

State of South Carolina



Office of the State Auditor

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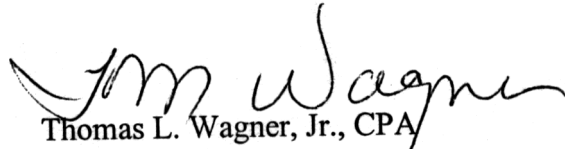
December 8, 2000

The Honorable Jim Hodges, Governor  
and  
Members of the South Carolina Transportation Commission  
South Carolina Department of Transportation  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Transportation for the fiscal year ended June 30, 2000, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION  
COLUMBIA, SOUTH CAROLINA**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2000**

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

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## INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA,  
State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Department of Transportation (the Department) as of and for the year ended June 30, 2000 as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Connector 2000 Association, Inc. (a Development Stage Enterprise) (the Association), a component unit of the Department. The financial statements of the Association as of and for the year ended December 31, 1999 and for the period from January 12, 1999 (date of inception) through December 31, 1999 were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors.

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

As described in Note 1 to the financial statements, the Department's financial statements are intended to present the financial position, results of operations, and cash flows of the proprietary fund type of only that portion of the funds and account groups of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Transportation, an agency of the State, and its discretely presented component unit. These statements are not intended to present fairly the financial position and results of operations of the State of South Carolina and/or its other agencies, institutions, departments, funds, and component units in conformity with generally accepted accounting principles.

The Department declined to present a statement of revenues, expenditures, and changes in fund balances - budget and actual, for the general fund and special revenue fund type for the year ended June 30, 2000. Presentation of such a statement for those governmental funds for which budgets have been legally adopted is required by generally accepted accounting principles.

In our opinion, based on our audit and the aforementioned report of the other auditors, except that the omission of the statement of revenues, expenditures, and changes in fund balances - budget and actual results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Department of Transportation as of June 30, 2000 and its component unit as of December 31, 1999, and the results of its operations for the year then ended and the results of operations and the cash flows of its discretely presented component unit for the year ended December 31, 1999 and for the period January 12, 1999 (date of inception) through December 31, 1999 in conformity with generally accepted accounting principles.

As discussed in Note 21 to the financial statements, the Department determined that the use of an Internal Service Fund was no longer required. Effective July 1, 1999, the account balances of its Internal Service Fund were reclassified to the Special Revenue Fund and General Fixed Assets Account Group. Also, as discussed in Note 21 to the financial statements, the Department determined that right of ways land held for sale was improperly included in the General Fixed Asset account group. Effective July 1, 1999 the balance was removed from the General Fixed Asset Account Group and added to right of ways land held for sale in the Special Revenue Fund.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Department taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2000, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

*Rogers & Lalan, P.A.*

November 16, 2000

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT**  
June 30, 2000

	----- Primary Entity -----					Component	Reporting
	Governmental Fund Types		Fiduciary Fund Type	Account Groups		Unit	Entity
	General	Special Revenue	Agency	General Fixed Assets	General Long-Term Debt	Connector 2000 Association, Inc.	Totals (Memorandum Only)
<b>ASSETS AND OTHER DEBITS</b>							
Cash and cash equivalents	\$ 2,004,870	\$ 221,603,870	\$ 105,282,114	\$	\$	\$ 328,890,854	\$ 330,663,678
Investments						109,568,552	109,568,552
Accounts receivable		1,551,555					1,551,555
Intergovernmental receivables:							
Federal government		47,341,379					47,341,379
State agencies		6,228,321					6,228,321
County and municipal governments		5,025,970					5,025,970
Accrued interest receivable		2,653,109	1,229,464				3,882,573
Due from Agency Fund - County Transportation Program		5,454,001					5,454,001
Inventories		8,785,350					8,785,350
Right of ways land held for sale		1,831,309					1,831,309
Fixed assets:							
Land and improvements				4,184,164			4,184,164
Buildings and improvements				85,343,473			85,343,473
Furniture, vehicles and equipment				222,542,569			222,542,569
Construction in progress				338,312			338,312
Interest in license agreement with Department						108,074,335	108,074,335
Bond issuance costs, net of accumulated amortization of \$120,175						2,237,955	2,237,955
Underwriters' fees on Series 1998A, 1998B, and 1998C bonds, net of accumulated amortization of \$146,280						2,724,320	2,724,320
Amount to be provided for retirement of general long-term debt					523,363,610		523,363,610
<b>Total assets and other debits</b>	<b>\$ 2,004,870</b>	<b>\$ 300,474,864</b>	<b>\$ 106,511,578</b>	<b>\$ 312,408,518</b>	<b>\$ 523,363,610</b>	<b>\$ 224,377,986</b>	<b>\$ 1,469,141,426</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)**  
JUNE 30, 2000

	----- Primary Entity -----					Component	- Reporting -
	Governmental		Fiduciary	Account Groups		Unit	Entity
	General	Special Revenue	Agency	General Fixed Assets	General Long-Term Debt	Connector 2000 Association, Inc.	Totals (Memorandum Only)
<b>LIABILITIES, FUND EQUITY, AND OTHER CREDITS</b>							
<b>LIABILITIES:</b>							
Accounts payable	\$	\$ 64,525,392	\$ 9,056,673	\$	\$	\$ 73,582,065	\$ 73,582,065
Accrued requisitions						5,541,240	5,541,240
Contract retainages payable		9,712,563				4,065,933	13,778,496
Accrued payroll and related liabilities		15,498,870					15,498,870
Accrued interest payable						1,765,752	1,765,752
Intergovernmental payables:							
State agencies		3,438,067					3,438,067
Due to the General Fund of the State		19,392					19,392
Due to Special Revenue Fund - State Highway Fund			5,454,001				5,454,001
Deposits for right of way			306,128				306,128
Special deposits and bonds			210,760				210,760
Funds held for County Transportation Program			91,484,016				91,484,016
Deferred revenue - participation agreements		6,886,015					6,886,015
Bonds payable					326,940,000	213,271,516	540,211,516
Contributions payable:							
State agency					177,180,441		177,180,441
Liability for compensated absences					19,243,169		19,243,169
<b>Total liabilities</b>		<b>100,080,299</b>	<b>106,511,578</b>		<b>523,363,610</b>	<b>224,644,441</b>	<b>954,599,928</b>
<b>FUND EQUITY (DEFICIT) AND OTHER CREDITS:</b>							
Investment in general fixed assets				312,408,518			312,408,518
Retained earnings (accumulated deficit)- Development Stage						(266,455)	(266,455)
Fund balances:							
Reserved for:							
Bond-funded projects		104,453,962					104,453,962
Inventories		8,785,350					8,785,350
Right of ways land held for sale		1,831,309					1,831,309
Intergovernmental receivables (long-term):							
State agency		3,508,765					3,508,765
County and municipal		3,217,270					3,217,270
Accounts receivable:							
Other entities		1,048,500					1,048,500
Unreserved:							
Designated for subsequent years' expenditures	2,004,870	77,549,409					79,554,279
<b>Total fund equity (deficit) and other credits</b>	<b>2,004,870</b>	<b>200,394,565</b>	<b>-</b>	<b>312,408,518</b>	<b>-</b>	<b>(266,455)</b>	<b>514,541,498</b>
<b>Total liabilities, fund equity (deficit), and other credits</b>	<b>\$ 2,004,870</b>	<b>\$ 300,474,864</b>	<b>\$ 106,511,578</b>	<b>\$ 312,408,518</b>	<b>\$ 523,363,610</b>	<b>\$ 224,377,986</b>	<b>\$ 1,469,141,426</b>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - ALL GOVERNEMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2000**

	General	Special Revenue	Totals (Memorandum Only)
<b>REVENUES:</b>			
Taxes and fees	\$	\$ 382,050,966	\$ 382,050,966
State appropriations	2,778,976		2,778,976
Federal grants and reimbursable contracts		330,070,331	330,070,331
Reimbursements from Agency Fund - County Transportation Program		8,623,888	8,623,888
Interest/investment income		17,757,038	17,757,038
Sales of goods and fees for services		9,610,972	9,610,972
Participation agreement revenue		19,421,282	19,421,282
Other		1,968,461	1,968,461
<b>TOTAL REVENUES</b>	<u>2,778,976</u>	<u>769,502,938</u>	<u>772,281,914</u>
<b>EXPENDITURES:</b>			
Current:			
General		30,164,685	30,164,685
Engineering		39,477,391	39,477,391
Toll facilities		2,201,645	2,201,645
Public transportation	782,538	11,394,458	12,176,996
Highway maintenance		237,617,934	237,617,934
Capital outlay:			
Infrastructure		500,250,970	500,250,970
Construction in progress		8,531,038	8,531,038
Furniture, vehicles and equipment		18,986,511	18,986,511
Debt service:			
Principal		6,605,000	6,605,000
Interest		16,698,879	16,698,879
Allocations to other entities:			
State agencies		40,911,880	40,911,880
Agency Fund - County Transportation Program		9,500,000	9,500,000
<b>TOTAL EXPENDITURES</b>	<u>782,538</u>	<u>922,340,391</u>	<u>923,122,929</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,996,438</u>	<u>(152,837,453)</u>	<u>(150,841,015)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Remitted to General Fund of the State		(5,493,661)	(5,493,661)
Proceeds from sale of fixed assets		1,624,388	1,624,388
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<u>(3,869,273)</u>	<u>(3,869,273)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	1,996,438	(156,706,726)	(154,710,288)
<b>FUND BALANCES, beginning of year, as restated</b>	<u>8,432</u>	<u>357,101,291</u>	<u>357,109,723</u>
<b>FUND BALANCES, end of year</b>	<u><u>\$ 2,004,870</u></u>	<u><u>\$ 200,394,565</u></u>	<u><u>\$ 202,399,435</u></u>

See accompanying Notes to Financial Statements.



