CONNECTOR 2000 ASSOCIATION, INC.

ANNUAL REPORT

June 30, 2003

CUSIP Prefix 20786L

Submitted in compliance with the provisions of the Continuing Disclosure Agreement dated February 11, 1998 (the "Disclosure Agreement") between Connector 2000 Association, Inc., a South Carolina non-profit public benefit corporation (the "Association") and Wachovia Bank, N. A., successor to First Union National Bank (the "Trustee"), in its capacity as dissemination agent relating to the $200,177,680 Connector 2000 Association, Inc. Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 1998A, Series 1998B and Series 1998C (the "Bonds").

INTRODUCTION

This is the fifth report of annual financial information delivered pursuant to that certain Continuing Disclosure Agreement dated February 11, 1998 (the "Disclosure Agreement") between Connector 2000 Association, Inc., a South Carolina non-profit public benefit corporation (the "Association") and Wachovia Bank, N. A., as successor to First Union National Bank (the "Trustee"), in its capacity as dissemination agent relating to the $200,177,680 Connector 2000 Association, Inc. Toll Road Revenue Bonds (Southern Connector Project, Greenville, South Carolina), Series 1998A, Series 1998B and Series 1998C (the "Bonds"). Capitalized terms not otherwise defined herein have the meaning set forth in the Disclosure Agreement, if defined therein.

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

For a narrative description of the Association, the Projects and the Construction of the Projects, see the annual reports previously filed by the Association pursuant to the Disclosure Agreement. As of December 31, 2002, the construction of the Projects was complete with the only exception of certain aspects of the Cash/Electronic Toll Collection System ("C/ETCS"). The Association believes it has sufficient resources to finish the C/ETCS.

OPERATION OF THE SOUTHERN CONNECTOR PROJECT

The sole corporate purpose of the Association is the design, financing, acquisition, construction and operation of the Projects. The Bonds were issued to finance substantially all of the costs of the Southern Connector Project. Wilbur Smith & Associates, Inc. prepared a Traffic and Revenue Study in connection with the sale of the Bonds. The Traffic and Revenue Study was undertaken in order to determine an estimate of the utilization of the road, the appropriate toll rates for the highway and the resulting revenue the Association could reasonably expect to receive from the operation of the Southern Connector. Wilbur Smith assumed that the Southern Connector would be open to traffic on November 17, 2001 since that was the guaranteed completion date under the Development Agreement. Due to favorable weather and other circumstances, the highway opened to traffic nearly nine months earlier, on February 27, 2001. A "free ride" period on the Southern Connector began on that date and ended on March 13, 2001. During this "free ride" period, adjustments were made to the cash and electronic toll collection system. The Association began collecting tolls for the use of the Southern Connector on March 14, 2001. The Association initially engaged Southern Interwest, LLC (the "Operator") to operate the Southern Connector Project pursuant to an Operations Agreement dated as of December 28, 2000. In an effort to contain costs, the Association terminated the Operations Agreement effective December 31, 2002 and now operates the Southern Connector project with its own staff.

At December 31, 2002, the Southern Connector had been open and collecting tolls approximately twenty-one and one-half months. As mentioned earlier, the highway was open approximately nine months earlier than forecasted in the study; nevertheless, it is apparent that the actual results of operations are substantially less than what was projected in the study. The annual number of transactions on the highway for the period ending December 31, 2002 was approximately 3,966,717, whereas the amount projected at the end of the first full calendar year of operation was 9,826,000. Additionally, the percentage of the traffic consisting of trucks (which pay a higher toll) is substantially less than what was projected. Consequently, the actual toll revenue is substantially less than that projected in the study. A comparison of the projected and actual traffic and revenue for the first full year of operation is set forth in **Table 1** below:

TABLE 1 COMPARISON OF PROJECTED TO ACTUAL TRANSACTIONS AND REVENUES

	Projected[1]	Actual	Shortfall
Toll Transactions	9,826,000	3,966,717	(5,859,283)
Toll Revenues	$8,567,000	$2,957,000	($5,610,000)

[1] From Table 21 of Traffic and Revenue Study, twelve months ending Dec. 31, 2002.

On January 2, 2003, the Association withdrew approximately $75,000 from the Senior Bond Debt Service Reserve (the "Reserve") in order to make the debt service payment on the Senior Current Interest Bonds, Series 1998A. On January 1, the Association had approximately $1,690,750 on deposit in the Senior Bond Debt Service Fund available from Net Revenues and Interest Earnings which was just short of the $1,765,750 due on January 2.

