CONNECTOR 2000 ASSOCIATION, INC.

ANNUAL REPORT

June 30, 2008

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 tenth 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, 2007, 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:

	2003	2004	2005	2006	2007
ETC Trans.	866,640	1,136,544	1,225,766	1,386,943	1,599,926
% of Total Trans.	19%	22%	25%	26%	27%
ETC Revenue	$489,942	$686,703	$896,250	$1,018,130	$1,158,749
% of Total Rev.	15%	18%	19%	20%	21%
Total Trans.	4,566,095	5,129,949	4,948,535	5,434,691	5,839,205
Total Revenue	$3,333,252	$3,771,360	$4,664,081	$5,085,659	$5,448,214

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.

Event of Default. As more fully described in the audited financial statements of the Association for the period ending December 31, 2007 (the "***Financial Statements***") attached hereto, the traffic on the Southern Connector has been substantially less than that projected at the time the Bonds were issued. Such shortfall in traffic resulted in insufficient toll revenues to pay interest on the Series 1998A Senior Bonds and the Trustee has made up such shortfalls from transfers from the Senior Bonds Debt Service Reserve Account. On January 1, 2008, principal on the Bonds began to come due, which resulted in an additional withdrawal from the Senior Bonds Debt Service Reserve Account and from the Subordinate Bonds Debt Service Reserve Account. The Association has been unable to meet its Revenue Covenant under Section 717 of the Indenture. On January 23, 2008 the Association and the Bondholders were notified by the Trustee that an Event of Default had occurred and continues under the Indenture. *See generally*, Notes 10 and 11 of the Financial Statements. The Association filed its Event Notice No. 2008-2 January 28, 2008 with a copy of the Notice of Default. The Association engaged Goldman Sachs & Co. on January 31, 2008 as its special financial consultant working with the Association to explore strategic alternatives related to the Association's existing capital structure.

AUDITED FINANCIAL STATEMENTS

The financial statements of the Association for the period ended December 31, 2007 have been audited by Green Finney Horton, LLP, Certified Public Accountants. Their examination and the audited financial statements of the Association for the period ended December 31, 2007, are attached hereto as **Exhibit "A"**.

OTHER FINANCIAL INFORMATION

The Association did not receive any federal or State highway expansion money during the fiscal period ending December 31, 2007. The Association did not issue or remarket any bonded indebtedness during the fiscal period ending December 31, 2007.

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.

EXHIBIT "A"

Audited Financial Statements of the Association for the Year ended December 31, 2007.

[Attached]

CONNECTOR 2000 ASSOCIATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

TABLE OF CONTENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years 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, 2007 and 2006, 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 accompanying basic financial statements have been prepared assuming that the Association will continue as a going concern. As discussed in Note 11 to the basic financial statements, the Association's unrestricted financial condition has continued to deteriorate over the past several years. The Association continues to have decreases in unrestricted net assets and has been unable to comply with its bond revenue covenant for 36 consecutive months. In January 2008, the Trustee notified the Association that an event of default under the bond indenture had occurred. These conditions raise substantial doubt about the Association's ability to continue as a going concern at December 31, 2007. Management's plans regarding these matters are also described in Note 11. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The management's discussion and analysis as listed in the table of contents 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
June 19, 2008

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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, 2007 and 2006. Our analysis includes comparisons of 2007, 2006 and 2005 information. We ask that you read this section of the report in conjunction with the basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Utilization of the Southern Connector continued to rise during 2007, continuing 2006's rebound from the traffic decline noted in 2005 that occurred following the 2005 toll rate increase. Toll transactions in 2007 totaled 5,839,205, an increase of 7.4% over 2006 totals, while 2006 toll transactions increased to 5,434,691, or 9.8% over 2005 totals. Daily average toll transactions were 15,998 in 2007 compared to 14,890 in 2006 and 13,558 in 2005. 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 2007 and 2006. Total operating revenues were $5,453,185, and consisted of toll revenues of $5,452,944 and other operating revenues of $241. Operating revenues in 2006 totaled $5,085,269, and consisted of toll revenues of $5,084,643 and other operating revenues of $626. Toll revenues increased 7.2% in 2007 over 2006, and 9.1% in 2006 over 2005.

- Total operating expenses increased by 7.7% in 2007 to $2,621,820 from $2,434,683 in 2006. This was due primarily to professional fees, which increased as we began investigating our options to restructure our Toll Road Revenue Bonds. Total operating expenses in 2006 decreased 2.0% from the 2005 total of $2,483,781, mainly due to decreases in depreciation and lower 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 .5% to $960,610 in 2007. In 2006, nonoperating revenues from interest earned on repurchase agreements and money market accounts increased 2.6%, to $955,826 for the same reason. Nonoperating expenses in 2007 increased by 3.3% to $24,326,848. In 2006, these expenses increased 3.4% to $23,559,330. 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.

- The Association's total net deficit in 2007 increased by $20,534,873 over the course of the year's operations to $128,964,612. Of this increase, $17,329,715 was attributable to interest expense, which consisted primarily of $3,531,501 in cash payments of bond interest, $13,561,477 in accreted bond interest, $156,455 in interest accrued on the SCDOT license fees and maintenance expense, and $80,280 in amortization of original issue discount. The Association's' 2006 increase in total net deficit was $19,952,918. Of the 2006 increase in the net deficit, $16,575,881 was attributable to interest expense, which consisted primarily of $3,531,500 in cash payments of bond interest, $12,790,049 in accreted bond interest, $174,050 in interest accrued on the SCDOT license fees and maintenance expense, and $80,280 in amortization of original issue discount.

- Capital assets net of accumulated depreciation were $157,499,730 at December 31, 2007, a decrease of approximately 3.2% from December 31, 2006. At December 31, 2006, capital assets net of accumulated depreciation had decreased approximately 3.1% from December 31, 2005 to $162,651,013. The decreases resulted primarily from amortization of the Association's interest in its License Agreement with the SCDOT of $5,243,279 in 2007 and $5,243,076 in 2006. (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.)

- Beginning in January 2008, for the first time, our debt service payments include not only the usual interest payments on the Senior Series 1998 A bonds, but also principal payments on the Senior and Subordinate bonds. In order to meet portions of our debt service payments due from January 2003 through January 2008, we have used a total of $9,896,971 of monies from our Debt Service Reserve Accounts. At December 31, 2007, after transferring monies from the Senior Bonds Debt Service Reserve Account to the Senior Bonds Debt Service Account for payment of a portion of the debt service due in January 2008, the balance remaining in the Senior Bonds Debt Service Reserve Account was $8,414,712. This balance in the Senior Bonds Debt Service Reserve Account excludes interest earnings of $311,573, which were accrued separately as interest receivable at December 31, 2007. At December 31, 2006, after the year-end debt service transfers, the balance in the Senior Bonds Debt Service Reserve Account was $11,531,660, excluding interest earnings of $109 on this account that were accrued separately as interest receivable at December 31, 2006. Likewise, following 2007 year-end transfers to the Subordinate Bonds Debt Service Account, the balance in the Subordinate Bonds Debt Service Reserve Account at December 31, 2007 was $2,453,645. Interest earnings totaling $127,375 were accrued separately as interest receivable at December 31, 2007. The December 31, 2006 balance in the Subordinate Bonds Debt Service Reserve Account was $4,914,125. Interest receivable on this account was $555 at December 31, 2006. No transfers were made from the Subordinate Bonds Debt Service Reserve Account during 2006.

