CONNECTOR 2000 ASSOCIATION, INC.

ANNUAL REPORT

June 30, 2010

CUSIP Prefix 20786L

Submitted in compliance with the provisions of the Continuing Disclosure Agreement dated February 11, 1998 (the "Disclosure Agreement") between Connector 2000 Association, Inc., a South Carolina non-profit public benefit corporation (the "Association") and U. S. Bank, National Association., successor to First Union National Bank (the "Trustee"), in its capacity as dissemination agent relating to the Connector 2000 Association, Inc. Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 1998A, Series 1998B and Series 1998C (the "Bonds").

INTRODUCTION

This is the twelfth report of annual financial information delivered pursuant to that certain Continuing Disclosure Agreement dated February 11, 1998 (the "***Disclosure Agreement***") between Connector 2000 Association, Inc., a South Carolina non-profit public benefit corporation (the "***Association***") and U. S. Bank, National Association, as successor to First Union National Bank (the "***Trustee***"), in its capacity as dissemination agent relating to the Connector 2000 Association, Inc. Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 1998A, Series 1998B and Series 1998C (the "***Bonds***"). Capitalized terms not otherwise defined herein have the meaning set forth in the Disclosure Agreement, if defined therein.

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

For a narrative description of the Association, the Projects and the Construction of the Projects, see the annual reports previously filed by the Association pursuant to the Disclosure Agreement.

OPERATION OF THE SOUTHERN CONNECTOR PROJECT

The Association was incorporated for the design, financing, acquisition, construction and operation of the Southern Connector. The Southern Connector is an approximately 16-mile four-lane tollway facility constructed to interstate standards on new location. The Southern Connector extends from existing I-85 at its interchange with I-185, in Greenville County, South Carolina, proceeds southeast and interchanges with the S.C. 153 Extension, continues east and interchanges with S.C. 20, with U.S. 25 south of Donaldson Center Industrial Park and with Fork Shoals Road before turning northeast and interchanging with I-385 at its intersection with U.S. 276 and Standing Springs Road east of the City of Greenville, South Carolina, between the cities of Mauldin, South Carolina and Simpsonville, South Carolina. The Bonds were issued to finance substantially all of the costs of the Southern Connector. Please refer to earlier annual reports for discussion of the Traffic and Revenue Study prepared in connection with the sale of the Bonds, the construction of the Projects and the initial operations of the Southern Connector.

At December 31, 2009, the Southern Connector had been open and collecting tolls for over eight and one-half years. As required by Section 4 of the Disclosure Agreement, the Annual Report of the Association must present selected data relating to the operation of the Southern Connector Project and penetration of electronic toll collections ("***ETC***") for the preceding five years which is set forth in the following table:

	2005	2006	2007	2008	2009
ETC Trans.	1,225,766	1,386,943	1,599,926	1,652,145	1,652,726
% of Total Trans.	25%	26%	27%	29%	30%
ETC Revenue	$896,250	$1,018,130	$1,158,749	$1,208,608	$1,274,709
% of Total Rev.	19%	20%	21%	23%	24%
Total Trans.	4,948,535	5,434,691	5,839,205	5,653,527	5,455,974
Total Revenue	$4,664,081	$5,085,659	$5,448,214	$5,238,429	$5,254,463

The toll rates for the Southern Connector Project have been set by the SCDOT pursuant to Section 57-5-1340 of the South Carolina Code of Laws, 1976, as amended and under Section 6.4 of the License Agreement for the entire 50-year term of the License Agreement. From time to time, the

Association will offer discounts or incentives for the use of ETC transponders on the Southern Connector Project. Effective November 1, 2009 the toll rates and discounts charged by the Association for the use of the Southern Connector are as follows:

LOCATION	East Plaza	West Plaza	SC 20 (on/off ramps)	Fork Shoals Rd. (on/off ramps)
2 axles	$1.25	$1.25	$0.65	$0.65
2 axle discount rate	$1.00	$1.00	N/A	N/A
3 axles	$2.55	$2.55	$0.65	$0.65
3 axle discount rate	$2.10	$2.10	N/A	N/A
4 axles	$3.40	$3.40	$0.65	$0.65
4 axle discount rate	$2.80	$2.80	N/A	N/A
5 axles	$4.25	$4.25	$0.65	$0.65
5 axle discount rate	$3.50	$3.50	N/A	N/A
6 + axles	$5.10	$5.10	$0.65	$0.65
6 + axle discount rate	$4.20	$4.20	N/A	N/A

One mainline toll plaza is located at the east end and one at the west end of the Southern Connector. The toll for all 2-axle vehicles at the mainline plazas is $1.25. At both mainline plazas a higher toll is required for vehicles having more than 2 axles. Unattended ramps are located at Fork Shoals Road and SC Route 20. A flat rate of $.65 per vehicle, regardless of the number of axles, is charged at these ramps. Please refer to the Association's Annual Report for the year ending December 31, 2008 for the toll rates and discounts charged prior to November 1, 2009.

Motorists have the option of establishing an ETC prepaid toll account (Pal Pass), which allows them to travel through dedicated lanes without stopping and have their tolls automatically deducted from their prepaid toll account. Motorists with a Pal Pass account receive a discount on all mainline toll plaza transactions. This discount applies to all vehicles, regardless of the number of axles. No discount is applied to transactions at the unattended ramps.

Events of Default. As more fully described in the audited financial statements of the Association for the period ended December 31, 2009 (the "***Financial Statements***") attached hereto, the traffic on the Southern Connector has been substantially less than that projected at the time the Bonds were issued. Such shortfall in traffic resulted in insufficient toll revenues to pay interest on the Series 1998A Senior Bonds and the Trustee has made up such shortfalls from transfers from the Senior Bonds Debt Service Reserve Account. On January 1, 2008, principal on the Bonds began to come due, which resulted in additional withdrawals from the Senior Bonds Debt Service Reserve Account and from the Subordinate Bonds Debt Service Reserve Account. The Association has been unable to meet its Revenue Covenant under Section 717 of the Indenture. On January 23, 2008 the Association and the Bondholders were notified by the Trustee that an Event of Default had occurred and continues under the Indenture. On May 6, 2009 the Trustee sent another letter to the Association that such Event of Default had not been waived by the Trustee and that the Trustee expressly reserved its rights to remedies available under the Bond documents.

On June 12, 2009, SCDOT asserted that an Event of Default has occurred under Section 14.1(d) of the License Agreement, which among other things provides that an Event of Default under the License Agreement shall exist if the Association ". . . shall fail, be unable, or admit in writing the inability generally to pay the Association's debts as they become due." The License Agreement provides no cure period for such Event of Default. Although Section 9.2(e) of the License Agreement permits SCDOT to terminate the License Agreement upon the occurrence of an Event of Default, SCDOT did not terminate the License Agreement and agreed to give the Association at least 90 days prior written notice of the effective date of any such termination. In consideration of such 90 day forbearance, the Association agreed to diligently undertake to restructure its indebtedness and to include in its proposed debt adjustment plan the funding of repairs and replacements to the Southern Connector.

The Senior Bond Trustee undertook an effort to locate beneficial owners of the Bonds to invite them to participate in informal discussions regarding possible restructuring of the Bonds. The Association negotiated confidentiality agreements between the Association and certain beneficial owners of the Senior Bonds (the "***Restricted Owners***"), which permit the Association to share non-public information with the Restricted Owners and engage in discussions regarding potential restructuring of the Association's debts. Since August 2009, the Association has entered into such confidentiality agreements with four institutional bondholders and one bond insurer beneficially owning or insuring, in the aggregate, a significant percentage of the outstanding principal amount or future maturity value of the Senior Bonds. The Association has been advised that the Subordinate Trustee reached out to some of its constituent Bondholders to solicit their involvement in the negotiation process, including becoming subject to a confidentiality agreement, but none of the contacted subordinate Bondholders elected to participate in the process.

The Association delivered to the Senior Bond Trustee, the Subordinate Trustee, SCDOT and the Restricted Owners a draft debt adjustment plan (the "***Association's Plan***") dated August 13, 2009. The Association's Plan was structured to return the greatest value to the owners of the Senior Bonds as possible under the constraints of the remaining term of the License Agreement (to 2051), the obligation to repair and resurface the road, and the projected toll revenues and operating expenses set forth in the Stantec traffic and revenue study. The Association's Plan used the August 5, 2009 estimate provided by AECOM Technical Services, Inc. as the basis for the projected repair and resurfacing needs of the road. Under the Association's Plan, since the Senior Bonds would not receive full payment, the Subordinate Bonds would receive no payment.

The Senior Bond Trustee and its counsel then engaged Macquarie Capital (USA) Inc. ("***Macquarie***") as financial advisor to the Senior Bond Trustee's counsel to review the Association's Plan, consult with the Trustee and their representatives, and propose revisions to the Association's Plan. The Senior Bond Trustee, the Subordinate Bond Trustee and the Restricted Owners rejected the Association's Plan. Macquarie met with the Association, SCDOT and others and developed an alternative plan (the "***Macquarie Plan***"), which was presented to the Association, SCDOT and the Restricted Owners on October 12, 2009. The Macquarie Plan was based on the Stantec projections, proposed to exchange two series of securities for the outstanding principal and interest owing on the Association's Senior Bonds, called for a 35-year extension of the License Agreement and included provisions to fund a substantial portion of the projected road resurfacing and repair costs out of toll revenues under the extended License Agreement. Although the Macquarie Plan did not address repayment of the Subordinate Bonds, implementation of that plan under the assumptions set forth therein would permit the Association to use toll revenues to repay a portion of the amounts currently owing to the Subordinate Bondholders during the remaining term of the extended License Agreement after the securities exchanged for the Senior Bonds were repaid.

SCDOT advised the Association that SCDOT required legislative clarification of its authority to grant an extension of the License Agreement's term under South Carolina law. At the October 12, 2009 meeting, it was determined that effectuating a consensual restructuring plan would be aided by the passage of legislation in the 2010 session of the South Carolina General Assembly. Negotiations on the detailed terms of a restructuring plan were held in abeyance while the parties pursued legislation in the

South Carolina General Assembly to clarify SCDOT's authority regarding the extension of the License Agreement and its ability to enter into other revisions necessary to restructure the Bonds and the Association's obligations to SCDOT.

The Association was advised that, given the broad ownership of the Bonds, it was likely the Association would be required to file a bankruptcy petition to implement any plan of adjustment of its debts. On January 20, 2010, the Board of Directors of the Association adopted a resolution authorizing the Association's management, when management so deemed it appropriate, to file a petition for bankruptcy protection under the United States Bankruptcy Code and to take related actions in connection with the bankruptcy. This resolution was authorized, among other purposes, in order for the Association to be in a position to effectuate a consensual restructuring plan. Notwithstanding this vote, efforts continued to obtain a consensus among the major creditor constituents for a debt adjustment plan.

In late May of 2010, the Association was informed by the Senior Bond Trustee and SCDOT that they did not expect to obtain approval of legislation deemed by SCDOT to be necessary to authorize SCDOT to extend the term of the License Agreement. Based upon these developments, the Association then pursued discussions with the Senior Bond Trustee, Macquarie and the Restricted Owners regarding a debt adjustment plan which could be implemented over the remaining term of the License Agreement without any extension. These efforts resulted in the Restricted Owners and the Association developing the terms of a debt adjustment plan (the "***Plan Summary***").

In an effort to obtain consent from all interested parties, the Association presented the Plan Summary to SCDOT. SCDOT informed the Association on June 16, 2010 that SCDOT would not agree to the debt adjustment plan described in the Plan Summary. Efforts to solicit or negotiate acceptable changes to the Plan Summary that might be acceptable to SCDOT failed. As a result of the foregoing, on June 24, 2010, the Association filed a petition for adjustment of its obligations in the US Bankruptcy Court for the State of South Carolina.

AUDITED FINANCIAL STATEMENTS

The financial statements of the Association for the period ended December 31, 2009 have been audited by Green Finney Horton, LLP, Certified Public Accountants. Their examination report and the audited financial statements of the Association for its fiscal year ended December 31, 2009, are attached hereto as **Exhibit "A"**.

OTHER FINANCIAL INFORMATION

The Association did not receive any federal or State highway expansion money during its fiscal year ended December 31, 2009. The Association did not issue or remarket any bonded indebtedness during its fiscal year ended December 31, 2009.

The Association has established a web site with the address: "www.southernconnector.com". Additional information is posted from time to time on the Association's web site. The Association regularly prepares and updates daily toll transactions and revenues on the web page. Copies of official filings and press releases of the Association are also available on the web page.

CONCLUDING STATEMENT

This Annual Report has been filed on behalf of the Association with each Nationally Recognized Municipal Securities Information Repository ("***NRMSIR***"). To the knowledge of the Association, the State of South Carolina has not created a State Information Depository. The Association has received no notice under the Disclosure Agreement and is not aware that any event of default has occurred thereunder.

EXHIBIT "A"

AUDITED FINANCIAL STATEMENTS OF THE ASSOCIATION FOR THE YEAR ENDED DECEMBER 31, 2009.

[Attached]

CONNECTOR 2000 ASSOCIATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

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YEARS ENDED DECEMBER 31, 2009 AND 2008

GREENE FINNEY & HORTON
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Connector 2000 Association, Inc. (the "Association"), a component unit of the State of South Carolina and of the South Carolina Department of Transportation, for the years ended December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended, which collectively comprise the Association's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2009 and 2008, and its changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying basic financial statements have been prepared assuming that the Association will continue as a going concern. As discussed in Note 12 to the basic financial statements, the Association's unrestricted financial condition has continued to deteriorate over the past several years. The Association continues to have decreases in unrestricted net assets and has been unable to comply with key provisions of its trust indenture and license agreement. In January 2008 and May 2009, the Trustee notified the Association that an event of default under the bond indenture had occurred. In June 2009, the SCDOT asserted that an event of default had occurred under the license agreement. The Association has attempted to restructure its debt, but was unable to get a debt adjustment plan that was acceptable to both the bond holders and the SCDOT. As a result of the foregoing, on June 24, 2010, the Association filed a petition for adjustment of its obligations in the US Bankruptcy Court for the State of South Carolina. These conditions raise substantial doubt about the Association's ability to continue as a going concern at December 31, 2009 and 2008. Management's plans regarding these matters are also described in Note 12. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Greene, Finney & Horton LLP

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June 30, 2010

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Southern Connector

Connector 2000 Association

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Connector 2000 Association, Inc. (the "Association") annual financial report presents a discussion and analysis of the Association's financial performance for the years ended December 31, 2009 and 2008. Our analysis includes comparisons of 2009, 2008 and 2007 information. We ask that you read this section of the report in conjunction with the basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Due to persistent disappointing toll revenues, the Association has been in default of its obligations under the Trust Indenture securing its bonded indebtedness since January 2008. U.S. Bank, as successor in trust to First Union National Bank (the "Trustee"), was able to pay amounts owing on such indebtedness by supplementing toll revenues with moneys disbursed from its reserve accounts. On January 1, 2010, $9,018,502 of both senior and subordinated debt service was due to be paid; however, there were insufficient funds available in the Debt Service and Debt Service Reserve Funds to make that payment in full. Consequently, the Trustee advised the Association it would not pay any of the debt service then due. Therefore, a payment default on the Association's Bonds occurred.

- Annual utilization of the Southern Connector declined approximately 3.5% during 2009, to 5,455,974 toll transactions. Toll transactions in 2008 totaled 5,653,527, a decrease of approximately 3.2% from the 2007 total of 5,839,205. Daily average toll transactions were 14,948 in 2009 compared to 15,447 in 2008 and 15,998 in 2007. Since the opening of the Southern Connector Toll Road, both toll transactions and toll revenues have been significantly less than amounts projected in the 1997 Traffic and Revenue Study prepared by Wilbur Smith Associates (discussed in the "Economic Factors" section below).

