CONNECTOR 2000 ASSOCIATION, INC.

ANNUAL REPORT

June 30, 2007

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 U. S. Bank, National Association., 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 ninth report of annual financial information delivered pursuant to that certain Continuing Disclosure Agreement dated February 11, 1998 (the "***Disclosure Agreement***") between Connector 2000 Association, Inc., a South Carolina non-profit public benefit corporation (the "***Association***") and U. S. Bank, National Association, as successor to First Union National Bank (the "***Trustee***"), in its capacity as dissemination agent relating to the $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, 2006, the Southern Connector had been open and collecting tolls approximately fifty-seven 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 which is set forth in the following table:

	2002	2003	2004	2005	2006
ETC Trans.	579,294	866,640	1,136,544	1,225,766	1,386,943
% of Total Trans.	15%	19%	22%	25%	26%
ETC Revenue	$371,124	$489,942	$686,703	$896,250	$1,018,130
% of Total Rev.	13%	15%	18%	19%	20%
Total Trans.	3,966,717	4,566,095	5,129,949	4,948,535	5,434,691
Total Revenue	$2,953,883	$3,333,252	$3,771,360	$4,664,081	$5,085,659

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.

2005 Toll Rate Study. 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 URS Corporation as its toll rate consultant (the "***Consultant***"). The Consultant completed its report for 2005 on June 24, 2005 (the "***2005 Report***"). The 2005 Report was delivered to the Trustee in June 2005.

2006 Toll Rate Study. Upon the conclusion of the 2005 fiscal year, the Association again reviewed its financial condition, projected revenue collections and operating expenses and concluded that it did not expect to achieve net revenues sufficient to meet the Rate Covenant. The Association again engaged the Consultant to undertake an updated toll rate study. The Consultant completed its report for 2006 on June 12, 2006 (the "***2006 Report***"). The 2006 Report was delivered to the Trustee on June 20, 2006. In the 2006 Report, the Consultant generally recommended the Association request the SCDOT to (a) increase mainline plaza toll rates in $0.25 installments annually for three years beginning January 1, 2008, and (b) increase tolls at the ramp plazas to be one-half of the mainline toll. In addition, the consultant recommended that the Association gradually phase out the current discount it offers to its PalPass customers and revise its toll rates for multi-axle vehicles. The Consultant concluded that even if the Association implemented its recommendations, the projected level of toll revenues would be insufficient to permit the Association to pay all of the principal or and interest on the Bonds during the projection period. The toll rates for the Southern Connector have not yet been revised by SCDOT.

2007 Toll Rate Study. Upon the conclusion of the 2006 fiscal year, the Association again reviewed its financial condition, projected revenue collections and operating expenses and concluded that it did not expect to achieve net revenues sufficient to meet the Rate Covenant. The Association again engaged the Consultant to undertake a more extensive traffic and revenue study. That study has not yet been completed.

AUDITED FINANCIAL STATEMENTS

The financial statements of the Association for the period ended December 31, 2006 are being audited by Green Finney Horton, LLP, Certified Public Accountants. Their examination is not yet complete and the audited financial statements of the Association for the period ended December 31, 2006, will be filed after their audit report has been delivered. Management expects that the audit report will be complete within 30 days.

OTHER FINANCIAL INFORMATION

The Association did not receive any federal or State highway expansion money during the fiscal period ending December 31, 2006. The Association did not issue or remarket any bonded indebtedness during the fiscal period ending December 31, 2006.

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.

CONNECTOR 2000 ASSOCIATION, INC.

SUPPLEMENTAL ANNUAL REPORT

July 25, 2007

CUSIP Prefix 20786L

INTRODUCTION

On June 30, 2007, Connector 2000 Association, Inc., a South Carolina non-profit public benefit corporation (the "***Association***") filed its ninth report of annual financial information (the "***2007 Annual Report***") delivered pursuant to that certain Continuing Disclosure Agreement dated February 11, 1998 (the "***Disclosure Agreement***") between the Association and U. S. Bank, National Association, as successor to First Union National Bank (the "***Trustee***"), in its capacity as dissemination agent relating to the $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***").

AUDITED FINANCIAL STATEMENTS

At the time the 2007 Annual Report was filed, the examination report of Green Finney Horton, LLP, Certified Public Accountants on the financial statements of the Association for the period ended December 31, 2006 was not completed. Such examination report has been completed and a copy of the general purpose financial statements of the Association for the period ended December 31, 2006, is attached to this Annual Report as **Appendix A**.

APPENDIX A

Audited Financial Statements

For the Year Ending

December 31, 2006

[attached]

CONNECTOR 2000 ASSOCIATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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YEARS ENDED DECEMBER 31, 2006 AND 2005

GREENE FINNEY & HORTON
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Connector 2000 Association, Inc. (the "Association"), a component unit of the State of South Carolina and of the South Carolina Department of Transportation, for the years ended December 31, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, which collectively comprise the Association's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Association. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2006 and 2005, 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 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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
July 3, 2007

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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, 2006 and 2005. Our analysis includes comparisons of 2006, 2005 and 2004 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 2006, utilization of the Southern Connector toll road rebounded from the decline noted in 2005 following the 2005 toll rate increase. Toll transactions in 2006 increased to 5,434,691, or 9.8% over 2005 totals. Toll transactions for 2005 decreased from 2004 totals by 3.5% to 4,948,535. Daily average toll transactions were 14,890 in 2006 compared to 13,558 in 2005 and 14,016 in 2004. Since opening of the Southern Connector Toll Road, both toll transactions and toll revenues have been 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).

- The Association recognized a corresponding increase in revenues from operations for 2006. Total operating revenues were $5,085,269, and consisted of toll revenues of $5,084,643 and other operating revenues of $626. For 2005, despite the drop in toll transactions, revenues from operations increased due to a toll rate increase. Operating revenues in 2005 totaled $4,661,419, and consisted of toll revenues of $4,660,649 and other operating revenues of $770. Toll revenues increased 9.1% in 2006 over 2005, and 23.6% in 2005 over 2004.

- Total operating expenses decreased by 2.0% in 2006 to $2,434,683 from $2,483,781 in 2005. This was due primarily to a decrease in depreciation and lower professional fees. Total operating expenses in 2005 increased 4.9% over the 2004 total of $2,367,373, mainly due to increases in salaries and professional fees.

- Because cash flow from operations was sufficient to allow us to transfer monies to interest-bearing accounts, nonoperating revenues from interest earned on repurchase agreements and money market accounts increased 2.6% to $955,826 in 2006. In 2005, nonoperating revenues from interest earned decreased 8.5%, to $931,152 due to the reduced principal balance resulting from continued withdrawals from the Senior Bonds Debt Service Reserve Account. Nonoperating expenses in 2006 increased by 3.4% to $23,559,330. In 2005, these expenses increased 11.1% to $22,781,718. The nonoperating expenses consisted primarily of interest expense on the Series 1998 Bonds, amortization expense related to the Association's Interest in its License Agreement with the South Carolina Department of Transportation ("SCDOT"), accrued license fees related to the Association's License Agreement with the SCDOT, and maintenance expense reimbursable under its License Agreement with the SCDOT.