- The balance of bonds payable increased by 4.7% in 2007 to $303,099,064 due to accretions on the capital appreciation bonds and amortization of original issue discount on the Senior Series 1998A Bonds. The 2007 balance included $6,200,000 of principal payable in January 2008. In 2006, the balance increased by 4.7% to $289,457,307, again due to capital appreciation bond accretions.

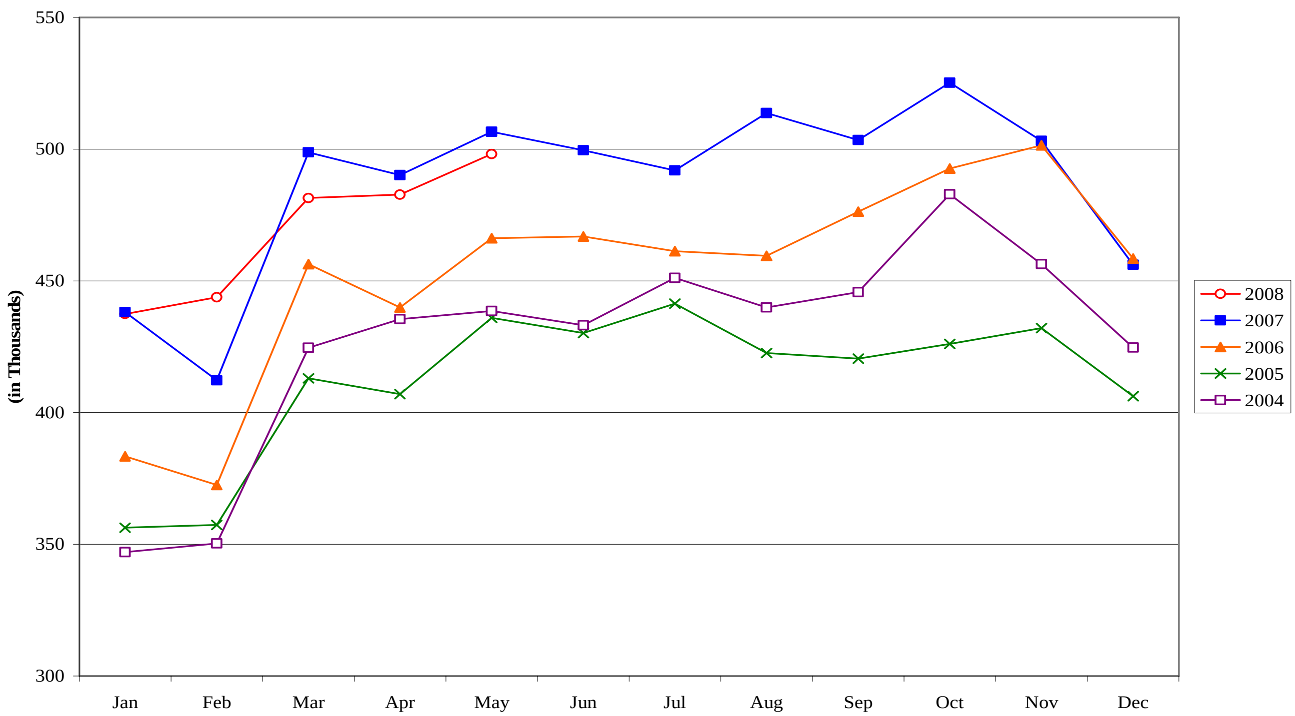
- Because of escalating debt service requirements and the inability of revenues from projected traffic flow to cover those debt service requirements, the Association began investigating its options to restructure its Toll Road Revenue Bonds during 2005.

- Following a period of 36 consecutive months during which the Association was unable to comply with the bond revenue covenant, in January 2008, we received notice from the Trustee that an event of default under the bond indenture had occurred.

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. Since the Southern Connector Toll Road opened in February 2001, nine months earlier than projected, utilization of the Southern Connector has been significantly lower than Study estimates. The Southern Connector was constructed in southern Greenville County in an area with no other similar roads, and was expected to further industrial and residential development in that portion of Greenville County. However, the expected growth in the region has yet to materialize. This factor, the recession, and consumer resistance to the payment of tolls (the Southern Connector Toll Road is the only toll road in Upstate South Carolina) have all contributed to the lower-than-forecasted traffic demands.