- Despite the decline in traffic from 2008 to 2009, the Association's 2009 revenues from operations increased slightly over 2008 amounts due to an increase in toll rates that took effect in November 2009. In 2009, total operating revenues were $5,254,463, and consisted of toll revenues of $5,253,494 and other operating revenues of $969. Operating revenues in 2008 totaled $5,238,429 and consisted of toll revenues of $5,238,337 and other operating revenues of $92. Toll revenues increased approximately 0.3% in 2009 over 2008 amounts, and fell approximately 3.9% in 2008 from 2007 amounts.

- Total operating expenses increased by approximately 28.4% in 2009 to $3,998,310 from $3,113,920 in 2008. This increase was composed primarily of Trustee fees and costs (including Trustee counsel and advisor fees) and professional fees, which increased approximately 523.3% and 28.9%, respectively, over 2008 amounts. Total 2008 operating expenses increased by approximately 18.8% over the 2007 total of $2,621,820. The 2008 increases also consisted mainly of professional and Trustee fees and costs.

- Nonoperating expenses in 2009 decreased by approximately 4.6% to $23,817,428. In 2008, these expenses increased approximately 2.6% to $24,954,031. The nonoperating expenses consisted primarily of interest expense on the Series 1998 Bonds, amortization expense related to the Association's interest in its License Agreement with the South Carolina Department of Transportation ("SCDOT"), accrued license fees related to the Association's License Agreement with the SCDOT, and maintenance expense reimbursable under its License Agreement with the SCDOT.

- Each year since operations began, the Association's revenues have been sufficient to cover operating expenses; however, those revenues have not been sufficient to cover all debt service payments due and other nonoperating expenses, such as amortization and SCDOT maintenance and license fees and related SCDOT interest. Therefore in 2009, our total net deficit increased by $22,181,833 over the course of the year's operations to $173,302,626. Of this increase, $18,515,580 was attributable to interest expense, which consisted of $1,718,498 July 2009 cash payments of Bond interest, $1,718,502 of January 2010 accrued but unpaid Bond interest, $14,583,483 of accreted Bond interest, $414,817 of accrued but unpaid interest on the SCDOT license fees and maintenance expense, and $80,280 of amortization of original issue discount. The Association's 2008 increase in total net deficit was $22,156,181. Of the 2008 increase in the net deficit, $17,955,326 was attributable to interest expense, which consisted of $3,484,250 of July 2008 and January 2009 cash payments of Bond interest, $14,072,182 of accreted Bond interest, $318,614 of accrued but unpaid interest on the SCDOT license fees and maintenance expense, and $80,280 of amortization of original issue discount.

- Capital assets net of accumulated depreciation were $148,705,967 at December 31, 2009, a decrease of approximately 2.3% from December 31, 2008. At December 31, 2008, capital assets net of accumulated depreciation had decreased approximately 3.3% from December 31, 2007 to $152,260,436. The decreases resulted primarily from amortization of the Association's interest in its License Agreement with the SCDOT of $3,570,908 in 2009 and $5,243,468 in 2008. (See the "Capital Assets" section of this management's discussion and analysis and Note 1, item I and Note 5 to the basic financial statements for information about the accounting treatment of the Association's interest in the License Agreement.)

- Beginning in January 2008, for the first time, our debt service payments included not only interest payments on the Senior Series 1998 A Bonds, but also principal payments on the Senior and Subordinate Bonds. In order to meet portions of our debt service payments paid from January 2003 through July 2009, we used a total of $18,799,301 of monies from our Debt Service Reserve Accounts. At December 31, 2009, the balance remaining in the Senior Bonds Debt Service Reserve Account was $3,250,892. This balance includes $1,117,498 of potential "excess collateral" discussed below. At December 31, 2008, after transferring monies from the Senior Bonds Debt Service Reserve Account to the Senior Bonds Debt Service Account for payment of a portion of the debt service due in January 2009, the balance in the Senior Bonds Debt Service Reserve Account was $4,682,991. This balance included $1,153,823 of potential "excess collateral" discussed below. Following 2008 year-end transfers to the Subordinate Bonds Debt Service Account, the Subordinate Bonds Debt Service Reserve Account at December 31, 2009 and 2008 was essentially depleted.

- During 2008, due to Lehman Brothers, Inc.'s default under a collateralized repurchase agreement, the Association's Trustee received securities that were held in connection with investments of monies in the Association's Debt Service Reserve Accounts. The Trustee has informed the Association that Lehman Brothers, Inc. may have a claim for the return of a certain portion of the securities received, as "excess collateral." Accordingly, at December 31, 2008, the Association recorded a liability of $1,153,823 for its initial estimate of potential "excess collateral" liability. During 2009, that estimate was refined and reduced to $1,117,498. The Association has provided notice to the trustee in the Lehman Brothers' bankruptcy of the damages claimed by the Association due to Lehman's default, which exceeds the amount of the "excess collateral". There is no assurance the Association will prevail on this claim.

- The balance of Bonds payable increased by approximately 2.6% in 2009 to $319,015,289 due to accretions on the capital appreciation Bonds (the Senior Series 1998B Bonds and the Subordinate Series 1998C Bonds) and amortization of original issue discount on the Senior Series 1998A Bonds. The 2009 balance included $7,300,000 of principal due but unpaid in January 2010. In 2008, the balance increased by approximately 2.6% to $311,051,526 (including $6,700,000 of principal due and paid in January 2009), again due to capital appreciation Bond accretions and amortization of original issue discount on the Senior Series 1998A Bonds. A portion of the principal payments made in January 2009 included accretions on capital appreciation Bonds.

- The Association has not been able, and does not expect that in the future it will be able, to transfer monies to the Renewal and Replacement Fund under the Trust Indenture to pay for the estimated future costs of renewals, repairs and replacements of the Southern Connector.

- Because the Association has been unable to comply with the Bond revenue covenant (described below under "Economic Factors") and since January 2010 because of payment defaults on the Bonds, we have remained in default under the Trust Indenture since January 2008.

- Because of escalating debt service requirements and the inability of revenues from traffic flow to cover those debt service requirements, the Association began actively investigating its options to restructure its Toll Road Revenue Bonds in 2005. The Association's investigation of debt restructuring options has continued throughout 2008, 2009 and into 2010.

- Management of the Association has investigated the possibility of effecting a concession transaction and/or restructuring or refinancing of the Association's Bonds. As part of this effort, the Association issued a request for proposals to select a financial advisory or investment banking firm to serve as the Association's special financial consultant. The Association interviewed several firms for this purpose and engaged Goldman Sachs & Co. ("Goldman") on February 2, 2008 as its special financial consultant.

- The Association subsequently issued a request for proposals for the engagement of a traffic and revenue consultant for the preparation of an "investment grade" traffic and revenue study to inform the concession or restructuring process. The Association and its advisors, including Goldman, interviewed three finalists for traffic and revenue consultant and engaged Stantec Engineering ("Stantec") on July 16, 2008. Stantec undertook an "investment grade" traffic and revenue study and issued its final report on May 4, 2009.

- Based on Stantec's projections and Goldman's analyses, the Association announced on April 24, 2009 that, because a preliminary valuation estimate for a concession did not achieve the level necessary to defease all of the outstanding Bonds or to support an effective tender for the Bonds and also due to declining traffic volume on the Southern Connector and a deteriorated credit market, a long-term concession agreement with a new toll road operator did not appear to be feasible at that time, nor did a conventional refunding of the Association's existing Bonds by issuing or incurring new debt. Goldman informed the Association that, due to the wide dispersion of ownership of the Bonds, restructuring the Bonds outside of bankruptcy would be extremely difficult.

- On June 12, 2009, SCDOT asserted that an Event of Default has occurred under Section 14.1(d) of the License Agreement, which among other things provides that an Event of Default under the License Agreement shall exist if the Association ". . . shall fail, be unable, or admit in writing the inability generally to pay the Association's debts as they become due." The License Agreement provides no cure period for such Event of Default. Although Section 9.2(e) of the License Agreement permits SCDOT to terminate the License Agreement upon the occurrence of an Event of Default, SCDOT did not terminate the License Agreement and agreed to give the Association at least 90 days prior written notice of the effective date of any such termination. In consideration of such 90 day forbearance, the Association agreed to diligently undertake to restructure its indebtedness and to include in its proposed debt adjustment plan the funding of repairs and replacements to the Southern Connector.

- During 2009, certain institutional bondholders and one bond insurer beneficially owning or insuring a significant percentage of the Association's Senior Bonds entered into confidentiality agreements with the Association (the "***Restricted Owners***"), and participated in discussions regarding potential restructuring of the Association's debts. Although the Subordinate Bond Trustee contacted certain holders of the Association's Subordinate Bonds, none of the contacted bondholders elected to participate in the discussions.

- The Association delivered a draft debt adjustment plan (the "Association's Plan") dated August 13, 2009 to the Senior Bond Trustee, the Subordinate Bond Trustee, SCDOT and the Restricted Owners. The Association's Plan incorporated projected toll revenues and operating expenses set forth in the Stantec investment grade traffic and revenue study, and based projected road repair and resurfacing costs on an estimate provided by AECOM Technical Services, Inc. Under the Association's Plan, the Senior Bonds would not receive full payment, and the Subordinate Bonds would receive no payment. The Senior Bond Trustee and its counsel engaged Macquarie Capital (USA) Inc. ("Macquarie") to review and propose revisions to the Association's Plan. The Association's Plan was ultimately rejected by the Senior Bond Trustee, the Subordinate Bond Trustee and the Restricted Owners.

- Macquarie developed an alternative plan (the "Macquarie Plan"), based on the Stantec projections, to exchange two series of securities for the Association's Senior Bonds. The Macquarie Plan called for a 35 year extension of the License Agreement with SCDOT, included provisions to fund a substantial portion of the projected road resurfacing and repair costs out of toll revenues under the extended License Agreement, and, if implemented and under the assumptions set forth therein, would permit the Association to repay a portion of the debt currently owed to Subordinate Bondholders after the securities exchanged for the Senior Bonds were repaid. This plan was presented to the Association, SCDOT and the Restricted Owners on October 12, 2009.

- SCDOT advised the Association that SCDOT required legislative clarification of its authority to grant an extension of the License Agreement term under South Carolina law. Therefore, negotiations on the detailed terms of a restructuring plan were held in abeyance while the parties pursued legislation to clarify SCDOT's authority regarding the extension of its License Agreement with the Association and ability to enter into other revisions necessary to restructure the Bonds and the Association's amounts owed to SCDOT.

- Since the Association was advised that it would likely be required to file a bankruptcy petition in order to implement any plan of adjustment to its debt, on January 20, 2010, the Association's Board of Directors adopted a resolution authorizing the Association's management to file a petition for bankruptcy protection under the United States Bankruptcy Code.

- The South Carolina General Assembly adjourned its 2010 legislative session without enacting legislation authorizing SCDOT to extend the License Agreement.

- Due to the foregoing, on June 24, 2010, the Association filed a petition for adjustment of its obligations in the US Bankruptcy Court for the State of South Carolina.

ECONOMIC FACTORS

The Association was incorporated to design, finance, acquire, construct and operate the Southern Connector Toll Road. We issued $200,177,680 of Toll Road Revenue Bonds ("Southern Connector Project"), Series 1998 on February 11, 1998, to finance substantially all of the costs of the Southern Connector. Wilbur Smith Associates ("Wilbur Smith") prepared a Traffic and Revenue Study (the "WS Study") in connection with the sale of the Bonds. The WS Study was undertaken in order to determine an estimate of the utilization of the road, the appropriate toll rates for the highway and the resulting revenue the Association could reasonably expect to receive from the operation of the Southern Connector. From the time that the Southern Connector Toll Road opened in February 2001, nine months earlier than projected, utilization of the Southern Connector has been significantly lower than the WS Study estimates. The Southern Connector was constructed in southern Greenville County in an area with no other similar roads, and was expected to further industrial and residential development in that portion of Greenville County. However, the expected growth in the region has yet to materialize. This factor, the recession, and consumer resistance to the payment of tolls (the Southern Connector Toll Road is the only toll road in Upstate South Carolina) have all contributed to the lower-than-forecasted traffic demands.

Since operations of the Southern Connector began, the Association has worked diligently to publicize the Southern Connector and promote traffic growth. We continue to employ a management team that is experienced in toll road operations and to work with local entities to promote and publicize development opportunities along the Southern Connector corridor. We have worked with the South Carolina Department of Transportation to rectify signage deficiencies. We have undertaken aggressive, award-winning advertising campaigns to make the public aware of the highway and the additional convenience it offers. Our staff has met individually with most of the large trucking firms located in and around the Southern Connector corridor. We have implemented a discount program for trucks that use the electronic toll system and have extended incentives to passenger cars for the acquisition of transponders. In 2010, we received notification that the South Carolina Secretary of Transportation had approved an increase of the speed limit on the Southern Connector from 65 miles per hour to 70. The change became effective in May 2010. Our efforts to promote the Southern Connector and to operate the toll road in an efficient manner have been reflected in traffic demand and toll revenues. Average daily toll transactions grew approximately 54.5% from 2001 through 2004. Although average daily toll transactions declined slightly (approximately 3.3%) in 2005 following an increase in toll rates, utilization of the Southern Connector rebounded in 2006 and 2007. Average daily toll transactions increased approximately 9.8% in 2006 and 7.4% in 2007. However, the general economic downturn in 2008 resulted in a decline in average daily toll transactions of approximately 3.4% in 2008 and the general economic downturn in 2009 together with the November 2009 toll rate increase resulted in a decline in average daily toll transactions of approximately 3.2% in 2009.

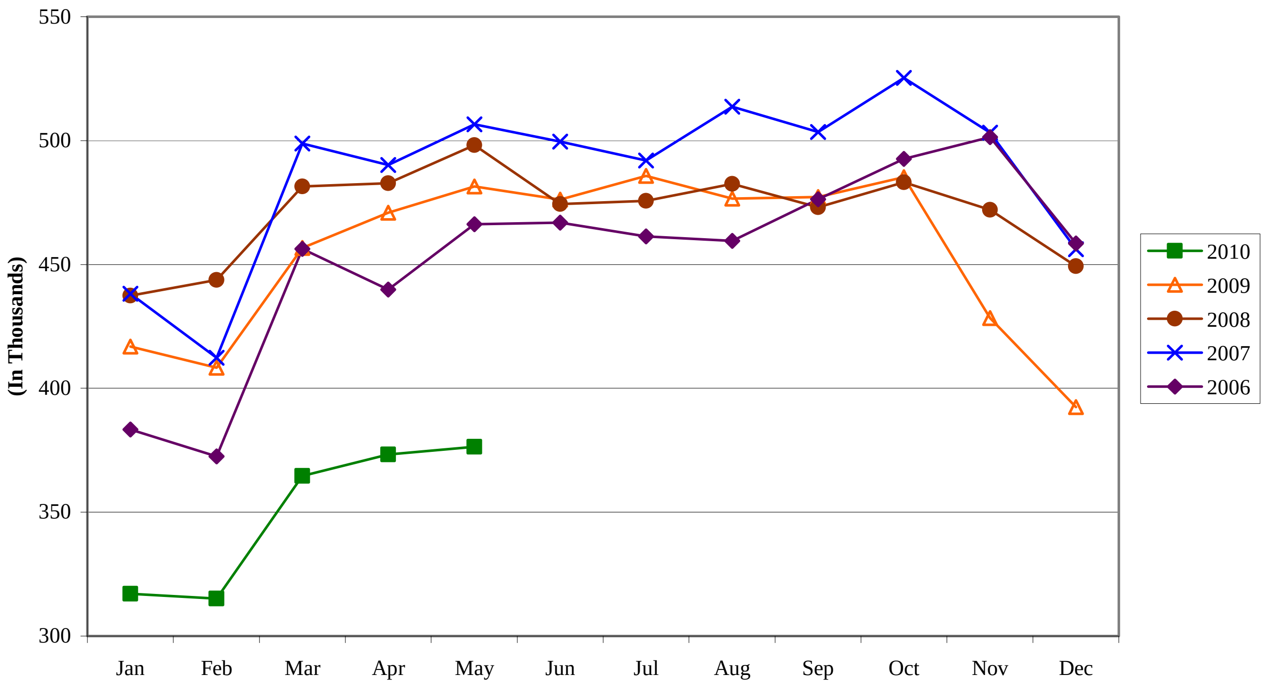
Although lower in all years than forecasted in the WS Study, toll revenues rose steadily each year from the time the Southern Connector opened through 2007. From 2001 through 2004, toll revenues increased approximately 88.0%. The 2005 increase in toll rates compensated for the resulting decline in traffic, and we ended the year with an approximate 23.6% increase in toll revenues. The growth continued throughout 2006 and 2007, with increases in toll revenues of approximately 9.1% and 7.2%, respectively.