- To date, we have used $3,843,090 of monies from our Senior Bonds Debt Service Reserve Account to pay portions of the debt service payments due from July 2003 through January 2007. The balance in the Senior Bonds Debt Service Reserve Account was $11,531,660, following the year-end transfer of monies to the Debt Service Account for payment of bond interest.

- The Association's total net deficit in 2006 increased by $19,952,918 over the course of the year's operations to $108,429,739. Of this increase, $16,575,881 was attributable to interest expense, of which $3,531,502 was related to cash payments of bond interest, $12,790,049 was accreted bond interest not yet payable, $174,050 was interest accrued on the SCDOT license fees and maintenance expense, and $80,280 was amortization of original issue discount. The Association's' 2005 increase in total net deficit was $19,672,928. Of the 2005 increase in the net deficit, $15,773,228 was attributable to interest expense, of which $3,531,500 were cash payments of bond interest, $12,062,558 was accreted bond interest not yet payable, $98,683 was interest accrued on the SCDOT license fees and maintenance expense, $80,280 was amortization of original issue discount, and $207 was miscellaneous interest expense.

- Capital assets net of accumulated depreciation were $162,651,013 at December 31, 2006, a decrease of approximately 3.1% from December 31, 2005. In December 31, 2005, capital assets net of accumulated depreciation also decreased approximately 3.1% from December 31, 2004 to $167,865,406. The decreases resulted primarily from amortization of the Association's interest in its License Agreement with the SCDOT of $5,243,076 in 2006 and $5,243,007 in 2005. (See the "Capital Assets" section of this management's discussion and analysis and Note 1, item I and Note 5 to the basic financial statements for information about the accounting treatment of the Association's interest in the License Agreement.)

- The balance of bonds payable increased by 4.7% in 2006 to $289,457,307 due to accretions on the capital appreciation bonds. In 2005, the balance increased by 4.6% to $276,586,978, again due to capital appreciation bond accretions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

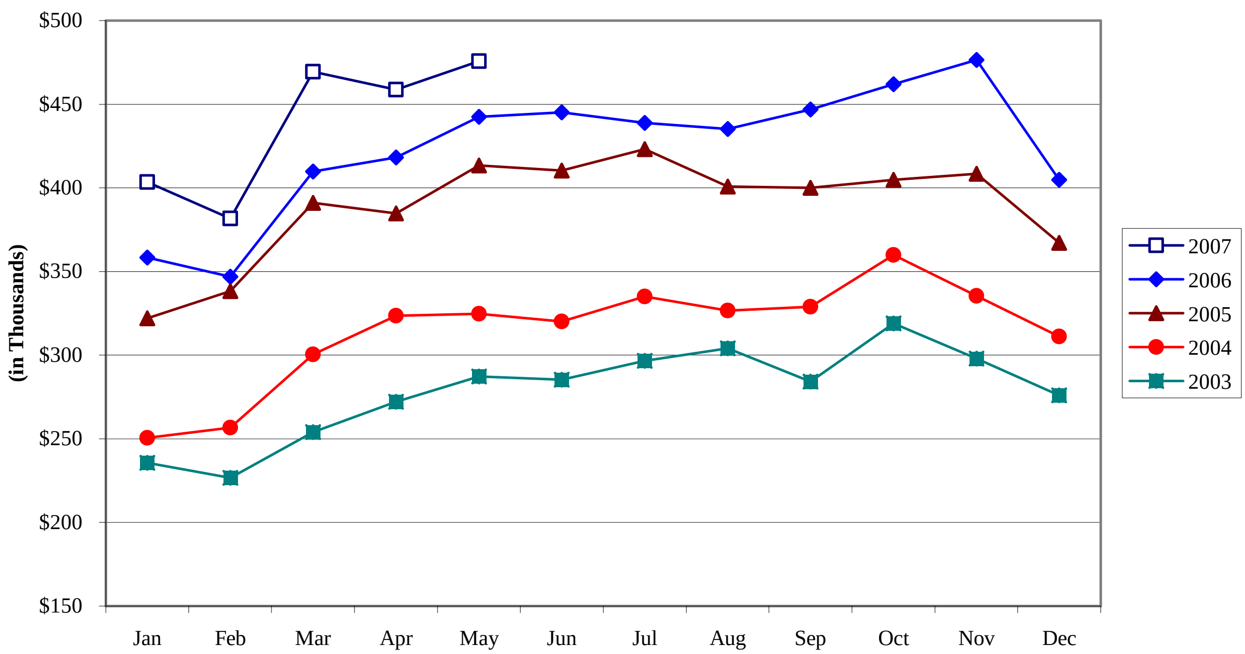
The sole corporate purpose of the Association is to design, finance, acquire, construct and operate the Southern Connector Toll Road. We issued $200,177,680 of Toll Road Revenue Bonds ("Southern Connector Project"), Series 1998 on February 11, 1998, to finance substantially all of the costs of the Southern Connector. Wilbur Smith Associates ("Wilbur Smith") prepared a Traffic and Revenue Study (the "Study") in connection with the sale of the Bonds. The 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.

In the Study, Wilbur Smith estimated the Southern Connector's ramp-up period would last approximately nine months. A "ramp-up" period is the time that traffic on a newly opened road will increase from the road's opening date to a stabilized volume. Ramp-up time is driven by how long it takes the motoring public to become familiar with a route, to "try it out" and ultimately build travel habits that result in the total demand for a facility. At the end of the estimated nine-month ramp-up period, Wilbur Smith projected that the average number of "transactions" on the highway would 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 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.