On January 8, 2003, Standard & Poor's Ratings Services ("S&P") lowered its rating to 'B-' from 'BBB-' on the Association's Series 1998A senior current interest toll road revenue bonds and Series 1998B senior capital appreciation toll road revenue bonds. The outlook, which had been negative on the 'BBB-' rating, was revised to stable. The ratings downgrade was due to the continued failure of traffic and revenue to reach projected levels, the tapping of the Reserve referenced above, a likely continued need to use the debt service reserve account through fiscal 2004, and skepticism by S&P regarding the project's long-term ability to pay timely interest and principal under the current back-ended amortization schedule. The S&P press release (the "Release") regarding the downgrade of the Association's Bonds is attached hereto as **Appendix "B".**

The Association expects that the Trustee will need to access the Reserve on July 1, 2003 to make a portion of the payment due on the Series 1998A Bonds on that date. The Association expects the draw to equal approximately $1,100,000, leaving a balance in the Reserve equal to approximately $13,913,000.

Penetration of Electronic Toll System. The Continuing Disclosure Agreement requires the Association to annually disclose certain information concerning the use of the Southern Connector by customers utilizing the electronic toll collection system. Table 2 sets forth that information for the calendar year ending December 31, 2002.

TABLE 2 SELECTED DATA REGARDING 2002 UTILIZATION OF ELECTRONIC TOLL SYSTEM

Annual Toll Transactions	Annual Toll Revenue	Electronic Toll Revenue	Percentage ETC Usage
3,966,717	$2,957,000	$271,126	9.17%

AUDITED FINANCIAL STATEMENTS

The financial statements of the Association for the period ended December 31, 2002 have been audited by Green Finney Horton, LLP, Certified Public Accountants. A copy of the general purpose financial statements of the Association for the period ended December 31, 2002, is attached to this Annual

Report as **Appendix A**.

OTHER FINANCIAL INFORMATION

The Association has not incurred any indebtedness for borrowed money during its most recent fiscal year. The Association has not executed any change orders increasing the Guaranteed Project Price (as defined in the Development Agreement) during the period covered by this Report.

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

CONCLUDING STATEMENT

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

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

APPENDIX A

AUDITED FINANCIAL STATEMENTS

CONNECTOR 2000 ASSOCIATION, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2002

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

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YEAR ENDED DECEMBER 31, 2002

Greene Finney & Horton, LLP
Certified Public Accountants

Vision Authenticity Leadership Universal Experience

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Connector 2000 Association, Inc., a component unit of the State of South Carolina and of the South Carolina Department of Transportation, as of and for the year ended December 31, 2002, as listed in the table of contents. These basic financial statements are the responsibility of Connector 2000 Association, Inc. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Connector 2000 Association, Inc. as of December 31, 2002, and its changes in financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Greene, Finney & Horton LLP

Greene, Finney & Horton, LLP
March 10, 2003
(except for Note 13, as to which the date is April 17, 2003)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Connector 2000 Association, Inc. (the Association) annual financial report presents a discussion and analysis of the Association's financial performance during the fiscal year ended December 31, 2002. Our analysis includes comparisons of 2002 information with the respective 2001 information. However, certain of these comparisons in total may be of limited value because the 2001 data reflects only a partial year of operations. The Southern Connector Toll Road first opened to the public in late February 2001, and began collecting tolls March 14, 2001. In an effort to provide more useful information, some of the comparisons that we provide are based on average monthly amounts and their changes from 2001 to 2002. We ask that you read this section of the report in conjunction with the basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- For 2002, operating revenues consisted of toll and other operating revenues and were $3,083,441. This was an increase of approximately 49.2% over 2001 in total, and an increase of approximately 18.1% based on average monthly revenues. Toll transactions for 2002 increased 49.2% in total to 3,966,717. The 2002 daily average of 10,868 toll transactions represented a 19.8% increase over 2001. Both toll transactions and toll revenues were still significantly less than amounts projected in the 1997 Traffic and Revenue Study prepared by Wilbur Smith Associates (discussed in the "Economic Factors and Next Year's Budget" section below).

- Total operating expenses in 2002 were $2,488,023 compared to $2,105,755 in 2001. On an average monthly basis, these expenses increased 1.5%.

