts Receivable	-	7,400
Investments	16,772,509	17,944,701
Total Restricted Assets for Debt Service Reserve Funds	17,245,796	18,461,592
Capital Assets:		
Equipment	589,597	546,643
Interest in License Agreement with SCDOT	192,472,174	192,472,174
Less: Accumulated Depreciation and Amortization	(19,841,186)	(14,488,387)
Total Capital Assets	173,220,585	178,530,430
Other Assets:		
Bond Issuance Costs (Net of Accumulated Amortization of $433,675)	1,924,455	1,987,155
Underwriters' Fees on Bonds (Net of Accumulated Amortization of $527,880)	2,342,720	2,419,040
Total Other Assets	4,267,175	4,406,195
TOTAL ASSETS	**197,815,537**	**204,295,895**
LIABILITIES		
Current Liabilities:		
Accounts Payable	38,776	47,960
Deferred Toll Revenue	123,659	90,244
Transponder Deposits	10,540	8,820
SCDOT Deferred Maintenance	225,000	45,000
Amounts Payable from Restricted Assets:		
Accrued Interest Payable	1,765,750	1,765,750
Requisitions Payable	11,565	17,842
Total Current Liabilities	2,175,290	1,975,616
Noncurrent Liabilities:		
Revenue Bonds Payable, Net	264,444,140	253,040,898
Total Noncurrent Liabilities	264,444,140	253,040,898
TOTAL LIABILITIES	**266,619,430**	**255,016,514**
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	(29,673,841)	(23,125,663)
Restricted for:		
Debt Service	253,923	-
Capital Projects and Other Purposes	11,452	800,188
Unrestricted	(39,395,427)	(28,395,144)
TOTAL NET ASSETS (DEFICIT)	**$ (68,803,893)**	**$ (50,720,619)**

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

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

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

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Business-Type Activities - Enterprise Fund	
OPERATING REVENUES	**2004**	**2003**
Toll Revenues	$ 3,769,428	$ 3,333,252
Other Toll Road Revenues	-	2,499
TOTAL OPERATING REVENUES	**3,769,428**	**3,335,751**
OPERATING EXPENSES		
Reimbursed Direct Toll Road Expenses:		
Automobile	10,671	16,130
Bank Fees and Charges	41,351	41,996
Contract Labor	43,796	124,794
Contract Services	355,462	179,393
Credit Card Discount Fees	23,090	16,937
Employee Benefits	188,807	135,447
Miscellaneous	40,956	33,603
Office Supplies	26,128	27,144
Payroll Taxes	76,231	79,681
Repairs and Maintenance	37,815	23,415
Salaries	940,519	967,099
Telephone	31,900	35,318
Utilities	79,254	75,300
Total Reimbursed Direct Toll Road Expenses	1,895,980	1,756,257
Other Toll Road Expenses:		
Advertising	33,054	50,876
Depreciation	112,451	103,164
Insurance	134,592	154,218
Marketing	30,379	31,252
Professional Fees	160,580	243,511
Toll Highway Management Fees	337	22,286
SCDOT Maintenance Expense	180,000	212,070
Total Other Toll Road Expenses	651,393	817,377
TOTAL OPERATING EXPENSES	**2,547,373**	**2,573,634**
OPERATING INCOME	**1,222,055**	**762,117**
NONOPERATING REVENUES (EXPENSES)		
Interest Earned on Cash Equivalents and Investments	1,017,596	1,055,826
Interest Expense	(14,940,897)	(14,395,797)
Amortization for:		
Interest in License Agreement with SCDOT	(5,243,008)	(5,237,877)
Bond Issuance Costs	(62,700)	(62,700)
Underwriters' Fees	(76,320)	(76,320)
TOTAL NONOPERATING REVENUES (EXPENSES)	(19,305,329)	(18,716,868)
DECREASE IN NET ASSETS	(18,083,274)	(17,954,751)
NET ASSETS (DEFICIT), Beginning of Year	(50,720,619)	(32,765,868)
NET ASSETS (DEFICIT), End of Year	**$ (68,803,893)**	**$ (50,720,619)**

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

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

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Business-Type Activities - Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES	**2004**	**2003**
Receipts from:		
Toll Collections	$ 3,804,563	$ 3,370,099
Other Toll Road Operations	-	2,499
Payments for:		
Toll Road Employees and Contract Labor	(1,249,353)	(1,307,021)
Toll Highway Management Fee	(337)	(22,286)
Vendors and Service Providers	(1,044,770)	(2,934,656)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,510,103	(891,365)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(46,279)	(107,712)
Construction Costs Paid on Southern Connector	-	(713,105)
Interest Paid on Bonds Payable	(3,537,655)	(3,532,376)
Other	7,400	30,541
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,576,534)	(4,322,652)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Investments	626,074	1,450,737
Interest Earned	1,029,877	549,250
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,655,951	1,999,987
DECREASE IN CASH AND CASH EQUIVALENTS	**(410,480)**	**(3,214,030)**
CASH AND CASH EQUIVALENTS, Beginning of Year	1,883,345	5,097,375
CASH AND CASH EQUIVALENTS, End of Year	**$ 1,472,865**	**$ 1,883,345**