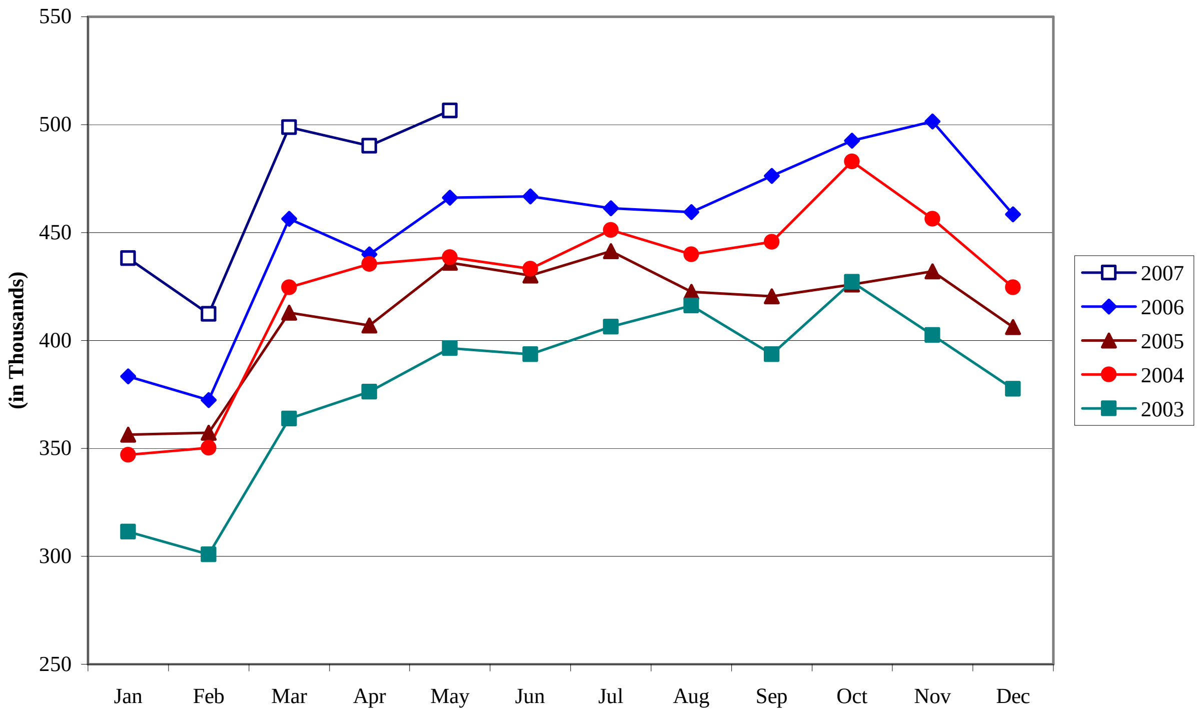
Instead of lasting only nine months, the ramp-up period for the Southern Connector Toll Road extended from the toll road's opening in late February 2001 through 2004, with both toll transactions and revenues increasing each year. In 2005, following a toll increase in January, toll transactions declined for the year. Toll transactions averaged 13,558 per day for 2005, a decrease of 3.3% from the 2004 average. However, since the 2005 increase in toll rates more than compensated for the decrease in traffic, toll revenues for 2005 increased by 23.6% to $4,660,649. In 2006, both toll transactions and toll revenues recovered, increasing to their highest levels since the toll road opened. Transactions in 2006 averaged 14,890 per day, an increase of 9.8% over 2005 levels. Toll revenues for 2006 increased 9.1% to $5,084,643

Revenues by Month



Over the years, many factors have led to the lower-than-projected utilization of the Southern Connector. While certain circumstances are beyond our control, we have made concerted efforts to address those factors that we can influence in order to promote and publicize the Southern Connector. Although one of the principal purposes of the highway was to open southern Greenville County to new development, lack of such development along the Southern Connector has adversely affected utilization of the highway. However, we are actively working with local entities to promote and publicize development opportunities along the Southern Connector corridor. We have worked with the South Carolina Department of Transportation to rectify signage deficiencies. We have undertaken aggressive, award-winning advertising campaigns to make the public aware of the highway and the additional convenience it offers. Our staff has met individually with most of the large trucking firms located in and around the Southern Connector corridor. We have implemented a discount program for trucks that use the electronic toll system and have extended incentives to passenger cars for the acquisition of transponders. We have reduced our operating budget on several occasions and have established an operating reserve to be sure that funds are available to cover operating expenses 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.

Transactions by Month



We believe that our efforts have been somewhat successful, and find the 2006 recovery of toll road utilization and the continuing overall increase in revenues encouraging. As the charts above present, even though we experienced a downturn in utilization in 2005, apparently due to the general public's negative reaction to the 2005 toll rate increase, revenues for that year increased significantly. The 2005 toll rate changes are discussed below. The charts also show continuing improvement in early 2007, when this management's discussion and analysis was written.

In January 2005, a scheduled toll rate increase approved by SCDOT went into effect. This 2005 toll increase was 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, toll revenues in 2005 increased by $891,221, or 23.6%. However, following a slight increase during the months of January and February, toll transactions decreased by 181,414, or 3.5%, for the year. The change in transactions was not unexpected following the increase in toll rates based upon feedback received from toll patrons.

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.[1] 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 (Palmetto 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 Palmetto 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 bond documents require the Association 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, and (b) the amount required to replenish all previous withdrawals from the reserve fund established for the senior bonds and to equal not less than 1.10 times the aggregate debt service on all outstanding bonds due in such year. This bond covenant became effective January 1, 2005. This bond covenant further requires that, upon annual review of the Association's financial condition, projected revenue collections and operating budget, if we conclude that we do not expect to achieve net revenues sufficient to meet the bond covenant requirements, we must engage a consultant to perform a toll rate study. Each year since the bond covenant became effective, the Association has performed the required review, and concluded that expected net revenues would not be sufficient to meet the bond covenant requirements. In 2005, in compliance with our bond documents, we circulated a request for proposals to transportation consulting firms of recognized experience in the areas of toll road forecasting. The Association interviewed the three firms that responded to the request for proposals and engaged a consultant to perform the 2005 toll rate study. The same consultant was hired to perform the 2006 and 2007 toll rate studies. The completed 2005, 2006, and 2007 toll rate studies were received in June of 2005, 2006, and 2007, respectively. Each study concluded that increasing toll levels to

[1] The License Agreement between SCDOT and Connector 2000 Association, Inc. provides for a per axle increase to $.65, but the Association, with SCDOT's knowledge, determined an increase to $.60 was more appropriate.

comply with the rate covenant would be impractical at the time the studies were issued. Each study also recommended that additional toll rate increases be considered other than those scheduled.

In 2007, we continue our quest to hold operating costs to a minimum while still providing efficient service to our customers. Our 2007 operating budget of $2,479,505 reflects only a 1.8% increase over 2006 actual operating costs. This increase results primarily from an increase in expected personnel costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

The 2006 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 – are 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, 2006, the Association's net deficit increased by $19,952,918 to $108,429,739. Total assets decreased approximately 2.7% to $186,759,784 while total liabilities increased approximately 5.2% to $295,189,523. For the year ended December 31, 2005, the Association's increase in its net deficit was $19,672,928 to $88,476,821. Total assets decreased by 2.9% to $192,029,957, and total liabilities increased by 5.2% to $280,506,778. (See Table 1 below.)

The net decrease in total assets for both years 2006 and 2005 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 2006 and 2005 was due mainly to accretions on the capital appreciation bonds. These accretions caused the bonds payable portion of total liabilities to increase by 4.7% in 2006 and by 4.6% in 2005. 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 2006 and 2005, other liabilities increased by 46.2% and 80.2%, respectively, mainly due to accruals for license fees, maintenance costs and related interest payable to SCDOT. See the "Changes in Net Assets (Deficit)" section of this management's discussion and analysis for a full discussion of these amounts.