- Nonoperating revenues from interest earned on repurchase agreements and money market accounts decreased 15.7% to $1,190,655 in 2002. Nonoperating expenses in 2002 were $19,011,913, and consisted primarily of $13,731,258 of interest expense and $5,141,635 of amortization expense related to the Association's License Agreement with the South Carolina Department of Transportation (SCDOT).

- The Association's total net deficit increased by $17,225,840 over the course of the year's operations to $32,765,868. Of the 2002 increase in the net deficit, $13,731,258 was attributable to interest expense on the bonds payable, of which $3,531,500 were cash payments and $10,199,758 were accreted interest.

- Capital assets net of accumulated depreciation were $183,051,195 at December 31, 2002, a decrease of approximately 1.0% from December 31, 2001. The decrease resulted primarily from amortization of the Association's interest in its License Agreement with SCDOT. (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.)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

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

At December 31, 2001, the Southern Connector had been open and collecting tolls approximately nine and one-half months (roughly, the same amount of time as Wilbur Smith's originally projected "ramp-up period"). Actual demand for the Southern Connector Toll Road was well below Wilbur Smith's projection, since the average number of transactions on the highway in December 2001 was approximately 9,160, whereas the amount projected at the end of the nine-month ramp-up period was 29,200. Additionally, the percentage of the traffic consisting of trucks (which pay a higher toll) was substantially less than what was projected. Consequently, our toll revenue was substantially less than what was forecasted in the study. In 2002, although toll transactions and revenues have increased, they are still well below Wilbur Smith's projections, with toll transactions for the month of December 2002 averaging 10,863 per day.

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

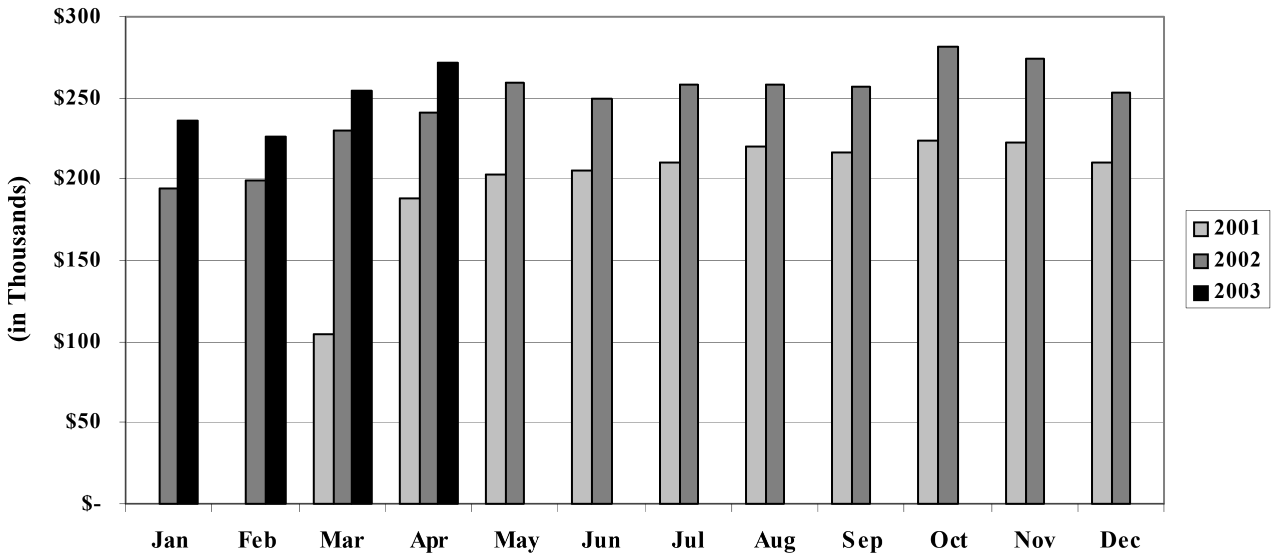
Wilbur Smith explained that the ramp-up time is driven by how long it takes the motoring public to become familiar with the route, to "try it out" and ultimately build travel habits that result in the total demand for a facility. The Traffic and Revenue Study assumed a ramp-up period of less than one year. It now appears that the ramp-up period is extending into 2003. One important factor contributing to the duration of the ramp-up period is signing and promotion, which are addressed below.