**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**CONNECTOR 2000 ASSOCIATION, INC.  
(DISCRETELY PRESENTED COMPONENT UNIT)  
(A DEVELOPMENT STAGE ENTERPRISE)**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN ACCUMULATED DEFICIT**

**FOR THE YEAR ENDED DECEMBER 31, 1999 AND THE PERIOD FROM JANUARY 12, 1996  
(DATE OF INCEPTION) THROUGH DECEMBER 31, 1999**

	<u>Year Ended December 31, 1999</u>	<u>January 12, 1996 (Inception) Through December 31, 1999</u>
<b>OPERATING REVENUES</b>	\$ - 0 -	\$ - 0 -
<b>OPERATING EXPENSES</b>	<u>- 0 -</u>	<u>- 0 -</u>
<b>OPERATING INCOME</b>	- 0 -	- 0 -
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Amortization of bond issuance costs	(62,700)	(120,175)
Amortization of underwriters' fees	<u>(76,320)</u>	<u>(146,280)</u>
<b>NET INCOME (LOSS)</b>	(139,020)	(266,455)
<b>ACCUMULATED DEFICIT (DEVELOPMENT STAGE),     Beginning</b>	<u>(127,435)</u>	<u>- 0 -</u>
<b>ACCUMULATED DEFICIT (DEVELOPMENT STAGE),     Ending</b>	<u>\$ (266,455)</u>	<u>\$ (266,455)</u>

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**CONNECTOR 2000 ASSOCIATION, INC.  
(DISCRETELY PRESENTED COMPONENT UNIT)  
(A DEVELOPMENT STAGE ENTERPRISE)**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 1999 AND THE PERIOD FROM JANUARY 12, 1996  
(DATE OF INCEPTION) THROUGH DECEMBER 31, 1999**

	Year Ended December 31, 1999	January 12, 1996 (Inception) Through December 31, 1999
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of bonds payable	\$	\$ 194,711,277
Cash paid for bond issuance costs		(2,358,130)
Cash paid for construction of Southern Connector	(64,616,754)	(92,658,159)
Cash refunds received relating to construction of Southern Connector	304,817	304,817
Interest payments on bonds payable	(3,531,500)	(5,002,960)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(67,843,437)</b>	<b>94,996,845</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from redemption of investments	67,898,650	93,124,912
Interest received	1,075,483	2,043,557
Purchases of investments	-	(188,392,490)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>68,974,133</b>	<b>(93,224,021)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,130,696</b>	<b>1,772,824</b>
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<b>642,128</b>	
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 1,772,824</b>	<b>\$ 1,772,824</b>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:**

Interest earned on repurchase agreements was directly reinvested in the repurchase agreements. The earnings were recorded as increases in investments and as reductions of interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department". The amounts totaled \$6,567,187 and \$14,300,974, respectively, for the year ended December 31, 1999 and for the period from January 12, 1996 (inception) through December 31, 1999.

Original issue discount of \$2,693,952 was deducted from bond proceeds and its unamortized balance is reported as a direct reduction of bonds payable in the accompanying balance sheet. Amortization of the original issue discount totaled \$80,280 and \$153,870, respectively, for the year ended December 31, 1999 and for the period from January 12, 1996 (inception) through December 31, 1999. This amortization increased bonds payable and interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department".

Underwriters' fees of \$2,870,600 were deducted from bond proceeds and are reported as an other asset in the accompanying balance sheet. Amortization of the underwriters' fees totaled \$76,320 and \$146,280, respectively, for the year ended December 31, 1999 and for the period from January 12, 1996 (inception) through December 31, 1999. This amortization was recorded as decreases in underwriters' fees and as nonoperating expenses.

Accretion of interest on capital appreciation bonds (Series 1998B and 1998C) was recorded as increases in interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department" and as increases in bonds payable. The amounts totaled \$8,489,837 and \$15,633,918, respectively, for the year ended December 31, 1999 and for the period from January 12, 1996 (inception) through December 31, 1999.

Amortization of bond issuance costs was recorded as decreases in bond issuance costs and as nonoperating expenses. The amounts totaled \$62,700 and \$120,175, respectively, for the year ended December 31, 1999 and for the period from January 12, 1996 (inception) through December 31, 1999.

At December 31, 1999, \$1,765,752 of interest payable on the Senior Current Interest Bonds was accrued as a liability and was recorded as an increase in interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department." The same amount of interest payable was accrued at December 31, 1998.

At December 31, 1999, construction in progress included accrued requisitions of \$5,541,240, an increase of \$1,819,866 over the balance accrued at December 31, 1998.

Accruals for contract retainage payable were recorded as the construction on the Southern Connector progressed. The amounts totaled \$2,805,384 and \$4,065,933, respectively, for the year ended December 31, 1999 and for the period from January 12, 1996 (inception) through December 31, 1999. These accruals increased construction in progress by \$2,686,373 and \$3,908,799, respectively, for the year ended December 31, 1999 and for the period from January 12, 1996 (inception) through December 31, 1999. These accruals increased interest capitalized as part of the Association's intangible asset, "Interest in License Agreement with Department" by \$119,011 and \$157,134, respectively, for the same time periods.

See accompanying Notes to Financial Statements.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Reporting Entity**

The South Carolina Department of Transportation (the Department) was established pursuant to Section 57-1-20 of the Code of Laws of South Carolina as an administrative agency of State government, comprised of a Division of Mass Transit; a Division of Construction, Engineering and Planning; and a Division of Finance and Administration.

The Department is governed by the South Carolina Transportation Commission, which is comprised of seven members, six of whom are elected by the Legislative Delegations of each of the State's Transportation Districts. These Transportation Districts coincide with the State's Congressional Districts. One at-large member is appointed by the Governor and, upon confirmation by the South Carolina Senate, serves as Chairman of the Commission. The Commission serves as a general policy-making body for the various functions and purposes of the Department as prescribed by law. The Commission defines policies that are to be administered by the Director.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The Department is reported as part of the State's primary government. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government/entity and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government/entity are financially accountable. In turn, component units may have component units. The Department has determined it has one component unit, the Connector 2000 Association, Inc. (a Development Stage Enterprise) (the Association), and the Association has determined that it has no component units.

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government that holds one or more of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Department has determined it is not a component of another entity and the Connector 2000 Association, Inc. is a component unit of the Department under Statement 14 of the Governmental Accounting Standards Board. This financial reporting entity includes only the Department (a primary entity) and its component unit.

# **SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

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 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. Its current purpose is to assist the Department in the financing, acquisition, construction and operation of turnpikes, highway projects and other transportation facilities pursuant to Section 57-3-200 of the Code of Laws of South Carolina. The Association is considered a component unit of the Department because the Department initially fixed the toll rates for the Southern Connector in Greenville County, South Carolina and, after consultation with the Association, has the right (but not the obligation) to revise the toll rates from time to time to rates which are not less than 90% and not more than 120% of the optimum toll rates as estimated by an independent traffic consultant retained by the Association. Rates set by the Department must satisfy the applicable revenue covenants contained in the Association's financing documents.

The Association utilizes a December year-end for financial reporting purposes and no financial statements were issued on it for the period from January 12, 1996 (inception) through December 31, 1997 or for the year ended December 31, 1997. Although the Association was formed in 1996, its first financial activity occurred in February, 1998. At that time, the Association entered into a license agreement (the License Agreement) with the Department 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. Governmental accounting standards require that the reporting entity's financial statements include the year end statements of the component unit which falls within the reporting entity's fiscal year.

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

The Association is governed by a Board of Directors, approved by the Department. At present, the Association has no employees and has relied on, and expects to continue to rely on, consultants for the performance of its responsibilities under the License Agreement.

The Association is considered to be in the development stage during the construction of the Southern Connector and the SC 153 Extension. The Projects are expected to be completed and in full operation by December 31, 2002. In accordance with standards applicable to development stage enterprises, the Association presents information for the current year and cumulative totals since its inception.

# **SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

The Department's inclusion of the Association as a component unit is done for the purpose of communicating information about its component unit as required by generally accepted accounting principles, and the Association's relationship with the Department. It is not intended to create the perception that the Department and the Association are one legal entity. From a legal standpoint, the State of South Carolina and the Department have only a contractual relationship with the Association. This contractual relationship came about as a result of the Association's submittal of the successful proposal to construct and operate the Southern Connector. In addition, the Supreme Court of South Carolina has held that the State of South Carolina and the Department are not a joint owner in the Association, and, accordingly, have no legal or financial accountability for the Association.

The financial statements of a component unit is blended in with the Department as part of the primary entity as though it were part of the Department if they are, in substance, part of the Department's operations. Since the Association does not meet these criteria, the Association's financial activity is presented discretely outside of the Department's primary entity financial statements. A complete copy of the Association's financial statements can be obtained from Connector 2000 Association, Inc., c/o Sinkler & Boyd, P.A., 15 South Main Street, Suite 500, Greenville, South Carolina 29601.

The Department is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the Department. Generally, all State departments, agencies, and colleges are included in the State's reporting entity, which is the primary government of the State of South Carolina. These entities are financially accountable to and fiscally dependent on the State. Although the Department operates somewhat autonomously, it lacks full corporate powers. In addition, the Governor and/or the General Assembly appoints most of its board members and budgets a significant portion of its funds.

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and the results of operations and cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Department and its component unit and do not include any other funds or component units of the State of South Carolina.

#### **Basis of Presentation and Description of Funds**

The financial statements of the Department and the Association are presented in accordance with generally accepted accounting principles applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Association is considered to be in the development stage during the construction of the Southern Connector and the SC 153 Extension. Construction of the Projects is expected to be completed in 2001. At that time, the Association will commence operations of the toll road. In accordance with GAAP applicable to development stage enterprises, the Association has included two columns of information in its statements of revenues, expenses and changes in accumulated deficit (development stage) and of cash flows. The columns present information for the current year and cumulative totals since the Association's inception.

The Department and the Association use funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

# SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

### NOTE 1.      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein. These accounts are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The funds of the Department and its component unit are classified as governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

#### **Governmental Fund Types**

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds). Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is fund balance.

**General Fund** - The general fund accounts for all activities except those required to be accounted for in another fund. For the Department, the general fund consists of funds appropriated from the State General Fund for public transportation.

**Special Revenue Fund** - The special revenue fund generally records the expenditure of revenues that are restricted to specific programs or projects. The special revenue fund accounts for Federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose. Also, the Department reports the acquisition, construction, and maintenance of general fixed assets in its special revenue fund. In addition, the charges for and costs of operations of vehicles and other equipment utilized for highway projects by the Department are reported in this fund. Similar operational activities were reported in an internal service fund in the proprietary fund type in prior years. See Note 21 regarding the fund reclassification.

The State Highway Fund was established pursuant to Section 57-11-20 of the Code of Laws of South Carolina. This Fund accounts for, among others, the gasoline tax, except for the 2.66 cents per gallon that is allocated to the County Transportation Program Agency Fund, and other special imposts upon highway users for the construction and maintenance of highways and bridges and for other operations of the Department. This fund also accounts for revenue from the sales of goods and services and from participation agreements between the Department and other entities for the sharing of costs of construction projects. Revenues from participation agreement type contracts are recognized as earned based on the percentage of completion method. The unearned portion is reflected as deferred revenue in the liability section of the balance sheet of the Department until earned.

#### **Proprietary Fund Type**

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities may be provided to departments or agencies within the government (internal service funds) or to outside parties (enterprise funds).

## SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

**Enterprise Fund** - Management of the Association has determined that the Association's activities are properly accounted for as a proprietary enterprise fund, since the Association's intent is that the costs of providing the Southern Connector be recovered primarily through the tolls to be charged to the Southern Connector's users.