Transactions by Month

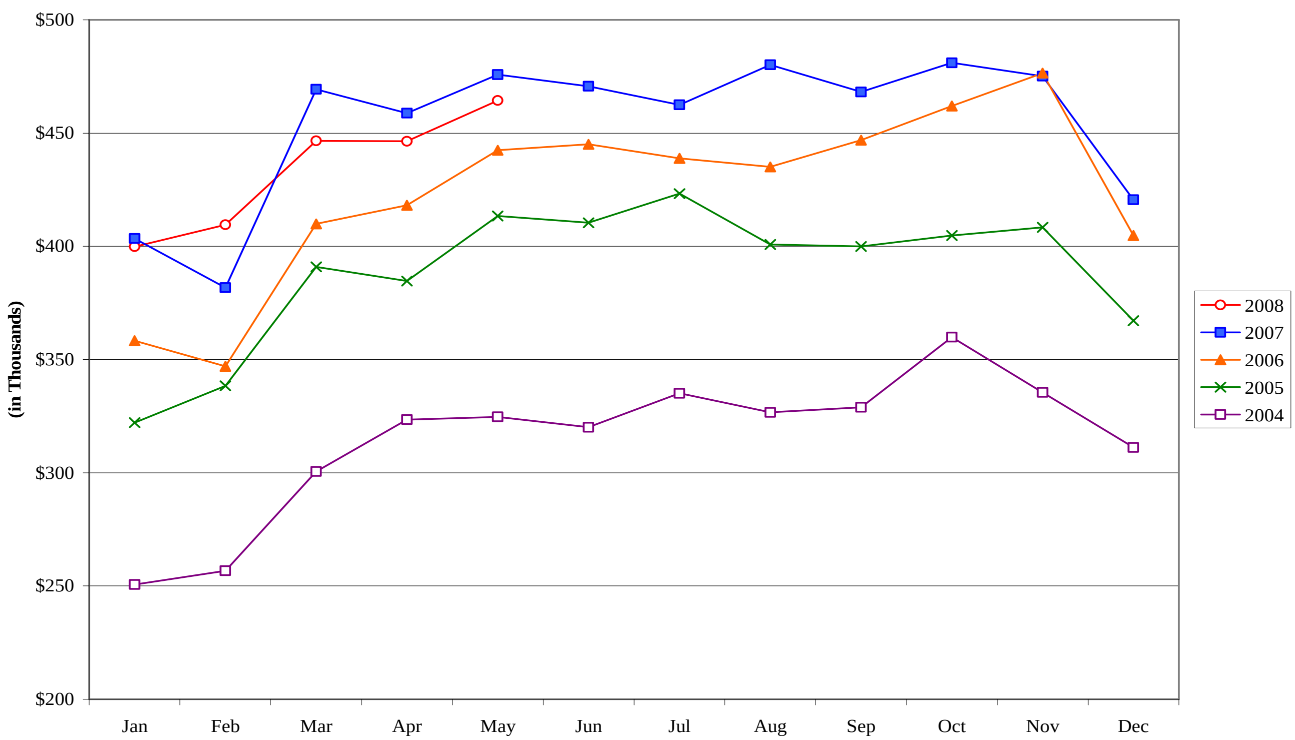


Since operations of the Southern Connector began, the Association has worked diligently to publicize the Southern Connector and promote traffic growth. We continue to employ a management team that is experienced in toll road operations and to work with local entities to promote and publicize development 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.

The success of our efforts is reflected in traffic demand and toll revenues. Average daily toll transactions grew 54.5% from 2001 through 2004. Although average daily toll transactions declined slightly (3.3%) in 2005 following an increase in toll rates, utilization of the Southern Connector has rebounded. Average daily toll transactions increased 9.8% in 2006 and 7.4% in 2007. (See the chart on the previous page for a monthly comparison of transactions for 2004 through May 2008.)

As indicated in the chart below, toll revenues have steadily risen each year through 2007 since the Southern Connector opened. From 2001 through 2004, toll revenues increased 88.0%. The 2005 increase in toll rates compensated for the resulting decline in traffic, and we ended the year with a 23.6% increase in toll revenues. The growth has continued throughout 2006 and 2007, with increases in toll revenues of 9.1% and 7.2%, respectively.

Revenues by Month



The growth rate appears to have stabilized during the first five months of 2008. Both average daily toll transactions and toll revenues for this period in 2008 have declined only slightly from the same period in 2007, by 1% or less.

The calendar year 2008 marks a significant change in the Association's annual financial obligations, since scheduled principal payments on our Toll Road Revenue Bonds commence beginning with the January 2008 debt service payment. In January 2008, our bond debt service payments increased 351.1% over the debt service payment due in January 2007, because a total of $6,200,000 (including a portion of the accretions on capital appreciation bonds) was paid down on our Senior and Subordinate Bonds in addition to the regular interest payment on the Senior Series 1998A Bonds. In order to meet this debt service requirement, we were required to withdraw $3,150,143 and $2,600,000, respectively, from our Senior and Subordinate Bonds Debt Service Reserve Accounts. A portion of the withdrawals from these Debt Service Reserve Accounts was from interest earned on the monies originally deposited into the accounts. As of the date this management's discussion and analysis was written, a cumulative total of $9,896,971 (including interest earnings on the Debt Service Reserve Accounts) has been withdrawn from those Debt Service Reserve Accounts to enable us to meet our debt service obligations.

Based on the current payment structures of our Toll Road Revenue Bonds, debt service requirements will continue to increase substantially each year during the term of the debt. Because of the escalating debt service requirements, unless toll revenues increase drastically in the coming years and/or we are able to restructure our Toll Road Revenue Bonds, we project that both our Senior Debt Service Reserve Account and our Subordinate Debt Service Reserve Account will be depleted in 2009 (with a debt service payment default in January 2010). All projections assume a 3.0% growth in annual traffic.

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 revenue covenant became effective January 1, 2005. This bond revenue covenant also 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 revenue covenant requirements, we must engage a consultant to perform a toll rate study and recommend actions that meet the requirements of (a) and (b) described above. The bond revenue covenant states that failure to comply with the covenant for a period of 36 consecutive months will constitute an event of default under the bond indenture.

Each year since the bond covenant became effective in 2005, the Association has performed the required review, and the consultant has 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 revenue 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 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.

Despite our implementation of the scheduled toll rate increase in 2005 and performance of the required toll rate studies, we have been unable to comply with the bond revenue covenant since January 2005. Therefore, as of January 1, 2008, the Association is in technical default under the bond indenture. The bond documents provide the Trustee, upon the written request of 25% or more of the bondholders, with certain specific remedies in the event of such technical default. Such remedies include allowing the Trustee to (a) take legal action to require the Association to enforce covenants with respect to the bonds, (b) take legal action to require the Association to account for revenues as if it were the trustee of an express trust for the bondholders, (c) take legal action to prohibit any acts or things that may be unlawful or in violation of the bondholders' rights, (d) prohibit the Association from withdrawing monies from any bond Accounts (other than the Rebate Fund and Renewal and Replacement Fund Accounts, which had no balance at December 31, 2007), without the Trustee's written consent, (e) take legal action to request that a court appoint the Trustee as a receiver of the Trust Estate and the Southern Connector's income, revenues, and use of profits, (f) take legal action to protect and enforce its rights and those of the bondholders to enforce payment of the principal, redemption price and interest due on the bonds. The bond documents do not provide any remedy that would accelerate the due date of any debt service payments due on the outstanding bonds. The bonds are secured by the Trust Estate, which includes (a) all bond funds except the Rebate and the Renewal and Replacement Funds, (b) all Revenues as defined in the bond documents, (c) all of the Association's rights in its License Agreement with the SCDOT, and (d) any other property assigned to the Trustee by the Association. There is no provision in the bond documents that will allow the Trustee to place a lien or mortgage on any of the Association's physical assets.

The Association received a notice dated January 23, 2008, from the Trustee stating that an event of default has occurred. In the notice, the Trustee acknowledges and reserves its remedies provided in the bond indenture, but does not identify which, if any, actions are to be taken on behalf of the bondholders. As of the date this management's discussion and analysis was written, we have received no communications from the Trustee indicating any intent to initiate proceedings under the Specific Remedies provisions of the bond indenture.

During 2007, because of the escalating debt service requirements and our acknowledgement of the Association's imminent default under the bond revenue covenant, Standard & Poor's Rating Service downgraded the rating of the Association's Senior Bonds from *B-* to *CCC* with a stable outlook.

In response to the above factors, during 2007 we took several steps to address our financial condition, including (i) performance of a long term traffic and revenue forecast, (ii) solicitation of interest by firms qualified to finance and operate toll roads, and (iii) engagement of a special financial consultant.