Table 1
Net Assets (Deficit)

	2006	2005	2004
Current and Other Assets	$ 24,108,771	$ 24,164,551	$ 24,594,952
Capital Assets	162,651,013	167,865,406	173,220,585
Total Assets	186,759,784	192,029,957	197,815,537
Long-Term Liabilities (Bonds Payable):			
Senior Bonds	(209,010,673)	(200,934,322)	(193,299,760)
Subordinate Bonds	(80,446,634)	(75,652,656)	(71,144,380)
Total Long-Term Liabilities	(289,457,307)	(276,586,978)	(264,444,140)
Other Liabilities:			
Interest Payable to Bondholders	(1,765,752)	(1,765,750)	(1,765,750)
Accounts Payable, Deferred Revenue and Deposits	(240,915)	(203,904)	(184,540)
Amounts Payable to SCDOT	(3,725,549)	(1,950,146)	(225,000)
Total Other Liabilities	(5,732,216)	(3,919,800)	(2,175,290)
Total Liabilities	(295,189,523)	(280,506,778)	(266,619,430)
Net Assets (Deficit):			
Invested in Capital Assets, Net of Related Debt	(40,829,196)	(35,650,950)	(29,673,841)
Restricted for Debt Service	746,559	753,125	741,223
Restricted for Capital and Other Projects	9,302	10,788	11,452
Unrestricted	(68,356,404)	(53,589,784)	(39,882,727)
Total Net Assets (Deficit)	$ (108,429,739)	$ (88,476,821)	$ (68,803,893)

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, less any liabilities (including bonds payable) that are attributable to the construction, acquisition, or improvement of those assets, plus other adjustments required by U.S. Generally Accepted Accounting Principles for governmental entities. At December 31, 2006, the balance of this category of net assets was a deficit of $40,829,196, an increase of $5,178,246 over the 2005 deficit. The 2005 balance of this category of net assets was a deficit of $35,650,950, an increase of $5,977,109 over the 2004 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. The restricted assets in this category are offset by any related liabilities. At December 31, 2006, the Association's net assets restricted for construction of the Southern Connector decreased to $9,302 and its net assets restricted for debt service decreased to $746,559. The Association's 2005 balance of restricted net assets consisted of $10,788 of net assets restricted for construction of the Southern Connector and $753,125 of net assets restricted for debt service.

- The category "unrestricted net assets" represents the remainder of net assets – those that can be used to finance daily operations and that have no constraints imposed. The balance of unrestricted net assets at December 31, 2006 was a deficit of $68,356,404, while the 2005 deficit was $53,589,784. The net deficit in this category increased $14,766,620 in 2006 and $13,707,057 in 2005, due primarily to certain reclassifications of negative balances of net assets required by U.S. Generally Accepted Accounting Principles for governmental entities.

A discussion of the changes in the net deficit for years 2006 and 2005 is presented below.

Changes in Net Assets (Deficit)

Although as presented in Table 2, the Association's total revenues were not sufficient to cover its total expenses, there was some improvement in operations in both years 2006 and 2005.

Table 2
Changes in Net Assets

	2006	2005	2004
Revenues:			
Operating revenues:			
Charges for Services (Toll Revenues)	$ 5,084,643	$ 4,660,649	$ 3,769,428
Other	626	770	-
Nonoperating Revenues:			
Interest and Investment Earnings	955,826	931,152	1,017,596
Total Revenues	6,041,095	5,592,571	4,787,024
Expenses:			
Operating Expenses	2,434,683	2,483,781	2,367,373
Nonoperating Expenses:			
Interest Expense on Bonds	16,401,831	15,674,338	14,934,742
Other Interest Expense	-	207	6,156
Amortization	5,382,096	5,382,027	5,382,027
SCDOT Fees and Accrued Interest	1,775,403	1,725,146	180,000
Total Expenses	25,994,013	25,265,499	22,870,298
Decrease in Net Assets (Deficit)	(19,952,918)	(19,672,928)	(18,083,274)
Beginning Net Assets (Deficit)	(88,476,821)	(68,803,893)	(50,720,619)
Ending Net Assets (Deficit)	$ (108,429,739)	$ (88,476,821)	$ (68,803,893)

2006 Compared to 2005

The 2006 increased utilization of the Southern Connector Toll Road coupled with the Association's continuing efforts to control costs allowed us to generate operating income of $2,650,586, an increase of $472,948 over 2005. Total operating revenues in 2006 increased approximately 9.1%, while 2006 operating expenses decreased approximately 2.0%. Nonoperating revenues, which consisted of interest earned on monies in bank accounts and investments, increased 2.6% in 2006 to $955,826. In 2006, the nonoperating revenues fell short of nonoperating expenses by $22,603,504.

In 2006, total operating expenses decreased $49,098 from 2005. This decrease was due primarily to decreases in depreciation expense and professional fees. Depreciation fell $86,355 in 2006, or 77.0%, due to the fact that most of our transponders were fully depreciated in 2005. Professional fees fell 13.9%, or $34,122, due to efforts to trim legal and accounting costs.

In 2006, our nonoperating interest revenues increased by $24,674, or 2.6%, to $955,826. The increase occurred because we were able to transfer monies from operations to the interest-bearing Debt Service Fund and to interest-bearing operating reserve money market accounts and certificates of deposit.

The majority of our nonoperating expenses do not require any cash outlays. In 2006, the noncash portion totaled $20,027,828. Noncash, nonoperating interest expense was $13,044,379 in 2006. Noncash, nonoperating SCDOT deferred license fees and maintenance expense were $1,500,000 and $101,353, respectively, as discussed below. Noncash, nonoperating amortization expense totaled $5,382,096 in 2006 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 4.0% in 2006 and was mainly due to the increase in the amount of interest accretions on the Capital Appreciation Bonds under the bonds' accretion schedule.

Under its License Agreement with the SCDOT, the Association is obligated to pay license and roadway maintenance fees to SCDOT. The license fees are to be calculated at $125,000 per month for a period of twenty-five years and $1.00 per month for the remainder of the term of the license. The obligation to pay license fees began in 2005. The roadway maintenance fees represent a reimbursement to SCDOT for its actual costs of routine maintenance of the Southern Connector highway. The License Agreement states that if toll revenues are not available to pay these fees when due, unpaid amounts shall accrue interest at 5% per year compounded annually. Payment of these fees is subordinate to payment of operating costs of the Southern Connector, payment of debt service on both the Senior and Subordinate Bonds, replenishment of both the Senior and Subordinate Debt Service Reserve Accounts and transfers to the Renewal and Replacement Account. The license and roadway maintenance fees incurred in 2006 were $1,500,000 and $101,353, respectively. Interest accrued on these amounts totaled $174,050 in 2006. We recorded these fees and the related interest as nonoperating expenses. The accumulated balances of license fees, maintenance expense and related interest payable to the SCDOT were $3,000,000, $452,816 and $272,733, respectively, at December 31, 2006.

2005 Compared to 2004

The increase in 2005 toll rates coupled with the Association's efforts to control costs allowed us to generate operating income of $2,177,638 in 2005, an increase of $775,583 over 2004. Total operating revenues in 2005 increased approximately 23.7%, while 2005 operating expenses increased approximately 4.9%. Nonoperating revenues, which consisted of interest earned on monies in bank accounts and investments, decreased 8.5% in 2005 to $931,152. In 2005, the nonoperating revenues fell short of nonoperating expenses by $21,850,566.

In 2005, total operating expenses increased $116,408 over 2004. This increase was due primarily to an increase in salaries and professional fees. In 2005, salaries increased $60,007, or 6.4%, due to the addition of personnel, the payment of overtime, internal promotions, and the payment of certain 2004 bonuses in 2005. Professional fees rose 53.1%, or $85,234, due to a toll rate study, financial advisory services and legal and accounting fees. The toll rate study was required in compliance with the bond documents. (See the "Economic Factors and Next Year's Budget" section of this management's discussion and analysis above.) The toll rate study cost $55,691 in 2005. The Association's financial advisory services increased because additional requested services were provided during the year. Our legal and accounting fees increased as reviews of legal and accounting information became more detailed, and because of our lobbying efforts to get toll violation legislation passed.