##### **Fiduciary Fund Types**

Fiduciary funds are used to account for assets held by the Department in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Department uses the agency fund type of fiduciary funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve the measurement of the results of operations.

The Right of Ways Fund is used to account for payments for the purchase of right of ways land which has been contested by the property owner. In those cases, the property owner is paid 75% of the offer and 25% of the offer is transferred to the county clerk of court. Current year's activity represents receipt of funds from various clerks of court and disbursement to property owners upon settlement of contested cases. The Department records an expenditure in the Special Revenue Fund under the category capital outlay – infrastructure when payments are made for right ways land to be used for infrastructure.

The Special Deposits Fund is used to account for various funds that are collected from other governments or agencies and outside parties. These funds are held until resolution of various matters, such as anti-trust violations, oversize and overweight charges and other similar items that occur.

The County Transportation Program Fund was established pursuant to Section 12-28-2740 of the South Carolina Code of Laws to provide for the receipts from distribution and use of the 2.66 cents per gallon gasoline tax collected by the South Carolina Department of Revenue and remitted to the Department. In addition to the gasoline tax, the Department is required to transfer \$9,500,000 annually from the State Highway Fund to the Program. Each county has a county transportation committee that is appointed by the county legislative delegation to administer the use of these funds. Based on the legally prescribed allocation formula, these monies are either paid directly to the counties for infrastructure projects that are administered by the counties or to vendors on behalf of the counties for expenditures incurred on projects that the county transportation committees have contracted the Department to administer.

##### **Account Groups**

**General Fixed Assets Account Group** - This group of accounts is established to account for all fixed assets of the Department with the exception of the investment in infrastructure. Infrastructure includes roads, bridges, lighting systems, and the underlying and adjoining right-of-way land. Infrastructure is considered to be of value only to the State of South Carolina government and the cumulative investment in such is not accounted for in the Department's financial statements. Reporting infrastructure fixed assets is optional and the Department has chosen not to report these assets.

# SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

### NOTE 1      **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**General Long-Term Debt Account Group** - This account group is used to account for the outstanding balance of any of the Department's unmatured general long-term liabilities that are expected to be financed from governmental fund type resources. These liabilities include compensated absences, the principal portion owed on bonds payable, and the contributions payable to the South Carolina Transportation Infrastructure Bank, an agency of the State of South Carolina.

#### **Significant Accounting Policies**

##### **Basis of Accounting**

All governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is utilized for governmental fund types and the Agency Funds. Under this method, revenue, including taxes, is recognized when it becomes measurable and available to finance expenditures of the current fiscal year. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period. The Department considers revenues available if they are collected within 60 days after year end. Federal grants for the Department are recorded as revenue when the related expenditures are incurred. Federal grant monies that are allocated to subrecipients are recognized as an expenditure when the subrecipient requests reimbursement for incurred costs. Expenditures are recognized when the related fund liability is incurred except for unmatured interest on general long-term debt, which is recognized when due and paid. Payments for insurance and similar services benefiting more than one period are recognized as an expenditure in the fiscal year of payment.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheet. Fund equity (i.e., total net assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases and decreases in total net assets. Proprietary fund revenue and expenses are recognized on the accrual basis of accounting. Revenue is recognized in the accounting period in which it is earned and becomes measurable; expenses are recognized in the period incurred, if measurable. The Association's revenues will generally consist of income on investments and toll income.

In accordance with Governmental Accounting Standards Board Statement No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Association elected to apply only those standards issued by the Financial Accounting Standards Board on or before November 30, 1989.

Operating transfers for all funds in and out are recognized in the accounting period in which the interfund payable and receivable arise. Operating transfers do not represent loans, reimbursements or quasi-external transactions.

##### **Budget Policy**

The Department is granted an annual appropriation for public transportation by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The total funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual



**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist. Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.14 as follows: Agencies shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures" for each fiscal year. The Department has not presented a statement of revenues, expenditures and changes in fund balances - budget and actual for the governmental fund types as required by generally accepted accounting principles.

An annual nonappropriated budget is adopted by the Association's Board of Directors. The Board of Directors also approves any amendments to the budget during the year. The budget is prepared on the accrual basis of accounting. As permitted under governmental generally accepted accounting principles, since the Association's activities are accounted for in an enterprise fund, a budget-to-actual comparison is not presented in the accompanying financial statements.

**Cash and Cash Equivalents**

The amounts shown in the financial statements as "cash and cash equivalents" of the Department represent petty cash, cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool. The amounts shown in the financial statements as "cash and cash equivalents" of the Association represent cash on deposit in banks and funds invested in open-end money market mutual funds and certain short term investments.

Most State agencies, including the Department, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Department records and reports its deposits in the general deposit account at cost, and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department's account at the end of each month and is retained. Interest/investment earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the income receivable of the pool. Reported income includes interest earnings at the stated rate, realized gains/losses and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

For credit risk information pertaining to the State's internal cash management pool including investments held by the pool, see the deposits disclosures in Note 2.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less at the time of acquisition. At year end, the Department held no short term investments.

For purposes of the Statement of Cash Flows, the Association considers all investments with a maturity of three months or less at the time of acquisition to be cash equivalents.

**Inventories**

The Department maintains inventories of supplies for its use and merchandise for resale to other state agencies and local governments. All inventories are valued at cost using the weighted average method. Expenditures for inventory are accounted for using the consumption method of accounting, in which inventory purchases are recorded as expenditures when used. Inventories at year-end are reflected in the balance sheet of the Special Revenue Fund with an equal amount of the fund balance reserved specifically for inventories.

**Right of Ways Land Held for Sale**

The Department from time to time when acquiring right of ways land has to purchase excess property for economic reasons that is not allocable to project construction costs. These purchases are held until they can be sold and are reflected in the accompanying balance sheet at the original cost to the Department. Expenditures for this land is accounted for using the consumption method of accounting in which the purchase is recorded as an expenditure when sold. Because the right of ways land held for sale do not represent available financial resources, the account balance has been equally offset by a reservation of fund balance to reflect that it is not currently available for expenditure.

**Interfund Receivables/Payables**

Long-term interfund loans are classified as "advance to" or "advance from" particular funds. Short-term amounts are classified as "due to" or "due from" the particular funds. No interest is charged on the advances to or due from amounts. Short-term amounts are generally repaid within 60 days. There were no long-term advances outstanding as of June 30, 2000.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Bonds Payable and Related Premiums, Discounts and Issuance Costs**

The Department records its bonds payable in the general long term debt account group. Bond premiums and discounts, as well as issuance cost, are recognized in the current period. Bond proceeds are reported as other financing sources in the special revenue fund net of applicable issuance premiums or discounts. Issuance cost, whether or not withheld from the net bond proceeds, are reported as expenditures in the special revenue fund.

For the Association, bond issuance costs, original issue discount and underwriters' fees on all bonds are deferred and amortized over the terms of the bonds using the bonds outstanding method, which approximates the effective interest method. The bond issuance costs and underwriters' fees are recorded as other assets and original issue discounts are presented as reductions of the face amounts of the related revenue bonds payable. Amortization of the original issue discount is recorded as capitalized interest; and, amortization of the bond issuance costs and underwriters' fees are charged to nonoperating expense.

**Rebatable Arbitrage**

Arbitrage for the Association involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in 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. It is recorded using the revenue reduction method, whereby the rebate is recorded as a reduction of interest revenue. At December 31, 1999, no such liability had been incurred.

**Fixed Assets**

General fixed assets acquired or constructed are recorded as expenditures from the applicable governmental fund and are capitalized at cost in the general fixed asset account group. Major capital additions which are being constructed over several years are recorded as expenditures in the applicable governmental fund and simultaneously capitalized as construction-in-progress in the general fixed assets account group. When construction projects are completed, they are reclassified from construction in progress to land and improvements and buildings and improvements. Assets contributed by another State agency are recorded at the acquisition cost to that agency. Other donated assets are valued at their fair market value when received. Proceeds realized from the sales of fixed assets are included in other financing sources. Fixed assets are not depreciated in accordance with generally accepted accounting principles for governmental entities. Equipment costing more than \$1,000 and having a useful life of more than one year is capitalized. No interest expense has been capitalized for any fixed assets, since the only debt incurred by the Department has been for the construction of infrastructure which is not capitalized.

# **SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Interest In License Agreement with Department**

The Association's License Agreement with the Department dated February 11, 1998 grants to the Association various rights and obligations pertaining to the financing, acquisition, construction and operation of the Southern Connector and to the construction of the SC 153 Extension. The terms of the License Agreement provide that the Association will finance and construct the Southern Connector and will construct the SC 153 Extension with financing provided by the Department. However, the Department will at all times retain 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. Following completion of construction of the Southern Connector and commencement of the toll road operations, the Association will be entitled to collect tolls from the use of the Southern Connector, and will be required to pay monthly license fees to the Department.

The Association's interest in the License Agreement constitutes an intangible asset relating to the Southern Connector that will generate revenues upon completion of construction and commencement of operations. In order to account for its interest in the License Agreement, the Association is capitalizing all costs of acquisition and construction of the Southern Connector, including interest expense incurred during the construction period. Once the Southern Connector is opened to the public, the Association's interest in the License Agreement will be amortized on a straight-line basis over the remaining term of the License Agreement through 2038.

In accordance with State of Financial Accounting Standards (SFAS) No. 62, Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants, the Association is capitalizing the interest costs incurred during the construction of the Southern Connector. The amount of interest capitalized for assets constructed with tax-exempt borrowings is equal to the interest cost of the borrowings, including amortization of original issue discount, less interest earned on related interest-bearing investments acquired with proceeds of the related tax-exempt borrowings.

#### **Fund Equity**

In accordance with governmental accounting standards, the portions of fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specific use are presented as reserved at year-end. Designated unreserved fund balances represent tentative plans for future use of financial resources. The reserves for inventories, right of ways land held for sale and long-term receivables represent financial resources not available for current expenditures.

Proprietary enterprise fund equity consists of contributed capital and retained earnings (accumulated deficit). The Association has no contributed capital. Its accumulated deficit at December 31, 1999 has resulted from start-up construction activities incurred since inception while the Association is in the development stage. Once the Association begins its operations when construction of the Southern Connector is complete and the toll road is opened to the public, the Association anticipates that the deficit will be eliminated by future toll revenue collections.

# **SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000**

### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

Governmental GAAP require reservations of proprietary enterprise fund retained earnings that are legally restricted to future uses, such as debt service, renewals and replacements, operating costs, etc. Retained earnings are reserved only for revenues restricted for such purposes; reserves are not established for the bond proceeds themselves. While the Association is in the development stage, its only earnings have resulted from investment of the bond proceeds. In accordance with its policy of capitalizing interest costs related to tax-exempt borrowings during construction of the Southern Connector, these investment earnings are not a component of fund equity and are not subject to reservation during the development stage. When the Association's operations commence, such earnings will be considered revenues and will be subject to the reservation of retained earnings.