One of the principal purposes of the highway was to open southern Greenville County to new development. Greenville County has a very strong manufacturing base and has been actively trying to diversify its industrial output from what was historically textiles. From 1998 through 2002, the manufacturing sector of the economy has been very weak. The State of South Carolina has lost numerous manufacturing jobs and the South Carolina Department of Commerce has been actively recruiting industries to the State. Much of this activity has been focused on the replacement of lost industries in rural or economically underdeveloped areas and the reuse of existing industrial plants that have been abandoned by earlier industries. Greenville County, with its relatively low unemployment rate, has not been a priority for development efforts by the State Department of Commerce. Greenville County has redoubled its efforts to attract industry to the Southern Connector corridor. Given the continuing soft manufacturing economy, this development has not occurred as rapidly as expected. This slower development has adversely affected utilization of the highway.

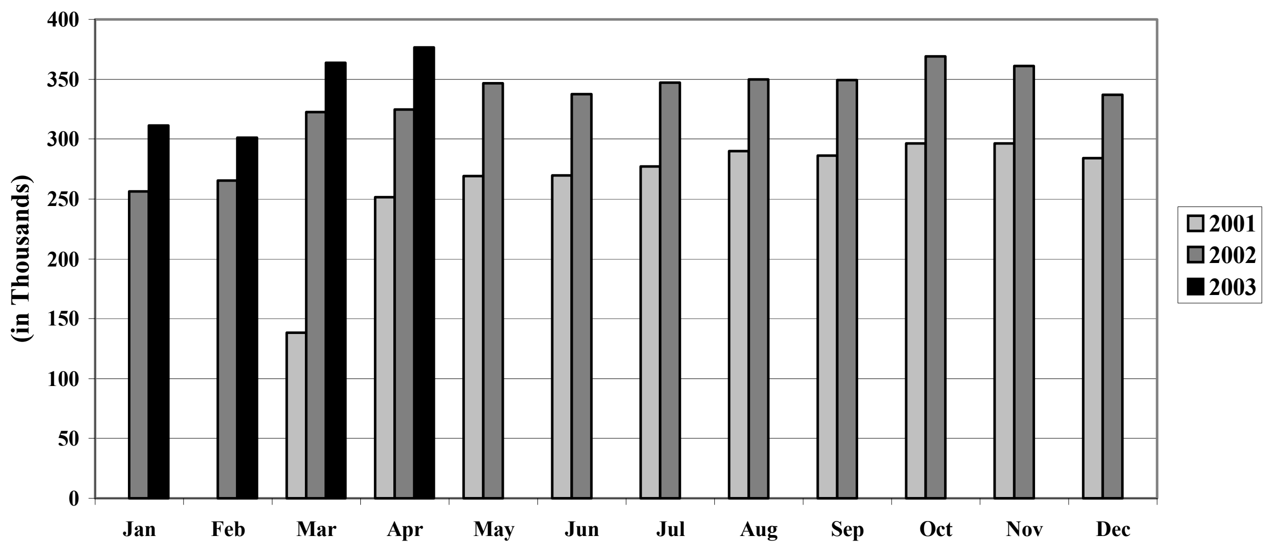
Many of the circumstances identified by Wilbur Smith, which have led to the lower utilization of the highway, are beyond our control. We can do little to remedy the general economic conditions in Greenville County. However, in 2001 and 2002, we have made concerted efforts to address factors that we can influence in order to promote demand for the Southern Connector. We are actively working with the Greenville Area Development Corporation to promote and publicize development opportunities along the Southern Connector corridor. We have worked with the South Carolina Department of Transportation to rectify many of the signage deficiencies identified by Wilbur Smith. We have undertaken aggressive advertising campaigns to make the public aware of the highway and the additional convenience it offers. Our advertising and marketing contractor has received several awards for these efforts. Our staff has met individually with most of the large trucking firms located in and around the Southern Connector corridor. We have implemented a discount program for trucks that use the electronic toll system and have extended incentives to passenger cars for the acquisition of transponders. We have reduced our operating budget on several occasions and have established an operating reserve to be sure that revenues will be sufficient to cover operating expenses so that the highway can stay open even if there is a temporary downturn in traffic. We have undertaken to operate the Southern Connector as efficiently as possible while maintaining a level of customer service we believe necessary to grow traffic.

From 2001 to 2002 and continuing into 2003 (as of the date that this management's discussion and analysis was written), both transactions and revenues have generally increased from month to month. Therefore, our efforts appear to be somewhat successful. The following charts present comparisons of our monthly revenues and transactions since opening. Remember that in 2001, only nine and one-half months of traffic and revenues are shown, since toll collections began mid-March. Also, we only show results through April of 2003, since this management's discussion and analysis was written in early May.