After consideration of our financial position and the above factors, our auditors decided that it was necessary to render a "going concern" opinion on our 2007 financial statements. According to our auditors, an entity is considered a going concern if it is expected to be able to pay its debts and continue operations for a period not to exceed one year from the date of the financial statements being audited (December 31, 2007, in the Association's case). Whenever there is substantial doubt that an entity is a going concern, it is appropriate for the audit firm to mention this situation in its audit opinion. The Association's default under the bond indenture gives the Trustee the option of petitioning a court to appoint the Trustee as receiver of the Trust Estate. (See the discussion of the Trustee's remedies above.) If the Trustee were appointed as receiver of the Trust Estate, the Trustee would in essence take over operations of the Southern Connector from the Association. As our auditors have explained to us, they determined that the Trustee's availability to exercise this remedy during 2008 constitutes substantial doubt about the Association's continued operations of the Southern Connector; therefore, a going concern audit opinion was issued on our 2007 financial statements.

In spite of the difficulties that the Association faces in the future, 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.

In 2008, we continue our quest to hold operating costs to a minimum while still providing efficient service to our customers. Our 2008 operating budget of $2,707,523 reflects a 3.3% increase over 2007 actual operating costs. This increase results primarily from an increase in expected personnel and insurance costs. In 2007 as discussed in the "Changes in Net Assets (Deficit)" section of this management's discussion and analysis below, our legal and consulting professional fees increased significantly due to our efforts to restructure our bonds. As we continue these efforts in the coming year, our 2008 budget reflects our expectation that costs of legal and consulting professional fees will remain significantly higher than in previous years, though such currently budgeted 2008 fees are 2.9% less than 2007 actual amounts.

OVERVIEW OF THE FINANCIAL STATEMENTS

The 2007 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 in the Association's net deficit are one indicator that our financial health is 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

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

During the year ended December 31, 2007, the Association's net deficit increased by $20,534,873 to $128,964,612. Total assets decreased approximately 2.7% to $181,748,363 while total liabilities increased approximately 5.3% to $310,712,975. For the year ended December 31, 2006, the Association's increase in its net deficit was $19,952,918 to $108,429,739. Total assets decreased by 2.7% to $186,759,784, and total liabilities increased by 5.2% to $295,189,523. (See Table 1 on the following page.)

The net decrease in total assets for both years 2007 and 2006 resulted primarily from the fact that total revenues in these years were not sufficient to completely offset such nonoperating expenses as debt service interest accruals and amortization of the Association's interest in its License Agreement with SCDOT.

The increase in total liabilities for both years 2007 and 2006 was due mainly to accretions on the capital appreciation bonds. These accretions caused the bonds payable (both current and noncurrent) portions of total liabilities to increase by 4.7% in both 2007 and 2006. 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 2007 and 2006, other liabilities increased by 32.8% and 46.2%, 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)

	2007	2006	2005
Current and Other Assets	$ 24,248,633	$ 24,108,771	$ 24,164,551
Capital Assets	157,499,730	162,651,013	167,865,406
Total Assets	181,748,363	186,759,784	192,029,957
Long-term Liabilities (Bonds Payable):			
Senior Bonds	(213,954,640)	(209,010,673)	(200,934,322)
Subordinate Bonds	(82,944,424)	(80,446,634)	(75,652,656)
Total Long-Term Liabilities	(296,899,064)	(289,457,307)	(276,586,978)
Other Liabilities:			
Senior Bonds, current portion	(3,600,000)	-	-
Subordinate Bonds, current portion	(2,600,000)	-	-
Interest Payable to Bondholders	(1,765,754)	(1,765,752)	(1,765,750)
Accounts Payable, Deferred Revenue and Deposits	(351,319)	(240,915)	(203,904)
Amounts Payable to SCDOT	(5,496,838)	(3,725,549)	(1,950,146)
Total Other Liabilities	(13,813,911)	(5,732,216)	(3,919,800)
Total Liabilities	(310,712,975)	(295,189,523)	(280,506,778)
Net Assets (Deficit):			
Invested in Capital Assets, Net of Related Debt	(51,715,907)	(40,829,196)	(35,650,950)
Restricted for Debt Service	6,277,665	746,559	753,125
Restricted for Capital and Other Projects	28	9,302	10,788
Unrestricted	(83,526,398)	(68,356,404)	(53,589,784)
Total Net Assets (Deficit)	$ (128,964,612)	$ (108,429,739)	$ (88,476,821)

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, 2007, the balance of this category of net assets was a deficit of $51,715,907, a further deterioration of $10,886,711 from the 2006 deficit. The 2006 balance of this category of net assets was a deficit of $40,829,196, a deterioration of $5,178,246 from the 2005 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, 2007, the Association's net assets restricted for construction of the Southern Connector decreased to $28 from its balance of $9,302 in 2006. The Association's 2007 net assets restricted for debt service increased by $5,531,106 to $6,277,665.

The Association's 2006 balance of net assets restricted for debt service was $746,559. The 2007 increase in net assets restricted for debt service was significant because for the first time in January 2008, the Association's debt service payments included principal reductions as well as the accrued interest normally paid.

- 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, 2007 was a deficit of $83,526,398, while the 2006 deficit was $68,356,404. The net deficit in this category increased $15,169,994 in 2007 and $14,766,620 in 2006, due primarily to certain reclassifications of negative balances of net assets required by U.S. Generally Accepted Accounting Principles for governmental entities. The 2007 and 2006 increases in the deficit represent deterioration of the Association's financial position.

A discussion of the changes in the net deficit for years 2007 and 2006 is presented below.

Changes in Net Assets (Deficit)

Although as presented in Table 2 on the next page, the Association's total revenues were not sufficient to cover its total expenses, there was some improvement in operations in both years 2007 and 2006.

2007 Compared to 2006

The 2007 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 $2,831,365, an increase of $180,779 over 2006. Total operating revenues increased approximately 7.2% in 2007, while operating expenses increased approximately 7.7%. Nonoperating revenues, which consisted of interest earned on monies in bank accounts and investments, increased .5% in 2007 to $960,610. In 2007, the nonoperating revenues fell short of nonoperating expenses by $23,366,238.

In 2007, total operating expenses increased $187,137 over 2006 amounts. This increase resulted mainly from additional legal and consulting professional fees that were incurred as we began investigating our options to restructure our bonds payable. (See the "Economic Factors and Next Year's Budget" and "Debt Administration" sections of this management's discussion and analysis.) Professional fees increased $183,262, or approximately 86.6%, in 2007.

However, by closely monitoring expenses in 2007, we were able to cut costs in other areas. Expenses incurred for contract services decreased by $37,766, or 10.6% in 2007. Insurance costs declined $18,081, or 13.2%. We were also able to trim contract labor by $17,460, or 55.4%, and miscellaneous expenses by $15,958, or 78.5%.

In 2007, our nonoperating interest revenues increased by $4,784, or .5%, to $960,610. 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 2007, the noncash portion totaled $20,795,346. Noncash, nonoperating interest expense was $13,798,213 in 2007. Noncash, nonoperating SCDOT deferred license fees and maintenance expense were $1,500,000 and $114,834, respectively, as discussed below. Noncash, nonoperating amortization expense totaled $5,382,299 in 2007 and decreased the book value of certain assets. The primary asset affected by amortization was the Association's interest in its License Agreement with SCDOT. (See the "Capital Assets" section of this management's discussion and analysis for more information.) The increase in these noncash, nonoperating expenses was 3.8% in 2007 and was mainly due to the increase in the amount of interest accretions on the Capital Appreciation Bonds under the bonds' accretion schedule.