#### **Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Quasi-external transactions are those that would be treated as revenues, expenditures or expenses if they involved organizations external to the government unit. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/ expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are recorded as residual equity transfers. All other interfund transfers are reported as operating transfers. There have been no eliminations of interfund transfers in the financial statements.

#### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 2000. The Department calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the general long-term debt group of accounts.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenues and expenditures and affect disclosure of contingent assets and liabilities at the balance sheet date of the financial statements. Accordingly, actual results could differ from those estimates.

# SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns included in the combined balance sheet and statement of revenues, expenditures and changes in fund balances present an aggregation of the financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present information in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

#### Statement of Cash Flow Presentation

While the Association is in the development stage, its operations have not yet commenced. All of the Association's current activities consist of capital and related financing activities (construction of the Southern Connector and repayment of bond interest) and investing activities (investment earnings on bond proceeds). Therefore, no amounts are reported in the sections of the accompanying statements of cash flows related to operating activities and noncapital financing activities.

#### Reclassification

Proceeds from the sales of fixed assets has been reclassified in the accompanying financial statements in accordance with governmental GAAP in the Special Revenue Fund from other revenues to other financing sources. \$1,296,538 was included in other revenues for the year ended June 30, 1999.

Original issue discount on the Series 1998A bonds of the component unit has been reclassified in the accompanying financial statements in accordance with governmental GAAP. This discount, previously shown as an other asset, is shown as a direct reduction of the related bonds payable in the liability section of the accompanying balance sheet.

### NOTE 2. DEPOSITS AND INVESTMENTS:

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash		Primary Entity:	
Equivalents	\$ 330,663,678	Cash on Hand	\$ 250
Investments	109,568,552	Deposits Held by	
		State Treasurer	328,890,604
		Component Unit:	
		Investments	111,341,376
	<u>\$ 440,232,230</u>		<u>\$ 440,232,230</u>

#### Primary Entity

#### Deposits Held by State Treasurer

All deposits of the Department are under the control of the State Treasurer who, by law, has sole authority for investing State funds. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to carrying amounts, fair value, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)**

Cash and cash equivalents reported on the balance sheet include \$2,750,617 in unrealized depreciation as of June 30, 2000, of which \$991,175 is attributable to the Agency Fund. The interest/investment income reported in the statement of revenues, expenditures and changes in fund balance for the Special Revenue Fund includes an unrealized depreciation loss of \$2,344,885 for the year ended June 30, 2000. An unrealized depreciation loss of \$1,073,285 is reported in the Agency Fund.

Deposits at June 30, 2000 held by the State Treasurer include \$104,453,962 of unexpended funds related to the recent bond issues that are for construction projects (includes \$1,035,618 of unrealized depreciation).

**Component Unit**

**Deposits**

The Association's bond indenture requires that all bank deposits that are not insured by the Federal Deposit Insurance Corporation 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 investments agreements with any bank or financial institution the unsecured debt or counterparty rating of which is "investment grade" rated as of the date of acquisition, and any other obligation which, at the date of acquisition, is rated by a Rating Agency in one of the two highest rating categories for long-term obligations or in the highest rating category for short-term obligations.

The Department's component unit's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

- Insured or collateralized with securities held by the Association or by its agent in the Association name,
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name, and
3. Uninsured and uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Association's name.

At December 31, 1999, the Association's book and bank balances of deposits was \$-0-. However, during the year ended December 31, 1999 and during the period from January 12, 1996 (inception) through December 31, 1999, the amount of uncollateralized deposits (category 3) significantly exceeded the amount in that category at December 31, 1999 when certain deposits were received by the bank after the bank's investment processing time. These category 3 deposits were disbursed or invested the next business day. Deposits that were made after the bank's investment processing time on any given day have been collateralized by the bank, but with securities that are not in the Association's name. This type of collateralization is permitted by the bond indenture.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)**

**Investments**

The Association's bond indenture 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 must be secured by and/or invested in investment securities as defined in the indenture. Investment securities include, but are not limited to, direct obligations of, or obligations guaranteed by, the United States of America or an agency thereof.

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

The component unit's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. There are three categories of investment risk:

1. Insured or registered, or securities held by the Association or by its agents in the Association's name,
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Association's name, and
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Association's name, including the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities.

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

	Category			Fair Value
	1	2	3	
Repurchase agreements	\$	\$ 110,799,121	\$	\$ 110,799,121
Not categorized:				
Open-end money market mutual funds				<u>542,255</u>
<b>Total Investments</b>				<u><b>\$111,341,376</b></u>

The investment types listed above include all investment types in which monies were held during the year ended December 31, 1999 and during the period from January 12, 1996 (inception) through December 31, 1999.

Included in cash and cash equivalents and investments of the Association are \$1,772,824 and \$24,621,640, respectively of restricted assets.



**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 2. DEPOSITS AND INVESTMENTS: (CONTINUED)**

During the year ended December 31, 1999 and during the period from January 12, 1996 (inception) through December 31, 1999, payments for the various accounts were made in accordance with the terms of the bond indenture. The accounts established by the bond indenture and the balances therein at December 31, 1999 were as follows:

Southern Connector Toll Road Revenue Bond Construction Fund	\$ 84,946,912
Southern Connector Toll Road Revenue Bond Debt Service Fund	6,646,073
Southern Connector Toll Road Revenue Debt Service Reserve Fund	<u>19,748,391</u>
Total	<u><b>\$111,341,376</b></u>

There were no deficiencies in the above account balances during the year ended December 31, 1999 or during the period from January 12 1996 (inception) through December 31, 1999.

**NOTE 3. STATE APPROPRIATIONS:**

The 1999-00 original appropriation is the Department's base budget amount presented in the General Funds column of Section 53, Part IA of the 1999-00 Appropriation Act.

Original appropriation	\$ 578,976
Supplemental appropriations from fiscal year 1998-99 surplus State General Fund revenues and designated for emergency evacuation message boards and advisory radios (Joint Resolution H3699/R310, Section 1)	2,000,000
Supplemental appropriations from fiscal year surplus State General Fund revenues (Part IV of 1999-2000 Appropriations Act) for Greenville Transit Authority	<u>200,000</u>
Total	<u><b>\$ 2,778,976</b></u>

Proviso 72.44 of the 2000-2001 Appropriations Act authorizes agencies to carry forward unspent appropriations up to a maximum of ten percent with limitations similar to those for the prior year. Pursuant to this proviso, the Department carried forward \$4,870 to fiscal year 2001. Also, the Department carried forward the 1999-2000 supplementary appropriations of \$2,000,000 pursuant to Section 2 of the Joint Resolution H3699/R310 that authorized the funds.

The Department brought forward \$8,432 of appropriations from the year ended June 30, 1999 pursuant to Proviso 72.48 of the 1999-2000 Appropriations Act.

**NOTE 4. RECEIVABLES:**

**Federal Government** - The \$47,341,379 receivable amount represents reimbursements due the Department under various Federal grant programs in which the Department participates. Revenues and related receivables are recognized at the time expenditures are incurred under such programs.

**State Agencies** - The \$6,228,321 receivable amount due from various State agencies is for the sales of supplies and services and the reimbursement of expenditures.

# SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

### NOTE 4. RECEIVABLES: (CONTINUED)

The \$6,228,321 amount includes \$3,508,765 due under two repayment agreements with the South Carolina Department of Public Safety (SCDPS). The reimbursements are primarily for data processing, motor vehicle repairs and operating expenses in fiscal years 1994 and 1995. The two agencies entered into a repayment agreement on August 25, 1995 covering an unpaid balance of \$8,839,817 which provides for SCDPS to pay \$100,000 per month beginning on January 1, 1996 and each month thereafter with the final payment due April 1, 2003. \$1,200,000 was paid during the fiscal year ended June 30, 2000, leaving a balance due on this obligation of \$3,165,463 as of year-end. The repayment terms do not provide for interest. The Department entered into a second repayment agreement on July 18, 1996 for an unpaid balance of \$897,867 which provides for the SCDPS to pay \$13,204 per month beginning in January, 1997 for 68 months. \$158,446 was paid during the fiscal year ended June 30, 2000, leaving a balance due on this obligation of \$343,302 as of year-end. Due to the long-term nature of the receivables, the \$3,508,765 balance has been equally offset as a reservation of fund balance to reflect that this portion is not currently available.

The year ended balance also includes \$487,324 due from the Office of the Adjutant General. This amount represents a reimbursement claim from the federal flood mitigation assistance grant.

**County and Municipal Governments** - The \$5,025,970 receivable balance at June 30, 2000 represents amounts due from various county and municipal governments as described below.

The Department has entered into various long term contracts for construction projects with local governments for sharing of the costs. A schedule of those long term contracts with balances at June 30, 2000 follows:

<u>Due From</u>	<u>Contract Date</u>	<u>Original Amount</u>	<u>Terms</u>	<u>Unpaid Balances 6/30/00</u>
Richland County	12/13/78	<u>\$ 1,697,810</u>	\$50,000 annually; no interest	\$ 637,810
Town of St. Stephens	12/16/94	<u>\$ 250,000</u>	\$20,833 annually for 12 years beginning 3/15/97; no interest	187,500
Dorchester County	03/01/99	<u>\$ 2,000,000</u>	Annual average principal payments of \$100,000 beginning 5/1/00 over 20 years plus interest at an annual rate range of 4.5 - 4.6%	2,000,000
Cherokee County School District	08/27/98	<u>\$ 600,000</u>	\$120,000 annually for 5 years beginning 7/01/02; no interest	<u>391,960*</u>

\*Advances to date against a \$600,000 contract.

<b>Total</b>	<b><u>\$3,217,270</u></b>
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Due to the long-term nature of the above receivables totaling \$3,217,270 at June 30, 2000, the entire amount has been equally offset as a reservation of fund balance to reflect that this portion is not currently available.

The remaining \$1,808,700 balance is comprised of \$1,160,788 that is pursuant to participation agreements and \$647,912 that is due for sales of goods and services.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 4. RECEIVABLES: (CONTINUED)**

**Accounts Receivable** - The \$1,551,555 receivable balance June 30, 2000 represents amounts due from other entities as described below.