The Southern Connector was unable to escape the effects of the recession on its toll revenues in 2008. For the first time since operation of the toll road began, toll revenues declined by approximately 3.9% during 2008. Although the decline in utilization of the Southern Connector continued in 2009, an increase in toll rates effective in November 2009 served to mitigate the decrease in traffic, resulting in a slight approximate 0.3% increase in toll revenues for the year.

In 2010, the Association's challenges have been compounded by SCDOT's complete closure of approximately 15 miles of the northbound lanes of Interstate 385 ("I-385") for rehabilitation. I-385 is one of the main thoroughfares with which the Southern Connector intersects. SCDOT projects that the closure, which began January 4, 2010, will last until approximately mid-August 2010. Although the southbound lanes of I-385 will remain open to traffic for the duration of SCDOT's rehabilitation project, much of the traffic that would normally utilize the Southern Connector as a shortcut between Interstates 385 and 85/185 is being detoured to other highways. Partly as a result of this closure and the continuing economic downturn in Upstate South Carolina, both average daily toll transactions and toll revenues have declined for the first five months in 2010 from the same period in 2009; toll transactions have decreased by approximately 21.8%, and toll revenues have decreased by approximately 2.0% when comparing the two periods.

The calendar year 2008 marked a significant change in the Association's annual financial obligations, because scheduled principal payments on our Toll Road Revenue Bonds commenced. At December 31, 2007, the Bond debt service payments due in January 2008 totaled $7,965,754, an increase of approximately 351.1% over the debt service payment due in January 2007. This significant increase occurred because, for the first time, a total of $6,200,000 (including a portion of the accretions on capital appreciation Bonds) was due to be paid on our Senior and Subordinate Bonds in addition to the regular interest payment due on the Senior Series 1998A Bonds. In order to meet this debt service requirement in January 2008, we were required to withdraw $3,150,143 and $2,600,000, respectively, from our Senior and Subordinate Bonds Debt Service Reserve Accounts.

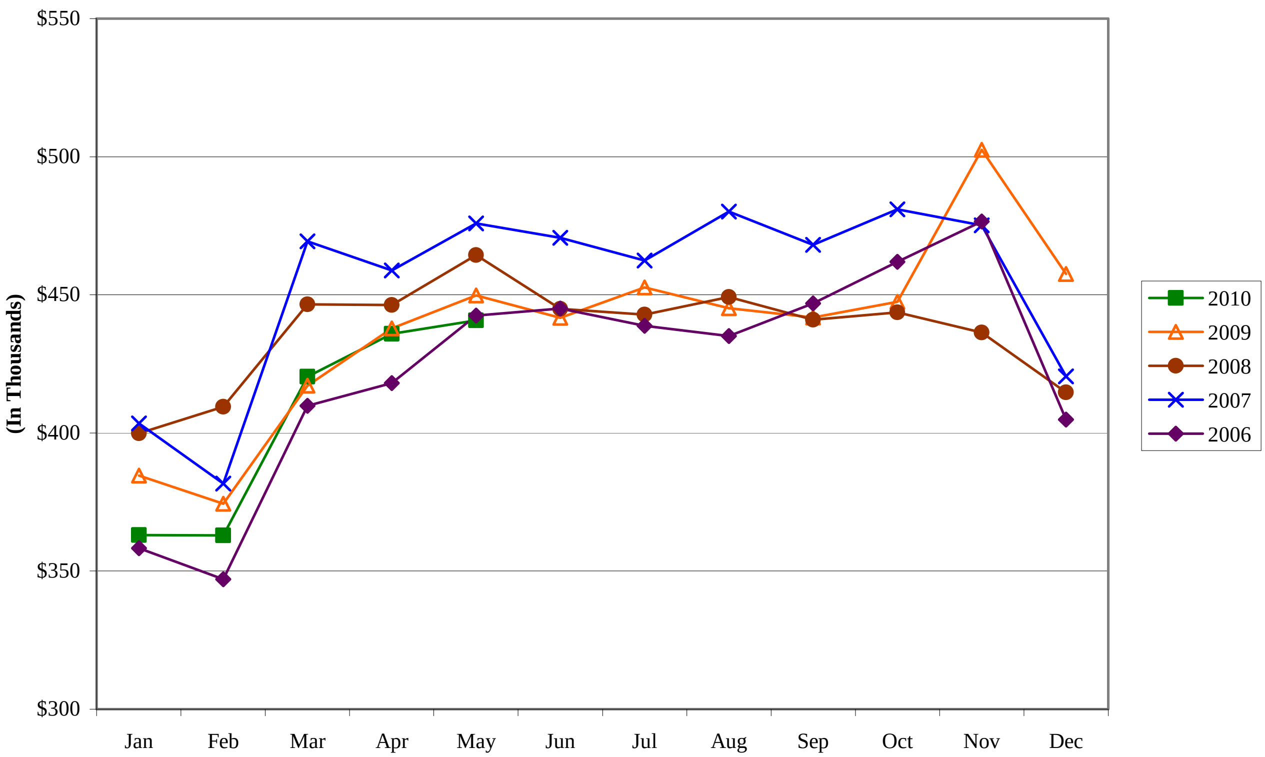
Transactions by Month



At December 31, 2008, our Bond debt service payments due in January 2009 totaled $8,442,127, an approximate 6.0% increase over the debt service payments due in January 2008. The January 2009 debt service payments consisted of $6,700,000 paid (including a portion of accretions on capital appreciation Bonds) on the Senior and Subordinate Bonds, as well as $1,742,127 of interest paid on the Senior Series 1998A Bonds. In order to meet the January 2009 debt service requirements, we were required to withdraw $4,764,800 and $2,700,000, respectively, from our Senior and Subordinate Bonds Debt Service Reserve Accounts. The 2008 end-of-year withdrawal from the Subordinate Bonds Debt Service Reserve Account essentially depleted our reserves in that account. At the end of 2008 and 2009, the amounts remaining in the Senior Bonds Debt Service Reserve Account were available only for payments respecting the Senior Bonds.

During 2009, we withdrew $927,326 from the Senior Bonds Debt Service Reserve Account to pay a portion of the July interest payment of $1,718,498 due on the Senior Series 1998A Bonds. That withdrawal reduced the balance in the Senior Bonds Debt Service Reserve Account to a point where the remaining funds in that account, along with tolls collected and available for payment of debt service, were insufficient to pay the $9,018,502 of debt service due in January 2010. The January 2010 debt service amounts due consisted of $7,300,000 due (including a portion of accretions on capital appreciation Bonds) on the Senior and Subordinate Bonds, as well as $1,718,502 of interest due on the Senior Series 1998A Bonds. Since funds were insufficient to pay the entire debt service due January 2010, the Trustee made no payment on the Senior or Subordinate Bonds at that date, and our first Bond payment default occurred.

Revenues by Month



Prior to the payment default, a cumulative total of $18,799,301 had been withdrawn from our Senior and Subordinate Bonds Debt Service Reserve Accounts to enable us to meet our debt service obligations. All of the withdrawals from these Accounts consisted of both interest earnings on these Accounts and principal originally deposited into the Accounts.

Based on the current payment structure of our Toll Road Revenue Bonds, debt service requirements will continue to increase substantially each year during the term of the debt. Unless we are able to restructure our Toll Road Revenue Bonds, we project that the Association will remain in default under the existing Trust Indenture.

The Bond documents require the Association to charge tolls in each calendar year sufficient to produce net revenues after the payment of operating expenses equal to or that exceed the greater of (a) 1.25 times the aggregate debt service on all outstanding Senior Bonds due in such year, and (b) the amount required to replenish all previous withdrawals from the reserve fund established for the Senior Bonds and to equal not less than 1.10 times the aggregate debt service on all outstanding Bonds due in such year. This Bond revenue covenant became effective January 1, 2005. This Bond revenue covenant also requires that, upon annual review of the Association's financial condition, projected revenue collections and operating budget, if we conclude that we do not expect to achieve net revenues sufficient to meet the Bond revenue covenant requirements, we must engage a consultant to perform a toll rate study and recommend actions that meet the requirements of (a) and (b) described above. The Bond revenue covenant states that failure to comply with the covenant for a period of 36 consecutive months will constitute an event of default under the Trust Indenture.

In each of years 2005, 2006 and 2007, the Association had a consultant perform the required review, and in each case, the consultant concluded that expected net revenues would not be sufficient to meet the Bond revenue covenant requirements. In 2005, in compliance with our Bond documents, we circulated a request for proposals to transportation consulting firms of recognized experience in the areas of toll road revenue forecasting. The Association interviewed the three firms that responded to the request for proposals and engaged a consultant to perform the 2005 toll rate study. The same consultant was hired to perform the 2006 and 2007 toll rate studies. The completed 2005, 2006 and 2007 toll rate studies were received in June of 2005, 2006 and 2007, respectively. In November 2007, the consultant provided a traffic and earnings report. Each of the 2005, 2006 and 2007 studies concluded that increasing toll levels to comply with the Bond revenue covenant would be impractical at the time the studies were issued. Though the consultant did discuss toll strategies in its 2005 toll rate study of the Southern Connector (the “2005 Study”), the consultant did not in that study recommend a rate increase strategy; rather it recommended waiting to assess the effects of the 2005 toll increase implemented pursuant to the License Agreement. The consultant did recommend a rate increase strategy in its 2006 toll rate study of the Southern Connector (the “2006 Study”), which consisted of three annual $0.25 toll increases, commencing in January 2008, through January 2010. This recommendation was modified in its 2007 toll rate study of the Southern Connector (the “2007 Study”), based upon further evaluation of the elasticity of demand, to include $0.25 increases in July 2008 and January 2010.

In 2008, an investment grade traffic and revenue study was commenced as recommended by Goldman Sachs. The purpose of the study was to forecast traffic and revenue and revenue potential for a period of 50 years. The report on this study was issued in final form on May 4, 2009. The study set forth projections based on both the then current toll rate schedule and a revised toll rate schedule. By South Carolina law, the toll rates on the Southern Connector Toll Road were established by the SCDOT in the License Agreement. Such rates may be revised in the discretion of SCDOT upon request of the Association. Responsive to the investment grade traffic and revenue study, the Association by letter dated May 26, 2009, requested SCDOT to revise the toll rate schedule for the Southern Connector Toll Road. Such request included the revised toll rate schedule from the investment grade traffic and revenue study for all classes of vehicles over the remaining term of the License Agreement. SCDOT approved the rate increase request in August 2009, and we implemented the toll rate increase in November 2009.

Despite our implementation of the scheduled toll rate increases in 2005 and in 2009, and performance of the required toll rate studies in 2005, 2006 and 2007, we have been unable to comply with the Bond revenue covenant since January 2005. Therefore, since January 1, 2008 (after 36 consecutive months of failure to comply with the Bond revenue covenant), the Association has been in default under the Trust Indenture. In addition, our failure to meet our debt service obligations in January 2010 constitutes an event of default under the Trust Indenture. The Bond documents provide the Trustee with certain specific remedies in the event of such default. Such remedies include allowing the Trustee to (a) take legal action to require the Association to perform covenants with respect to the Bonds, (b) take legal action to require the Association to account for revenues as if it were the trustee of an express trust for the senior Bondholders, (c) take legal action to prohibit any acts or things that may be unlawful or in violation of the senior Bondholders’ rights, (d) prohibit the Association from withdrawing monies from any Bond Accounts (other than the Rebate Fund and Renewal and Replacement Fund accounts, which had no balance at December 31, 2009 or 2008), without the Trustee’s written consent, (e) take legal action to request that a court appoint a receiver of the Trust Estate and the Association’s income, revenues, and use of profits, and (f) take legal action to protect and enforce its rights and those of the senior Bondholders to enforce payment of the principal, redemption price and interest due on the senior Bonds. The Bond documents do not provide any remedy that would accelerate the due date of any debt service payments due on the outstanding Bonds. The Bonds are secured by the Trust Estate, which includes (a) all Bond funds except the Rebate and the Renewal and Replacement Funds, (b) all Revenues as defined in the

Bond documents, (c) all of the Association's rights in its License Agreement with the SCDOT, and (d) any other property assigned to the Trustee by the Association. There is no provision in the Bond documents that will allow the Trustee to place a lien or mortgage on any of the Association's physical assets.

The Association received a notice dated January 23, 2008, from the Trustee stating that an event of default relating to the Association's failure to meet the revenue covenant had occurred. In the notice, the Trustee acknowledged and reserved its remedies provided in the Trust Indenture, but did not identify which, if any, actions are to be taken on behalf of the Bondholders. The Trustee sent a letter to the Association dated May 6, 2009, advising that the event of default declared in its letter of January 23, 2008, had not been waived or cured and reserving the Trustee's rights and remedies under the Master Indenture

On January 11, 2010, the Association filed an event notice acknowledging that an event of default had occurred as a result of the failure to make payment of the debt service that came due on the Bonds on January 1, 2010.

After consideration of our financial position and the above factors, our auditors decided that it was necessary to render a "going concern" opinion on our 2009 and 2008 financial statements. According to our auditors, an entity is considered a going concern if it is expected to be able to pay its debts and continue operations for a period not to exceed one year from the date of the financial statements being audited. Whenever there is substantial doubt that an entity is a going concern, it is appropriate for the audit firm to mention this situation in its audit opinion. The Association's defaults under the Trust Indenture give the Trustee the option of petitioning a court to appoint a receiver of the Trust Estate. (See the discussion of the Trustee's remedies above.) If a receiver were so appointed, the receiver would in essence take over the operations of the Southern Connector from the Association. As our auditors have explained to us, they determined that the Trustee's ability to exercise this remedy, along with our debt service payment default in January 2010, raise substantial doubt about the Association's continued operations of the Southern Connector; therefore, a going concern audit opinion was issued on our 2009 and 2008 financial statements.

In spite of the difficulties that the Association faces in the future, we have undertaken to operate the Southern Connector as efficiently as possible while maintaining a level of customer service we believe necessary to grow traffic.

OVERVIEW OF THE FINANCIAL STATEMENTS

The 2009 annual report consists of two parts – management's discussion and analysis (this section), and the basic financial statements, including the notes to the basic financial statements.

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

The Association follows governmental accounting principles generally accepted in the United States of America. We present our basic financial statements on an accrual basis of accounting that is similar to the accounting basis used by most private-sector companies. Under the accrual basis, the current year's revenues earned and expenses incurred are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid. All of the Association's assets and liabilities are included in the Statement of Net Assets. *Net assets* – the difference between assets and liabilities – are one measure of the Association's financial health or financial position. (Please note that we use the term *net deficit* throughout this section and in the basic financial statements to describe our situation, where liabilities exceed assets, and the resulting amount of net assets is negative.) Over time, increases in the Association's net deficit are one indicator that our financial health is deteriorating.

However, other factors such as transactions (including vehicle class and toll rates), development along the Southern Connector corridor and the physical condition of the Southern Connector, should be considered in order to assess the Association's overall financial position.