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

Unrestricted Cash and Cash Equivalents - Current Assets	$ 682,006	$ 486,179
Restricted Cash and Cash Equivalents - Current Assets	790,859	1,397,166
Total Cash and Cash Equivalents Shown on Statement of Net Assets	**$ 1,472,865**	**$ 1,883,345**

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

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

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Business-Type Activities - Enterprise Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	**2004**	**2003**
Operating Income	$ 1,222,055	$ 762,117
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation Expense	112,451	103,164
Loss on Disposal of Capital Assets	665	-
Change In:		
Prepaid Expenses	(6,746)	177,057
Inventory	(17,996)	(72,001)
Accounts Receivable	-	-
Accounts Payable	(9,184)	6,103
Maintenance Fee Payable to SCDOT	-	-
Deferred Toll Revenue	33,415	34,527
Transponder Deposits	1,720	2,320
SCDOT Deferred Maintenance	180,000	45,000
Accrued Early Completion Bonus	-	(1,850,000)
Requisitions Payable	(6,277)	(99,652)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 1,510,103	$ (891,365)
NONCASH INVESTING, CAPITAL AND FINANCING ITEMS		
Amortization of Interest in License Agreement with SCDOT	$ 5,243,008	$ 5,237,877
Amortization of Bond Issuance Costs	62,700	62,700
Amortization of Underwriters Fees on Bonds	76,320	76,320
Amortization of Original Issue Discount on Series 1998A Bonds	80,280	80,280
Interest Accreted on Series 1998B and 1998C Bonds	11,322,962	10,783,141
Accrual of Interest Payable	1,765,750	1,765,750
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ITEMS	$ 18,551,020	$ 18,006,068

The notes to the basic financial statements are an integral part of this statement
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.

Although the Association was formed in 1996, its first financial activity occurred during February, 1998. At that time, the Association entered into a license agreement (the "License Agreement") with the SCDOT that grants the Association rights and obligations to finance, acquire, construct, and operate an approximately 16 mile fully controlled access toll highway (the "Southern Connector") and to construct the South Carolina Highway 153 Extension (the "SC 153 Extension") (collectively, the "Projects"). Toll road revenue bonds were issued on February 11, 1998, to finance the construction of the Southern Connector.

The Association is only responsible for financing the Southern Connector portion of the Projects. The SCDOT provided financing for the SC 153 Extension portion of the Projects. The accompanying financial statements do not include any assets, liabilities or expenses related to the SC 153 Extension.

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, and the fact that the SCDOT also determines the toll rates that will be charged. The Association is governed by a Board of Directors approved by the SCDOT.

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

The GASB is the standard-setting body for establishing governmental accounting and financial reporting principles. In these financial statements, FASB pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. As allowed by GAAP, the Association has elected not to apply the FASB pronouncements issued after November 30, 1989. The accounting and reporting framework and the more significant accounting policies are described next.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Pursuant to governmental GAAP, in evaluating the Association as a reporting entity, management must consider all potential component units. The primary criterion for determining inclusion or exclusion of a legally separate entity as a component unit is financial accountability, which is presumed to exist if the Association both appoints a voting majority of the entity's governing body, and either 1) the Association is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on, the Association. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the Association. In order to be considered fiscally independent, an entity must have the authority to do all three of the following:

- i) Determine its budget without the Association having the authority to approve or modify that budget;
- ii) Levy taxes or set rates or charges without approval by the Association; and
- iii) Issue bonded debt without approval by the Association.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the Association's financial statements to be misleading or incomplete. Based on the criteria above, the Association has no component units required to be included in the Association's basic financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Association (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 for the years ended December 31, 2004 and 2003.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Association.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Presentation and Accounting

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Since the Association uses only enterprise funds to account for its activity, there are no differences between the government-wide financial statements and the fund financial statements.

The accounts of the government 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 following fund type:

Proprietary fund types are accounted for based on the flow of 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 applies all applicable Governmental Accounting Standards Board (“GASB”) pronouncements, as well as the requirements of Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) Opinions, and Accounting Research Bulletins (“ARBs”), issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Association has elected not to follow the aforementioned guidance issued after November 30, 1989 as allowed by GAAP. 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. The Association has one major Enterprise Fund:

> The **Operating Fund** is used to account for all of the operations of the Association. All activities to provide such services 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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 non-operating revenues and expenses. Thus, the principal operating revenues of the Association are toll revenues received from patrons. Operating expenses of the Association consist of the costs of operating the Southern Connector, including administrative expenses, toll road management fees, contractual maintenance fees paid to SCDOT, and depreciation of equipment. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Non-operating revenues include interest earned on cash equivalents and investments. The Association's amortization of its intangible interest in the License Agreement with SCDOT is reported as a non-operating expense. The Association has no plans to renew or extend the License Agreement upon its earliest expiration date.