Table 2
Changes in Net Assets

	2007	2006	2005
Revenues:			
Operating revenues:			
Charges for Services (Toll Revenues)	$ 5,452,944	$ 5,084,643	$ 4,660,649
Other	241	626	770
Nonoperating Revenues:			
Interest and Investment Earnings	960,610	955,826	931,152
Total Revenues	6,413,795	6,041,095	5,592,571
Expenses:			
Operating Expenses	2,621,820	2,434,683	2,483,781
Nonoperating Expenses:			
Interest Expense on Bonds	17,173,260	16,401,831	15,674,338
Other Interest Expense	-	-	207
Amortization	5,382,299	5,382,096	5,382,027
SCDOT Fees and Accrued Interest	1,771,289	1,775,403	1,725,146
Total Expenses	26,948,668	25,994,013	25,265,499
Decrease in Net Assets (Deficit)	(20,534,873)	(19,952,918)	(19,672,928)
Beginning Net Assets (Deficit)	(108,429,739)	(88,476,821)	(68,803,893)
Ending Net Assets (Deficit)	$ (128,964,612)	$ (108,429,739)	$ (88,476,821)

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 2007 were $1,500,000 and $114,834, respectively. Interest accrued on these amounts totaled $156,455 in 2007. 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 $4,500,000, $567,650 and $429,188, respectively, at December 31, 2007.

In addition to its obligation to reimburse SCDOT for maintenance of the Southern Connector, the Association is further required under its License Agreement with SCDOT to periodically repair and replace the Southern Connector's roadway. In accordance with the terms of the bond indenture, a renewal and replacement plan was filed upon Substantial Completion of the Southern Connector that presents in detail the projected dates and cost of repairs and replacement of the toll road components. The bond indenture requires that monies be transferred to a Renewal and Replacement Fund to pay for these projected costs. However, since the funding of this Fund is subordinate to payment of bond debt service, the Association has never been allowed to transfer monies to this Fund. In its Engineer Report, our Engineer has identified certain physical deficiencies in the condition of the Southern Connector. (See additional information in the "Debt Administration" section of this management's discussion and analysis.)

2006 Compared to 2005

As traffic on the Southern Connector Toll Road continued to increase, and as we continued our campaign to maintain operating costs at the lowest possible levels, the Association's operating income increased by $472,948 to $2,650,586 during 2006. 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. Nonoperating expenses exceeded nonoperating revenues by $22,603,504 in 2006.

In 2006, we succeeded in cutting total operating expenses by $49,098 from 2005 levels. 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.

After covering operating costs, our increased operating income allowed us 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 during 2006. The resulting additional interest earnings increased our nonoperating interest revenues by $24,674, or 2.6%, to $955,826 in 2006.

As mentioned above, most of our nonoperating expenses do not require any cash outlays. For 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. Noncash, nonoperating amortization expense totaled $5,382,096 in 2006. The Association's interest in its License Agreement with SCDOT was the main asset affected by amortization. (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. This increase was primarily due to the increase in the amount of interest accretions on the Capital Appreciation Bonds under the bonds' accretion schedule.

As discussed in greater detail above, the Association is obligated to pay license and roadway maintenance fees to SCDOT under its License Agreement with the SCDOT. The license and roadway maintenance fees incurred in 2006 were $1,500,000 and $101,353, respectively. In 2006, interest accrued on these amounts totaled $174,050. These fees and the related interest were recorded as nonoperating expenses. At December 31, 2006, 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets at December 31, 2007 and 2006 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)

	2007	2006	2005
Equipment, Net	$ 201,347	$ 109,351	$ 89,168
Interest in License Agreement with SCDOT, Net	157,298,383	162,541,662	167,776,238
Total Capital Assets, Net	$ 157,499,730	$ 162,651,013	$ 167,865,406

At December 31, 2007, the Association had $157,499,730 invested in capital assets. This amount represents a net decrease of $5,151,283, or 3.2%, from 2006 amounts. The amount invested at December 31, 2006, was $162,651,013, a net decrease of $5,214,393 (3.1%), from 2005 amounts. Our primary asset is our interest in the License Agreement with SCDOT. In 2007, its book value decreased by 3.2% to $157,298,383. This net decrease resulted from amortization of $5,243,279 taken during the year. Its 2006 carrying amount had decreased 3.1% to $162,541,662. The decrease was composed of an $8,500 treadle placed in service during 2006 offset by amortization of $5,243,076 taken during the year.

In 2007, Equipment, Net increased by 84.1%. During 2007, we purchased three new vehicles at a cost totaling $71,114, a new lawn mower for $6,405 and new transponders with a cost totaling $51,100. We sold two older fully-depreciated vehicles at a gain of $10,000, and scrapped fully-depreciated transponders that originally cost $6,143. Depreciation expense for 2007 totaled $36,623. The 2006 increase in Equipment, Net was 22.6%, and was composed of $46,000 of new transponders offset by $25,817 of depreciation. In 2006 we also wrote off fully-depreciated equipment that originally cost $5,298.

The majority of the 2006 monies remaining in the Construction Fund were used in early 2007 for the Equipment purchases described above.

Debt Administration

Long-term debt at December 31, 2007 and 2006 included Toll Road Revenue Bonds with maturity dates ranging from 2008 to 2038. The balances of these bonds at December 31, 2007 totaled $303,099,064, including $6,200,000 of principal due in January 2008. The 2006 balances of these bonds totaled $289,457,307. The balances increased by $13,641,757 in 2007 and by $12,870,329 in 2006 (4.7% in both years), due to accretions on the Series 1998B Senior Capital Appreciation Bonds and on the Series 1998C Subordinate Capital Appreciation Bonds. Due to the accretion schedule on the Capital Appreciation Bonds, the balance of bonds payable will continue to increase significantly 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 bonds. This situation has been exacerbated by the fact that, beginning with the January 2008 payment, scheduled debt service payments now will include the payment of principal (including both the redemption price of the Series 1998A Bonds and the payment of the maturing principal of serial Series 1998B and 1998C Capital Appreciation Bonds) in addition to the normal interest payment on the Series 1998A 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 and to begin drawing from our Subordinate Bonds Debt Service Reserve Account. Monies withdrawn from all Debt Service Reserve Accounts since debt service payments began total $9,896,971, and include a cumulative total amount withdrawn from the Senior Bonds Debt Service Reserve Account since December 31, 2002 of $7,296,971, and monies withdrawn from the Subordinate Bonds Debt Service Reserve Account in December 2007 totaling $2,600,000. These withdrawals consisted of both principal and interest earned on the monies originally deposited into the Senior and Subordinate Bonds Debt Service Reserve Accounts.