FINANCIAL ANALYSIS

Net Assets (Deficit)

Although the Association continues to collect enough revenues to pay our operating expenses each year, our revenues are not sufficient to cover all of our debt service payments and other nonoperating expenses, including amortization and SCDOT-related maintenance fees, license fees and interest. During the year ended December 31, 2009, the Association's net deficit increased by $22,181,833 to $173,302,626. Total assets decreased approximately 7.2% to $158,362,486 while total liabilities increased approximately 3.1% to $331,665,112. For the year ended December 31, 2008, the Association's net deficit increased by $22,156,181 to $151,120,793. Total assets decreased by approximately 6.1% to $170,610,456, and total liabilities increased by approximately 3.5% to $321,731,249.

The net decrease in total assets for both years 2009 and 2008 resulted primarily from the fact that total revenues in these years were not sufficient to completely offset such nonoperating expenses as debt service interest accruals and amortization of the Association's interest in its License Agreement with SCDOT.

The increase in total liabilities for both years 2009 and 2008 was due mainly to accretions on the capital appreciation Bonds. These accretions caused the Bonds payable (both current and noncurrent) portions of total liabilities to increase by approximately 2.6% in both years 2009 and 2008. Capital appreciation bonds, or zero coupon bonds, are issued and initially recorded at amounts significantly less than their maturity values. Interest on capital appreciation bonds is not paid annually; instead, interest accretions increase the balance due on such bonds and are paid at maturity. Accordingly, such accretions are recorded as increases in interest expense and the corresponding Bonds payable liability.

In 2009 and 2008, other liabilities increased by approximately 18.4% and 40.3%, respectively, mainly due to accruals for license fees, maintenance costs and related interest payable to SCDOT and the potential "excess collateral" liability reserve. See the "Changes in Net Assets (Deficit)" section of this management's discussion and analysis for a full discussion of the amounts due to SCDOT.

Lehman Brothers, Inc. was the obligor under a collateralized Repurchase Agreement (the "Repurchase Agreement") among the Trustee, Wells Fargo Bank as successor to Norwest Bank, N.A., as custodian (the "Custodian"), and Lehman Brothers, Inc. At the time the Bonds were issued, at the direction of the Association, the Trustee invested monies in the Senior Bonds and the Subordinate Bonds Debt Service Reserve Accounts of the Debt Service Reserve Fund pursuant to the Repurchase Agreement. Lehman Brothers, Inc. filed for bankruptcy protection in September 2008, resulting in a default by Lehman Brothers, Inc. under the Repurchase Agreement. As a result of Lehman Brothers, Inc.'s default, the securities held by the Custodian under the Repurchase Agreement were transferred to the Trustee in December 2008 and deposited into the Debt Service Reserve Fund. A portion of those securities was sold to pay a portion of the principal and interest due on the Bonds on January 1, 2009. In October 2009, the Trustee established a separate Repurchase Agreement Suspense Account under the Trust Indenture to hold the portion of the Debt Service Reserve Fund securities subject to potential claim by Lehman Brothers, Inc. At that time, a portion of the securities held in the Debt Service Reserve Fund was transferred to the Repurchase Agreement Suspense Account. The Trustee has advised the Association that Lehman Brothers, Inc. may have a claim for the return to Lehman Brothers, Inc. of some portion of such securities as "excess collateral." The amount of any such "excess" and Lehman Brothers, Inc.'s entitlement to it have not yet been determined by the Association or the Trustee. At December 31, 2008, the Association initially estimated that a maximum of $1,153,823 of the securities held by the Trustee may be subject to such a claim by Lehman Brothers, Inc. This amount was included in the Association's

December 31, 2008 balance sheet as a Potential "Excess Collateral" Liability. In 2009, upon further investigation of the December 2008 transfer, we refined our estimate of the maximum amount of such securities that may be subject to a claim by Lehman Brothers, Inc., and decreased that estimate by approximately 3.1%. Therefore, the amount shown in our December 31, 2009 balance sheet as a Potential "Excess Collateral" Liability is $1,117,498.

Table 1
Net Assets (Deficit)
December 31

	2009	2008	2007
Current and Other Assets	$ 9,656,519	18,350,020	$ 24,248,633
Capital Assets	148,705,967	152,260,436	157,499,730
Total Assets	158,362,486	170,610,456	181,748,363
Long-term Liabilities (Bonds Payable):			
Senior Bonds	(223,689,067)	(218,848,600)	(213,954,640)
Subordinate Bonds	(88,026,222)	(85,502,926)	(82,944,424)
Total Long-Term Liabilities	(311,715,289)	(304,351,526)	(296,899,064)
Other Liabilities:			
Senior Bonds, current portion	(4,400,000)	(4,000,000)	(3,600,000)
Subordinate Bonds, current portion	(2,900,000)	(2,700,000)	(2,600,000)
Interest Payable to Bondholders	(1,718,502)	(1,742,127)	(1,765,754)
Potential Excess Collateral Liability	(1,117,498)	(1,153,823)	-
Accounts Payable, Deferred Revenue and Deposits	(375,417)	(352,104)	(351,319)
Amounts Payable to SCDOT	(9,438,406)	(7,431,669)	(5,496,838)
Total Other Liabilities	(19,949,823)	(17,379,723)	(13,813,911)
Total Liabilities	(331,665,112)	(321,731,249)	(310,712,975)
Net Assets (Deficit):			
Invested in Capital Assets, Net of Related Debt	(55,505,123)	(57,079,587)	(51,715,907)
Restricted for Debt Service	-	7,514,277	6,277,665
Restricted for Capital and Other Projects	-	-	28
Unrestricted	(117,797,503)	(101,555,483)	(83,526,398)
Total Net Assets (Deficit)	$ (173,302,626)	(151,120,793)	$ (128,964,612)

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

- The category "invested in capital assets, net of related debt" represents amounts invested in capital assets, less accumulated depreciation and amortization on those assets, less any liabilities (including Bonds payable) that are attributable to the construction, acquisition, or improvement of those assets, plus other adjustments required by U.S. Generally Accepted Accounting Principles for governmental entities. At December 31, 2009, the balance of this category of net assets was a deficit of $55,505,123, a decrease of $1,574,464 from the 2008 deficit. The 2009 decrease in this category of net assets does not represent an improvement in the Association's financial position; rather, it was caused by certain reclassifications of amounts between the various net asset categories that are required by U.S. Generally Accepted Accounting Principles for governmental entities. The 2008 balance of this category of net assets was a deficit of $57,079,587, a deterioration of $5,363,680 from the 2007 deficit.

- The category “restricted net assets” represents the portion of net assets with attached constraints on the use of the assets. The constraints are externally imposed by such means or parties as debt covenants, laws, enabling legislation or creditors. The restricted assets in this category are offset by any related liabilities. However, U.S. Generally Accepted Accounting Principles for governmental entities does not allow this category of net assets to be negative (a deficit). Instead, any negative amount is reported as a reduction of unrestricted net assets. At December 31, 2009, the Association reported no restricted net assets, and reclassified the excess of related liabilities over restricted assets to the “unrestricted net assets” category. This represented a decrease of $7,514,277 from the 2008 balance of net assets restricted for debt service. The Association’s 2008 net assets restricted for debt service increased by $1,236,612 over the 2007 balance to $7,514,277. The 2008 increase in net assets restricted for debt service was significantly greater than those in prior years because, beginning in January 2008, the Association’s debt service payments included both principal reductions as well as interest. Debt service payments prior to January 2008 consisted of interest only.

- The category “unrestricted net assets” represents the remainder of net assets – those that can be used to finance daily operations and that have no constraints imposed. The balance of unrestricted net assets at December 31, 2009 was a deficit of $117,797,503, while the 2008 deficit was $101,555,483. The net deficit in this category increased $16,242,020 in 2009 and $18,029,085 in 2008, due primarily to certain reclassifications of negative balances of net assets required by U.S. Generally Accepted Accounting Principles for governmental entities. The 2009 and 2008 increases in the deficit represent deterioration of the Association’s financial position.

A discussion of the changes in the net deficit for years 2009 and 2008 is presented below.

Changes in Net Assets (Deficit)

As presented in Table 2 on page 14, the Association’s total revenues were not sufficient to cover its total expenses.

2009 Compared to 2008

In 2009, although operating revenues increased slightly over 2008 amounts due primarily to the November 2009 increase in toll rates, a significant increase in operating expenses caused 2009 operating income to decrease from the 2008 amount by $868,356, to $1,256,153. Total operating revenues increased approximately 0.3% in 2009, while operating expenses increased sharply, by approximately 28.4%. Nonoperating revenues, which consisted of interest earned on monies in bank accounts and investments and unrealized gains on investments, decreased approximately 43.6% in 2009 to $379,442. In 2009, the nonoperating revenues fell short of nonoperating expenses by $23,437,986.

In 2009, total operating expenses increased $884,390 over 2008 amounts. The increase consisted mainly of $1,036,745, or approximately 523.3%, of additional Trustee fees and costs and $156,712, or approximately 28.8%, of additional professional fees, offset by $309,067, or approximately 13.0%, of savings or gains incurred in other areas. The significant increase in 2009 Trustee fees and costs includes both amounts paid directly to the Trustee for its services and costs, and payments made by the Association on behalf of the Trustee for its legal and financial advisory services and costs incurred pursuant to our default under the Trust Indenture. The Association’s payments of the Trustee’s reasonable expenses are required under the Bond documents, which provide that, upon the Association’s default under the Trust Indenture, the Trustee may apply toll proceeds received (1) to the payment of the reasonable and proper expenses and liabilities of the Trustee, (2) to the payment of operating costs of the

Southern Connector, and (3) to the payment of Bond debt service. The increase in our 2009 professional fees was attributable to legal and financial advisory services obtained as we have diligently investigated options related to restructuring our Toll Road Revenue Bonds (the "Bonds"). (See the "Economic Factors" and "Debt Administration" sections of this management's discussion and analysis.)

Certain other operating expenses decreased in 2009 as we made every effort to cut costs without sacrificing service to our patrons. The Association was able to trim contract services by $88,094, or approximately 22.8%; repairs and maintenance by $53,559, or approximately 52.2%; and contract labor by $16,173, or approximately 50.9%. We totally eliminated toll highway inspection fees and advertising in 2009, saving $19,030. During 2009, we also recognized a gain of $224,035 in spare parts inventory, partly due to recording as spare parts inventory existing usable items that had been previously expensed and partly due to moving existing equipment to spare parts inventory when that equipment was replaced with new equipment by a vendor at no cost to the Association.

In 2009, after we used monies from our Debt Service Reserve Accounts to meet debt service payments, our nonoperating interest revenues decreased by $418,873, or approximately 62.2%. This decrease was partially offset by our recognition of unrealized gains in the market price of investments held at year-end of $124,974.

Table 2
Changes in Net Assets
For the years ended December 31

	2009	2008	2007
Revenues:			
Operating revenues:			
Charges for Services (Toll Revenues)	$ 5,253,494	5,238,337	$ 5,452,944
Other	969	92	241
Nonoperating Revenues:			
Interest and Investment Earnings	379,442	673,341	960,610
Total Revenues	5,633,905	5,911,770	6,413,795
Expenses:			
Operating Expenses	3,998,310	3,113,920	2,621,820
Nonoperating Expenses:			
Interest Expense on Bonds	18,100,763	17,636,712	17,173,260
Amortization	3,709,928	5,382,488	5,382,299
SCDOT Fees and Accrued Interest	2,006,737	1,934,831	1,771,289
Total Expenses	27,815,738	28,067,951	26,948,668
Decrease in Net Assets (Deficit)	(22,181,833)	(22,156,181)	(20,534,873)
Beginning Net Assets (Deficit)	(151,120,793)	(128,964,612)	(108,429,739)
Ending Net Assets (Deficit)	$ (173,302,626)	(151,120,793)	$ (128,964,612)

The majority of our nonoperating expenses do not represent cash outlays. In 2009, the noncash portion totaled $22,098,930. Noncash, nonoperating interest expense was $16,797,082 in 2009, and included $1,718,502 of interest that would have been paid in January 2010, had the Association had sufficient monies to make the January 2010 debt service payment. Noncash, nonoperating SCDOT deferred license fees and maintenance expense were $1,500,000 and $91,920, respectively, as discussed below. Noncash, nonoperating amortization expense totaled $3,709,928 in 2009 and decreased the book value of certain assets. The primary asset affected by amortization was the Association's interest in its License Agreement with SCDOT. (See the "Capital Assets" section of this management's discussion and analysis for more information.) The increase in these noncash, nonoperating expenses was approximately 2.9% in 2009 and was mainly due to the increase in the amount of interest accretions on the Capital Appreciation Bonds under the Bonds' accretion schedule.

Under its License Agreement with the SCDOT, the Association is obligated to pay license fees and roadway maintenance amounts to SCDOT. The license fees are $125,000 per month for a period of twenty-five years and $1.00 per month for the remainder of the term of the license. The obligation to pay license fees began in 2005. The roadway maintenance amounts represent a reimbursement to SCDOT for its actual costs of routine maintenance of the Southern Connector highway. The License Agreement states that if toll revenues are not available to pay these fees and amounts when due, unpaid amounts shall accrue interest at 5% per year compounded annually. Payment of these fees and amounts is subordinate to payment of operating costs of the Southern Connector, payment of debt service on both the Senior and Subordinate Bonds, replenishment of both the Senior and Subordinate Debt Service Reserve Accounts and transfers to the Renewal and Replacement Fund. The license fees and roadway maintenance amounts incurred in 2009 were $1,500,000 and $91,920, respectively. Interest accrued on the unpaid license fees and roadway maintenance amounts totaled $414,817 in 2009. We recorded these fees and amounts and the related interest as nonoperating expenses. The accumulated balances of license fees, maintenance expense and related interest payable to the SCDOT were $7,500,000, $775,786 and $1,162,620, respectively, at December 31, 2009.

In addition to its obligation to reimburse SCDOT for maintenance of the Southern Connector, the Association is further required under its License Agreement with SCDOT to periodically repair, renew and replace the Southern Connector's roadway at the Association's cost. In accordance with the terms of the Trust Indenture, a renewal and replacement plan was filed with the Trustee upon Substantial Completion of the Southern Connector that presented in detail the projected dates and estimated cost of repairs, renewal and replacement of the toll road components. As noted below in the "Debt Administration" section, the Association's 2008 Engineer's Report was issued in 2009, and noted certain physical deficiencies in the condition of the Southern Connector, some of which have been corrected by SCDOT since that report. The 2009 report of the Association's Engineer was recently completed and delivered to the Trustee in June 2010. This report continued to note certain physical deficiencies in the condition of the Southern Connector. The Southern Connector will need to be repaved periodically, with the frequency depending on traffic levels and other factors, and repaired as needed. SCDOT has a formula for determining highway resurfacing which considers roadway condition, daily passenger and truck traffic, pavement maintenance costs and other matters. Based on this policy, the Association expects that the Southern Connector will be due for resurfacing in approximately 4 to 8 years. In connection with its negotiations with SCDOT regarding an amendment of the License Agreement as part of a potential restructuring of the Association's Bond indebtedness, the Association engaged AECOM Technical Services, Inc. to estimate the cost of such resurfacing. Such consultant estimated in July 2009 that the total cost of resurfacing and repair could exceed $15 million. The Trust Indenture requires that monies be transferred to a Renewal and Replacement Fund to pay for the projected costs of repairs and replacements. However, since the funding of this Fund is subordinate to payment of Bond debt service, the Association has never been able, and does not expect that in the future it will be able, to transfer monies to this Fund. (See additional information in the "Debt Administration" section of this management's discussion and analysis.)

2008 Compared to 2007

The 2008 decline in utilization of the Southern Connector Toll Road coupled with an increase in operating expenses in 2008 caused 2008 operating income to decrease from the 2007 amount by $706,856, to $2,124,509. Total operating revenues decreased approximately 3.9% in 2008, while operating expenses increased approximately 18.8%. Nonoperating revenues, which consisted of interest earned on monies in bank accounts and investments, decreased approximately 29.9% in 2008 to $673,341. In 2008, the nonoperating revenues fell short of nonoperating expenses by $24,280,690.