The Master Indenture of Trust and supplements (the Trust Agreement) related to the Series 1998A, 1998B, and 1998C Bonds; require that the Association adopt governmental GAAP. The Trust Agreement also requires that certain funds and accounts be established and maintained. The Association consolidates these funds and accounts for the purpose of enterprise fund presentation in its external financial statements.

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

D. Use of Estimates

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

E. Budget

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

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

G. Investments

The Trust Agreement requires that all bond proceeds received by the Association be held in trust to be expended in accordance with the indenture guidelines. All monies held in trust that are not insured by the Federal Deposit Insurance Corporation ("FDIC") must be secured by and/or invested in investment securities as defined in the Trust Agreement. Investment securities include, but are not limited to, direct obligations of, or obligations guaranteed by, the United States of America or an agency thereof (Note 2). The Association's investments are stated at fair market value (quoted market price or the best available estimate thereof).

H. Receivables

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

I. Prepaid Expenses

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

J. Interest in License Agreement with SCDOT

The Association's License Agreement with SCDOT grants 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 License Agreement provide that the Association finance and construct the Southern Connector and construct the SC 153 Extension with financing provided by the SCDOT. However, the SCDOT at all times retained fee simple title to the Southern Connector and to the SC 153 Extension, to all real property and improvements thereon, and to all rights-of-way acquired during construction. The Southern Connector was opened for traffic on February 27, 2001, and began collecting tolls on March 14, 2001. On July 22, 2001, the Southern Connector attained Substantial Completion. On December 22, 2003, the Southern Connector attained Final Completion. Beginning one year after the date of Final Completion, the Association will be required to pay monthly license fees to SCDOT (See Note 5 for further details).

The Association's interest in the License Agreement constitutes an intangible asset relating to the Southern Connector that began generating revenues upon commencement of operations. In order to account for its interest in the License Agreement, the Association capitalized all costs of acquisition and construction of the Southern Connector, including interest expense incurred during the construction period. (See Note 1, item Q.) Upon commencement of operations, the Association began amortizing its interest in the License Agreement on a straight-line basis over the remaining term of the License Agreement through 2038 (See Note 5 for further details).

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Restricted Assets

Certain proceeds of the Revenue Bonds are restricted by applicable bond covenants for construction, payment of operating, and other expenses, or are set aside as reserves to ensure repayment of the bonds. Certain other assets are accumulated and restricted on a monthly basis in accordance with the Trust Agreement for the purposes of paying debt interest payments, due on a semiannual basis, and principal payments, due on an annual basis, and for the purpose of maintaining reserve funds at the required levels. The Trust Agreement provisions govern payments from the restricted accounts. Limited types of expenses may be funded from these restricted accounts. The funds and accounts are established as follows:

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

The *Revenue Fund* was established to hold all revenues from toll road operations. The Trust Agreement provides that all revenues from the operation of the Southern Connector shall be delivered by the Association to the Trustee immediately upon receipt by, or on behalf of, the Association and shall be deposited by the Trustee into the Revenue Fund. The Trustee is obligated to transfer money on a monthly basis from the Revenue Fund to the other various funds established under the Trust Agreement in the priority listed below:

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

2. The Association shall transfer amounts to the Rebate Fund so that the amounts deposited equal the required amounts.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Restricted Assets (Continued)

5. The Trustee shall transfer to the Subordinate Bonds Debt Service Account amounts which, when added to other amounts in the Subordinate Bonds Debt Service Account and available for such purposes, will provide for the accumulation, in substantially equal monthly installments, or otherwise as may be 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 Subordinate Bonds (within the next six months) on the next interest payment date for such Series; and

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

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

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

8. The Trustee shall pay to SCDOT amounts certified by an Authorized Association Representative as being due SCDOT for (i.) the Maintenance Costs reimbursable to SCDOT under the License Agreement, together with any accruals from prior periods and interest owed thereon under the 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 therefore on the Completion Date.

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

10. Money remaining in the Revenue Fund shall 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 is not a Senior Bond or Subordinate Bond, at the time and in the amount provided for in such instrument.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Restricted Assets (Continued)

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

The *Renewal and Replacement 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. At December 31, 2004 and 2003, this account was inactive.

The *Program Fund*, consisting of the Retained Balance and the General Account, was established to hold monies in reserve to pay debt service if monies in other accounts are insufficient for such purpose and to pay other fees and costs as defined in the Trust Agreement. The *Program Fund Retained Balance Account* was inactive at December 31, 2004 and 2003.

The *Rebate Fund* was established for the purpose of holding and paying arbitrage investment earnings to the United States 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, 2004 and 2003, the *Rebate Fund* was inactive.

L. Compensated Absences

The Association grants its regular full time employees 10 vacation days and 10 holidays per year. Employees receive no sick days but are allowed to use vacation or holiday time when sick. All vacation and holiday time must be taken in the year earned. Therefore, at year end there are no accumulating vacation or holiday benefits, thus there is no liability that must be recognized. At December 31, 2004 and 2003, no liability or expense was recorded in these basic financial statements.