The Department has entered into various long term contracts for construction projects with other entities for sharing of the costs. A schedule of those long-term contracts with balances at June 30, 2000 follows:

<u>Due From</u>	<u>Contract Date</u>	<u>Original Amount</u>	<u>Terms</u>	<u>Unpaid Balances</u>
Woodruff-Roebuck Water District	05/26/92	<u>\$ 785,000</u>	\$98,125 annually for 7 years beginning 5/1/93; no interest	\$ 98,125
Laurens County Water and Sewer Commission	06/23/98	<u>\$ 664,714</u>	\$83,084 annually for 8 years beginning 1/1/00; no interest	664,714
Gilbert-Summit Water District	08/16/98	<u>\$ 220,000</u>	\$27,500 annually for 8 years beginning 6/1/99; no interest	220,000
Beaufort-Jasper Water and Sewer Authority	04/12/99	<u>\$ 300,000</u>	\$100,000 annually for 3 years beginning 7/1/99; no interest	200,000
High Hills Rural Water Company, Inc.	06/07/99	<u>\$ 65,000</u>	\$13,000 annually for 5 years beginning 3/31/00; no interest	<u>56,875</u>
Total				<u><b>\$1,239,714</b></u>

Due to the long-term nature of the above receivables; \$1,048,500 of the \$1,239,714 total has been equally offset as a reservation of fund balance to reflect that this portion is not currently available.

The remaining \$311,841 balance is comprised of \$267,406 that is due pursuant to participation agreements and \$44,435 that is due for sales of goods and services.

**NOTE 5. INVENTORIES:**

Inventories as of June 30, 2000 consist of the following:

Sign Shops	\$4,961,121
Repair Shops	2,269,534
Supply Depot	1,331,944
Office Supplies	<u>222,751</u>
	<u><b>\$8,785,350</b></u>

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 6. FIXED ASSETS:**

The following is a summary of changes in the General Fixed Assets Account Group of the Department during the fiscal year 2000:

	<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Furniture Vehicles and Equipment</u>	<u>Construction in Progress</u>	<u>Total General Fixed Assets</u>
Balances, June 30, 1999					
as previously reported	\$ 3,335,774	\$ 65,930,946	\$206,933,420	\$ 12,753,871	\$ 288,954,011
Reclassification (B)	<u>685,680</u>	<u>(685,680)</u>			
Balances, June 30, 1999					
as reclassified	4,021,454	65,245,266	206,933,420	12,753,871	288,954,011
(A) Restatement			12,209,883		
(B) Prior period adjustment	<u>(685,680)</u>				<u>(685,680)</u>
Balances, June 30, 1999					
as restated	3,335,774	65,245,266	219,143,303	12,753,871	300,478,214
Additions purchased			18,986,511	8,531,038	27,517,549
Retirements/disposals			(15,587,245)		(15,587,245)
Construction completed	<u>848,390</u>	<u>20,098,207</u>		<u>(20,946,597)</u>	
Balances, June 30, 2000	<u>\$4,184,851,164</u>	<u>\$ 85,343,473</u>	<u>\$222,542,569</u>	<u>\$ 338,312</u>	<u>\$ 312,408,518</u>

(A) Fund reclassification from the Internal Service Fund to the General Fixed Asset account group included the cost of certain vehicles and equipment.

(B) Surplus right of ways land held for sale previously reported in the General Fixed Assets Account Group as building and improvements was reclassified to land and improvements. Also, a prior period adjustment was made to report the right of ways land held for sale in the Special Revenue Fund as of June 30, 1999.

**NOTE 7. DEBT:**

A summary of changes in general long-term debt for the Department for the year ended June 30, 2000 is as follows:

	<u>Bond Payable</u>	<u>Liability for Compensated Absences</u>	<u>Contribution Payable - State Agency</u>	<u>Total</u>
Balances, beginning of year	\$333,545,000	\$ 17,221,973	\$ 189,000,000	\$ 539,766,973
Increases		2,021,196 (A)		2,021,196
Decreases	<u>(6,605,000)</u>		<u>(11,819,559)</u>	<u>(18,424,559)</u>
Balances, end of year	<u>\$326,940,000</u>	<u>\$ 19,243,169</u>	<u>\$ 177,180,441</u>	<u>\$ 523,363,610</u>

(A) Change is shown at net since details to support the gross increases and decreases are not available.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 7. DEBT: (CONTINUED)**

**Bonds Payable – Primary Entity**

Sections 57-11-210, et seq. of the South Carolina Code (the "State Highway Bond Act"), as continued and amended by Section 11-27-30 thereof, authorized the issuance of general obligation State Highway Bonds for highway construction and related purposes backed by the full faith, credit, and taxing power of the State. State Highway Bonds are additionally secured by a pledge of so much of the revenues as may be made applicable by the General Assembly for State highway purposes from any and all taxes or licenses imposed upon individuals or vehicles for the privilege of using the public highways of the State. Such taxes include the gasoline tax, the fuel oil tax, the road tax and the motor vehicle license tax described herein. So long as any State Highway Bonds are outstanding the amount of revenues made applicable thereto by the General Assembly may not be less than the amounts needed to fund the general operations budget of the Department and meet debt service requirements for annual principal and interest payments on such bonds. Section 57-11-240 provides that the debt limit for State Highway Bonds is the maximum annual debt service limitation of approximately \$82,000,000 which results from the application of the constitutional limitation imposed by said Paragraph 6(a) of Section 13 of the Article X of the South Carolina Constitution. From time to time, the State Budget and Control Board may authorize the issuance of various amounts of State Highway Bonds for specific types of projects or individual projects and may authorize the total to be issued in one or more series depending on the projections of the timing of project expenditures to be funded from the proceeds.

On March 1, 1999, the Department issued \$200,000,000 of State Highway Bonds (Series 1999A) which were designated for projects under the Metropolitan Planning Organizations Project Acceleration Program and the Dorchester County Transportation Committee.

On April 1, 1998, the Department issued \$17,500,000 of State Highway Bonds (Series 1998A) which were designated to be used by the Department for the Greenville Southern Connector Project.

The Department issued \$20,000,000 of State Highway Bonds (Series 1995) on August 1, 1995, \$30,000,000 (Series 1996A) on January 1, 1996, and \$30,000,000 (Series 1997A) on October 1, 1997 which make up the \$80,000,000 of general obligation bonds that were designated to be used to pay the costs of replacing structurally deficient bridges in the State of South Carolina.

On July 1, 1996, the Department issued \$45,000,000 of State Highway Bonds (Series 1996B) which were designated to be used to pay a portion of the cost of the Hilton Head Island Cross-Island Parkway. The Department currently imposes tolls on the Parkway in order to reimburse the State Highway Fund for the costs thereof, including debt service on the bonds. The revenues from the tolls are not pledged to secure the bonds. Toll revenues of \$4,862,591 were realized during fiscal year 2000.

A summary of the bonds payable as of June 30, 2000 is as follows:

Issue Date	Series	Original Face Amount	Maturity Date	Interest Rates	Unpaid Principal Balance June 30, 2000
08/01/95	1995	\$ 20,000,000	08/01/10	3.500-5.400%	\$ 16,100,000
01/01/96	1996A	30,000,000	02/01/11	4.125-5.000%	23,940,000
07/01/96	1996B	45,000,000	07/01/21	5.625-5.650%	44,875,000
10/01/97	1997A	30,000,000	10/01/12	4.500-5.000%	27,250,000
04/01/98	1998A	17,500,000	04/01/23	4.500-6.500%	16,775,000
03/01/99	1999A	200,000,000	05/01/19	4.500-4.600%	198,000,000
Total bonds payable					<u>\$ 326,940,000</u>

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 7. DEBT: (CONTINUED)**

Annual payments of principal and interest are due on the bonds and are being paid semiannually.

Details of annual debt service, including interest, for each year are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	\$ 6,805,000	\$ 15,601,008	\$ 22,406,008
2002	9,235,000	15,273,476	24,508,476
2003	9,765,000	14,831,637	24,596,637
2004	12,220,000	14,362,759	26,582,759
2005	12,680,000	13,762,560	26,442,560
Thereafter	<u>276,235,000</u>	<u>104,176,468</u>	<u>380,411,468</u>
Total debt service obligations	<u>\$ 326,940,000</u>	<u>\$ 178,007,908</u>	<u>\$ 504,947,908</u>

Interest expenditures for the fiscal year ended June 30, 2000 totaled \$16,698,879. Accrued interest received in the prior year of \$763,500 at the time of sale of the Series 1999A bonds was applied to the interest payments made during the fiscal year ended June 30, 2000.

The Series 1995 State Highway Bonds maturing on or after August 1, 2006, are subject to redemption, at the option of the State, in whole or in part at any time in any order of maturity to be determined by the State, on and after August 1, 2005, at the Redemption Prices expressed as a percentage of the principal amount of each Series 1995 State Highway Bond, or portion thereof, to be redeemed, as set forth below, plus accrued interest to the date for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
August 1, 2005 through July 31, 2005	102%
August 1, 2006 through July 31, 2006	101%
August 1, 2007 and thereafter	100%

The Series 1996A General Obligation State Highway Bonds maturing on and after February 1, 2007, are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on and after February 1, 2006, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed as set forth below, plus accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
February 1, 2006 through January 31, 2007	102%
February 1, 2007 through January 31, 2008	101%
February 1, 2008 and thereafter	100%

The Series 1996B State Highway Bonds maturing on and after July 1, 2007, are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after July 2006, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

# SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

### NOTE 7. DEBT: (CONTINUED)

<u>Redemption Dates</u>	<u>Redemption Price</u>
July 1, 2006 through June 30, 2007	102%
July 1, 2007 through June 30, 2008	101%
July 1, 2008 and thereafter	100%

The Series 1997A State Highway Bonds maturing on and after October 1, 2008, are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after October 1, 2007, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
October 1, 2007 through September 30, 2008	102%
October 1, 2008 through September 30, 2009	101%
October 1, 2009 and thereafter	100%

The Series 1998A State Highway Bonds maturing on and after April 1, 2009, are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on or after April 1, 2008, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
April 1, 2008 through March 31, 2009	102%
April 1, 2009 through March 31, 2010	101%
April 1, 2010 and thereafter	100%

The Series 1999A General Obligation State Highway Bonds maturing on and after May 1, 2010 are subject to redemption, in whole or in part, at any time in any order of maturity to be determined by the State, on and after May 1, 2009, at the Redemption Prices expressed as a percentage of the principal amount to be redeemed set forth below, plus accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
May 1, 2009 through April 30, 2010	102%
May 1, 2010 through April 30, 2011	101%
May 1, 2011 and thereafter	100%

### **Bonds Payable – Component Unit**

The Association issued three series of tax-exempt toll road revenue bonds pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, both dated February 1, 1998. 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 an indebtedness of the State of South Carolina, of the Department, or of 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.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000

NOTE 7. DEBT: (CONTINUED)

At December 31, 1999, bonds payable consisted of the following:

	Balance at Issuance	Amortization of Original Issue Discount	Interest Accretions	Balance at December 31, 1999
<u>Senior bonds:</u>				
Series 1998A Senior Current Interest Toll Road Revenue Bonds, dated February 1, 1998; interest payable semiannually on January 1 and July 1 at rates of 5.25% and 5.375%; \$21,400,000 of bonds mature January, 2023; \$44,800,000 of bonds mature January, 2038	\$ 66,200,000	\$	\$	\$ 66,200,000
Original issue discount on Series 1998A bonds	(2,693,952)	153,870		(2,540,082)
	63,506,048	153,870		63,659,918
Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds, dated February 11, 1998; interest accrues at various rates ranging from 5.3% to 5.85%; bonds mature at various dates from January, 2008 to January, 2038	87,385,622		9,899,150	97,284,772
<u>Subordinate bonds:</u>				
Series 1998C Subordinate Capital Appreciation Toll Road Revenue bonds, dated February 11, 1998; interest accretes at various rates ranging from 6.15% to 6.3%; bonds mature at various dates from January, 2008 to January 2038	46,592,058		5,734,768	52,326,826
	<u>\$197,483,728</u>	<u>\$ 153,870</u>	<u>\$ 15,633,918</u>	<u>\$213,271,516</u>

The terms of the bond indenture require the establishment of seven accounts (called "funds" in the indenture documents). The proceeds of the bonds were allocated among and deposited into certain of these accounts. The monies deposited into these accounts are invested according to the terms of indenture. Authorized payments of construction costs, debt service, arbitrage rebates and, upon completion of the Southern Connector, operating costs and renewal and replacement costs may only be paid from certain accounts as specified in the indenture. Payment of the debt service of the bonds is secured by the Trust Estate, which includes all monies deposited into these various accounts, 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 indenture, the Association's interest in the license agreement with the Department, and any other property pledged as security for the bonds.