In 2008, total operating expenses increased $492,100 over 2007 amounts. The increase resulted primarily from additional Trustee fees and costs (including Trustee counsel fees) incurred as a result of the event of default under the Trust Indenture and legal and consulting professional fees that were incurred as we continued our efforts to restructure our Bonds payable. (See the "Economic Factors" and "Debt Administration" sections of this management's discussion and analysis.) Trustee fees and costs increased by $140,428, or approximately 243.4% in 2008. Professional fees increased $182,383, or approximately 50.5%, in 2008. Other 2008 increases in operating expenses occurred in contract services (equipment maintenance contracts) and in repairs and maintenance, which increased approximately 20.9% and 40.9%, respectively, over 2007 costs.

However, our attempts to monitor 2008 expenses as closely as possible resulted in decreased costs in other areas. Expenses incurred for advertising decreased by $34,545, or approximately 89.2% in 2008. Toll highway inspection fees declined $6,479 or approximately 30.4%. We were also able to trim bank fees by $6,984, or approximately 66.8%.

In 2008, as we were required to tap further into our Debt Service Reserve Accounts in order to meet debt service payments, our nonoperating interest revenues decreased by $287,269, or approximately 29.9%.

As mentioned above, most of our nonoperating expenses do not require any cash outlays. For 2008, the noncash portion totaled $21,469,781. Noncash, nonoperating interest expense was $14,471,076 in 2008. Noncash, nonoperating SCDOT deferred license fees and maintenance expense were $1,500,000 and $116,217, respectively. Noncash, nonoperating amortization expense totaled $5,382,488 in 2008. The Association's interest in its License Agreement with SCDOT was the main asset affected by amortization. (See the "Capital Assets" section of this management's discussion and analysis for more information.) The increase in these noncash, nonoperating expenses was approximately 3.2% in 2008. This increase was primarily due to the increase in the amount of interest accretions on the Capital Appreciation Bonds under the Bonds' accretion schedule.

As discussed in greater detail in the "2009 Compared to 2008" section of this management's discussion and analysis above, the Association is obligated to pay license fees and roadway maintenance amounts to SCDOT under its License Agreement with the SCDOT. The license fees and roadway maintenance amounts incurred in 2008 were $1,500,000 and $116,217, respectively. In 2008, interest accrued on the unpaid license fees and roadway maintenance amounts totaled $318,614. These fees and amounts and the related interest were recorded as nonoperating expenses. At December 31, 2008, the accumulated balances of license fees, maintenance expense and related interest payable to the SCDOT were $6,000,000, $683,867 and $747,802, respectively.

The Association's License Agreement with the SCDOT, as discussed above in the "2009 Compared to 2008" section of this management's discussion and analysis, also requires the Association to transfer monies to a Renewal and Replacement Fund. Monies in this fund are to be used to periodically repair, renew and replace the Southern Connector's roadway at the Association's cost. However, funding of this Fund is subordinate to payment of Bond debt service, and during 2008, the Association was not able to transfer monies to this Fund. (See additional information in the "Debt Administration" section of this management's discussion and analysis.)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets at December 31, 2009 and 2008 consisted of equipment and an intangible asset, the Association's interest in a License Agreement with SCDOT. This License Agreement grants the

Association the rights to acquire, construct, finance and operate the Southern Connector Toll Road. Through research of governmental accounting literature and consultations with various governmental accounting specialists, we determined that our interest in the License Agreement should be valued at the cost of construction of the Southern Connector, including interest capitalized during the construction period.

Although the contractual term of the License Agreement is for 50 years, it automatically terminates upon payment of all of the Bonds. Originally, since the Bonds' scheduled payoff was to occur in 2038, we determined that it was appropriate to amortize our interest in the License Agreement over approximately 37 years, from opening of the Southern Connector Toll Road in 2001 to projected Bond payoff in 2038. The Association used this amortization period through 2008. However, in 2009, as payment default on the Bonds became imminent, the Association determined that it is more appropriate to amortize the License Agreement over its full contractual term. Therefore, beginning with 2009, we are expensing the unamortized balance of the License Agreement over approximately 42 years, through contractual expiration of the License Agreement in 2051.

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

	2009	2008	2007
Equipment, Net	$ 215,808	199,369	$ 201,347
Interest in License Agreement with SCDOT, Net	148,490,159	152,061,067	157,298,383
Total Capital Assets, Net	$ 148,705,967	152,260,436	$ 157,499,730

At December 31, 2009, the Association had $148,705,967 invested in capital assets. This amount represents a net decrease of $3,554,469, or approximately 2.3%, from the 2008 amount. The amount invested at December 31, 2008, was $152,260,436, a net decrease of $5,239,294, or approximately 3.3%, from the 2007 amount. Our primary asset is our interest in the License Agreement with SCDOT. In 2009, its book value decreased by approximately 2.3% to $148,490,159. This decrease consisted of $3,570,908 of amortization taken during the year. The 2008 carrying amount of our interest in the License Agreement had decreased approximately 3.3% to $152,061,067. The net decrease was composed of $6,152 of electric heat strips placed in service during 2008 offset by amortization of $5,243,468 taken during the year.

In 2009, Equipment, Net increased by approximately 8.2%. During 2009, we purchased a $10,452 security system, computer equipment totaling $19,631, a $6,400 currency counter and $49,100 of new transponders. We scrapped fully-depreciated transponders that originally cost $15,696. Depreciation expense for 2009 totaled $69,144. The 2008 decrease in Equipment, Net was approximately 1.0%, and was composed of $2,664 of computer equipment and $49,100 of new transponders, offset by 2008 depreciation expense of $53,742. We also scrapped $11,469 of fully-depreciated transponders in 2008.

Debt Administration

Long-term debt at December 31, 2009 and 2008 included Toll Road Revenue Bonds with maturity dates ranging from 2008 to 2038. The balances of these Bonds payable at December 31, 2009 totaled $319,015,289. Of this amount, $7,300,000 represented principal due January 2010. Because toll revenues collected were insufficient to pay the debt service due in January 2010, and because the Association had drawn down its Debt Service Reserve Accounts below the amounts required to pay the full debt service due in January 2010, we defaulted on our Bond debt service payments at that time. The

2008 balances of these Bonds payable totaled $311,051,526, and included $6,700,000 of principal that was due and paid in the January 2009 debt service payment. The balances of the Bonds payable increased by $7,963,763 in 2009 and $7,952,462 in 2008 (approximately 2.6% in both years), because of accretions on the Series 1998B Senior Capital Appreciation Bonds and on the Series 1998C Subordinate Capital Appreciation Bonds. Due to the accretion schedule on the Capital Appreciation Bonds, the balances of Bonds payable will continue to increase significantly for the next several years. All of the Bonds are payable solely by the Association from toll revenues. None are obligations of the State of South Carolina.

Currently, we are not earning sufficient toll revenues to pay debt service on the Bonds. This situation has been exacerbated by the fact that, beginning with the January 2008 payment, scheduled debt service payments now include the payment of principal (including both the redemption price of the Series 1998A Bonds and the payment of the maturing principal of serial Series 1998B and 1998C Capital Appreciation Bonds) in addition to the interest payment on the Series 1998A Bonds. In 2009 and previous years, in order to meet the debt service requirements, we periodically had to withdraw monies from our Senior and Subordinate Bonds Debt Service Reserve Accounts. From December 2002 through July 2009, a total of $18,799,301 has been withdrawn from all Debt Service Reserve Accounts, including $13,499,301 withdrawn from the Senior Bonds Debt Service Reserve Account since December 31, 2002, and $5,300,000 withdrawn from the Subordinate Bonds Debt Service Reserve Account since December 2007. These withdrawals consisted of both principal and interest earned on the monies originally deposited into the Senior and Subordinate Bonds Debt Service Reserve Accounts.

As discussed in further detail in the "Economic Factors" section of this management's discussion and analysis, the Subordinate Bonds Debt Service Reserve Account was essentially depleted with the transfer of monies required to meet the January 2009 debt service requirements. Therefore, after taking into account the minimal balance remaining in this Account and toll revenues collected, we did not have sufficient funds to meet the January 2010 debt service obligation on the Association's Subordinate Bonds.

In addition, through our use of Senior Bonds Debt Service Reserve Account monies to meet a portion of the Association's July 2009 debt service obligations on our Senior Bonds, the Senior Bonds Debt Service Reserve Account was drawn down to a balance that, when considered along with toll revenues collected, was insufficient to pay the January 2010 debt service obligations on our Senior Bonds. Since no payment of Senior or Subordinate Bonds debt service was made in January 2010, the Association's first payment default under the Trust Indenture occurred at that time.

The Trust Indenture requires that, for so long as there are any outstanding payment defaults with respect to the Senior Bonds or replenishment of the Senior Bonds Debt Service Reserve Account, no amount may be paid with respect to the Subordinate Bonds (except from the Subordinate Bonds Debt Service Reserve Account, which is now essentially depleted) or replenishment of the Subordinate Bonds Debt Service Reserve Account. Therefore, we project that no payments will be made with respect to any Subordinate Bonds while the Association remains in default under the Trust Indenture.

For several years, the Association has been actively investigating all possible alternatives for restructuring its debt and/or entering into a concession transaction regarding operation of the Southern Connector. We engaged Stantec Engineering to perform an investment grade traffic and revenue study (the "Study") and Goldman Sachs & Co. ("Goldman") as special financial consultants with respect to these efforts. In response to Stantec's Study we petitioned SCDOT for a toll rate increase that was approved by SCDOT and implemented in November 2009. However, based on Stantec's Study, Goldman's analyses, a preliminary valuation for a concession, and the decline in traffic on the Southern Connector, it became apparent that defeasance of the Bonds was not possible, and that neither a long-term concession agreement with a new toll road operator nor a conventional refunding of our existing Bonds by issuance of new debt was feasible. Goldman informed us that restructuring our debt outside of bankruptcy would be extremely difficult.

Over the years, the deterioration of the Association's financial position has led to a series of downgrades in the ratings of our Senior Bonds. Initially, Standard and Poor's Rating Service ("S&P") rated our Series 1998A Bonds and Series 1998B Bonds as *BBB-*. S&P affirmed the *BBB-* rating in January 2002; however, with a negative outlook. As traffic counts remained at levels well below those projected in the 1997 WS Study and as we continued using monies from our Debt Service Reserve Accounts to meet debt service requirements, in January 2003, the ratings were downgraded to *B-* and the outlook revised from negative to stable. S&P affirmed these ratings in January 2004, 2005 and 2006. In August 2007, because of the escalating debt service requirements and the Association's pending failure to meet the bond revenue covenant discussed in the "Economic Factors" section of this management's discussion and analysis above, S&P lowered the ratings of the Senior Bonds to *CCC*. S&P's outlook remained stable. In August 2008, after consideration of the Association's ongoing deterioration of financial position and the expected debt service payment defaults in January 2010, S&P further downgraded the rating of our Series 1998A Bonds and Series 1998B Bonds to *CC* with a negative outlook. In November 2009, S&P lowered the rating to *C* from *CC* and placed the rating on CreditWatch with negative implications. Upon the payment default in January 2010, S&P downgraded the rating of our Series 1998A Bonds and Series 1998B Bonds from *C* to *D*. Neither S&P nor either of the other two national rating agencies rates the Series 1998C Subordinate Capital Appreciation Bonds.

The Association is required to furnish to the Trustee an annual inspection report of the Southern Connector by the Association Engineer. Copies of the reports are to be filed with the Trustee. The 2008 report of the Association's Engineer was prepared in 2009 and was delivered to the Trustee. This report noted certain physical deficiencies in the condition of the Southern Connector, some of which have been corrected by SCDOT since that report. The 2009 report of the Association's Engineer was recently completed and delivered to the Trustee in June 2010. This report continued to note certain physical deficiencies in the condition of the Southern Connector. You may request a copy of the report by contacting the Association or the Trustee.

As stated above in the "Economic Factors" section, the Trustee delivered to the Association a notice dated January 23, 2008, stating that an event of default on the Bonds had occurred. In the notice, the Trustee acknowledged and reserved its remedies provided in the Master Indenture, but did not identify which, if any, actions were to be taken on behalf of the Bondholders. The Trustee sent a letter to the Association dated May 6, 2009, advising that the event of default declared in its letter of January 23, 2008, had not been waived or cured and reserved the Trustee's rights and remedies under the Master Indenture. Another event of default occurred on January 1, 2010, when the Association failed to pay debt service on its Bonds.

On June 12, 2009, SCDOT asserted that an Event of Default has occurred under Section 14.1(d) of the License Agreement, which among other things provides that an Event of Default under the License Agreement shall exist if the Association ". . . shall fail, be unable, or admit in writing the inability generally to pay the Association's debts as they become due." The License Agreement provides no cure period for such Event of Default. Although Section 9.2(e) of the License Agreement permits SCDOT to terminate the License Agreement upon the occurrence of an Event of Default, SCDOT did not terminate the License Agreement and agreed to give the Association at least 90 days prior written notice of the effective date of any such termination. In consideration of such 90 day forbearance, the Association agreed to diligently undertake to restructure its indebtedness and to include in its proposed debt adjustment plan the funding of repairs and replacements to the Southern Connector.

The Senior Bond Trustee undertook an effort to locate beneficial owners of the Bonds to invite them to participate in informal discussions regarding possible restructuring of the Bonds. The Association negotiated confidentiality agreements between the Association and certain beneficial owners of the Senior Bonds (the "Restricted Owners"), which permit the Association to share non-public information with the Restricted Owners and engage in discussions regarding potential restructuring of the Association's debts. Since August 2009, the Association has entered into such confidentiality agreements with four institutional bondholders and one bond insurer beneficially owning or insuring, in the aggregate, a significant percentage of the outstanding principal amount or future maturity value of the Senior Bonds. The Association has been advised that the Subordinate Trustee reached out to some of its constituent Bondholders to solicit their involvement in the negotiation process, including becoming subject to a confidentiality agreement, but none of the contacted subordinate Bondholders elected to participate in the process.

The Association delivered to the Senior Bond Trustee, the Subordinate Trustee, SCDOT and the Restricted Owners a draft debt adjustment plan (the "Association's Plan") dated August 13, 2009. The Association's Plan was structured to return the greatest value to the owners of the Senior Bonds as possible under the constraints of the remaining term of the License Agreement (to 2051), the obligation to repair and resurface the road, and the projected toll revenues and operating expenses set forth in the Stantec traffic and revenue study. The Association's Plan used the August 5, 2009 estimate provided by AECOM Technical Services, Inc. as the basis for the projected repair and resurfacing needs of the road. Under the Association's Plan, since the Senior Bonds would not receive full payment, the Subordinate Bonds would receive no payment.

The Senior Bond Trustee and its counsel then engaged Macquarie Capital (USA) Inc. ("Macquarie") as financial advisor to the Senior Bond Trustee's counsel to review the Association's Plan, consult with the Trustee and their representatives, and propose revisions to the Association's Plan. The Senior Bond Trustee, the Subordinate Bond Trustee and the Restricted Owners rejected the Association's Plan. Macquarie met with the Association, SCDOT and others and developed an alternative plan (the "Macquarie Plan"), which was presented to the Association, SCDOT and the Restricted Owners on October 12, 2009. The Macquarie Plan was based on the Stantec projections, proposed to exchange two series of securities for the outstanding principal and interest owing on the Association's Senior Bonds, called for a 35-year extension of the License Agreement and included provisions to fund a substantial portion of the projected road resurfacing and repair costs out of toll revenues under the extended License Agreement. Although the Macquarie Plan did not address repayment of the Subordinate Bonds, implementation of that plan under the assumptions set forth therein would permit the Association to use toll revenues to repay a portion of the amounts currently owing to the Subordinate Bondholders during the remaining term of the extended License Agreement after the securities exchanged for the Senior Bonds were repaid.