Revenues by Month



Transactions by Month



In 2003, we are continuing our quest to hold operating costs down yet still provide efficient service to our customers. We eliminated two supervisor positions that will save the Association $60,000 - $70,000 in 2003. Overall, our 2003 operating budget of approximately $2,552,500 represents a 2.6% increase over 2002 actual costs. The budget increase resulted primarily from increased costs of insurance, particularly health insurance, and toll equipment maintenance. In 2003, maintenance of toll equipment is budgeted at $315,000. In 2002, the toll equipment was maintained at the expense of the toll system vendor.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Association follows governmental accounting principles generally accepted in the United States of America. We present our basic financial statements on an accrual basis of accounting that is similar to the accounting basis used by most private-sector companies. Under the accrual basis, the current year's revenues earned and expenses incurred are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets regardless of when cash is received or paid. All of the Association's assets and liabilities are included in the Statement of Net Assets. *Net assets* – the difference between assets and liabilities – is one measure of the Association's financial health or financial position. (Please note that we use the term *net deficit* throughout this section and in the basic financial statements to describe our situation, where liabilities exceed assets, and the resulting amount of net assets is negative.) Over time, increases or decreases in the Association's net assets or deficit are one indicator of whether our financial health is improving or deteriorating. However, other factors such as transactions (including vehicle class and toll rates), development along the Southern Connector corridor and the physical condition of the Southern Connector, should be considered in order to assess the Association's overall health.

FINANCIAL ANALYSIS

Net Assets (Deficit)

During the year ended December 31, 2002, the Association's net deficit increased by $17,225,840 to $32,765,868. Total assets decreased approximately 2.8% to $213,248,927, while total liabilities increased approximately 4.7% to $246,014,795. (See Table 1 below.)

Table 1
Net Assets (Deficit)

	2002	2001	Change
Current and Other Assets	$ 30,197,732	$ 34,668,162	$ (4,470,430)
Capital Assets	183,051,195	184,808,672	(1,757,477)
Total Assets	213,248,927	219,476,834	(6,227,907)
Long-term Liabilities (Bonds Payable)	(242,177,477)	(231,977,718)	(10,199,759)
Other Liabilities	(3,837,318)	(3,039,144)	(798,174)
Total Liabilities	(246,014,795)	(235,016,862)	(10,997,933)
Net Assets (Deficit):			
Invested in Capital Assets, net of related debt	(16,589,326)	(14,692,829)	(1,896,497)
Restricted	1,607,821	5,732,505	(4,124,684)
Unrestricted	(17,784,363)	(6,579,704)	(11,204,659)
Total Net Assets (Deficit)	$(32,765,868)	$(15,540,028)	$(17,225,840)

The $6,227,907 net decrease in total assets from 2001 to 2002 resulted primarily from the fact that total revenues in 2002 were not sufficient to completely offset such nonoperating expenses as debt service interest payments and amortization of the Association's interest in its License Agreement with SCDOT.

Total liabilities increased approximately 4.7% to $246,014,795 at December 31, 2002. The bonds payable portion of total liabilities increased approximately 4.4% to $242,177,477 due to accretions on the capital appreciation bonds. Capital appreciation bonds, or zero coupon bonds, are issued and initially recorded at amounts significantly less than their maturity values. Interest on capital appreciation bonds is not paid annually; instead, interest accretions simply increase the balance due on such bonds. Accordingly, such accretions are recorded as increases in interest expense and the corresponding bonds payable liability. Other 2002 liabilities increased approximately 26.3% to $3,837,318 due primarily to mediation settlement of the disputed early completion bonus due by the Association to the Developer of the Southern Connector. The amount due was set at $2,322,500, of which $1,850,000 was still payable at December 31, 2002.

Governmental accounting principles require the Association to classify its net assets in three categories as follows.

- The category "invested in capital assets, net of related debt" represents amounts invested in capital assets, less accumulated depreciation and amortization on those assets and less any liabilities (including bonds payable) that are attributable to the construction, acquisition, or improvement of those assets. However, if there are any bond proceeds that have not been spent yet, as was true for the Association at December 31, 2002, the portion of bonds payable related to those unspent bond proceeds is not to be included in this category as a reduction of amounts invested in capital assets. Instead, the unspent portion of bonds payable is used to offset the appropriate restricted net asset category as discussed below. At December 31, 2002, the balance of this category of net assets was a deficit of $16,589,326.