M. Capital Assets

All capital 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.

Pursuant to this policy, equipment with costs greater than $5,000 and intangible assets with costs in excess of $100,000 are capitalized. Equipment depreciation is computed using the straight-line method over the equipment's estimated useful life of five years. A full year of depreciation is taken in the year an asset is placed in service. The Association's interest in its License Agreement with SCDOT is amortized over the term of the License Agreement, which ends year 2038 (See Note 5 for further details). When capital assets are disposed of, the cost and accumulated depreciation is removed from the books. The resulting gain or loss is included in operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. 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 assets. Bond issuance costs, discounts, and underwriters' fees on all bonds are deferred and amortized over the terms of the bonds. Bond discounts are amortized using the bonds outstanding method, which approximates the effective interest method. Bond issuance costs and underwriters' fees are amortized using the straight-line method.

Bond discounts are presented as a reduction of the face amount of the related revenue bonds payable whereas bond issuance costs and underwriters' fees are recorded as other assets.

O. 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. 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 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, 2004 and 2003, no such liability had been incurred.

P. Fund Equity

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

Invested in capital assets, net of related debt — Consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets (including the accreted interest liability that was capitalized during its Development Stage).

Restricted net assets — Consists of net 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. In all cases, if individual restricted net asset categories are negative, the negative balance is eliminated and reclassified against unrestricted net assets.

Unrestricted net assets — All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

The Association's net deficit at December 31, 2004 and 2003 has resulted from shortfalls since commencement of operations due to lower than expected traffic counts and toll revenue. The Association anticipates that future development along the Southern Connector corridor will encourage increased traffic, which in turn, will generate toll revenues that will reduce the deficit.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Interest Capitalization

In accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, the Association capitalized the interest costs incurred during the construction of the Southern Connector. The amount of interest capitalized for assets constructed with tax-exempt borrowings consisted of the interest cost of the borrowings, including amortization of the original issue discount, less interest earned on the related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings, incurred prior to commencement of toll road operations.

R. Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

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

The following schedule reconciles deposits and investments within the footnotes to the amounts in the statement of net assets:

Statement of Net Assets			**Notes**		
	2004	**2003**		**2004**	**2003**
Unrestricted Current Assets:					
Cash and Cash Equivalents	$ 682,006	486,179	Deposits	886,035	$ 537,876
Investments	202,945	150,000	Investments	18,802,550	20,187,263
Restricted Current Assets:					
Cash and Cash Equivalents	790,859	1,397,166			
Investments	1,240,266	747,093			
Noncurrent Assets:					
Restricted Investments	16,772,509	17,944,701			
	$ 19,688,585	20,725,139		19,688,585	$ 20,725,139

NOTE 2 – DEPOSITS AND INVESTMENTS, (CONTINUED)

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires entities to categorize their bank deposits to give an indication of the level of risk assumed at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover deposits if the depository financial institution fails to recover the value of collateral securities that are in the possession of an outside party if the counter-party to the deposit transaction fails. There are three categories of deposit credit risk as follows:

(Category 1) – insured or collateralized with securities held by the Association or by its agent in the Association's name,

(Category 2) – collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name, and

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

The Association's bank balances and carrying amounts at December 31, 2004 and 2003, were as follows:

	Risk Category			Bank	Carrying
Year	1	2	3	Balance	Amount
2004	$ 568,243	-	319,784	888,027	$ 886,035
2003	$ 316,532	-	207,485	524,017	$ 537,876

The Association had deposits of approximately $320,000 and $207,000 that were uninsured and uncollateralized at December 31, 2004 and 2003, respectively.

None of the deposits above were on deposit with the South Carolina State Treasurer.

See Note 1, item K and Note 10 for additional information about restrictions on deposits in and balances of the various Trust Funds at December 31, 2004 and 2003.

Pursuant to requirements of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, at December 31, 2004 and 2003, the Association's investments in repurchase agreements were categorized to give an indication of the level of risk assumed by the Association at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counter-party to the investment transaction fails. There are three categories of investment credit risk as follows:

(Category 1) – insured or registered, or securities held by the Association or by its agent in the Association's name,

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

(Category 2) – uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Association's name, and

(Category 3) – uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent, but not in the Association's name, including the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities.

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

The Association's investments at December 31, 2004 and 2003 were as follows:

	Risk Category			Carrying	Market
2004	1	2	3	Amount	Value
Repurchase Agreements	$ -	17,292,761	-	17,292,761	$ 17,292,761
US Treasury Note	-	718,931	-	718,931	702,638
Total Investments	$ -	18,011,692	-	18,011,692	17,995,399
Investments Not Subject to Categorization:					
Open Ended Money Market Mutual Funds				790,858	790,858
				18,802,550	$ 18,786,257

	Risk Category			Carrying	Market
2003	1	2	3	Amount	Value
Repurchase Agreements	$ -	18,691,794	-	18,691,794	$ 18,691,794
Total Investments	$ -	18,691,794	-	18,691,794	18,691,794
Investments Not Subject to Categorization:					
Open Ended Money Market Mutual Funds				1,495,469	1,495,469
				20,187,263	$ 20,187,263

The investment types listed above include all investment types in which monies were held during the year ended December 31, 2004 and 2003. None of the investments above were with the South Carolina State Treasurer.