However, not all of our 2005 operating expenses increased. Due to our efforts to control costs wherever possible, the Association was able to decrease miscellaneous expenses by $24,641, or 60.2%; advertising by $12,489, or 37.8%; and contract labor by $10,881, or 24.8%.

In 2005, our nonoperating interest revenues decreased by $86,444, or 8.5%, to $931,152. The decrease occurred because we withdrew monies from our interest-bearing Senior Bonds Debt Service Reserve Account to pay a portion of the interest debt service payments on the Senior Bonds. Monies in the Debt Service Reserve Accounts earn interest at 5.4% per year.

The majority of our nonoperating expenses do not require any cash outlays. In 2005, the noncash portion totaled $19,250,011. Noncash, nonoperating interest expense was $12,241,521 in 2005. Noncash, nonoperating SCDOT deferred license fees and maintenance expense were $1,500,000 and $126,463, respectively, as discussed below. Noncash, nonoperating depreciation and amortization expenses totaled $5,382,027 in 2005 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 13.5% in 2005 and was due to the SCDOT deferred license fee, which was a new expense for 2005, and the increase in the amount of interest accretions on the Capital Appreciation Bonds under the bonds' accretion schedule.

The year 2005 marked the beginning of the Association's obligation to pay license fees under its License Agreement with the SCDOT. The license fee expense payable to the SCDOT for 2005 was $1,500,000. We recorded these fees as a nonoperating expense.

In 2005, maintenance expense payable to the SCDOT under its License Agreement with the SCDOT was $126,463 based on notification we received from the SCDOT of its actual costs of maintaining the Southern Connector. Since no revenues were available to pay this expense, it increased our SCDOT deferred maintenance payable account to $351,463 at December 31, 2005.

In 2005, since our toll revenues were insufficient to pay the license fees and maintenance expense described above, interest expense of $98,683 was accrued on the balances due to SCDOT.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets at December 31, 2006 and 2005 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.

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

	2006	2005	2004
Equipment, Net	$ 109,351	$ 89,168	$ 201,340
Interest in License Agreement with SCDOT, Net	162,541,662	167,776,238	173,019,245
Total Capital Assets, Net	$ 162,651,013	$ 167,865,406	$ 173,220,585

At December 31, 2006, the Association had $162,651,013 invested in capital assets. This amount represents a net decrease of $5,214,393, or 3.1%, from 2005 amounts. The amount invested at December 31, 2005, was $167,865,406, a net decrease of $5,355,179 (3.1%), from 2004 amounts. Our primary asset is our interest in the License Agreement with SCDOT. In 2006, its carrying amount decreased by 3.1% to $162,541,662. This decrease was composed of an $8,500 treadle placed in service during 2006 offset by amortization of $5,243,076 taken during the year. Its 2005 carrying amount had decreased 3.0% to $167,776,238, due to amortization of $5,243,007 taken during the year.

In 2006, Equipment, Net increased by 22.6%. The increase was composed of $46,000 of new transponders offset by $25,817 of depreciation and $5,298 of write-offs of fully-depreciated equipment. The 2005 decrease in Equipment, Net was 55.7%, and was composed of $112,172 of depreciation and write-offs of fully-depreciated equipment of $3,776.

SCDOT approved Final Completion of the Southern Connector effective December 22, 2003. Accordingly in 2004, under the terms of the bond documents, we transferred monies from the Construction Fund to the Debt Service Fund. Those monies have been set aside for the purpose of paying a portion of the debt service payment due January 1, 2008. The remaining balance in the Construction Fund was used in early 2007 for the purchase of miscellaneous equipment.

Debt Administration

Long-term debt at December 31, 2006 and 2005 included Toll Road Revenue Bonds with maturity dates ranging from 2008 to 2038. The balances of these bonds at December 31, 2006 and 2005 were $289,457,307 and $276,586,978, respectively. The balances increased by $12,870,329, or 4.7%, in 2006 and by $12,142,838, or 4.6%, in 2005 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. Therefore, in order to meet the debt service payments, we have periodically had to withdraw monies from our Senior Bonds Debt Service Reserve Account. The cumulative total amount withdrawn from the Senior Bonds Debt Service Reserve Account since December 31, 2002 up to the present is $3,843,090. This cumulative total of withdrawals consists of withdrawals of both principal and interest earned on the monies originally deposited into the Senior Bonds Debt Service Reserve Account.

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 J 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 our bonds to B-minus with a stable outlook. In January 2006 and 2007, 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 2006, the Tolling Agreement was renewed through April 2007 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 J and Note 10 to the basic financial statements for more information about the terms of the bond indenture and the debt service reserve replenishment issue.)

The provisions of the Association's bond indenture also require an annual inspection of the Southern Connector by the Association Engineer. No later than 180 days after each fiscal year-end, the Association Engineer is to submit a report on his findings regarding the Southern Connector's maintenance, operations, insurance and Renewal and Replacement Fund. Copies of the reports are to be filed with the Trustee. In February, 2007, the Trustee notified the Association of its failure to file an Engineer report. The report of the Association's Engineer was delivered to the Trustee on June 15, 2007.

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 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.

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

STATEMENTS OF NET ASSETS - PROPRIETARY FUND

DECEMBER 31, 2006 AND 2005

	Business-Type Activities - Enterprise Fund	
ASSETS	**2006**	**2005**
Current Assets:		
Cash and Cash Equivalents	$ 703,658	$ 637,188
Cash and Cash Equivalents - Restricted	1,501,153	1,690,113
Investments	320,928	313,340
Investments - Restricted	1,016,927	720,040
Interest Receivable - Restricted	3,535	7,194
Prepaid Expenses	38,047	87,052
Inventory	88,939	86,978
Total Current Assets	3,673,187	3,541,905
Noncurrent Assets:		
Restricted Assets in Debt Service Reserve Funds:		
Cash and Cash Equivalents	567,155	-
Investments	15,878,630	16,494,491
Interest Receivable	664	-
Total Noncurrent Restricted Assets in Debt Service Reserve Funds	16,446,449	16,494,491
Capital Assets:		
Equipment	626,523	585,821
Interest in License Agreement with SCDOT	192,480,674	192,472,174
Less: Accumulated Depreciation and Amortization	(30,456,184)	(25,192,589)
Total Capital Assets	162,651,013	167,865,406
Other Assets:		
Bond Issuance Costs (Net of Accumulated Amortization of $559,075 and $496,375 respectively)	1,799,055	1,861,755
Underwriters' Fees (Net of Accumulated Amortization of $680,520 and $604,200 respectively)	2,190,080	2,266,400
Total Other Assets	3,989,135	4,128,155
TOTAL ASSETS	**186,759,784**	**192,029,957**
LIABILITIES		
Current Liabilities:		
Accounts Payable	69,713	54,260
Deferred Toll Revenue	158,242	138,044
Transponder Deposits	12,960	11,600
SCDOT Deferred Maintenance Payable	452,816	351,463
SCDOT Deferred License Fee Payable	3,000,000	1,500,000
Accrued Interest on SCDOT Deferred Maintenance and License Fee	272,733	98,683
Amounts Payable from Restricted Assets:		
Accrued Interest Payable	1,765,752	1,765,750
Total Current Liabilities	5,732,216	3,919,800
Noncurrent Liabilities:		
Revenue Bonds Payable, Net	289,457,307	276,586,978
Total Noncurrent Liabilities	289,457,307	276,586,978
TOTAL LIABILITIES	**295,189,523**	**280,506,778**
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	(40,829,196)	(35,650,950)
Restricted for:		
Debt Service	198,759	753,125
Capital Projects	9,302	10,788
Unrestricted	(67,808,604)	(53,589,784)
TOTAL NET ASSETS (DEFICIT)	**$ (108,429,739)**	**$ (88,476,821)**