- The category "restricted net assets" represents the portion of net assets with attached constraints on the use of the assets. The constraints are externally imposed by such means or parties as debt covenants, laws, enabling legislation or creditors. This category includes any unspent bond proceeds restricted for certain purposes and the portion of bonds payable related to those unspent bond proceeds. At December 31, 2002, the Association's restricted net assets consisted of $1,792,208 of net assets restricted for construction of the Southern Connector and a deficit of $184,387 restricted for payment of debt service. In both cases, the restrictions are imposed by the bond indenture.

- The category "unrestricted net assets" represents the portion of net assets that can be used to finance daily operations and that have no constraints imposed. The balance of unrestricted net assets at December 31, 2002 was a deficit of $17,784,363. The net deficit in this category increased 170.3% over 2001. The main reason for this increase was that accretions on the capital appreciation bonds since completion of the construction period of the Southern Connector Toll Road have been allocated to this category of net assets. The Association has made this allocation based on guidance we received from the Governmental Accounting Standards Board.

Table 2 below presents the Association's allocation of assets and liabilities at December 31, 2002 to the various categories of net assets.

Table 2
Net Asset Allocations

	Net Assets Invested in Capital Assets, Net of Related Debt	Net Assets Restricted for Capital Projects	Net Assets Restricted for Debt Service	Unrestricted Net Assets	Total Net Assets
Assets:					
Cash, cash equivalents and investments	$ -	$ 3,631,159	$ 21,329,736	$ 429,011	$ 25,389,906
Receivables and other assets	4,545,215	11,049	-	251,562	4,807,826
Intangible and equipment, net of accumulated depreciation and amortization	183,051,195	-	-	-	183,051,195
Liabilities:					
Payables, deferred revenue and deposits	-	(1,850,000)	(1,765,750)	(221,568)	(3,837,318)
Bonds payable	(204,185,736)	-	(19,748,373)	(18,243,368)	(242,177,477)
Net Assets	$ (16,589,326)	$ 1,792,208	$ (184,387)	$ (17,784,363)	$ (32,765,868)

A discussion of the changes in the net deficit for 2002 is presented below.

Changes in Net Assets (Deficit)

Although, as presented in Table 3 on the next page, the Association's total revenues for 2002 were not sufficient to cover its total expenses for 2002, there was some improvement in operations compared to 2001. While the total net deficit increased by $17,225,840 to $32,765,868, in 2002, our operating revenues exceeded our operating expenses by $595,418. Total operating revenues in 2002 increased approximately 49.2%, while operating expenses only increased approximately 18.1%. Our 2002 nonoperating revenues, which consisted of interest earned on monies in bank accounts and investments, decreased 15.7% from 2001 amounts, and fell short of 2002 nonoperating expenses by $17,821,258.

Table 3
Changes in Net Assets

	2002	2001	Change
Revenues:			
Operating revenues:			
Charges for Services (Toll Revenues)	$ 2,953,883	$ 2,004,896	$ 948,987
Other	129,558	62,500	67,058
Nonoperating Revenues:			
Interest and Investment Earnings	1,190,655	1,411,838	(221,183)
Total Revenues	4,274,096	3,479,234	794,862
Expenses:			
Operating Expenses	2,488,023	2,105,755	382,268
Nonoperating Expenses	19,011,913	15,006,208	4,005,705
Total Expenses	21,499,936	17,111,963	4,387,973
Loss Before Special Items	(17,225,840)	(13,632,729)	(3,593,111)
Special Items - Grand Opening Promotional Expenses	-	(764,497)	764,497
Decrease in Net Assets	$ (17,225,840)	$ (14,397,226)	$ (2,828,614)

In 2002, toll transactions increased by approximately 49.2% (remember that 2001 revenue and traffic statistics include only nine and one-half months compared to a full year for 2002), or 19.8% on a daily average basis. This increase in traffic resulted in a corresponding increase in toll revenues of approximately 47.3% over 2001. See the charts presented in the "Economic Factors" section of this discussion and analysis for a month-to-month comparison of the increases in both revenues and traffic since the Southern Connector Toll Road opened. As these charts show, the lowest increase in monthly revenues from 2001 to 2002 occurred in August, when the increase was approximately 17.0% over the same month in 2001. The lowest increase in monthly transactions from 2001 to 2002 occurred in December, when the increase was approximately 18.5% over the same month in 2001. So far in 2003, monthly revenues have increased at least 10.2% over the corresponding months in 2002, and transactions have increased at least 11.3%. Since toll transactions and revenues are continuing to increase in 2003, we believe that the Southern Connector Toll Road remains in its ramp-up mode. We expect the ramp-up mode to continue throughout 2003.