SCDOT advised the Association that SCDOT required legislative clarification of its authority to grant an extension of the License Agreement's term under South Carolina law. At the October 12, 2009 meeting, it was determined that effectuating a consensual restructuring plan would be aided by the passage of legislation in the 2010 session of the South Carolina General Assembly. Negotiations on the detailed terms of a restructuring plan were held in abeyance while the parties pursued legislation in the South Carolina General Assembly to clarify SCDOT's authority regarding the extension of the License Agreement and its ability to enter into other revisions necessary to restructure the Bonds and the Association's obligations to SCDOT.

The Association was advised that, given the broad ownership of the Bonds, it was likely the Association would be required to file a bankruptcy petition to implement any plan of adjustment of its debts. On January 20, 2010, the Board of Directors of the Association adopted a resolution authorizing the Association's management, when management so deemed it appropriate, to file a petition for bankruptcy protection under the United States Bankruptcy Code and to take related actions in connection with the bankruptcy. This resolution was authorized, among other purposes, in order for the Association to be in a position to effectuate a consensual restructuring plan. Notwithstanding this vote, efforts continued to obtain a consensus among the major creditor constituents for a debt adjustment plan.

In late May of 2010, the Association was informed by the Senior Bond Trustee and SCDOT that they did not expect to obtain approval of legislation deemed by SCDOT to be necessary to authorize SCDOT to extend the term of the License Agreement. Based upon these developments, the Association then pursued discussions with the Senior Bond Trustee, Macquarie and the Restricted Owners regarding a debt adjustment plan which could be implemented over the remaining term of the License Agreement without any extension. These efforts resulted in the Restricted Owners and the Association developing the terms of a debt adjustment plan ("Plan Summary").

In an effort to obtain consent from all interested parties, the Association presented the Plan Summary to SCDOT. SCDOT informed the Association on June 16, 2010 that SCDOT would not agree to the debt adjustment plan described in the Plan Summary. Efforts to solicit or negotiate acceptable changes to the Plan Summary that might be acceptable to SCDOT failed. As a result of the foregoing, on June 24, 2010, the Association filed a petition for adjustment of its obligations in the US Bankruptcy Court for the State of South Carolina.

CONTACTING THE CONNECTOR 2000 ASSOCIATION, INC.

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

Basic Financial Statements

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

STATEMENTS OF NET ASSETS - PROPRIETARY FUND

DECEMBER 31, 2009 AND 2008

	Business-Type Activities - Enterprise Fund	
ASSETS	**2009**	**2008**
Current Assets:		
Cash and Cash Equivalents	$ 557,908	$ 297,284
Investments	231,071	276,373
Prepaid Expenses	44,505	37,532
Inventory	320,904	88,290
Total Current Assets	1,154,388	699,479
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	536,906	9,355,159
Investments	4,393,150	4,584,236
Interest Receivable	-	51
Total Restricted Assets	4,930,056	13,939,446
Capital Assets:		
Equipment	819,222	749,335
Interest in License Agreement with SCDOT	192,486,826	192,486,826
Less: Accumulated Depreciation and Amortization	(44,600,081)	(40,975,725)
Total Capital Assets	148,705,967	152,260,436
Other Assets:		
Bond Issuance Costs (Net of Accumulated Amortization of $747,175 and $684,475, respectively)	1,610,955	1,673,655
Underwriters' Fees (Net of Accumulated Amortization of $909,480 and $833,160, respectively)	1,961,120	2,037,440
Total Other Assets	3,572,075	3,711,095
TOTAL ASSETS	**158,362,486**	**170,610,456**
LIABILITIES		
Current Liabilities:		
Accounts Payable	142,433	129,162
Potential Excess Collateral Liability	1,117,498	1,153,823
Deferred Toll Revenue	217,519	207,822
Transponder Deposits	15,465	15,120
Revenue Bonds Payable, Current Portion	7,300,000	6,700,000
SCDOT Deferred Maintenance Payable	775,786	683,867
SCDOT Deferred License Fee Payable	7,500,000	6,000,000
Accrued Interest on SCDOT Deferred Maintenance and License Fee	1,162,620	747,802
Amounts Payable from Restricted Assets:		
Accrued Interest Payable	1,718,502	1,742,127
Total Current Liabilities	19,949,823	17,379,723
Noncurrent Liabilities:		
Revenue Bonds Payable, Less Current Portion	311,715,289	304,351,526
Total Noncurrent Liabilities	311,715,289	304,351,526
TOTAL LIABILITIES	**331,665,112**	**321,731,249**
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	(55,505,123)	(57,079,587)
Restricted for:		
Debt Service	-	7,514,277
Unrestricted	(117,797,503)	(101,555,483)
TOTAL NET ASSETS (DEFICIT)	**$ (173,302,626)**	**$ (151,120,793)**

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

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

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

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-Type Activities - Enterprise Fund	
OPERATING REVENUES	**2009**	**2008**
Toll Revenues	$ 5,253,494	$ 5,238,337
Other Toll Road Revenues	969	92
TOTAL OPERATING REVENUES	**5,254,463**	**5,238,429**
OPERATING EXPENSES		
Automobile	14,384	17,617
Bank Fees and Charges	3,150	3,471
Contract Labor	15,631	31,804
Contract Services	298,782	386,876
Credit Card Discount Fees	58,101	50,481
Employee Benefits	206,258	199,783
Miscellaneous	(204,483)	13,415
Office Supplies	27,524	26,320
Payroll Taxes	86,341	81,831
Repairs and Maintenance	49,034	102,593
Salaries	1,156,556	1,085,212
Telephone	26,481	30,353
Toll Highway Inspection Fees	-	14,853
Utilities	81,650	92,415
Advertising	-	4,177
Depreciation	69,144	53,742
Insurance	143,990	134,125
Marketing	30,687	43,229
Professional Fees	700,204	543,492
Trustee Fees and Costs	1,234,876	198,131
TOTAL OPERATING EXPENSES	**3,998,310**	**3,113,920**
OPERATING INCOME	**1,256,153**	**2,124,509**
NONOPERATING REVENUES (EXPENSES)		
Interest Earned on Cash Equivalents and Investments	254,468	673,341
Realized and Unrealized Gain (Loss) on Investments	124,974	-
Interest Expense	(18,515,580)	(17,955,326)
SCDOT Maintenance Expense	(91,920)	(116,217)
SCDOT License Fees	(1,500,000)	(1,500,000)
Amortization for:		
Interest in License Agreement with SCDOT	(3,570,908)	(5,243,468)
Bond Issuance Costs	(62,700)	(62,700)
Underwriters' Fees	(76,320)	(76,320)
TOTAL NONOPERATING REVENUES (EXPENSES)	(23,437,986)	(24,280,690)
DECREASE IN NET ASSETS	(22,181,833)	(22,156,181)
NET ASSETS (DEFICIT), Beginning of Year	(151,120,793)	(128,964,612)
NET ASSETS (DEFICIT), End of Year	**$ (173,302,626)**	**$ (151,120,793)**

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

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

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-Type Activities - Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES	**2009**	**2008**
Receipts from:		
Toll Collections	$ 5,263,536	$ 5,256,080
Other Toll Road Operations	969	92
Payments for:		
Toll Road Employees and Contract Labor	(1,464,786)	(1,398,630)
Vendors and Service Providers	(2,690,696)	(1,688,467)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,109,023	2,169,075
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(85,583)	(57,916)
Principal Paid on Bonds Payable	(6,700,000)	(6,200,000)
Interest Paid on Bonds Payable	(3,460,624)	(3,507,877)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(10,246,207)	(9,765,793)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Investments	325,036	12,777,227
Interest Received	254,519	1,112,757
NET CASH PROVIDED BY INVESTING ACTIVITIES	579,555	13,889,984
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(8,557,629)**	**6,293,266**
CASH AND CASH EQUIVALENTS, Beginning of Year	9,652,443	3,359,177
CASH AND CASH EQUIVALENTS, End of Year	**$ 1,094,814**	**$ 9,652,443**

Reconciliation of Cash and Cash Equivalents - Statements of Cash Flows to Statements of Net Assets		
Unrestricted Cash and Cash Equivalents - Current Assets	$ 557,908	$ 297,284
Restricted Cash and Cash Equivalents - Noncurrent Assets	536,906	9,355,159
Total Cash and Cash Equivalents Shown on Statement of Net Assets	**$ 1,094,814**	**$ 9,652,443**

(CONTINUED)

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

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

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

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Business-Type Activities - Enterprise Fund	
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES	**2009**	**2008**
Operating Income	$ 1,256,153	$ 2,124,509
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	69,144	53,742
Change In:		
Prepaid Expenses	(6,973)	(9,960)
Inventory	(232,614)	(1)
Accounts Payable	13,271	(16,958)
Deferred Toll Revenue	9,697	16,143
Transponder Deposits	345	1,600
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,109,023	$ 2,169,075
NONCASH INVESTING, CAPITAL, AND FINANCING ITEMS		
Amortization of Interest in License Agreement with SCDOT	$ 3,570,908	$ 5,243,468
Amortization of Bond Issuance Costs	62,700	62,700
Amortization of Underwriters Fees on Bonds	76,320	76,320
Amortization of Original Issue Discount on Series 1998A Bonds	80,280	80,280
Interest Accreted on Series 1998B and 1998C Bonds	14,583,483	14,072,182
Accrual of Interest Payable	1,718,502	1,742,127
SCDOT Deferred Maintenance	91,919	116,217
SCDOT Deferred License Fees	1,500,000	1,500,000
Accrued Interest on SCDOT Deferred Maintenance and License Fee	414,818	318,614
TOTAL NONCASH INVESTING, CAPITAL, AND FINANCING ITEMS	$ 22,098,930	$ 23,211,908

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

Although the Association was formed in 1996, its first financial activity occurred during February, 1998. At that time, the Association entered into a license agreement (the "License Agreement") with the SCDOT that grants the Association rights and obligations to finance, acquire, construct, and operate an approximately 16 mile fully controlled access toll highway (the "Southern Connector") and to construct the South Carolina Highway 153 Extension (the "SC 153 Extension") (collectively, the "Projects"). Toll road revenue bonds (the "Bonds") were issued on February 11, 1998 pursuant to a Master Indenture of Trust and a First Supplemental Indenture of Trust, each dated as of February 1, 1998 (together, the "Trust Indenture") between the Association and U.S. Bank, National Association, as successor in trust to First Union National Bank, as trustee (the "Trustee"), to finance the construction of the Southern Connector. Capitalized terms not otherwise defined in these notes are intended to have the meaning assigned in the Trust Indenture, if defined therein.

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

The State of South Carolina Office of Comptroller General has determined that the Association is a component unit of the State of South Carolina and of the SCDOT because of its fiscal dependence upon the SCDOT, and the fact that the SCDOT also determines the toll rates that will be charged. The Association is governed by a Board of Directors approved by the SCDOT.

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

The Association has no component units.

B. Measurement Focus, Basis of Presentation, and Accounting

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely, to a significant extent, on fees and charges for support. The Association has no governmental-type activities.

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

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

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

Proprietary fund types are accounted for based on the economic resources measurement focus and use of the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Association applies all applicable GASB pronouncements, as well as the requirements of FASB Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs"), issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Association has elected not to follow the aforementioned guidance issued after November 30, 1989 as allowed by GAAP. Proprietary funds are made up of two classes: enterprise funds and internal service funds. The Association does not have any internal service funds and has one enterprise fund.

> ***Enterprise Funds*** are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. For purposes of GAAP reporting, the Association has one major Enterprise Fund:
>
> > The **Enterprise Fund** is used to account for all of the operations of the Association. All activities of the Association in financing, acquiring, constructing and operating the toll road are accounted for in this fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Association generally follows the authoritative guidance in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That Use Proprietary Fund Accounting,* to distinguish operating from nonoperating revenues and expenses. Thus, the principal operating revenues of the Association are toll revenues received from patrons. Operating expenses of the Association consist of the costs of operating the Southern Connector, including administrative expenses and depreciation of equipment. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues include interest earned on cash equivalents and investments and realized and unrealized gains on investments. Nonoperating expenses include (a) amortization of (i) the Association's intangible interest in the License Agreement with SCDOT, (ii) bond issuance costs and (iii) underwriters' fees, (b) interest expense on the Association's debt, (c) license fees to the SCDOT, (d) maintenance expenses to the SCDOT, (e) interest on unpaid license fees and maintenance expenses to SCDOT, and (f) realized and unrealized losses on investments.

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

C. Use of Estimates

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

D. Budget

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

E. Cash and Cash Equivalents

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

F. Investments

The Trust Indenture requires that all bond proceeds received by the Association be held in trust to be expended in accordance with its guidelines. All monies held in trust that are not insured by the Federal Deposit Insurance Corporation ("FDIC") must be secured by and/or invested in investment securities as defined in the Trust 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 (Note 2). The Association's investments are stated at fair market value (quoted market price or the best available estimate thereof).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

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

H. Prepaid Expenses and Inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying basic financial statements. All inventories are valued at cost using the first-in/first-out method ("FIFO").

I. Interest in License Agreement with SCDOT

In the License Agreement, the SCDOT grants to the Association various rights and obligations pertaining to the financing, acquisition, construction, and operation of the Southern Connector and construction of the SC 153 Extension. The terms of the License Agreement provide that the Association finance and construct the Southern Connector and construct the SC 153 Extension with financing provided by the SCDOT. However, the SCDOT at all times retained fee simple title to the Southern Connector and to the SC 153 Extension, to all real property and improvements thereon, and to all rights-of-way acquired during construction.

The Southern Connector was opened for traffic on February 27, 2001, and began collecting tolls on March 14, 2001. In 2001, the Southern Connector attained Substantial Completion. On December 22, 2003, the Southern Connector attained Final Completion. Beginning one year after the date of Final Completion, the Association was required to begin to pay a monthly license fee to SCDOT (See Note 5 for further details).

The Association's interest in the License Agreement constitutes an intangible asset relating to the Southern Connector that began generating revenues upon commencement of operations. In order to account for its interest in the License Agreement, the Association capitalized all costs of acquisition and construction of the Southern Connector, including interest expense incurred during the construction period. (See Note 1, item P.) Upon commencement of operations, the Association began amortizing its interest in the License Agreement. See Note 5 for a description of this amortization.

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

J. Restricted Assets

Certain proceeds of the Bonds are restricted by applicable bond covenants for construction, payment of operating, and other expenses, or are set aside as reserves for repayment of the Bonds. Certain other assets are accumulated and restricted on a monthly basis in accordance with the Trust Indenture for the purposes of paying debt interest payments, due on a semiannual basis, and principal payments, due on an annual basis, and for the purpose of maintaining reserve funds at the required levels.

The Trust Indenture provisions govern payments from the restricted accounts. Limited types of expenses may be funded from these restricted accounts. The funds and accounts are established as follows:

The *Construction Fund* was established for purposes of holding bond proceeds and investment earnings, which were used to pay the costs of constructing the Southern Connector. As of December 31, 2009 and 2008, there were no funds on deposit in the Construction Fund.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

The Trustee is obligated to transfer money on a monthly basis from the Revenue Fund to the other various funds established under the Trust Indenture in the priority listed below:

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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

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

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

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

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

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

The *Renewal and Replacement Fund* was established for the purpose of holding monies in reserve to pay the costs of reconstruction, renewal, repair, and replacement of the Southern Connector. At December 31, 2009 and 2008, there were no funds on deposit in this Fund.

The *Program Fund,* consisting of the Retained Balance and the General Account, was established to hold monies in reserve to pay debt service if monies in other accounts are insufficient for such purpose and to pay other fees and costs as defined in the Trust Indenture. At December 31, 2009 and 2008, there were no funds on deposit in this Fund.