For information regarding restricted assets at December 31, 2004, see Note 1, item K, and Note 10 for additional information regarding restricted assets.

NOTE 3 – RECEIVABLES

At December 31, 2004 and 2003, the Association's receivables were as follows:

	2004	2003
Receivables:		
Interest	$ 497,944	$ 510,225
Right-of-way Refunds	-	7,400
Total Receivables	$ 497,944	$ 517,625

NOTE 4 – CAPITAL ASSETS

The following tables summarize the changes in capital assets of the Association during the past two years and their balances at December 31, 2004 and 2003:

Description	Balance December 31, 2003	Additions	Disposals	Balance December 31, 2004
Capital Assets:				
Interest in License Agreement with SCDOT	$ 192,472,174	-	-	$ 192,472,174
Equipment	546,643	46,279	(3,325)	589,597
Subtotal Capital Assets	193,018,817	46,279	(3,325)	193,061,771
Less: Accumulated Depreciation/Amortization:				
Interest in License Agreement with SCDOT	14,209,921	5,243,008	-	19,452,929
Equipment	278,466	112,451	(2,660)	388,257
Subtotal Accum. Depreciation/Amortization	14,488,387	5,355,459	(2,660)	19,841,186
Totals	$ 178,530,430	(5,309,180)	(665)	$ 173,220,585

Description	December 31, 2002	Additions	Disposals	December 31, 2003
Capital Assets:				
Interest in License Agreement with SCDOT	$ 191,759,069	713,105	-	$ 192,472,174
Equipment	440,284	107,712	(1,353)	546,643
Subtotal Capital Assets	192,199,353	820,817	(1,353)	193,018,817
Less: Accumulated Depreciation/Amortization:				
Interest in License Agreement with SCDOT	8,972,044	5,237,877	-	14,209,921
Equipment	176,114	103,164	(812)	278,466
Subtotal Accum. Depreciation/Amortization	9,148,158	5,341,041	(812)	14,488,387
Totals	$ 183,051,195	(4,520,224)	(541)	$ 178,530,430

NOTE 4 – CAPITAL ASSETS, (CONTINUED)

At December 31, 2004 and 2003, depreciation and amortization expense related to capital assets was $5,355,459 and $5,341,041, respectively. See Note 1, item M for additional information about the Association's capitalization policy, and its methods of calculating depreciation and amortization.

The Association had no construction commitments outstanding at December 31, 2004 and 2003, respectively.

NOTE 5 – INTEREST IN LICENSE AGREEMENT WITH SCDOT

On February 11, 1998, the Association entered into the License Agreement with the SCDOT regarding the construction and operation of the Southern Connector and SC 153 Extension Projects (the "Projects"). The License Agreement grants 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.

In order to finance the Southern Connector, the Association issued three series of toll road revenue bonds pursuant to the Trust Agreement, more particularly described in Note 10 (the "Bonds"). Interest on the Bonds is exempt from both federal income tax and South Carolina income tax. The Bonds are special limited obligations of the Association, payable solely from net revenues and monies held in certain accounts and other property included in the trust estate established by the Trust Agreement. The bonds are not, and shall never, constitute indebtedness to the State of South Carolina, the SCDOT, or any agency, department or political subdivision of the State of South Carolina. (See Note 10 for additional information.)

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

In order to fulfill its responsibilities under the License Agreement, the Association entered into an agreement (the "Development Agreement") with Interwest Carolina Transportation Group, LLC (the "Developer") whereby the Developer agreed to perform the obligations of the Association under the License Agreement with respect to construction of the Southern Connector and the SC 153 Extension and assumed various additional responsibilities. In order to fulfill its responsibilities under the Development Agreement, the Developer in turn entered into contracts with various subcontractors for the performance of certain obligations. The Developer agreed to complete the construction of the Southern Connector at a guaranteed price of $173,802,263, which included acquisition of all rights-of-way, relocation of utilities and railroads, and all design and construction activities, including toll plazas, toll collection equipment, operations systems and other costs. The Developer commenced construction on February 27, 1998. On February 23, 2001, the Association received notification from the SCDOT of its acceptance of the roadways and bridges, thereby permitting the Association to commence operations of the Southern Connector. On February 27, 2001, the Southern Connector was opened to the public. At that time, traffic was allowed on the Southern Connector free for a two-week introductory period. Toll collection operations began on March 14, 2001. Substantial completion was reached on July 22, 2001. On December 22, 2003, the Southern Connector attained Final Completion.