During the year ended December 31, 1999 and during the period from January 12, 1996 (inception) through December 31, 1999, payments from the various accounts were made in accordance with the terms of the bond indenture.



**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 7. DEBT: (CONTINUED)**

Debt service requirements to maturity for the Association's bonds payable are as follows:

Year Ended December 31	Principal	Interest	Total
2000	\$ -	\$ 3,531,500	3,531,500
2001		3,531,500	3,531,500
2002		3,531,500	3,531,500
2003		3,531,500	3,531,500
2004		3,531,500	3,531,500
Thereafter	215,811,598	610,004,904	825,816,502
Totals	<u>\$ 215,811,598</u>	<u>\$ 627,662,404</u>	<u>\$ 843,474,002</u>

**Contributions Payable – State Agency – Primary Entity**

The Department entered into an intergovernmental agreement on March 10, 1998 with Horry County and the South Carolina Transportation Infrastructure Bank (the Bank) to fund \$545,000,000 in project costs for Phase I of the Conway By-Pass in Horry County. The agreement provides that the Department will contribute \$114,000,000 of the project costs. The Department's commitment includes contributing to the Bank \$10,000,000 a year for eleven years and \$4,000,000 in the twelfth year. \$30,000,000 has been paid through June 30, 2000 with \$10,000,000 being paid by the Department in the current year. The remaining balance of \$84,000,000 is included in the Department's combined balance sheet in the general long-term debt group account as a contribution payable – State agency. The \$10,000,000 expenditure made during the current fiscal year is included in the statement of revenues, expenditures and changes in fund balances as allocations to other entity – State agency.

The intergovernmental agreement was amended on April 27, 1999 and the amendment provides for the Department to contribute \$95,000,000 in funds for Phase II of the Conway By-Pass. This contribution is payable in annual payments of \$7,600,000 each year beginning July 1, 1999 for 20 years including 5% interest per annum. The payment of \$7,600,000 made by the Transportation during the current fiscal year included \$1,819,559 of principal and \$5,780,441 of interest. The remaining balance of \$93,180,441 is included in the Department's combined balance sheet in the general long-term debt group as a contribution payable – State agency. The \$7,600,000 expenditure during the current fiscal year is included in the statement of revenues, expenditures and changes in fund balance as allocations to other entity – State agency.

**NOTE 8. INTEREST IN LICENSE AGREEMENT WITH DEPARTMENT:**

On February 11, 1998, the Association entered into a license agreement (the License Agreement) with the Department regarding the construction and operation of the Southern Connector and SC 153 Extension projects (the Projects). The agreement grants the Association the exclusive right (1) to acquire in the name of the Department 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 terms of the agreement, and (5) to collect tolls from the users of the Southern Connector.

The Association is only responsible for financing the Southern Connector portion of the Projects; the Department provides financing for the SC 153 Extension portion of the Projects.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 8. INTEREST IN LICENSE AGREEMENT WITH DEPARTMENT: (CONTINUED)**

In order to finance the Southern Connector, the Association issued three series of toll road revenue bonds pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, both dated February 1, 1998. Interest on the bonds is exempt from federal income tax and from 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. The bonds are not, and shall never, constitute an indebtedness of the State of South Carolina, of the Department, or of any agency, department or political subdivision of the State of South Carolina.

The License Agreement specifies that, upon its termination, the Association is to convey to the Department full title to all property and equipment acquired in whole or in part with proceeds of the bonds issued to finance the Southern Connector project. 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 Department. The License Agreement specifies a termination date 50 years after substantial completion of the Southern Connector. However, the License Agreement automatically terminates upon repayment, redemption or defeasance of the bonds and all other project debt. Since the bonds mature January 1, 2038, management considers that date to be the effective termination date of the License Agreement.

In order to fulfill its responsibilities under the License Agreement, the Association has entered into an agreement (the Development Agreement) with Interwest Carolina Transportation Group, LLC (the Developer) whereby the Developer has agreed to perform the obligations of the Association under the License Agreement with respect to construction of the Southern Connector and has assumed various additional responsibilities with respect to the construction. In order to fulfill its responsibilities under the Development Agreement, the Developer has in turn entered into contracts with various subcontractors for the performance of certain obligations. The Developer has agreed to complete the construction of the Southern Connector at a guaranteed price of \$173,802,263, which includes 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, 1999 and has also agreed to a guaranteed date of substantial completion of the Southern Connector on November 17, 2001. The Developer is not allowed to adjust the guaranteed price or delay the date of substantial completion unless such adjustments or delays are specifically authorized as an approved change order. Upon completion of the Southern Connector, the Association will deliver to the Department a request for the acceptance of the toll road. Once the Department has approved and accepted the Southern Connector, the toll road will be opened to public traffic, and collection of toll revenues will commence.

The Association expects to enter into an agreement (the Operation Agreement) with a third party (acceptable to the Department) whereby the third party will operate the Southern Connector on behalf of the Association for a fee. It is currently expected that the initial Operation Agreement would be for a period of three to five years. Under the Operation Agreement, tolls for the use of the Southern Connector will be collected on behalf of the Association. From these tolls, the Association will be required to pay a license fee to the Department in the amount of \$125,000 per month for a period of 25 years, and of \$1 per month thereafter for the remainder of the term of the License Agreement. Payment of the monthly license fees will commence on the first day of the calendar month following the first anniversary of the final completion date of the Southern Connector. So long as any project debt remains outstanding, any license fees not paid when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually. The Department will be responsible for maintaining the Southern Connector (costs of maintenance are to be reimbursed by the Association) and will be responsible for setting the toll rates in accordance with the terms of the License Agreement. The SC 153 Extension, will be operated, maintained, renewed and replaced by the Department as part of the South Carolina Highway System.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 8. INTEREST IN LICENSE AGREEMENT WITH DEPARTMENT: (CONTINUED)**

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. At December 31, 1999, the Developer estimated that construction of the Southern Connector was approximately 57% complete. Construction costs are reviewed by the Association's Authorized Representative, an independently contracted engineer who reviews all costs of construction of the Southern Connector.

The \$108,074,335 value of the Association's Interest in License Agreement with the Department as of December 31, 1999 consists of \$99,467,570 related to construction in progress costs, \$2,335,811 for other soft costs of construction and \$6,270,954 for capitalized interest expense, net of interest earnings.

**NOTE 9. INTERFUND RECEIVABLES/PAYABLES:**

The \$5,454,001 due to the Special Revenue Fund from the County Transportation Program Agency Fund primarily consists of billings for work performed as of June 30, 2000 and for the reimbursement of expenditures made on behalf of the County Transportation Program prior to June 30, 2000.

**NOTE 10. PENSION PLANS:**

The majority of employees of the Department are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage. Effective January 1, 2000 the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent and the employer contribution rate became 9.71 percent to cover the cost of providing such services. The Department's actual contributions to the SCRS for the years ended June 30, 2000, 1999 and 1998 were approximately \$10,758,000, \$9,425,000, and \$8,809,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$213,000 in the current fiscal year at the rate of .15 percent of compensation.

## **SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000**

#### **NOTE 10. PENSION PLANS: (CONTINUED)**

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple employer defined benefit public employee retirement system. Generally, all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 12.25 percent which, as for the SCRS, included the 1.95 percent surcharge. Effective January 1, 2000, the surcharge to fund retiree health and dental insurance coverage was increased to 2.16 percent and the employer contribution rate became 12.46 percent to cover the cost of providing such services. The Department's actual contributions to the PORS for the years ended June 30, 2000, 1999, and 1998 were approximately \$5,900, \$4,300, and \$4,700, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$115 and accidental death insurance contributions of approximately \$115 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the Department for pension, group-life benefits and accidental death benefits are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Department's liability under the pension plans is limited to the amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Department recognizes no contingent liability for unfunded costs associated with participation in the plans.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 10. PENSION PLANS: (CONTINUED)**

At retirement, employees participating in the SCRS or PORS may receive additional service credit for up to 90 days for accumulated unused sick leave.

An Act passed in the last General Assemble session, which had not been signed by the Governor as of June 30, 2000, will amend Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2000 with some provisions effective January 1, 2001. The amendment will enact the Teacher and Employee Retention Incentive Program, reduce from thirty to twenty-eight years the creditable service required to retire at any age without penalty and make other changes to the SCRS.

**NOTE 11 POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Department are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Department for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately, 20,000 State retirees met these eligibility requirements at June 30, 1999.

The Department recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees of approximately \$12,953,000 for the year ended June 30, 2000. As discussed in Note 10, the Department paid approximately \$2,933,000 applicable to the 1.95 percent surcharge for July 1, 1999 to December 31, 1999 and the 2.16 percent surcharge for January 1, 2000 to June 30, 2000 included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to Department retirees is not available. By State law, the Department has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 12. DEFERRED COMPENSATION PLANS:**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Department have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State appropriated funds from unspent fiscal year 1998-1999 State General Fund appropriations above the ten percent set aside, for contributions to 401(k) accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriations Act required State institutions and agencies to match certain 401(k) contributions by employees whose salaries are funded from its applicable revenue sources. The appropriated 401(k) match is limited to \$300. To be eligible an employee must have met the following eligibility requirements:

The employee was a permanent full-time State employee for 24 continuous months as of July 1, 1999 and was an employee on the date of distribution, and

2. The employee established a 401(k) account with annual contributions equal to the match (this requirement is not required for employees earning less the \$20,000).