The *Rebate Fund* was established for the purpose of holding and paying arbitrage investment earnings to the U.S. Treasury. As a result of investing tax exempt bond proceeds at rates of return not exceeding the maximum amount that is permitted under the applicable tax code, at December 31, 2009 and 2008, there were no funds on deposit in this Fund.

K. Compensated Absences

The Association grants its regular full time employees 10 paid vacation days and 10 paid holidays per year. Employees receive no sick days but are allowed to use vacation or holiday time when sick. All vacation and holiday time must be taken in the year earned. Therefore, at year end there are no accumulating vacation or holiday benefits, thus there is no liability that must be recognized. At December 31, 2009 and 2008, no liability or expense was recorded in these basic financial statements for such items.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

All capital assets, including the Association's intangible interest in its License Agreement with SCDOT, are stated at cost. The Association adopted asset capitalization policies recommended by the State of South Carolina's Office of Comptroller General.

Pursuant to this policy, equipment with costs greater than $5,000 and intangible assets with costs in excess of $100,000 are capitalized. Equipment depreciation is computed using the straight-line method over the equipment's estimated useful life between four and ten years. The Association's interest in its License Agreement with SCDOT is amortized as described in Note 5. When capital assets are disposed of, the cost and accumulated depreciation are removed from the books. The resulting gain or loss is included in operations.

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

The current and non-current portions of bonds payable are recorded as liabilities in the accompanying Statements of Net Assets. Bond issuance costs, discounts, and underwriters' fees on all bonds are deferred and amortized over the terms of the Bonds. Bond discounts are amortized using the Bonds outstanding method, which approximates the effective interest method. Bond issuance costs and underwriters' fees are amortized using the straight-line method.

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

N. Rebatable Arbitrage

Arbitrage involves the investment of proceeds resulting from the sale of tax-exempt securities in a taxable investment that yields a higher rate, which produces income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. The Federal Government only requires arbitrage rebate to be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes, and any arbitrage rebate liability incurred is recognized at that time. The liability is recorded using the revenue reduction method, whereby the rebate is recorded as a reduction of interest revenue. At December 31, 2009 and 2008, the Association did not have any arbitrage liability.

O. Net Assets

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

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

Restricted net assets — Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. In all cases, if individual restricted net asset categories are negative, the negative balance is eliminated and reclassified against unrestricted net assets.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Assets (Continued)

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

The Association's net deficit at December 31, 2009 and 2008 has resulted from shortfalls since commencement of operations due to lower than expected traffic and toll revenue.

P. Interest Capitalization

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

Q. Reclassifications

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

NOTE 2 – DEPOSITS AND INVESTMENTS

The Association's Trust Indenture requires that all fund bank deposits that are not insured by the FDIC be collateralized by investment securities. The types of investment securities that may be used as collateral are: obligations of, or guaranteed by, the United States of America or certain of its agencies; repurchase agreements with underlying securities that are obligations of, or guaranteed by, the United States of America or certain of its agencies; certain obligations of, or guaranteed by, any state within the territorial United States of America; agreements that provide for the forward delivery of any securities previously described; investments in money market mutual funds rated "AAAm", "AAm", "AAAmG", or better; unsecured investment agreements with any bank or financial institution, the unsecured debt or counter-party rating of which is "investment grade" rated as of the date of acquisition; and any other obligation which, at the date of acquisition, is rated by a rating agency in one of the two highest rating categories for long-term obligations or in the highest rating category for short-term obligations.

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Association's deposits might not be recovered. The Association does not have a formal deposit policy for custodial credit risk but follows the guidelines outlined in the Association's Trust Indenture (as noted earlier). As of December 31, 2009 and 2008, approximately $222,000 and $22,000 of the Association's bank balances of approximately $1,239,000 and $590,000 (with a carrying value of $1,325,885 and $573,657), respectively, were uninsured and uncollateralized. None of the deposits noted above were held by the South Carolina State Treasurer.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

As of December 31, 2009 and 2008, the Association had the following investments as defined by GASB:

Investment Type	Credit Rating ^	Fair Value	Percentage of Total Investments	Weighted Average Maturity (In Years)
December 31, 2009:				
Agency Securities	N/A	$ 4,393,150	100.0%	22.420
Total Fair Value/Weighted Average Maturity		$ 4,393,150		22.420
December 31, 2008:				
Open Ended Treasury Money Market Funds	AAAm, Aaa, NR	$ 9,355,159	67.1%	0.132
Agency Securities	N/A	4,584,236	32.9%	23.420
Total Fair Value/Weighted Average Maturity		$ 13,939,395		7.790

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

Interest Rate Risk: The Association does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates but follows the guidelines outlined in the Association's Trust Indenture (as noted earlier).

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association does not have a formal investment policy for custodial credit risk but follows the guidelines outlined in the Association's Trust Indenture (as noted earlier). As of December 31, 2009 and 2008, none of the Association's investments were exposed to custodial credit risk.

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

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

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

The investment types listed in the preceding table include only the investment types in which monies were held as of December 31, 2009 and 2008. None of the investments above were with the South Carolina State Treasurer.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

Statements of Net Assets	2009	2008	Notes	2009	2008
Unrestricted Current Assets:					
Cash and Cash Equivalents	$ 557,908	$ 297,284	Deposits	$ 1,325,885	$ 573,657
Investments	231,071	276,373	Investments	4,393,150	13,939,395
Restricted:					
Cash and Cash Equivalents	536,906	9,355,159			
Investments	4,393,150	4,584,236			
	$ 5,719,035	$ 14,513,052		$ 5,719,035	$ 14,513,052

See Note 1, item J and Note 8 for additional information about restrictions on deposits and balances of the various Trust Funds at December 31, 2009 and 2008.

NOTE 3 – RECEIVABLES

At December 31, 2009 and 2008, the Association had an interest receivable of $0 and $51, respectively.

NOTE 4 – CAPITAL ASSETS

The following tables summarize the changes in capital assets of the Association during the past two years and their balances at December 31, 2009 and 2008:

Description	Balance December 31, 2008	Additions	Disposals	Balance December 31, 2009
Capital Assets:				
Interest in License Agreement with SCDOT	$ 192,486,826	-	-	$ 192,486,826
Equipment	749,335	85,583	(15,696)	819,222
Subtotal Capital Assets	193,236,161	85,583	(15,696)	193,306,048
Less: Accumulated Depreciation/Amortization:				
Interest in License Agreement with SCDOT	40,425,759	3,570,908	-	43,996,667
Equipment	549,966	69,144	(15,696)	603,414
Subtotal Accum. Depreciation/Amortization	40,975,725	3,640,052	(15,696)	44,600,081
Totals	$ 152,260,436	(3,554,469)	-	$ 148,705,967

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Description	Balance December 31, 2007	Additions	Disposals	Balance December 31, 2008
Capital Assets:				
Interest in License Agreement with SCDOT	$ 192,480,674	6,152	-	$ 192,486,826
Equipment	709,041	51,764	(11,470)	749,335
Subtotal Capital Assets	193,189,715	57,916	(11,470)	193,236,161
Less: Accumulated Depreciation/Amortization:				
Interest in License Agreement with SCDOT	35,182,291	5,243,468	-	40,425,759
Equipment	507,694	53,742	(11,470)	549,966
Subtotal Accum. Depreciation/Amortization	35,689,985	5,297,210	(11,470)	40,975,725
Totals	$ 157,499,730	(5,239,294)	-	$ 152,260,436

For the years ended December 31, 2009 and 2008, depreciation and amortization expense related to capital assets was approximately $3,640,000 and $5,297,000, respectively. See Note 1, item L for additional information about the Association's capitalization policy, and its methods of calculating depreciation and amortization and Note 5 for the change in amortization period for the Association's interest in the License Agreement.

The Association had no significant construction commitments outstanding at December 31, 2009 and 2008.

NOTE 5 – INTEREST IN LICENSE AGREEMENT WITH SCDOT

On February 11, 1998, the Association entered into the License Agreement with the SCDOT regarding the construction and operation of the Southern Connector and SC 153 Extension Projects (the "Projects"). The License Agreement grants to the Association, the exclusive right (1) to acquire, in the name of the SCDOT, rights-of-way and other real property necessary to the development and operation of the Projects, (2) to develop and construct the Projects, (3) to finance the Southern Connector, (4) to operate, repair, renew and replace the Southern Connector in accordance with the terms of the agreement, and (5) to collect tolls from the users of the Southern Connector.

In order to finance the Southern Connector, the Association issued the Bonds in three series pursuant to the Trust Indenture, more particularly described in Note 8. Interest on the Bonds is exempt from both federal income tax and South Carolina income tax. The Bonds are special limited obligations of the Association, payable solely from net revenues and monies held in certain accounts and other property included in the trust estate established by the Trust Indenture. The Bonds are not, and shall never constitute, indebtedness of the State of South Carolina, the SCDOT, or any agency, department or political subdivision of the State of South Carolina. (See Note 8 for additional information.)

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

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

Prior to 2009, management had deemed the maturity date on the bonds (January 1, 2038) to be the effective termination date of the License Agreement and thus had amortized the Association's interest in the License Agreement over approximately 36.5 years. Due to recent developments (see Note 12), beginning in 2009 management now believes that the License Agreement termination date of 50 years from the substantial completion date (March 2051) is the more appropriate period to amortize the Association's interest in the License Agreement. Due to this change in estimate, the Association's 2009 amortization expense decreased approximately $1,657,000 from the 2008 amount.

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

The Association is required to pay a license fee to the SCDOT in the amount of $125,000 per month for a period of 25 years, commencing twelve months (first payment was due January 1, 2005) after Final Completion of the Southern Connector and of $1 per month thereafter for the remainder of the term of the License Agreement. Payment of the monthly license fees was to commence on the first day of the calendar month following the first anniversary of the Final Completion date of the Southern Connector. Payment of the license fee is ninth in priority according to the flow of funds set forth in Note 1, Item J. So long as any Bonds remain outstanding, any license fees not paid when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually. At December 31, 2009 and 2008, the Association has unpaid SCDOT deferred license fees of $7,500,000 and $6,000,000, respectively, and related interest of $1,012,926 and $640,286, respectively.

The SCDOT is responsible for maintaining the Southern Connector (costs of maintenance are to be reimbursed by the Association in eighth priority in the flow of funds set forth in Note 1, item J.) So long as any Bonds remain outstanding, any maintenance costs of SCDOT not paid by the Association when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually. At December 31, 2009 and 2008, the Association has unpaid SCDOT deferred maintenance of $775,786 and $683,867, respectively, and related interest of $149,694 and $107,516, respectively. The SCDOT is responsible for setting the toll rates in accordance with the terms of the License Agreement. The SC 153 Extension, the costs of which are not included in the accompanying basic financial statements, is operated, maintained, renewed, and replaced by the SCDOT as part of the South Carolina Highway System.

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

NOTE 6 – ACCRUED INTEREST PAYABLE

At December 31, 2009 and 2008, accrued interest payable was $1,718,502 and $1,742,127, which consisted of the Senior Current Interest Bond (Series 1998A) payment which is due January 1 of 2010 and 2009, respectively. Interest is payable January 1 and July 1 of each year to holders of the Senior Bonds at rates of 5.250% and 5.375% per annum.

NOTE 7 – INTEREST COSTS INCURRED

Interest costs expensed during the years ended December 31, 2009 and 2008, totaled $18,515,580 and $17,955,326, respectively.

NOTE 8 – BONDS PAYABLE

As discussed in Notes 1 and 5, the Association issued the Bonds as three series of tax-exempt toll road revenue bonds pursuant to the Trust Indenture. All of the Bonds were issued on February 11, 1998. The Bonds are special limited obligations of the Association that are not, and shall never constitute, indebtedness of the State of South Carolina, the SCDOT, or any agency, department or political subdivision of the State of South Carolina, including the County of Greenville, South Carolina and the City of Greenville, South Carolina. Following is a brief description of each bond issue:

Series 1998A: Series 1998A Senior Current Interest Toll Road Revenue Bonds which were dated 2/1/98 - $66,200,000 original principal amount at issuance; interest payable semi-annually on January 1 and July 1 at rates of 5.250% and 5.375%; $21,400,000 of bonds mature January, 2023; $44,800,000 of bonds mature January, 2038. There was an original issue discount on the Series 1998A bonds at issuance of $2,693,952. Mandatory sinking fund installments began January 1, 2008 and continue until January 1, 2038 in varying amounts from $900,000 to $4,200,000.

Series 1998B: Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds which were dated 2/11/98 - $87,385,622 original principal amount at issuance; interest accretes at various rates ranging from 5.30% to 5.85%; $438,100,000 of bonds mature serially from January 1, 2008 to January 1, 2038.

Series 1998C: Series 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds which were dated 2/11/98 - $46,592,058 original principal amount at issuance; interest accretes at various rates ranging from 6.15% to 6.30%; $241,800,000 of bonds mature serially from January 1, 2008 to January 1, 2038.

Bonds payable changes during 2009 and 2008 and balances at December 31, 2009 and 2008, were as follows:

	Balance December 31, 2008	Increases (Accretions)	Decreases (Payments)	Balance December 31, 2009
Senior Bonds				
Series 1998A	$ 65,300,000	-	900,000	$ 64,400,000
Original Issue Discount on Series 1998A	(1,817,562)	80,280	-	(1,737,282)
Subtotal Series 1998A	63,482,438	80,280	900,000	62,662,718
Series 1998B	159,366,162	9,160,187	3,100,000	165,426,349
Subordinate Bonds:				
Series 1998C	88,202,926	5,423,296	2,700,000	90,926,222
Totals	**$ 311,051,526**	**14,663,763**	**6,700,000**	**$ 319,015,289**

NOTE 8 – BONDS PAYABLE (CONTINUED)

	Balance December 31, 2007	Increases (Accretions)	Decreases (Payments)	Balance December 31, 2008
Senior Bonds				
Series 1998A	$ 66,200,000	-	900,000	$ 65,300,000
Original Issue Discount on Series 1998A	(1,897,842)	80,280	-	(1,817,562)
Subtotal Series 1998A	64,302,158	80,280	900,000	63,482,438
Series 1998B	153,252,482	8,813,680	2,700,000	159,366,162
Subordinate Bonds:				
Series 1998C	85,544,424	5,258,502	2,600,000	88,202,926
Totals	**$ 303,099,064**	**14,152,462**	**6,200,000**	**$ 311,051,526**

Additions to bonds payable represent the amortization of original issue discount on the Series 1998A Senior Current Interest Toll Road Revenue Bonds, and accretions on the Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds and 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds. At December 31, 2009, $7,300,000 in principal payments on bonds was due within one year. At December 31, 2008, $6,700,000 in principal payments on bonds was due within one year.

A summary of the debt service requirements to maturity for the Bonds is as follows as of December 31, 2009:

Year Ending December 31	Principal	Interest	Totals
2010	$ 7,300,000	3,410,750	$ 10,710,750
2011	8,100,000	3,358,250	11,458,250
2012	9,900,000	3,303,125	13,203,125
2013	10,500,000	3,242,750	13,742,750
2014	11,000,000	3,179,750	14,179,750
2015-2019	73,100,000	14,851,375	87,951,375
2020-2024	105,700,000	12,747,500	118,447,500
2025-2029	146,400,000	9,986,751	156,386,751
2030-2034	182,300,000	6,342,501	188,642,501
2035-2038	178,900,000	1,730,750	180,630,750
Totals	$ 733,200,000	62,153,502	$ 795,353,502

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

NOTE 8 – BONDS PAYABLE (CONTINUED)

The accounts established by the Trust Indenture and their balances at December 31, 2009 and 2008, were as follows:

Fund	Amount 2009	Amount 2008
Revenue	$ 407,101	$ 814,279
Debt Service	1,272,063	8,442,125
Debt Service Reserve *	2,133,394	3,529,168
Total	$ 3,812,558	$ 12,785,572

* Net of the potential excess collateral liability balances of $1,117,498 and $1,153,823, respectively.