NOTE 5 – INTEREST IN LICENSE AGREEMENT WITH SCDOT (CONTINUED)

The Association will be required to pay a license fee to the SCDOT in the amount of $125,000 per month for a period of 25 years, commencing thirteen months (starting at the end of January 2005) after Final Completion of the Southern Connector and of $1 per month thereafter for the remainder of the term of the License Agreement. Payment of the monthly license fees will commence on the first day of the calendar month following the first anniversary of the Final Completion date of the Southern Connector. Payment of the license fee is ninth in priority according to the flow of funds set forth in Note 1. Item K. So long as any project debt remains outstanding, any license fees not paid when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually.

The SCDOT is responsible for maintaining the Southern Connector (costs of maintenance are to be reimbursed by the Association in eighth priority in the flow of funds set forth in Note 1, item K.) The SCDOT is responsible for setting the toll rates in accordance with the terms of the License Agreement. The SC 153 Extension, the costs of which are not included in the accompanying financial statements, is operated, maintained, renewed, and replaced by the SCDOT as part of the South Carolina Highway System. (See Note 6 for information regarding the Operations Contract.)

The Association's rights under the License Agreement, as described above, constitute an intangible asset that is valued and recorded at an amount equal to the cost of construction of the Southern Connector, including related capitalized interest. (See Note 1, item J for additional information.)

NOTE 6 – OPERATIONS CONTRACT

On December 28, 2000, the Association entered into a contract (the "Operations Contract") with Southern Interwest, LLC, (the "Contractor") whereby the Contractor would operate the Southern Connector on behalf of the Association for a fee. Under the Operations Contract, tolls for the use of the Southern Connector were collected by the contractor on behalf of the Association. Toll revenues are deposited into the Revenue Fund and applied as described in Note 1. Item K, herein. The Contractor was responsible for all work (as defined in the Operations Contract) relating to operations of the Southern Connector and all obligations of the Association under the License Agreement relating to the operation, repair, maintenance, and insurance of the Southern Connector. The Operations Contract had an original expiration date of December 31, 2004 and provided renewal options of successive one-year terms, upon the mutual agreement of the parties. For compensation for the services provided under the Operations Contract, the Association paid the Contractor for certain costs of work as defined in the Operations Contract plus a management fee and a subordinated management fee. The original management fee consisted of a regular monthly fee totaling $200,000 per year and a subordinated management fee of $100,000 per year. The subordinated fee not paid each year when due would be deferred and would accrue interest at a rate of 10% per annum compounded annually.

Effective March 1, 2002, the Association renegotiated the amount of the annual management fee. The annual management fee was reduced to $100,000 (payable in monthly installments) and the subordinated management fee of $100,000 was eliminated. Effective December 31, 2002, the Operations Contract was terminated, but later the Association agreed to extend the Contract through February 28, 2003 to assist in the transition to self-management of the toll highway. The Association agreed to compensate the managing agency for the additional effort necessary to complete the transition. The total management fees paid during 2003 was $16,667; there were no management fees paid during 2004.

NOTE 7 – ACCRUED INTEREST PAYABLE

At December 31, 2004 and 2003, accrued interest payable was $1,765,750, which consisted of the Senior Current Interest Bond (Series 1998A) payment which is due January 1 of 2005 and 2004, respectively. Interest is paid January 1 and July 1 of each year to holders of the Senior Bonds at rates of 5.250% and 5.375% per annum.

NOTE 8 – REQUISITIONS PAYABLE

Requisitions payable consisted of requisitions for payment of professional fees and services that had been incurred as of December 31, 2004 and 2003, but were not yet paid. The Association's Engineer approves all requisitions prior to payment from the Construction Fund.

NOTE 9 – INTEREST COSTS INCURRED

Interest costs expensed during the years ended December 31, 2004 and 2003, totaled $14,940,897 and $14,395,797, respectively.

NOTE 10 – BONDS PAYABLE

As discussed in Notes 1 and 5, the Association issued three series of tax-exempt toll road revenue Bonds pursuant to the Trust Agreement. All of the Bonds were issued on February 11, 1998. The Bonds are special limited obligations of the Association that are not, and shall never, constitute indebtedness to 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. Following is a brief description of each bond issue:

Series 1998A: Series 1998A Senior Current Interest Toll Road Revenue Bonds which were dated 2/11/98 - $66,200,000 original principal amount at issuance; interest payable semi-annually on January 1 and July 1 at rates of 5.250% and 5.375%; $21,400,000 of bonds mature January, 2023; $44,800,000 of bonds mature January, 2038. There was an original issue discount on the Series 1998A bonds at issuance of $2,693,952.

Series 1998B: Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds which were dated 2/11/98 - $87,385,622 original principal amount at issuance; interest accretes at various rates ranging from 5.30% to 5.85%; $438,100,000 of bonds mature serially from January 2008 to January 2038.

Series 1998C: Series 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds which were dated 2/11/98 - $46,592,058 original principal amount at issuance; interest accretes at various rates ranging from 6.15% to 6.30%; $241,800,000 of bonds mature serially from January 2008 to January 2038.