As discussed in further detail in the “Economic Factors and Next Year’s Budget” section of this management’s discussion and analysis, 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, and/or unless we are able to restructure our Toll Road Revenue Bonds, we will continue to be required to use Senior and Subordinate Bonds Debt Service Reserve Account monies to meet some portion of our debt service obligations. Our current estimates using 3% annual growth in traffic indicate that, unless the debt is restructured, we will deplete our Subordinate Bonds Debt Service Reserve Account in 2009, with the related debt service payment default projected to occur in January 2010. Likewise, estimates indicate that our Senior Bonds Debt Service Reserve Account will be depleted in 2010, with the related debt service payment default projected to occur in January 2011. (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 the lack of driver demand for the Southern Connector Toll Road, our projected use of the Debt Service Reserve Account monies, and the Association’s pending failure to meet the bond revenue covenant discussed in the “Economic Factors and Next Year’s Budget” section of this management’s discussion and analysis above, in August 2007, Standard and Poor’s Rating Service (“S&P”) downgraded the rating of our Series 1998A Bonds and Series 1998B Bonds from *B-* to *CCC* with a stable outlook. Prior to this downgrade, the bonds had been rated *B-* since January 2003. 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 consulted our legal counsel regarding this matter, and believe that the Trustee misinterpreted the terms of the indenture. Although we were unable to resolve this interpretation issue with the Trustee, we worked with the Trustee towards a resolution. In April 2003, we entered into a Tolling Agreement with the Trustee that was renewed annually through December 2007. The Trustee and the Association agreed that the Association's inability to replenish the Senior Bonds Debt Service Reserve Account would not be considered an event of default while the Tolling Agreement was in effect. The Tolling Agreement ended in January 2008, when an event of default under the terms of the bond indenture occurred. (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.)

As discussed in the "Economic Factors and Next Year's Budget" section of this management's discussion and analysis, 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. You may request a copy of the report by contacting the Connector 2000 Association, Inc.

In January 2005, the Association became subject to the revenue covenant established in its bond documents. This bond revenue covenant is discussed above in the "Economic Factors and Next Year's Budget" section of this management's discussion and analysis. As of January 1, 2008, an event of default had occurred due to the Association's inability to comply with the bond revenue covenant for a period of 36 consecutive months.

CONTACTING THE CONNECTOR 2000 ASSOCIATION, INC.

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

Basic Financial Statements

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

STATEMENTS OF NET ASSETS - PROPRIETARY FUND

DECEMBER 31, 2007 AND 2006

	Business-Type Activities - Enterprise Fund	
ASSETS	**2007**	**2006**
Current Assets:		
Cash and Cash Equivalents	$ 623,395	$ 703,658
Investments	308,510	320,928
Prepaid Expenses	27,572	38,047
Inventory	88,289	88,939
Restricted Assets in Debt Service and Other Funds:		
Cash and Cash Equivalents	2,341,343	1,501,153
Investments	5,701,585	1,016,927
Interest Receivable	519	3,535
Total Current Assets	9,091,213	3,673,187
Noncurrent Assets:		
Restricted Assets in Debt Service Reserve Funds:		
Cash and Cash Equivalents	394,439	567,155
Investments	10,473,918	15,878,630
Interest Receivable	438,948	664
Total Noncurrent Restricted Assets in Debt Service Reserve Funds	11,307,305	16,446,449
Capital Assets:		
Equipment	709,041	626,523
Interest in License Agreement with SCDOT	192,480,674	192,480,674
Less: Accumulated Depreciation and Amortization	(35,689,985)	(30,456,184)
Total Capital Assets	157,499,730	162,651,013
Other Assets:		
Bond Issuance Costs (Net of Accumulated Amortization of $621,775 and $559,075 respectively)	1,736,355	1,799,055
Underwriters' Fees (Net of Accumulated Amortization of $756,840 and $680,520 respectively)	2,113,760	2,190,080
Total Other Assets	3,850,115	3,989,135
TOTAL ASSETS	**181,748,363**	**186,759,784**
LIABILITIES		
Current Liabilities:		
Accounts Payable	146,120	69,713
Deferred Toll Revenue	191,679	158,242
Transponder Deposits	13,520	12,960
Revenue Bonds Payable, Current Portion	6,200,000	-
SCDOT Deferred Maintenance Payable	567,650	452,816
SCDOT Deferred License Fee Payable	4,500,000	3,000,000
Accrued Interest on SCDOT Deferred Maintenance and License Fee	429,188	272,733
Amounts Payable from Restricted Assets:		
Accrued Interest Payable	1,765,754	1,765,752
Total Current Liabilities	13,813,911	5,732,216
Noncurrent Liabilities:		
Revenue Bonds Payable, Less Current Portion	296,899,064	289,457,307
Total Noncurrent Liabilities	296,899,064	289,457,307
TOTAL LIABILITIES	**310,712,975**	**295,189,523**
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	(51,715,907)	(40,829,196)
Restricted for:		
Debt Service	6,277,665	746,559
Capital Projects	28	9,302
Unrestricted	(83,526,398)	(68,356,404)
TOTAL NET ASSETS (DEFICIT)	**$ (128,964,612)**	**$ (108,429,739)**

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, 2007 AND 2006

	Business-Type Activities - Enterprise Fund	
OPERATING REVENUES	**2007**	**2006**
Toll Revenues	$ 5,452,944	$ 5,084,643
Other Toll Road Revenues	241	626
TOTAL OPERATING REVENUES	**5,453,185**	**5,085,269**
OPERATING EXPENSES		
Automobile	17,676	13,510
Bank Fees and Charges	34,313	35,638
Contract Labor	14,039	31,499
Contract Services	320,077	357,843
Credit Card Discount Fees	46,048	38,625
Employee Benefits	194,563	195,973
Miscellaneous	4,370	20,328
Office Supplies	26,865	20,109
Payroll Taxes	73,100	90,481
Repairs and Maintenance	72,815	68,966
Salaries	1,067,609	1,019,395
Telephone	28,835	33,167
Toll Highway Management Fee	21,332	-
Utilities	79,019	73,586
Advertising	38,722	30,796
Depreciation	36,623	25,817
Insurance	118,685	136,766
Marketing	32,175	30,492
Professional Fees	394,954	211,692
TOTAL OPERATING EXPENSES	**2,621,820**	**2,434,683**
OPERATING INCOME	**2,831,365**	**2,650,586**
NONOPERATING REVENUES (EXPENSES)		
Interest Earned on Cash Equivalents and Investments	960,610	955,826
Interest Expense	(17,329,715)	(16,575,881)
SCDOT Maintenance Expense	(114,834)	(101,353)
SCDOT License Fees	(1,500,000)	(1,500,000)
Amortization for:		
Interest in License Agreement with SCDOT	(5,243,279)	(5,243,076)
Bond Issuance Costs	(62,700)	(62,700)
Underwriters' Fees	(76,320)	(76,320)
TOTAL NONOPERATING REVENUES (EXPENSES)	(23,366,238)	(22,603,504)
DECREASE IN NET ASSETS	(20,534,873)	(19,952,918)
NET ASSETS (DEFICIT), Beginning of Year	(108,429,739)	(88,476,821)
NET ASSETS (DEFICIT), End of Year	**$ (128,964,612)**	**$ (108,429,739)**