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

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

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

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Business-Type Activities - Enterprise Fund	
OPERATING REVENUES	**2006**	**2005**
Toll Revenues	$ 5,084,643	$ 4,660,649
Other Toll Road Revenues	626	770
TOTAL OPERATING REVENUES	**5,085,269**	**4,661,419**
OPERATING EXPENSES		
Automobile	13,510	17,614
Bank Fees and Charges	35,638	35,759
Contract Labor	31,499	32,915
Contract Services	357,843	355,609
Credit Card Discount Fees	38,625	31,134
Employee Benefits	195,973	196,853
Miscellaneous	20,328	16,315
Office Supplies	20,109	19,687
Payroll Taxes	90,481	82,016
Repairs and Maintenance	68,966	41,608
Salaries	1,019,395	1,000,526
Telephone	33,167	27,660
Utilities	73,586	78,746
Advertising	30,796	20,565
Depreciation	25,817	112,172
Insurance	136,766	138,478
Marketing	30,492	30,310
Professional Fees	211,692	245,814
TOTAL OPERATING EXPENSES	**2,434,683**	**2,483,781**
OPERATING INCOME	**2,650,586**	**2,177,638**
NONOPERATING REVENUES (EXPENSES)		
Interest Earned on Cash Equivalents and Investments	955,826	931,152
Interest Expense	(16,575,881)	(15,773,228)
SCDOT Maintenance Expense	(101,353)	(126,463)
SCDOT License Fees	(1,500,000)	(1,500,000)
Amortization for:		
Interest in License Agreement with SCDOT	(5,243,076)	(5,243,007)
Bond Issuance Costs	(62,700)	(62,700)
Underwriters' Fees	(76,320)	(76,320)
TOTAL NONOPERATING REVENUES (EXPENSES)	(22,603,504)	(21,850,566)
DECREASE IN NET ASSETS	(19,952,918)	(19,672,928)
NET ASSETS (DEFICIT), Beginning of Year	(88,476,821)	(68,803,893)
NET ASSETS (DEFICIT), End of Year	**$ (108,429,739)**	**$ (88,476,821)**

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

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

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Business-Type Activities - Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES	**2006**	**2005**
Receipts from:		
Toll Collections	$ 5,106,201	$ 4,676,094
Other Toll Road Operations	626	770
Payments for:		
Toll Road Employees and Contract Labor	(1,337,348)	(1,312,310)
Vendors and Service Providers	(1,009,021)	(1,088,162)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,760,458	2,276,392
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(46,000)	-
Construction Costs Paid on Southern Connector	(8,500)	-
Interest Paid on Bonds Payable	(3,531,500)	(3,531,707)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,586,000)	(3,531,707)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Investments	311,386	687,849
Interest Received	958,821	1,421,902
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,270,207	2,109,751
INCREASE IN CASH AND CASH EQUIVALENTS	**444,665**	**854,436**
CASH AND CASH EQUIVALENTS, Beginning of Year	2,327,301	1,472,865
CASH AND CASH EQUIVALENTS, End of Year	**$ 2,771,966**	**$ 2,327,301**

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

Unrestricted Cash and Cash Equivalents - Current Assets	$ 703,658	$ 637,188
Restricted Cash and Cash Equivalents - Current Assets	1,501,153	1,690,113
Restricted Cash and Cash Equivalents - Noncurrent Assets	567,155	-
Total Cash and Cash Equivalents Shown on Statement of Net Assets	**$ 2,771,966**	**$ 2,327,301**

(CONTINUED)

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

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

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

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	Business-Type Activities - Enterprise Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	**2006**	**2005**
Operating Income	$ 2,650,586	$ 2,177,638
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	25,817	112,172
Change In:		
Prepaid Expenses	49,005	(35,801)
Inventory	(1,961)	3,019
Accounts Payable	15,453	12,142
Deferred Toll Revenue	20,198	14,385
Transponder Deposits	1,360	1,060
Requisitions Payable	-	(8,223)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,760,458	$ 2,276,392
NONCASH INVESTING, CAPITAL, AND FINANCING ITEMS		
Amortization of Interest in License Agreement with SCDOT	$ 5,243,076	$ 5,243,007
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	12,790,049	12,062,558
Accrual of Interest Payable	1,765,752	1,765,750
SCDOT Deferred Maintenance	101,353	126,463
SCDOT Deferred License Fees	1,500,000	1,500,000
Accrued Interest on SCDOT Deferred Maintenance and License Fee	174,050	98,683
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ITEMS	$ 21,793,580	$ 21,015,761

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The Association has no component units.

B. Measurement Focus, Basis of Presentation, and Accounting

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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, 2006 and 2005.

Government-wide basic financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The accounts of the 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 GASB pronouncements, as well as the requirements of 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. For purposes of GAAP reporting, the Association has one major Enterprise Fund:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 is the Association's policy to use restricted resources first, then unrestricted resources as they are needed.

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 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. Non-operating expenses include amortization (a) of its intangible interest in the License Agreement with SCDOT, (b) of bond issuance and (b) underwriters' fees. In addition, interest expense on the Association's debt, license fees to the SCDOT, and maintenance expenses to the SCDOT are reported as non-operating expenses.

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.

C. Use of Estimates

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

D. Budget

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

E. Cash and Cash Equivalents

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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).

G. Receivables

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

H. 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.

I. 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 is 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 P.) 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 basic financial statements do not reflect any of the costs of construction of the SC 153 Extension because those costs were directly financed and paid by the SCDOT.

J. Restricted Assets

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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.

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, 2006 and 2005, 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, 2006 and 2005.

The *Rebate Fund* was established for the purpose of holding and paying arbitrage investment earnings to the U.S. Treasury. As a result of investing tax exempt bond proceeds at rates of return not exceeding the maximum amount that is permitted under the applicable tax code, at December 31, 2006 and 2005, the *Rebate Fund* was inactive.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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, 2006 and 2005, no liability or expense was recorded in these basic financial statements.

L. 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 between four and ten years. 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 are removed from the books. The resulting gain or loss is included in operations.

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

The current and non-current portions of bonds payable are recorded as liabilities in the accompanying Statements 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.

N. Rebatable Arbitrage

Arbitrage involves the investment of proceeds resulting from the sale of tax-exempt securities in a taxable investment that yields a higher rate, which produces income in excess of interest costs. 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, 2006 and 2005, no such liability had been incurred.