NOTE 10 – BONDS PAYABLE (CONTINUED)

Bonds payable changes during 2004 and balances at December 31, 2004, were as follows:

	Balance December 31, 2003	Increases	Decreases	Balance December 31, 2004
Senior Bonds				
Series 1998A	$ 66,200,000	-	-	$ 66,200,000
Original issue discount on Series 1998A	(2,218,962)	80,280	-	(2,138,682)
Subtotal Series 1998A	63,981,038	80,280	-	64,061,318
Series 1998B	122,101,517	7,136,925	-	129,238,442
Subordinate Bonds:				
Series 1998C	66,958,343	4,186,037	-	71,144,380
Totals	**$ 253,040,898**	**11,403,242**	**-**	**$ 264,444,140**

Bonds payable changes during 2003 and balances at December 31, 2003, were as follows:

	Balance December 31, 2002	Increases	Decreases	Balance December 31, 2003
Senior Bonds				
Series 1998A	$ 66,200,000	-	-	$ 66,200,000
Original issue discount on Series 1998A	(2,299,242)	80,280	-	(2,218,962)
Subtotal Series 1998A	63,900,758	80,280	-	63,981,038
Series 1998B	115,358,881	6,742,636	-	122,101,517
Subordinate Bonds:				
Series 1998C	62,917,838	4,040,505	-	66,958,343
Totals	**$ 242,177,477**	**10,863,421**	**-**	**$ 253,040,898**

Additions to bonds payable represents the amortization of original issue discount on the Series 1998A Senior Current Interest Toll Road Revenue Bonds, and accretions on the Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds and 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds. At December 31, 2004 and 2003, no principal payments on bonds were due within one year.

NOTE 10 – BONDS PAYABLE (CONTINUED)

A summary of the debt service requirements (annual principal and interest payments) to maturity for the Bonds is as follows:

Year Ending December 31	Principal	Interest	Totals
2005	$ -	3,531,500	$ 3,531,500
2006	-	3,531,500	3,531,500
2007	-	3,531,500	3,531,500
2008	6,200,000	3,507,875	9,707,875
2009-2013	42,500,000	16,775,500	59,275,500
2014-2018	67,200,000	15,213,625	82,413,625
2019-2023	99,600,000	13,210,750	112,810,750
2024-2028	135,800,000	10,604,876	146,404,876
2029-2033	177,500,000	7,148,751	184,648,751
2034-2038	217,300,000	2,660,625	219,960,625
Totals	$ 746,100,000	79,716,502	$ 825,816,502

As discussed in Note 1, item K, the terms of the Trust Agreement require the establishment of seven bank fund accounts as listed below. The proceeds of the Bonds were allocated among, and deposited into, certain of these accounts. The monies deposited into these accounts were invested as provided in the Trust Agreement. Authorized payments of construction costs, debt service, arbitrage rebates, operating costs, and renewal and replacement costs may only be paid from certain funds as specified in the Trust Agreement. Payment of debt service of the Bonds is secured by the Trust Estate, which includes all monies deposited into these various funds, excluding amounts in the rebate account and in the renewal and replacement account. The Trust Estate also includes the Association's interest in Revenues as defined in the Trust Agreement, the Association's interest in the License Agreement with the SCDOT, and any other property pledged as security for the Bonds.

The accounts established by the Trust Agreement and the balances therein at December 31, 2004 and 2003, were as follows:

Fund	**Amount**	
	2004	**2003**
Construction	$ 11,423	$ 800,188
Revenue	38,304	25,120
Debt Service	2,019,673	1,344,071
Debt Service Reserve	16,772,509	17,944,701
Renewal and Replacement	-	-
Program	-	-
Rebate	-	-
Total	$ 18,841,909	$ 20,114,080

During the years ended December 31, 2004 and 2003, payments from the various accounts were made in accordance with the terms of the Trust Agreement.

NOTE 10 – BONDS PAYABLE (CONTINUED)

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

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

- After the Southern Connector is completed and operational, an Engineer (as defined) must inspect the toll road annually and submit a report documenting the physical condition of the toll road, offering advice, recommendations and a cost estimate as to the proper operation of the toll road during the ensuing fiscal year, offering advice and recommendations regarding the insurance to be carried, and stating the amount to be deposited into the Renewal and Replacement Fund for the next fiscal year. During 2004, the Association notified the trustee that funding of the Renewal and Replacement Fund was seventh in the flow of funds listing of the trust agreement. To the extent that revenues are insufficient to make any such deposits, the amounts to be transferred to the Renewal and Replacement Funds are to be deferred.

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

- Beginning on the first day of the second full fiscal year immediately following the later of (i) the Final Completion date of the Southern Connector, and (ii) the last date through which interest on any of the bonds is to be paid from proceeds of the bonds, the tolls charged by the Association shall equal or exceed the greater of (a) 1.25 times the aggregate debt service on all outstanding Senior Bonds due in that fiscal year, and (b) the amount required to fund all transfers to the Senior Bonds Debt Service Reserve Fund as defined in the Trust Agreement, and to equal not less than 1.10 times the aggregate debt service on all outstanding Bonds due in that fiscal year. The Trust Agreement also specifies actions to be taken if the Association determines that revenues may be inadequate to meet this covenant.