Our other operating revenues consisted primarily of additional sponsor advertising revenues. These revenues more than doubled in 2002, due to the increased number of months that we collected them during the year.

The increase in demand for the toll road in 2002 during the ramp-up period coupled with the Association's efforts to control costs, allowed us to generate operating income of $595,418. By comparison, in 2001, we experienced an operating loss of $38,359.

Although operating expenses for 2002 increased approximately 18.1% over 2001 in total (remember that 2001 operating statistics include only ten months compared to a full year for 2002), on an average monthly basis, the increase was approximately 1.5%. In 2002, expenses were approximately $1,601,730 for direct operations of the Southern Connector Toll Road. On an average monthly basis, these expenses increased approximately 8.6% over 2001, mainly due to an increase in personnel and related expenses. In addition, we paid a company a management fee of $134,391 in 2002. In total, this management fee decreased by approximately 15.1% from 2001, after the management contract was renegotiated in March 2002. (See Note 6 to the basic financial statements.) In an effort to cut costs, at the end of 2002, we terminated our contract with this management company. Beginning in January 2003, the Association hired its own employees, including a General Manager, to operate and manage the toll road.

The Association is contractually obligated to reimburse SCDOT for the costs of routine roadway maintenance of the Southern Connector highway. The contract states that after the first year, maintenance costs will be based on actual costs incurred by SCDOT. Because the Association's 2001 payments under this contract exceeded SCDOT's actual cost of maintenance in 2001, we recognized a credit for SCDOT maintenance fees in 2002. The Southern Connector Toll Road was inspected by SCDOT in 2002 and received an excellent rating for pavement quality.

In 2002, our nonoperating interest revenues decreased by $221,183, or 15.7%. The decrease occurred because of two reasons. Under a repurchase agreement that had been in effect since issuance of the bonds, Construction Fund monies had been earning interest at 5.48% per year. During 2002, as Construction Fund monies were spent, our interest revenues dropped. In addition, the repurchase agreement matured in 2002. Presently, monies in the Construction Fund are earning interest at approximately 1.2% per year.

Approximately $15,480,413 of 2002 nonoperating expenses did not require any cash outlays. Noncash, nonoperating interest expense totaled $10,199,758 and increased the balance due on the bonds. Noncash, nonoperating depreciation and amortization expenses totaled $5,280,655 and decreased the carrying amounts of certain assets. The primary asset affected by amortization was the Association's interest in its License Agreement with SCDOT. (See the "Capital Assets" section of this management's discussion and analysis for more information.) A combination of factors caused the 12.3% increase in these noncash, nonoperating expenses from 2001. In 2001, two months' worth of interest accretions on the Capital Appreciation Bonds were capitalized during the construction period and our License Agreement with SCDOT was amortized for only ten months. In addition, in 2002, the amount of interest accretions on the Capital Appreciation Bonds increased under the bonds' accretion schedule, and overall amortization of the License Agreement increased as other costs were capitalized.

In 2001, we spent $764,497 to promote use of the Southern Connector. These expenses represented one-time costs incurred for advertising and promoting the toll road's grand opening and were reported as "special items." We did not incur any such expenses in 2002.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets at December 31, 2002 consisted of equipment and an intangible asset, the Association's interest in a License Agreement with SCDOT. This License Agreement grants the Association the rights to acquire, construct, finance and operate the Southern Connector Toll Road. Through research of governmental accounting literature and consultations with various governmental accounting specialists, we determined that our interest in the license agreement should be valued at the cost of construction of the Southern Connector, including interest capitalized during the construction period. Although the term of the License Agreement is for 50 years, it automatically terminates upon payment of all of the bonds, scheduled to happen in 2038. Therefore, we are amortizing our interest in that License Agreement over the shorter period of approximately 37 years, from opening of the Southern Connector Toll Road in 2001 to 2038.

At December 31, 2002, the Association had $183,051,195 invested in capital assets. (See Table 4 below.) This amount represents a net decrease of $1,757,477, or 1.0%, from 2001 amounts.