During the years ended December 31, 2009 and 2008, payments from the various accounts were made in accordance with the terms of the Trust Indenture. The Trust Indenture contains certain other bond covenants including, but not limited to, the following:

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

- After the Southern Connector is completed and operational, an Engineer (as defined) must inspect the toll road annually and submit a report documenting, among other matters, the physical condition of the toll road. The latest report was completed by the Association's Engineer and delivered to the Trustee in June 2010. The Association has notified the trustee that funding of the Renewal and Replacement Fund was seventh in the flow of funds listing in the trust indenture and to the extent that revenues are insufficient to make any such deposits, the amounts to be transferred to the Renewal and Replacement Funds are to be deferred.

- Beginning on the first day of the second full fiscal year immediately following the latter of (i) the Final Completion date of the Southern Connector, and (ii) the last date through which interest on any of the Bonds is to be paid from proceeds of the Bonds, the tolls charged by the Association shall equal or exceed the greater of (a) 1.25 times the aggregate debt service on all outstanding Senior Bonds due in that fiscal year, and (b) the amount required to fund all transfers to the Senior Bonds Debt Service Reserve Fund as defined in the Trust Indenture, and to equal not less than 1.10 times the aggregate debt service on all outstanding Bonds due in that fiscal year ("Revenue Covenant"). In addition, before the beginning of each fiscal year, the Association is required to review its financial status in order to estimate and determine whether Net Revenues (as defined) for the current and following fiscal year will be sufficient to comply with the Revenue Covenant. The Trust Indenture also specifies actions (i.e. toll rate study, etc.) to be taken if the Association determines that revenues may be inadequate to meet this Revenue Covenant. The Revenue Covenant also states that failure to comply with the covenant for a period of 36 consecutive months will constitute an event of default under the Trust Indenture.

  The net toll revenues have been insufficient to meet the Revenue Covenant. In compliance with its obligations under the Trust Indenture, the Association hired a Toll Rate Consultant who studied the traffic and toll rates charged by the Association and advised the Association on changes to the tolls rates. The Toll Rate Consultant issued reports on studies it conducted in 2005, 2006, and 2007, each of which concluded that revising the toll rates would not, in the opinion of the Toll Rate Consultant, permit the Association to meet the Revenue Covenant. Certain of the reports contained suggested modifications to the toll rates and Association policies regarding discounts for electronic toll customers which would, in the opinion of the Toll Rate Consultant, increase net revenues, although by an amount insufficient to meet the Revenue Covenant.

  The Association was unable to comply with the Revenue Covenant for 36 consecutive months and was thus in default as of December 31, 2009 and 2008 (See Note 12 for more details).

NOTE 8 – BONDS PAYABLE (CONTINUED)

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

The Association monitors the covenants for compliance throughout the year. Except for the Revenue Covenant, the Association believes it was in compliance and met its bond covenants throughout 2009 and 2008. See Note 13 for additional information regarding the January 2010 payment covenant violation.

NOTE 9 – RISK MANAGEMENT

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

Automobile Liability	Professional Design	Worker's Compensation
Crime	Directors and Officers	Force Majeure
Builder's Risk	General Liability	

No claim settlements have exceeded insurance coverage during the past three years. There were no significant reductions in insurance coverage during the years ended December 31, 2009 and 2008.

NOTE 10 – CONTINGENCIES

The Association has several outstanding contingencies. These matters are discussed in more detail in the following notes.

NOTE 11 – POTENTIAL EXCESS COLLATERAL RECEIVED

At the time the Bonds were issued, the Association directed the Trustee to invest monies in the Senior Bonds Debt Service Reserve Account and the Subordinate Bonds Debt Service Reserve Account in a long-term collateralized repurchase agreement ("REPO") with Lehman Brothers, with Norwest Bank serving as custodian and collateral agent. As a result of Lehman Brothers' bankruptcy in 2008, Lehman Brothers defaulted on the REPO and thus the custodian transferred the collateral/securities to the Trustee. The amount of collateral/securities received by the Trustee was greater than the amount of collateral/securities required to be maintained by Lehman Brothers under the REPO. The maximum amount of the securities received by the Trustee that may be subject to a claim by Lehman Brothers under the REPO has been recorded as a liability ($1,117,498) and ($1,153,823) by the Association at December 31, 2009 and December 31, 2008, respectively.

NOTE 12 – GOING CONCERN

The Association was incorporated to design, finance, acquire, construct and operate the Southern Connector. At the time the Bonds were issued, Wilbur Smith Associates prepared a Traffic and Revenue Study (the "Original Study") to estimate the future utilization of the road and toll revenues for the Association. The actual traffic on the highway and toll revenues received by the Association have been substantially less than projected in the Original Study. Currently, the Association is not receiving sufficient toll revenues to pay debt service on the Senior or the Subordinate Bonds. Through 2009, the shortfall was covered by withdrawals from the Debt Service Reserve Accounts maintained by the Trustee under the Indenture. See Note 13 for information regarding the January 2010 payment covenant violation.

NOTE 12 – GOING CONCERN (CONTINUED)

In compliance with the provisions of the continuing disclosure requirements, the Association has filed the required "Event Notice" for each withdrawal from the Debt Service Reserve Accounts used to pay a portion of the interest or principal payments in 2009 and 2008. In addition, interest has accreted on the Capital Appreciation Bonds, substantially all of which are currently not payable. Due to the factors noted above, the Association has experienced an increase of ($22,181,833) and ($22,156,181) for 2009 and 2008, respectively, in the Association's net deficit to a total of ($173,302,626) and ($151,120,793) as of December 31, 2009 and 2008, respectively.

Debt service on the Bonds increased sharply in January 2008 as principal began to mature (See Note 8 for more details). Traffic and revenues did not increase sufficiently to pay the January 2010 principal and interest due on the Bonds in full.

Despite the Association's implementation of the scheduled toll rate increase in 2005 and another non-scheduled toll rate increase in 2009 (discussed below) and performance of the 2005, 2006 and 2007 toll rate studies required under the Trust Indenture (see Note 8), the Association has been unable to comply with the Bond Revenue Covenant since January 2005. Therefore, as of January 1, 2008 (after 36 consecutive months), the Association was, and continues to be, in default under the Trust Indenture. The bond documents provide the Trustee with certain specific remedies in the event of such default. Such remedies include allowing the Trustee to (a) take legal action to require the Association to perform covenants with respect to the Bonds, (b) take legal action to require the Association to account for revenues as if it were the trustee of an express trust for the senior bondholders, (c) take legal action to prohibit any acts or things that may be unlawful or in violation of the senior bondholders' rights, (d) prohibit the Association from withdrawing monies from any bond Accounts (other than the Rebate Fund and Renewal and Replacement Fund accounts), without the Trustee's written consent, (e) take legal action to request that a court appoint a receiver of the Trust Estate and the Association's income, revenues, and use of profits, and (f) take legal action to protect and enforce its rights and those of the senior bondholders to enforce payment of the principal, redemption price and interest due on the senior bonds. The bond documents do not provide any remedy that would accelerate the due date of any debt service payments due on the outstanding Bonds. The Bonds are secured by the Trust Estate, which includes (a) all bond funds except the Rebate and the Renewal and Replacement Funds, (b) all Revenues as defined in the bond documents, (c) all of the Association's rights in its License Agreement with the SCDOT, and (d) any other property assigned to the Trustee by the Association. There is no provision in the bond documents that will allow the Trustee to place a lien or mortgage on any of the Association's physical assets.

The Association received a notice from the Trustee in January 2008 and again in May 2009 stating that an event of default had occurred. In the notices, the Trustee acknowledged and reserved its remedies provided in the Trust Indenture, but did not identify which, if any, actions were to be taken on behalf of the bondholders. As of the date of this report, the Association has not received any communications from the Trustee indicating any intent to initiate proceedings under the Trust Indenture.

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

In February 2008, the Association selected Goldman Sachs & Co. to become a special financial consultant to work with the Association to explore strategic alternatives related to its existing capital structure. In connection with Goldman Sachs & Co.'s work, the Association engaged Stantec Engineering ("Stantec") for the preparation of an "investment grade" traffic and revenue study ("Study") to inform the concession or restructuring process. Responsive to Stantec's Study, the Association requested the SCDOT in May 2009 to revise the toll rate schedule for the Southern Connector Toll Road. The SCDOT granted the Association's request in August 2009 and implemented a toll rate increase effective November 1, 2009.

NOTE 12 – GOING CONCERN (CONTINUED)

Based on Stantec's projections (that were issued in a final report in May 2009) and Goldman's analyses, the Association announced in April 2009 that, because a preliminary valuation estimate for a concession did not achieve the level necessary to defease all of the outstanding Bonds or to support an effective tender for the Bonds and also due to declining traffic volume on the Southern Connector and a deteriorated credit market, a long-term concession agreement with a new toll road operator did not appear to be feasible at that time, nor did a conventional refunding of the Association's existing Bonds by issuing or incurring new debt. Goldman informed the Association that, due to the wide dispersion of ownership of the Bonds, restructuring the Bonds outside of bankruptcy would be extremely difficult.

On June 12, 2009, SCDOT asserted that an Event of Default has occurred under Section 14.1(d) of the License Agreement, which among other things provides that an Event of Default under the License Agreement shall exist if the Association ". . . shall fail, be unable, or admit in writing the inability generally to pay the Association's debts as they become due." The License Agreement provides no cure period for such Event of Default. Although Section 9.2(e) of the License Agreement permits SCDOT to terminate the License Agreement upon the occurrence of an Event of Default, SCDOT did not terminate the License Agreement and agreed to give the Association at least 90 days prior written notice of the effective date of any such termination. In consideration of such 90 day forbearance, the Association agreed to diligently undertake to restructure its indebtedness and to include in its proposed debt adjustment plan the funding of repairs and replacements to the Southern Connector.

The Senior Bond Trustee undertook an effort to locate beneficial owners of the Bonds to invite them to participate in informal discussions regarding possible restructuring of the Bonds. The Association negotiated confidentiality agreements between the Association and certain beneficial owners of the Senior Bonds (the "Restricted Owners"), which permit the Association to share non-public information with the Restricted Owners and engage in discussions regarding potential restructuring of the Association's debts. Since August 2009, the Association has entered into such confidentiality agreements with four institutional bondholders and one bond insurer beneficially owning or insuring, in the aggregate, a significant percentage of the outstanding principal amount or future maturity value of the Senior Bonds. The Association has been advised that the Subordinate Trustee reached out to some of its constituent Bondholders to solicit their involvement in the negotiation process, including becoming subject to a confidentiality agreement, but none of the contacted subordinate Bondholders elected to participate in the process.

The Association delivered to the Senior Bond Trustee, the Subordinate Trustee, SCDOT and the Restricted Owners a draft debt adjustment plan (the "Association's Plan") dated August 13, 2009. The Association's Plan was structured to return the greatest value to the owners of the Senior Bonds as possible under the constraints of the remaining term of the License Agreement (to 2051), the obligation to repair and resurface the road, and the projected toll revenues and operating expenses set forth in the Stantec traffic and revenue study. The Association's Plan used the August 5, 2009 estimate provided by AECOM Technical Services, Inc. as the basis for the projected repair and resurfacing needs of the road. Under the Association's Plan, since the Senior Bonds would not receive full payment, the Subordinate Bonds would receive no payment.

The Senior Bond Trustee and its counsel then engaged Macquarie Capital (USA) Inc. ("Macquarie") as financial advisor to the Senior Bond Trustee's counsel to review the Association's Plan, consult with the Trustee and their representatives, and propose revisions to the Association's Plan. The Senior Bond Trustee, the Subordinate Bond Trustee and the Restricted Owners rejected the Association's Plan. Macquarie met with the Association, SCDOT and others and developed an alternative plan (the "Macquarie Plan"), which was presented to the Association, SCDOT and the Restricted Owners on October 12, 2009. The Macquarie Plan was based on the Stantec projections, proposed to exchange two series of securities for the outstanding principal and interest owing on the Association's Senior Bonds, called for a 35-year extension of the License Agreement and included provisions to fund a substantial portion of the projected road resurfacing and repair costs out of toll revenues under the extended License Agreement. Although the Macquarie Plan did not address repayment of the Subordinate Bonds, implementation of that plan under the assumptions set forth therein would permit the Association to use toll revenues to repay a portion of the amounts currently owing to the Subordinate Bondholders during the remaining term of the extended License Agreement after the securities exchanged for the Senior Bonds were repaid.

NOTE 12 – GOING CONCERN (CONTINUED)

SCDOT advised the Association that SCDOT required legislative clarification of its authority to grant an extension of the License Agreement's term under South Carolina law. At the October 12, 2009 meeting, it was determined that effectuating a consensual restructuring plan would be aided by the passage of legislation in the 2010 session of the South Carolina General Assembly. Negotiations on the detailed terms of a restructuring plan were held in abeyance while the parties pursued legislation in the South Carolina General Assembly to clarify SCDOT's authority regarding the extension of the License Agreement and its ability to enter into other revisions necessary to restructure the Bonds and the Association's obligations to SCDOT.

The Association was advised that, given the broad ownership of the Bonds, it was likely the Association would be required to file a bankruptcy petition to implement any plan of adjustment of its debts. On January 20, 2010, the Board of Directors of the Association adopted a resolution authorizing the Association's management, when management so deemed it appropriate, to file a petition for bankruptcy protection under the United States Bankruptcy Code and to take related actions in connection with the bankruptcy. This resolution was authorized, among other purposes, in order for the Association to be in a position to effectuate a consensual restructuring plan. Notwithstanding this vote, efforts continued to obtain a consensus among the major creditor constituents for a debt adjustment plan.

In late May of 2010, the Association was informed by the Senior Bond Trustee and SCDOT that they did not expect to obtain approval of legislation deemed by SCDOT to be necessary to authorize SCDOT to extend the term of the License Agreement. Based upon these developments, the Association then pursued discussions with the Senior Bond Trustee, Macquarie and the Restricted Owners regarding a debt adjustment plan which could be implemented over the remaining term of the License Agreement without any extension. These efforts resulted in the Restricted Owners and the Association developing the terms of a debt adjustment plan ("Plan Summary").

In an effort to obtain consent from all interested parties, the Association presented the Plan Summary to SCDOT. SCDOT informed the Association on June 16, 2010 that SCDOT would not agree to the debt adjustment plan described in the Plan Summary. Efforts to solicit or negotiate acceptable changes to the Plan Summary that might be acceptable to SCDOT failed. As a result of the foregoing, on June 24, 2010, the Association filed a petition for adjustment of its obligations in the US Bankruptcy Court for the State of South Carolina.

As a result of the above, there is substantial doubt about the Association's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classifications of liabilities that may result from this uncertainty.

NOTE 13 – SUBSEQUENT EVENTS

The SCDOT Commission closed on January 4, 2010 the northbound lanes on I-385 in Laurens County, South Carolina in connection with repairs to that road. The SCDOT has stated that such closing is anticipated to remain in place for approximately eight months. Such closing is believed to have resulted in reductions of traffic and revenue on the Southern Connector. The Association is unable to estimate the aggregate magnitude of such reductions.

In compliance with the provisions of the Continuing Disclosure Agreement with the Trustee, the Association filed Event Notice No. 2010-1 on January 11, 2010. This notice announced that (a) traffic on the Southern Connector was inadequate to permit the Association to collect sufficient toll revenues to pay debt service on the Bonds which came due on January 1, 2010 and (b) as a result of the payment default the Association has been advised that the rating on the Series 1998A Bonds and the Series 1998B Bonds will be further reduced by Standard & Poor's Rating Group from the then current rating of "C" to "D". The Series 1998C Bonds have never been rated by any nationally recognized municipal credit rating agency.

The Association filed a petition for adjustment of its obligations in the US Bankruptcy Court for the State of South Carolina on June 24, 2010.