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, 2007 AND 2006

	Business-Type Activities - Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES	**2007**	**2006**
Receipts from:		
Toll Collections	$ 5,486,941	$ 5,106,201
Other Toll Road Operations	241	626
Payments for:		
Toll Road Employees and Contract Labor	(1,349,311)	(1,337,348)
Vendors and Service Providers	(1,148,354)	(1,009,021)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,989,517	2,760,458
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(128,619)	(46,000)
Construction Costs Paid on Southern Connector	-	(8,500)
Interest Paid on Bonds Payable	(3,531,501)	(3,531,500)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,660,120)	(3,586,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Investments	732,472	311,386
Interest Received	525,342	958,821
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,257,814	1,270,207
INCREASE IN CASH AND CASH EQUIVALENTS	**587,211**	**444,665**
CASH AND CASH EQUIVALENTS, Beginning of Year	2,771,966	2,327,301
CASH AND CASH EQUIVALENTS, End of Year	**$ 3,359,177**	**$ 2,771,966**

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

	2007	2006
Unrestricted Cash and Cash Equivalents - Current Assets	$ 623,395	$ 703,658
Restricted Cash and Cash Equivalents - Current Assets	2,341,343	1,501,153
Restricted Cash and Cash Equivalents - Noncurrent Assets	394,439	567,155
Total Cash and Cash Equivalents Shown on Statement of Net Assets	**$ 3,359,177**	**$ 2,771,966**

(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, 2007 AND 2006

	Business-Type Activities - Enterprise Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	**2007**	**2006**
Operating Income	$ 2,831,365	$ 2,650,586
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	36,623	25,817
Change In:		
Prepaid Expenses	10,475	49,005
Inventory	650	(1,961)
Accounts Payable	76,407	15,453
Deferred Toll Revenue	33,437	20,198
Transponder Deposits	560	1,360
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,989,517	$ 2,760,458
NONCASH INVESTING, CAPITAL, AND FINANCING ITEMS		
Amortization of Interest in License Agreement with SCDOT	$ 5,243,279	$ 5,243,076
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	13,561,477	12,790,049
Accrual of Interest Payable	1,765,754	1,765,752
SCDOT Deferred Maintenance	114,834	101,353
SCDOT Deferred License Fees	1,500,000	1,500,000
Accrued Interest on SCDOT Deferred Maintenance and License Fee	156,455	174,050
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ITEMS	$ 22,561,099	$ 21,793,580

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, 2007 and 2006.

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

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

Proprietary fund types are accounted for based on the economic resources measurement focus and use of the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Association 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Association generally follows the authoritative guidance in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That Use Proprietary Fund Accounting,* to distinguish operating from nonoperating revenues and expenses. Thus, the principal operating revenues of the Association are toll revenues received from patrons. Operating expenses of the Association 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 (c) 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 nonoperating 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.

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).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 was required to begin to pay a monthly license fee 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.

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 were 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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 (if any).

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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, 2007 and 2006, 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, 2007 and 2006.

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, 2007 and 2006, the *Rebate Fund* was inactive.

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, 2007 and 2006, no liability or expense was recorded in these basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2007 and 2006, 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).

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."

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Assets (Continued)

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, 2007 and 2006 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.

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, 2007 and 2006, approximately $262,000 and $449,000 of the Association's bank balances of approximately $871,000 and $1,050,000 (with a carrying value of $1,007,932 and $1,025,710), respectively, were uninsured and uncollateralized. None of the deposits noted above were held by the South Carolina State Treasurer.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

As of December 31, 2007 and 2006, 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, 2007:				
Open Ended Treasury Money Market Funds	AAAm, Aaa, AAA	$ 2,659,755	14.1%	0.014
Repurchase Agreements	N/A	16,175,503	85.9%	10.000
Total Fair Value/Weighted Average Maturity		$ 18,835,258		8.590
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

^ 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 but follows the guidelines outlined in the Association's Trust Agreement (as noted earlier).

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, 2007 and 2006, 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.

The investment types listed in the preceding table include all investment types in which monies were held during the year ended December 31, 2007 and 2006. None of the investments above were with the South Carolina State Treasurer.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

Statements of Net Assets			Notes		
	2007	2006		2007	2006
Unrestricted Current Assets:					
Cash and Cash Equivalents	$ 623,395	703,658	Deposits	1,007,932	$ 1,025,710
Investments	308,510	320,928	Investments	18,835,258	18,962,741
Restricted Current Assets:					
Cash and Cash Equivalents	2,341,343	1,501,153			
Investments	5,701,585	1,016,927			
Restricted Noncurrent Assets:					
Cash and Cash Equivalents	394,439	567,155			
Restricted Investments	10,473,918	15,878,630			
	$ 19,843,190	19,988,451		19,843,190	$ 19,988,451

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, 2007 and 2006.

NOTE 3 – RECEIVABLES

At December 31, 2007 and 2006, the Association had an interest receivable of $439,467 and $4,199, 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, 2007 and 2006:

Description	Balance December 31, 2006	Additions	Disposals	Balance December 31, 2007
Capital Assets:				
Interest in License Agreement with SCDOT	$ 192,480,674	-	-	$ 192,480,674
Equipment	626,523	128,619	(46,101)	709,041
Subtotal Capital Assets	193,107,197	128,619	(46,101)	193,189,715
Less: Accumulated Depreciation/Amortization:				
Interest in License Agreement with SCDOT	29,939,012	5,243,279	-	35,182,291
Equipment	517,172	36,623	(46,101)	507,694
Subtotal Accum. Depreciation/Amortization	30,456,184	5,279,902	(46,101)	35,689,985
Totals	$ 162,651,013	(5,151,283)	-	$ 157,499,730

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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

At December 31, 2007 and 2006, depreciation and amortization expense related to capital assets was $5,279,902 and $5,268,893, 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, 2007 and 2006, 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, 2007 and 2006, the Association has unpaid SCDOT deferred license fees of $4,500,000 and $3,000,000, respectively, and related interest of $356,821 and $225,000, 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, 2007 and 2006, the Association has unpaid SCDOT deferred maintenance of $567,650 and 452,816, respectively, and related interest of $72,367 and $47,733, 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, 2007 and 2006, accrued interest payable was $1,765,754 and $1,765,752, which consisted of the Senior Current Interest Bond (Series 1998A) payment which is due January 1 of 2008 and 2007, 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, 2007 and 2006, totaled $17,329,715 and $16,575,881, 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 2007 and 2006 and balances at December 31, 2007 and 2006, were as follows:

	Balance December 31, 2006	Increases	Decreases	Balance December 31, 2007
Senior Bonds				
Series 1998A	$ 66,200,000	-	-	$ 66,200,000
Original Issue Discount on Series 1998A	(1,978,122)	80,280	-	(1,897,842)
Subtotal Series 1998A	64,221,878	80,280	-	64,302,158
Series 1998B	144,788,795	8,463,687	-	153,252,482
Subordinate Bonds:				
Series 1998C	80,446,634	5,097,790	-	85,544,424
Totals	**$ 289,457,307**	**13,641,757**	**-**	**$ 303,099,064**

NOTE 8 – BONDS PAYABLE (CONTINUED)

	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**

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, 2007, $6,200,000 in principal payments on bonds was due within one year. At December 31, 2006, 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, 2007:

Year Ending December 31	Principal	Interest	Totals
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	9,900,000	3,303,125	13,203,125
2013-2017	61,300,000	15,557,500	76,857,500
2018-2022	93,700,000	13,651,750	107,351,750
2023-2027	128,800,000	11,189,563	139,989,563
2028-2032	169,400,000	7,914,689	177,314,689
2033-2037	197,000,000	3,655,000	200,655,000
2038	57,700,000	112,875	57,812,875
Totals	$ 746,100,000	69,122,002	$ 815,222,002

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, 2007 and 2006, were as follows:

Fund	Amount	
	2007	2006
Construction	$ 28	$ 9,302
Revenue	76,027	168,659
Debt Service	7,966,873	2,340,117
Debt Service Reserve	10,868,357	16,445,785
Total	$ 18,911,285	$ 18,963,863

During the years ended December 31, 2007 and 2006, 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 2007 Engineer report is currently in process and will be forwarded to the Trustee upon its completion. The 2006 report was completed by the Association's Engineer and delivered to the Trustee on June 15, 2007. The Association has notified the trustee that funding of the Renewal and Replacement Fund was seventh in the flow of funds listing in the trust agreement and 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 latter 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 Revenue Covenant also states, that failure to comply with the covenant for a period of 36 consecutive months will constitute an event of default under the bond indenture.

  The net toll revenues have been insufficient to meet the Revenue Covenant. In compliance with its obligations under the Indenture, the Association hired a Toll Rate Consultant who studied the traffic and toll rates charged by the Association and advised the Association on changes to the tolls rates. 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, the net toll revenues will increase. Even if the toll rates are modified as recommended by the Toll Rate Consultant, the reports do not forecast that sufficient toll revenues will be produced to permit the Association to timely pay all of the principal and interest due on the Bonds during the forecast period.

The Association was unable to comply with the Revenue Covenant for 36 consecutive months and was thus in default (in substance) as of December 31, 2007 (See Note 11 and Note 12 for more details) and is therefore no longer required to obtain a toll rate study.

- 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. Except for the Revenue Covenant, the Association believes it was in compliance and has met its bond covenants throughout 2007 and 2006.

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, 2007 and 2006.

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 of 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 contended 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 intended 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 agreed 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. The Association and Trustee were working under the extended Tolling Agreement as neither party had given notice of its expiration during 2007. The Trustee notified the Association of an event of default in January 2008 which effectively terminated the Tolling Agreement. See Note 11 and Note 12 for more details.

NOTE 11 – GOING CONCERN

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 Debt Service Reserve Accounts 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 Debt Service Reserve Accounts used to pay a portion of the interest payments in 2007 and 2006. 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 ($20,534,873) and ($19,952,918) for 2007 and 2006, respectively, in the Association's net deficit to a total of ($128,964,612) and ($108,429,739) as of December 31, 2007 and 2006, 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 two 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.

Despite the Association's implementation of the scheduled toll rate increase in 2005 and performance of the toll rate studies required under the bond indenture, the Association has been unable to comply with the bond Revenue Covenant since January 2005. Therefore, as of January 1, 2008 (after 36 consecutive months), the Association is in technical default under the bond indenture. The bond documents provide the Trustee, upon the written request of 25% or more of the bondholders, with certain specific remedies in the event of such technical default. Such remedies include allowing the Trustee to (a) take legal action to require the Association to enforce covenants with respect to the bonds, (b) take legal action to require the Association to account for revenues as if it were the trustee of an express trust for the bondholders, (c) take legal action to prohibit any acts or things that may be unlawful or in violation of the bondholders' rights, (d) prohibit the Association from withdrawing monies from any bond Accounts (other than the Rebate Fund and Renewal and Replacement Fund Accounts), without the Trustee's written consent,

NOTE 11 – GOING CONCERN (CONTINUED)

(e) take legal action to request that a court appoint the Trustee as a receiver of the Trust Estate and the Southern Connector's income, revenues, and use of profits, (f) take legal action to protect and enforce its rights and those of the bondholders to enforce payment of the principal, redemption price and interest due on the bonds. The bond documents do not provide any remedy that would accelerate the due date of any debt service payments due on the outstanding bonds. The bonds are secured by the Trust Estate, which includes (a) all bond funds except the Rebate and the Renewal and Replacement Funds, (b) all Revenues as defined in the bond documents, (c) all of the Association's rights in its License Agreement with the SCDOT, and (d) any other property assigned to the Trustee by the Association. There is no provision in the bond documents that will allow the Trustee to place a lien or mortgage on any of the Association's physical assets.

The Association received a notice from the Trustee in January 2008 stating that an event of default has occurred. In the notice, the Trustee acknowledges and reserves its remedies provided in the bond indenture, but does not identify which, if any, actions are to be taken on behalf of the bondholders. As of the date of this report, the Association has not received any communications from the Trustee indicating any intent to initiate proceedings under the Specific Remedies provisions of the bond indenture.

The Association's default under the bond indenture gives the Trustee the option of petitioning a court to appoint the Trustee as receiver of the Trust Estate (See the discussion of the Trustee's remedies above.). If the Trustee were appointed as receiver of the Trust Estate, the Trustee would in essence take over operations of the Southern Connector from the Association.

Management of the Association is actively investigating the possibility of restructuring its long-term indebtedness. However, there can be no assurance that these plans will be successful. As a result of the above, there is substantial doubt about the Association's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classifications of liabilities that may result from this uncertainty.

NOTE 12 – SUBSEQUENT EVENT

In compliance with the provisions of the Continuing Disclosure Agreement with the Trustee, the Association filed Event Notice No. 2008-1 announcing that the Trustee withdrew funds from the Senior Bonds Debt Service Reserve Account in order to pay a portion of the interest and principal payment due on January 2, 2008 and withdrew funds from the Subordinate Bonds Debt Service Reserve Account in order to pay the Maturity Value of the Subordinate Capital Appreciation Bonds.

In January 2008, the Trustee notified the Association that it is in default under the Master Indenture of Trust. The Association has not met the Revenue Covenant since the covenant became effective in 2005, and after 36 consecutive months of such noncompliance an event of default has occurred under the Master Indenture (See Note 8 and Note 11 for details of the Revenue Covenant and its impact on the Association). This event of default also ended the Tolling Agreement as discussed earlier in Note 10.

In February 2008, the Association selected Goldman Sachs & Co. to become a special financial consultant to work with the Association to explore strategic alternatives related to the Association's existing capital structure.