O. Net Assets

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).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Assets (Continued)

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, 2006 and 2005 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.

P. 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.

Q. 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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Association's deposits might not be recovered. The Association does not have a formal deposit policy for custodial credit risk but follows the guidelines outlined in the Association's Trust Agreement (as noted earlier). As of December 31, 2006 and 2005, approximately $449,000 and $951,000 of the Association's bank balances of approximately $1,050,000 and $1,451,000 (with a carrying value of $1,025,710 and $1,397,569), respectively, were uninsured and uncollateralized. None of the deposits noted above were held by the South Carolina State Treasurer.

Investments

As of December 31, 2006 and 2005, the Association had the following investments as defined by GASB:

Investment Type	Credit Rating ^	Fair Value	Percentage of Total Investments	Weighted Average Maturity (In Years)
December 31, 2006:				
Open Ended Treasury Money Market Funds	AAAm, Aaa, AAA	$ 2,068,308	10.9%	0.003
United States Treasury Note	N/A	718,931	3.8%	0.986
Repurchase Agreements	N/A	16,175,502	85.3%	11.000
Total Fair Value/Weighted Average Maturity		$ 18,962,741		9.420
December 31, 2005:				
Open Ended Treasury Money Market Funds	AAAm, Aaa, NR	$ 1,244,186	6.7%	0.066
United States Treasury Note	N/A	718,931	3.9%	1.870
Repurchase Agreements	N/A	16,494,486	89.4%	12.000
Total Fair Value/Weighted Average Maturity		$ 18,457,603		10.800

^ If available, credit ratings are for Standard & Poor's, Moody's Investors Service and Fitch Ratings.
N/A – Credit ratings are not required for investments issued or explicitly guaranteed by the United States government.
NR – Not rated.

Interest Rate Risk: The Association does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association does not have a formal investment policy for custodial credit risk but follows the guidelines outlined in the Association's Trust Agreement (as noted earlier). As of December 31, 2006 and 2005, none of the Association's investments were exposed to custodial credit risk.

Credit Risk for Investments: Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association does not have a formal investment policy for credit risk but follows the guidelines outlined in the Association's Trust Agreement (as noted earlier).

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

The investment types listed in the preceding table include all investment types in which monies were held during the year ended December 31, 2006 and 2005. None of the investments above were with the South Carolina State Treasurer.

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

Statements of Net Assets			Notes		
	2006	2005		2006	2005
Unrestricted Current Assets:					
Cash and Cash Equivalents	$ 703,658	637,188	Deposits	1,025,710	$ 1,397,569
Investments	320,928	313,340	Investments	18,962,741	18,457,603
Restricted Current Assets:					
Cash and Cash Equivalents	1,501,153	1,690,113			
Investments	1,016,927	720,040			
Noncurrent Assets:					
Cash and Cash Equivalents	567,155	-			
Restricted Investments	15,878,630	16,494,491			
	$ 19,988,451	19,855,172		19,988,451	$ 19,855,172

See Note 1, item J and Note 8 for additional information about restrictions on deposits and balances of the various Trust Funds at December 31, 2006 and 2005.

NOTE 3 – RECEIVABLES

At December 31, 2006 and 2005, the Association had an interest receivable of $4,199 and $7,194, respectively.

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, 2006 and 2005:

Description	Balance December 31, 2005	Additions	Disposals	Balance December 31, 2006
Capital Assets:				
Interest in License Agreement with SCDOT	$ 192,472,174	8,500	-	$ 192,480,674
Equipment	585,821	46,000	(5,298)	626,523
Subtotal Capital Assets	193,057,995	54,500	(5,298)	193,107,197
Less: Accumulated Depreciation/Amortization:				
Interest in License Agreement with SCDOT	24,695,936	5,243,076	-	29,939,012
Equipment	496,653	25,817	(5,298)	517,172
Subtotal Accum. Depreciation/Amortization	25,192,589	5,268,893	(5,298)	30,456,184
Totals	$ 167,865,406	(5,214,393)	-	$ 162,651,013

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Description	Balance December 31, 2004	Additions	Disposals	Balance December 31, 2005
Capital Assets:				
Interest in License Agreement with SCDOT	$ 192,472,174	-	-	$ 192,472,174
Equipment	589,597	-	(3,776)	585,821
Subtotal Capital Assets	193,061,771	-	(3,776)	193,057,995
Less: Accumulated Depreciation/Amortization:				
Interest in License Agreement with SCDOT	19,452,929	5,243,007	-	24,695,936
Equipment	388,257	112,172	(3,776)	496,653
Subtotal Accum. Depreciation/Amortization	19,841,186	5,355,179	(3,776)	25,192,589
Totals	$ 173,220,585	(5,355,179)	-	$ 167,865,406

At December 31, 2006 and 2005, depreciation and amortization expense related to capital assets was $5,268,893 and $5,355,179, respectively. See Note 1, item L for additional information about the Association's capitalization policy, and its methods of calculating depreciation and amortization.

The Association had no significant construction commitments outstanding at December 31, 2006 and 2005, 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 8 (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 of the State of South Carolina, the SCDOT, or any agency, department or political subdivision of the State of South Carolina. (See Note 8 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.

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

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.

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 twelve months (first payment was due January 1, 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 was to 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 J. 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. At December 31, 2006 and 2005, the Association has unpaid SCDOT deferred license fees of $3,000,000 and $1,500,000, respectively, and related interest of $225,000 and $75,000, respectively.

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 J.) At December 31, 2006 and 2005, the Association has unpaid SCDOT deferred maintenance of $452,816 and 351,463, respectively, and related interest of $47,733 and $23,683, respectively. 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 basic financial statements, is operated, maintained, renewed, and replaced by the SCDOT as part of the South Carolina Highway System.

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 I for additional information.)

NOTE 6 – ACCRUED INTEREST PAYABLE

At December 31, 2006 and 2005, accrued interest payable was $1,765,752 and $1,765,750, which consisted of the Senior Current Interest Bond (Series 1998A) payment which is due January 1 of 2007 and 2006, 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 7 – INTEREST COSTS INCURRED

Interest costs expensed during the years ended December 31, 2006 and 2005, totaled $16,575,881 and $15,773,228, respectively.

NOTE 8 – 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 of the State of South Carolina, the SCDOT, or any agency, department or political subdivision of the State of South Carolina, including the County of Greenville, South Carolina and the City of Greenville, South Carolina. Following is a brief description of each bond issue:

Series 1998A: Series 1998A Senior Current Interest Toll Road Revenue Bonds which were dated 2/1/98 - $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.