In April, 2000 the agency made contributions from applicable funding sources of \$118 in total to the 401(k) account of each eligible State employee for a total of \$268,214 for all of the agency's employees. The expense is included as employer contribution expenses within each applicable operating expense category.

**NOTE 13. TRANSACTIONS WITH STATE ENTITIES:**

The Department has significant transactions with the State of South Carolina and various State agencies.

The Department sells supply items and provides services for various State agencies. Total sales to State agencies were approximately \$225,000 for the year ended June 30, 2000.

The gasoline tax is collected by the South Carolina Department of Revenue (DOR) and remitted to the Department on a monthly basis. Taxes collected by DOR and remitted to the special revenue fund amounted to approximately \$375,000,000 for the year ended June 30, 2000. Gasoline tax revenues amounted to approximately \$59,200,000 for the County Transportation Program Agency Fund for the year ended June 30, 2000.

Services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

# SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2000

### **NOTE 13:    TRANSACTIONS WITH STATE ENTITIES: (CONTINUED)**

The Department had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement plan contributions and health insurance premiums, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made to other agencies for unemployment insurance and workers' compensation coverage. The amounts of expenditures applicable to related party transactions are not readily available.

In addition, the Department transferred the following amounts to the General Fund of the State of South Carolina for its proportionate share of the cost of administration of central state services, other specified support and pay telephone revenue pursuant to the following provisions of the fiscal year 2000 Appropriations Act:

Statewide Cost Allocation Plan (Proviso 53.4)	
Collection of highway revenues	\$3,069,811
Central Service Agency recoveries	1,103,894
Other indirect cost recoveries	705,518
Payments for Servicing Functions (Proviso 53.11)	
Comptroller General's Office for accounting and payroll functions	471,500
State Treasurer's Office	123,546
Pay Telephone Revenue (Proviso 72.76)	<u>19,392</u>
<b>Total</b>	<b><u>\$5,493,661</u></b>

\$5,474,269 was paid to the State during the year. \$19,392 was unpaid and included in the balance sheet of the Special Revenue Fund in the account Due to the General Fund of the State at June 30, 2000.

The Department provided no material services free of charge to other State agencies during the fiscal year except as noted on the next page. The Department participates in the statewide dual employment program.

Expenditures for the workers' compensation insurance premiums for the fiscal year 2000 of \$3,308,737 were paid to the State Accident Fund and are included in the general expenditure category of the Special Revenue Fund.

The Department had transactions with the South Carolina Transportation Infrastructure Bank ("the Bank") which was created June 26, 1997 by Act Number A-418 of the Code of Laws of South Carolina. The Bank's purpose is to assist governmental units and private entities in constructing and improving highway and transportation facilities by providing loans and other financial assistance. The Chairman of the Department's Commission is an ex-officio member of the Bank's governing Board of Directors. The Department entered into an intergovernmental agreement on March 10, 1998 and amended it on April 27, 1999 with the Bank and Horry County to provide funds and services in connection with the construction of Phases I and II of the Conway By-pass. In addition to the \$17,600,000 of contribution payments made to the Bank and referred to in Note 7, the Department incurred expenditures to the Bank of \$22,511,880 during fiscal year 2000 pursuant to Section 11-43-160 of the Code of Laws of South Carolina from State highway taxes and fees for the construction and maintenance of highways. \$22,000,000 of the \$22,511,880 was paid during the fiscal year ended June 30, 2000 leaving \$511,880 unpaid and owing to the Bank as of year end which is reported in the Department's balance sheet of the Special Revenue Fund as intergovernmental payables – State agencies. The \$40,111,880 is included in the statement of revenues, expenditures and changes in fund balance as allocations to other entity – State agency. The intergovernmental agreement also provides that the Department shall be paid a fee of \$3,000,000 for construction management services. The fee is payable in thirty-six (36) equal monthly installments commencing with the execution

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 13: TRANSACTIONS WITH STATE ENTITIES: (CONTINUED)**

of the intergovernmental agreement on March 24, 1998 with Horry County and the Bank. The Department earned and was paid \$1,000,000 for the management services which is included in revenues from sales of goods and fees for services for the year ended June 30, 2000. \$2,250,000 has been earned and paid through June 30, 2000 for the construction management services. The fees are recognized as earned in equal amounts ratably over the contract period of 36 months. Also, the Department provided the Bank with various administrative services and clerical assistance during the year ended June 30, 2000 for which no consideration will be paid and the value of those services was not determined.

For the fiscal year ended 2000 the Department reported claims for expenditures of \$563,426 that are to be reimbursed by the Office of Adjutant General. These reimbursements are to be made from the federal flood mitigation assistance grant. \$76,102 was received by the Department prior to June 30, 2000 and the \$487,324 balance is included in accounts receivable – State agencies.

During the fiscal year ended June 30, 2000 the South Carolina Department of Public Safety (SCDPS) remitted \$2,126,187 of international fuel tax revenues to the Department in error. Also, SCDPS assessed the Department \$800,000 to cover the costs associated with administering and enforcing the laws relating to the fuel tax. The \$800,000 assessment was made pursuant to Section 56-11-500 of the South Carolina Code of Laws and is included in expenditures under allocations to other entities – State agencies in the Special Revenue Fund. The \$2,926,187 is reported in the Department's balance sheet of the Special Revenue Fund as of June 30, 2000 as intergovernmental payables – State agencies.

During the fiscal year ended June 30, 2000 the Department purchased right of ways land from Clemson University for \$1,567,225. This expenditure is reported in the Special Revenue Fund under capital outlay – infrastructure.

**NOTE 14. CONSTRUCTION IN PROGRESS – CAPITALIZED AND INFRASTRUCTURE PROJECTS:**

At June 30, 2000, the estimated costs of Department projects in progress to construct, acquire and maintain various capitalized facilities amounted to approximately \$26,400,000 and the infrastructure projects approximately \$5,247,000,000; the estimated costs to complete the capital projects amounted to approximately \$26,000,000 and the infrastructure projects approximately \$1,831,000,000; and, the outstanding contractual obligations attributable to the capital projects amounted to approximately \$16,600,000 and the infrastructure projects approximately \$410,000,000. The estimated time frame for completion of these projects is several years. The costs of the projects in progress and future projects will be funded from State taxes and fees, federal grants, bond proceeds and other revenues of the Department.

**NOTE 15. RETAINAGE PAYABLE – ASSOCIATION:**

A retainage equal to five percent (5%) of each monthly application from payment submitted by the Developer for certain construction costs is withheld and will be disbursed upon final completion of the Southern Connector Project. In accordance with the Development Agreement, amounts retained are invested in securities as allowed by the bond indenture. The earnings on such investments will be paid to the Developer upon final completion of the Southern Connector Project, provided the Developer is not in default under the Development Agreement. Interest earned on the amounts retained is included in retainage payable in the accompanying balance sheet. Total retainage payable at December 31, 1999 was \$4,065,933, including interest of \$157,134.

**NOTE 16. CAPITALIZED INTEREST:**

The Association follows the policy of capitalizing interest costs incurred during construction of the Southern Connector Project as part of the value of the interest in the license agreement with the Department.



**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000**

**NOTE 16. CAPITALIZED INTEREST: (CONTINUED)**

Interest expense capitalized was as follows:

	<u>Year Ended December 31, 1999</u>	<u>January 12, 1996 (Inception) through December 31, 1999</u>
Interest expense-Series 1998A Senior Current Interest Bonds	\$ 3,531,500	\$ 6,670,563
Accreted interest expense --		
Series 1998B Senior Capital Appreciation Bonds	5,371,673	9,899,150
Series 1998C Subordinate Capital Appreciation Bonds	3,118,164	5,734,768
Amortization of original issue discount	80,280	153,870
Interest on retainages payable	119,011	157,134
Total interest expense	12,220,628	22,615,485
Less: Interest income on cash, cash equivalents and investments	7,642,670	16,344,531
Net interest expense capitalized	<u>\$ 4,577,958</u>	<u>\$ 6,270,954</u>

**NOTE 17. LEASE OBLIGATIONS:**

The Department is obligated under various operating leases for the use of office equipment.

Future commitments for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2000 were as follows:

<u>Year Ending June 30,</u>	
2001	\$ 295,667
2001	284,460
2003	251,035
2004	173,895
2005	28,689
Total	<u>\$ 1,033,746</u>

The Department's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2002 through 2005. Certain operating leases provide for renewal options for periods at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. The operating lease expenditures in fiscal year 2000, including leases having remaining terms of less than one year, were approximately \$1,038,000. The Department reports these costs in the applicable expenditure categories.

**NOTE 18. FEDERAL GRANTS AND REIMBURSABLE CONTRACTS:**

The Department has grants and reimbursable contracts with the Federal government for the funding of costs related to the programs described in the grants or contracts. These funds are subject to audit and/or adjustment by the various funding sources.

Management feels that adjustments, if any, will not have a material adverse effect on the financial position of the Department. Furthermore, there is no evidence to indicate that a liability should be recorded at June 30, 2000.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 19. RISK MANAGEMENT:**

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage in the prior year. Settled claims have not exceeded this coverage in the prior two years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for deductibles. The Department recorded an estimated liability for \$650,000 in fiscal year 1999 which the Department did not have to pay. The reversal of this liability was credited to the general expenditure category in the Special Revenue Fund during the fiscal year 2000.

Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

- Claims of State employees for unemployment compensation benefits (Employment Security Commission);
- 2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
- 3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
- 4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Department and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

- Theft of, damage to, or destruction of assets;
- Real property and contents;
- Motor vehicles;
- Data processing equipment;
- Business interruptions;
- Torts; and,
- Medical malpractice claims against covered employee for nurse.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of certain property and equipment and auto liability. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The ISF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and ISF.

The Department obtains coverage up to \$50,000 through a commercial insurer for employee fidelity bond insurance for losses arising from theft or misappropriation. Employee fidelity bond coverage is not maintained on the Department's Commission members or its other employees. The Department self-insures itself for any losses because it feels the likelihood of losses are remote.

## **SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

#### **NOTE 19. RISK MANAGEMENT: (CONTINUED)**

The Department has not transferred the portion of the risk of loss related to insurance policy deductibles and limits for capital assets and fidelity coverages to a State or commercial insurer. The Department has not reported an estimated claims loss expenditure, and the related liability at June 30, 2000, based on the requirements of GASB Statement No. 10 and No. 30 which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2000 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage, except as mentioned above for certain tort claims, are unlikely and, if incurred, would be insignificant to the Department's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded; and, therefore, no loss accrual has been recorded.