- The Association monitors the covenants for compliance throughout the year. The Association believes it was in compliance with its bond covenants throughout 2004 and 2003.

NOTE 11 – 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 all of its 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 significant reductions in insurance coverage during the years ended December 31, 2004 and 2003.

NOTE 12 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2003, the Association paid $50,876 for advertising to an advertising agency controlled by a member of the Association's Board of Directors. During the year ended December 31, 2004, the Association had one small transaction (less than $1,000) with the aforementioned advertising agency. Management is not aware of any other related party transactions.

NOTE 13 – CONTINGENCIES

On March 21, 2003, the Trustee sent Notice #2 to the registered owners of the Bonds. In such notice, the Trustee informed the bondholders of a dispute concerning the interpretation Section 505 (1) of the Trust Agreement. As previously communicated to the bondholders, on January 2, 2003, the Trustee made a withdrawal of approximately $72,320 from the Senior Bonds Debt Service Reserve Account in order to pay a portion of interest payment then due on the Association's Series 1998A Senior Current Interest Bonds. On February 6, 2003, the Trustee notified the Association by letter that there were not sufficient Revenues available to replenish the Senior Bonds Debt Service Reserve Account to the level that existed prior to such withdrawal. The Trustee contends that Section 505(1) of the Trust Agreement requires the Association to deliver to the Trustee on or before the last day of each month monies sufficient to replenish the Senior Bonds Debt Service Reserve Account to the Senior Bonds Debt Service Reserve Account Requirement. The Association reminded the Trustee that the Indenture is a "lock box" structure, all of the Revenues available to pay the Bonds and replenish the funds and accounts of the Indenture are already transferred to the Trustee. The Association contends that the provisions of Section 505(1) merely direct the Trustee as to the disposition of Revenues among the various accounts and the ordering of transfers of such revenues. The Trustee and the Association were unable to resolve their differences in the interpretation of such section of the Trust Agreement and the Trustee notified the bondholders that an event of Default had occurred under Section 902(3) of the Trust Agreement. The Trustee informed bondholders it intends to forebear from initiating legal actions in connection with the alleged default and solicited their comment and direction. The Trustee and the Association entered into a Tolling Agreement dated as of April 16, 2003, (the "Tolling Agreement") whereby, among other matters, the Trustee and the Association agreed that the above-described event would not be deemed to be an Event of Default under the Trust Agreement during the term of the Tolling Agreement.

In the Tolling Agreement, the Association agrees not to assert any defense it may have based on the lapse of time under the statute of limitations during the term of the Tolling Agreement relating to the above-described events. This original agreement was to expire on April 30, 2004, but the expiration date could be extended upon mutual written agreement of the parties. In April 2004 the Association and the Trustee amended the Tolling Agreement by extending the term of the Tolling Agreement until April 30, 2005. The amendment also provided for the Tolling Agreement to automatically be extended thereafter for additional periods ending April 30th of each year unless either party gives the other at least sixty days advance written notice that the Tolling Agreement shall expire on the next succeeding April 30th.

NOTE 14 – SUBSEQUENT EVENTS

In compliance with the provisions of the Continuing Disclosure Agreement with Wachovia Bank, N.A, "the Trustee", the Association filed Event Notice No. 2005 announcing that the Trustee withdrew funds from the Senior Bonds Debt Service Reserve Account in order to pay a portion of the interest payment due on January 1, 2005.

In January 2005, the Association increased toll rates from $.75 to $1.00 per two axle vehicle along with corresponding increases to larger multi-axle vehicles in accordance with the requirements of the Trust Agreement. See Note 10 –concerning bond covenants for further information. This change was approved by the SCDOT.

NOTE 15 – OTHER MATTERS

In prior years, the Association was a Development Stage Enterprise focused on construction of the Southern Connector. During the Development Stage, expenses incurred by the Association increased its net deficit, since no toll road operations had begun and no revenues were earned. The road was opened to public traffic in early 2001 and toll collection commenced March 14, 2001.

Since commencing operations, the Southern Connector has experienced significantly lower traffic counts than those projected during the Traffic and Revenue Study performed in 1997 during the planning phase of the Southern Connector Project - less than half of the traffic volume projected in the Revenue Study.

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

Due to the factors discussed above, the Association's revenues for 2004 and 2003 fell well short of amounts anticipated, and the Association suffered a decrease in net assets (loss) of $18.1 million for 2004 and $18.0 million for 2003. In addition, the Association used a portion of its debt service reserve fund to help fund a portion of its 2003 and 2004 interest payments. In compliance with the provisions of the Continuing Disclosure Agreement, the Association has filed the required "Event Notice" for each withdrawal from the Senior Bonds Debt Service Reserve Account used to pay a portion of the interest payments. Unless revenues increase sharply in the coming years, the Association will continue to have to draw monies from its debt service reserve funds.