Bonds payable changes during 2006 and 2005 and balances at December 31, 2006 and 2005, were as follows:

	Balance December 31, 2005	Increases	Decreases	Balance December 31, 2006
Senior Bonds				
Series 1998A	$ 66,200,000	-	-	$ 66,200,000
Original Issue Discount on Series 1998A	(2,058,402)	80,280	-	(1,978,122)
Subtotal Series 1998A	64,141,598	80,280	-	64,221,878
Series 1998B	136,792,724	7,996,071	-	144,788,795
Subordinate Bonds:				
Series 1998C	75,652,656	4,793,978	-	80,446,634
Totals	**$ 276,586,978**	**12,870,329**	**-**	**$ 289,457,307**

NOTE 8 – BONDS PAYABLE (CONTINUED)

	Balance December 31, 2004	Increases	Decreases	Balance December 31, 2005
Senior Bonds				
Series 1998A	$ 66,200,000	-	-	$ 66,200,000
Original Issue Discount on Series 1998A	(2,138,682)	80,280	-	(2,058,402)
Subtotal Series 1998A	64,061,318	80,280	-	64,141,598
Series 1998B	129,238,442	7,554,282	-	136,792,724
Subordinate Bonds:				
Series 1998C	71,144,380	4,508,276	-	75,652,656
Totals	**$ 264,444,140**	**12,142,838**	**-**	**$ 276,586,978**

Additions to bonds payable represent 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, 2006 and 2005, no principal payments on bonds were due within one year.

A summary of the debt service requirements to maturity for the Bonds is as follows as of December 31, 2006:

Year Ending December 31	Principal	Interest	Totals
2007	$ -	3,531,500	$ 3,531,500
2008	6,200,000	3,507,875	9,707,875
2009	6,700,000	3,460,625	10,160,625
2010	7,300,000	3,410,750	10,710,750
2011	8,100,000	3,358,250	11,458,250
2012-2016	55,400,000	15,885,625	71,285,625
2017-2021	87,700,000	14,071,750	101,771,750
2022-2026	122,000,000	11,739,688	133,739,688
2027-2031	161,600,000	8,643,001	170,243,001
2032-2036	192,000,000	4,598,313	196,598,313
2037-2038	99,100,000	446,125	99,546,125
Totals	$ 746,100,000	72,653,502	$ 818,753,502

As discussed in Note 1, item J, the terms of the Trust Agreement require the establishment of 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.

NOTE 8 – BONDS PAYABLE (CONTINUED)

The accounts established by the Trust Agreement and their balances at December 31, 2006 and 2005, were as follows:

Fund	Amount 2006	Amount 2005
Construction	$ 9,302	$ 10,788
Revenue	168,659	-
Debt Service	2,340,117	2,399,365
Debt Service Reserve	16,445,785	16,494,491
Total	$ 18,963,863	$ 18,904,644

During the years ended December 31, 2006 and 2005, payments from the various accounts were made in accordance with the terms of the Trust Agreement.

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. The report of the Association's Engineer was delivered to the Trustee on June 15, 2007. During 2005 and 2006, 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.

- 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 ("Revenue Covenant"). In addition, before the beginning of each fiscal year, the Association is required to review its financial status in order to estimate and determine whether Net Revenues (as defined) for the current and following fiscal year will be sufficient to comply with the Revenue Covenant. The Trust Agreement also specifies actions (i.e. toll rate study, etc.) to be taken if the Association determines that revenues may be inadequate to meet this Revenue Covenant.

  The projected net toll revenues were insufficient to meet the Revenue Covenant. In compliance with its obligations under the Indenture, the Association interviewed several nationally recognized traffic and revenue consultants and hired URS Corporation (the "Toll Rate Consultant"). The Toll Rate Consultant undertook to study the traffic and toll rates charged by the Association and to advise the Association whether changes to the tolls rates would enable the Association to meet the Revenue Covenant. The Toll Rate Consultant issued three reports on studies it conducted in 2005, 2006 and 2007, each of which concluded that revising the toll rates would not, in the opinion of the Toll Rate Consultant, permit the Association to meet the Revenue Covenant. Each of the reports contained suggested modifications to the toll rates and certain Association policies which would, in the opinion of the Toll Rate Consultant, increase net revenues, although by an amount insufficient to meet the Revenue Covenant.

NOTE 8 – BONDS PAYABLE (CONTINUED)

Toll rates for the Southern Connector were set by the SCDOT in the License Agreement. Such rates are automatically increased on five year intervals. The first (and only) rate adjustment occurred January 1, 2005. The 2005 toll rate increase resulted in a decrease in the traffic using the highway. The next toll rate adjustment is scheduled to occur January 1, 2010. The Association has no authority to modify the toll rate schedule previously set by SCDOT in the License Agreement. The Association can give no assurance that SCDOT will revise the toll rates as recommended by the Consultant. Furthermore, the Association can give no assurance that, if the toll rates are changed as recommended by the Toll Rate Consultant, that the net toll revenues will increase. Finally, even if the toll rates are modified as recommended by the Toll Rate Consultant, the report does not forecast that sufficient toll revenues will be produced to permit the Association to timely pay all of the principal and interest on the Bonds due during the forecast period.

- 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.

The Association monitors the covenants for compliance throughout the year. The Association believes it was in compliance with its bond covenants throughout 2006 and 2005.

NOTE 9 – RISK MANAGEMENT

The Association is exposed to various types of risk including loss related to torts; theft of, damage to, and destruction of assets; injuries to construction workers and others; professional design; and damage to property of others. The Association obtained commercial insurance covering 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, 2006 and 2005.

NOTE 10 – 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.

NOTE 10 – CONTINGENCIES (CONTINUED)

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. Currently, the Association and Trustee are working under the extended Tolling Agreement as neither party has given notice of its expiration.

NOTE 11 – OTHER MATTERS

The sole corporate purpose of the Association is to design, finance, acquire, construct and operate the Southern Connector. At the time the Bonds were issued, Wilbur Smith Associates prepared a Traffic and Revenue Study (the "Original Study") to estimate the future utilization of the road and toll revenues for the Association. The actual traffic on the highway and toll revenues received by the Association has been substantially less than projected in the Original Study. Currently, the Association is not receiving sufficient toll revenues to pay debt service on the Senior Bonds. The shortfall has been covered by withdrawals from the Senior Bonds Debt Service Reserve Account maintained by the Trustee under the Indenture. In compliance with the provisions of the continuing disclosure requirements, the Association has filed the required “Event Notice” for each withdrawal from the Senior Debt Service Reserve Account used to pay a portion of the interest payments in 2006 and 2005. In addition, interest has accreted on the Capital Appreciation Bonds, which are currently not payable. Due to the factors noted above, the Association has experienced an increase of ($19,952,918) and ($19,672,928) for 2006 and 2005, respectively, in the Association's net deficit to a total of ($108,429,739) and ($88,476,821) as of December 31, 2006 and 2005, respectively.

Debt service on the Bonds will increase sharply starting in January 2008 as principal begins to mature (See Note 8 for more details). As disclosed in Note 8, the Association engaged a traffic and revenue consultant to prepare a series of toll rate studies to advise the Association regarding the toll rates necessary to maximize toll revenue from the Southern Connector. Even if the recommendations of the consultant are effected, however, unless the traffic and revenues increase by amounts greater than projected in the consultant's reports, management of the Association estimates that within the next five years the reserve funds maintained by the Trustee will be depleted and toll revenues will be insufficient to pay principal and interest on the Bonds in full. Management of the Association is investigating the possibility of restructuring its long term indebtedness; however, there can be no assurance that any restructuring will be successful.

NOTE 12 – SUBSEQUENT EVENT

In compliance with the provisions of the Continuing Disclosure Agreement with the Trustee, the Association filed Event Notice No. 2007-1 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 2, 2007.