The Department has recorded insurance premium expenditures in the current expenditures and capital outlay for infrastructure expenditure categories.

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
- Workers' Compensation
- Crime
- Directors and Officers
- Force Majeure
- Builder's Risk
- General Liability

No claim settlements of the Association have exceeded insurance coverage during the year ended December 31, 1999 and during the period from January 12, 1996 (inception) through December 31, 1999.

There were no significant reductions in insurance coverage during the year ended December 31, 1999 or during the period from January 12, 1996 (inception) through December 31, 1999.

#### **NOTE 20. CONTINGENCIES AND SUBSEQUENT EVENTS:**

The Department is a defendant in various lawsuits arising from the conduct of its normal business. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of any litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the Department. The risk of material loss in excess of insurance coverage is unlikely. Furthermore, there is no evidence that an additional expenditure and liability should be recorded.

The State's Joint Bond Review Committee at its meetings of July 28, 1998 and December 8, 1998 reviewed and approved the issuance by the Department not to exceed \$722,000,000 in General Obligation State Highway Bonds for projects. As of June 30, 2000 \$200,000,000 in bonds (Series 1999A) have been issued. The bond authorizations included the following projects:

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2000**

**NOTE 20. CONTINGENCIES AND SUBSEQUENT EVENTS: (CONTINUED)**

Up to \$130,000,000 to fund the Interstate Upgrade Acceleration Program

Up to \$295,000,000 to fund the Metropolitan Planning Organization Project Acceleration Program;  
and,

Up to \$226,000,000 to fund the Council of Governments (COG) Project Acceleration Program

The Commission authorized the timing and amounts of the various bond issues to be determined by the Department's staff.

In May, 1997, the State Budget and Control Board authorized the Department to transfer an island consisting of approximately 8,000 acres to the South Carolina Department of Natural Resources (DNR), another State agency upon exhaustion of mitigation banking credits. The acreage was banked to provide an offset for environmentally sensitive lands that are required for future highway projects. An agreement to transfer the land to DNR will be executed when the Department has used up all the mitigation banking credits.

The Department and the South Carolina Department of Public Safety (SCDPS) have some differences from restructuring that have not been resolved to the satisfaction of the two agencies. The differences involve amounts due from SCDPS to the Department, the ownership, use and maintenance of the headquarters building located at 955 Park Street, Columbia, SC and certain jointly owned real property. Proviso 72.77 of the 2000-2001 Appropriations Act provides for the following:

The directors of the Department of Public Safety and the Department of Transportation are directed to prepare a plan to resolve all financial and property issues arising from restructuring. The plan shall be submitted to the Senate Finance Committee and the House Ways and Means Committee by January 1, 2001. If the two agencies should fail to develop a plan for final resolution, the Chairman of the Senate Finance Committee and the Chairman of the House Ways and Means Committee shall each appoint three members to an ad hoc committee to draft a report recommending a final resolution.

Management feels the resolution of these matters will not have a materially adverse effect on the financial position of the Department.

**NOTE 21. ACCOUNTING CHANGE/PRIOR PERIOD ADJUSTMENTS:**

The Department had previously used the Internal Service Fund to account for the activities of a rental pool for vehicles and other equipment that were utilized primarily for highway construction projects. The fund's purpose was to measure operating results and recover certain costs, including depreciation, associated with the operation of the vehicles and other equipment. Generally accepted accounting principles do not require the use of internal service funds. National Council on Governmental Accounting Statement #1 requires that governmental units should establish and maintain only those funds required by law and sound financial administration. Management has determined that the Internal Service Fund to account for and report rental pool activities is no longer necessary as of July 1, 1999. This change resulted in the assets held by the Internal Service Fund being transferred either to the Special Revenue Fund or the General Fixed Assets Account Group. The \$6,400,407 accumulated depreciation previously reported on the depreciable assets in the Internal Service Fund were eliminated because the Department General Fixed Assets Account Group does not report depreciation.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2000

**NOTE 21. ACCOUNTING CHANGE/PRIOR PERIOD ADJUSTMENTS: (CONTINUED)**

Also, the Department had included surplus right of ways land held for sale totaling \$685,680 in the buildings and improvements category in the general fixed assets group. The assets was reclassified from buildings and improvements to land and improvements in the General Fixed Assets Account Group (see Note 6). A prior period adjustment was made to report the right of ways land held for sale in the Special Revenue Fund as of June 30, 1999. The \$685,680 was included in expenditures in the Special Revenue Fund in error in prior years when purchased.

The changes were accounted for as follows:

	As Previously Reported	Increase (Decrease)	As Restated
<u>Special Revenue Fund:</u>			
Cash	\$ 340,942,409	\$ 19,129,709	\$ 360,072,118
Right of ways land held for sale	\$ 1,069,680	\$ 685,680	\$ 1,755,360
Fund balance	\$ 337,285,902	\$ 19,815,384	\$ 357,101,291
<u>General Fixed Assets Account Group:</u>			
Furniture, vehicles and equipment	\$ 206,933,420	\$ 12,209,883	\$ 219,143,253
Land and improvements	\$ 4,016,454	\$ (685,680)	\$ 3,335,774
Investment in general fixed assets	\$ 288,954,011	\$ 11,524,203	\$ 300,478,214
<u>Internal Service Fund:</u>			
Cash	\$ 19,129,709	\$ 19,129,709	\$ - 0 -
Furniture, vehicles and equipment	\$ 12,209,883	\$(12,209,883)	\$ - 0 -
Accumulated depreciation	\$ 6,400,407	\$ (6,400,407)	\$ - 0 -
Contributed capital	\$ 5,809,476	\$ (5,809,476)	\$ - 0 -
Retained earnings	\$ 19,129,709	\$(19,129,709)	\$ - 0 -

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -**  
**ALL AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2000**

	----- Assets -----					
	Cash and Cash Equivalents	Inter- governmental Receivables - State Agencies	Accrued Interest Receivable	Due from Special Revenue Fund	Account Receivable	Total Assets
<b>RIGHT OF WAY FUND</b>						
Balances, June 30, 1999	\$ 383,871				12,472	\$ 396,343
Additions	2,097,894					2,097,894
Deductions	<u>(2,175,437)</u>				<u>(12,472)</u>	<u>(2,187,909)</u>
Balances, June 30, 2000	<u>\$ 306,328</u>				<u>\$ - 0 -</u>	<u>\$ 306,328</u>
<b>SPECIAL DEPOSITS</b>						
Balances, June 30, 1999	\$ 448,980					\$ 448,980
Additions	1,884,234					1,884,234
Deductions	<u>(1,993,224)</u>					<u>(1,993,224)</u>
Balances, June 30, 2000	<u>\$ 339,990</u>					<u>\$ 339,990</u>
<b>COUNTY TRANSPORTATION PROGRAM FUND</b>						
Balances, June 30, 1999	\$ 77,551,448 (1)	\$ 5,140,394	\$ 664,906	\$ - 0 -		\$ 83,356,748
Additions	84,371,215	59,234,169	5,533,307	9,500,000		158,638,691
Deductions	<u>(57,286,867)</u>	<u>(64,374,563)</u>	<u>(4,968,749)</u>	<u>(9,500,000)</u>		<u>(136,130,179)</u>
Balances, June 30, 2000	<u>\$ 104,635,796 (1)</u>	<u>\$ - 0 -</u>	<u>\$ 1,229,464</u>	<u>\$ - 0 -</u>		<u>\$ 105,865,260</u>
<b>TOTALS - ALL AGENCY FUNDS</b>						
Balances, June 30, 1999	\$ 78,384,299 (1)	\$ 5,140,394	\$ 664,906	\$ - 0 -	12,472	\$ 84,202,071
Additions	88,353,343	59,234,169	5,533,307	9,500,000		162,620,819
Deductions	<u>(61,455,528)</u>	<u>(64,374,563)</u>	<u>(4,968,749)</u>	<u>(9,500,000)</u>	<u>(12,472)</u>	<u>(140,311,312)</u>
Balances, June 30, 2000	<u>\$ 105,282,114 (1)</u>	<u>\$ - 0 -</u>	<u>\$ 1,229,464</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 106,511,578</u>

(1) Includes unrealized depreciation of \$991,175 at June 30, 2000 and unrealized appreciation of \$82,110 at June 30, 1999.

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -**  
**ALL AGENCY FUNDS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2000**

	----- Liabilities -----					
	<u>Due to Special Revenue Fund</u>	<u>Deposits for Right-of- Way</u>	<u>Special Deposits and Bonds</u>	<u>Accounts Payable/ Other Liabilities</u>	<u>Funds Held for Counties</u>	<u>Total Liabilities</u>
<b>RIGHT OF WAY FUND</b>						
Balances, June 30, 1999		\$ 396,143		\$ 200		\$ 396,343
Additions		2,097,894				2,097,894
Deductions		<u>(2,187,909)</u>				<u>(2,187,909)</u>
Balances, June 30, 2000		<u>\$ 306,128</u>		<u>\$ 200</u>		<u>\$ 306,328</u>
<b>SPECIAL DEPOSITS</b>						
Balances, June 30, 1999			\$ 331,658	\$ 117,322		\$ 448,980
Additions			1,574,606	309,628		1,884,234
Deductions			<u>(1,695,504)</u>	<u>(297,720)</u>		<u>(1,993,224)</u>
Balances, June 30, 2000			<u>\$ 210,760</u>	<u>\$ 129,230</u>		<u>\$ 339,990</u>
<b>COUNTY TRANSPORTATION PROGRAM FUND</b>						
Balances, June 30, 1999	\$ 4,350,356			489,132	\$ 78,517,260	\$ 83,356,748
Additions	18,123,888			57,131,450	79,795,379	155,050,717
Deductions	<u>(17,020,243)</u>			<u>(48,693,339)</u>	<u>(66,828,623)</u>	<u>(132,542,205)</u>
Balances, June 30, 2000	<u>\$ 5,454,001</u>			<u>\$ 8,927,243</u>	<u>\$ 91,484,016</u>	<u>\$ 105,865,260</u>
<b>TOTALS - ALL AGENCY FUNDS</b>						
Balances, June 30, 1999	\$ 4,350,356	\$ 396,143	\$ 331,658	\$ 606,654	\$ 78,517,260	\$ 84,202,071
Additions	18,123,888	2,097,894	1,574,606	57,441,078	79,795,379	159,032,845
Deductions	<u>(17,020,243)</u>	<u>(2,187,909)</u>	<u>(1,695,504)</u>	<u>(48,991,059)</u>	<u>(66,828,623)</u>	<u>(136,723,338)</u>
Balances, June 30, 2000	<u>\$ 5,454,001</u>	<u>\$ 306,128</u>	<u>\$ 210,760</u>	<u>\$ 9,056,673</u>	<u>\$ 91,484,016</u>	<u>\$ 106,511,578</u>