Table 4
Changes in Capital Assets at Year-End
(Net of Depreciation)

	2002	2001	Change
Equipment	$ 264,170	$ 352,227	$ (88,057)
Interest in License Agreement with SCDOT	182,787,025	184,456,445	(1,669,420)
Total Capital Assets, Net	$ 183,051,195	$ 184,808,672	$ (1,757,477)

Our interest in our primary asset, the License Agreement with SCDOT, decreased by 0.9% to $182,787,025. This net decrease was composed of $3,472,215 of additional costs incurred in building the Southern Connector Toll Road offset by $5,141,635 of amortization. The additional costs included payment for punch list items related to the toll system and toll road, and a final accrual of amounts to be paid to the developer of the Southern Connector as a contractual bonus for early completion of the toll road. The total amount of the early completion bonus had been in dispute in 2001. At that time, we accrued $525,000 of early completion bonus liability. The dispute was resolved in late 2002 through mediation. Under the settlement agreement finalized in January 2003, the total amount of early completion bonus awarded was $2,322,500. We accrued the additional $1,797,500 in December 2002.

No additional equipment was acquired during 2002. The remaining net decrease in capital assets was due to 2002 depreciation of various office equipment, money counters and transponders.

At December 31, 2002, we had $776,942 of construction commitments outstanding under the contract with the developer of the Southern Connector. When we refer to "construction commitments," we mean the portion of the contract price for the construction of the Southern Connector that had not yet been paid or accrued at December 31, 2002. These construction commitments were for the toll system and for wetlands mitigation.

Debt Administration

Long-term debt at December 31, 2002 included $242,177,477 of Toll Road Revenue Bonds with maturity dates ranging from 2008 to 2038. This balance represents an increase of $10,199,759, or 4.4%, over the 2001 balance. The balance of bonds payable increased from 2001 to 2002 due to accretions on the Series 1998B Senior Capital Appreciation Bonds and on the Series 1998C Subordinate Capital Appreciation Bonds. Principal payments on the Series 1998A Senior Current Interest Bonds do not begin until January 2008. Due to the accretion schedule on the Capital Appreciation Bonds, the balance of bonds payable will continue to increase for the next several years. All of the bonds are payable solely by the Association from toll revenues. None are obligations of the State of South Carolina.

Currently, we are not receiving sufficient toll revenues to pay debt service on the Senior Bonds. Although we were able to pay the July 1, 2002 debt service payment with a combination of accumulated toll revenues in the Program Fund and monthly revenues from operations, we had to use $76,000 of monies from our Senior Bonds Debt Service Reserve Account to meet the Senior Bond 2002 debt service payment due January 1, 2003. We acknowledge that unless future traffic counts and toll revenues increase to a level that will allow the Association to pay debt service as well as operating and maintenance expenses, we will continue to be required to use Senior Bonds Debt Service Reserve Account monies to meet some portion of our debt service obligations. (See Note 1, item J to the basic financial statements for more information about the Funds and Accounts created under the bond indenture and the required flow of the Association's funds.)

As a result of both lack of driver demand for the Southern Connector Toll Road and our need to use debt service reserve funds to meet the Association's debt service payment, in January 2003, Standard and Poor's (S&P) downgraded the rating of the our bonds. The Series 1998A Senior Current Interest Bonds and Series 1998B Senior Capital Appreciation Bonds were downgraded from BBB-minus to B-minus, or speculative grade. S&P's outlook for these bonds was changed to stable. The Association's Series 1998C Subordinate Capital Appreciation Bonds are not rated.

The Association's bond indenture contains provisions pertaining to the replenishment of the Debt Service Reserve Accounts in the event that monies from these accounts are used to pay debt service. Because of our inability to replenish the Senior Bonds Debt Service Reserve Account, the Trustee declared that an event of default had occurred under the indenture. We have consulted our legal counsel regarding this matter, and believe that the Trustee has misinterpreted the terms of the indenture. Although to date, we have been unable to resolve this interpretation issue with the Trustee, we have been working with the Trustee towards a resolution. In April 2003, we entered into a Tolling Agreement with the Trustee. The Trustee and the Association have agreed that the Association's inability to replenish the Senior Bonds Debt Service Reserve Account will not be considered an event of default while the Tolling Agreement is in effect. (See Note 1, item J and Note 13 to the basic financial statements for more information about the terms of the bond indenture and the debt service reserve replenishment issue.)

CONTACTING THE CONNECTOR 2000 ASSOCIATION, INC.

This financial report is designed to provide our bondholders, patrons and interested parties with a general overall view of the Association's finances and to demonstrate the Association's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact Connector 2000 Association, Inc., at 7486 Augusta Road, Suite C, PMB #12, Piedmont, South Carolina 29673 or by telephone at (864) 527-2150.

BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS

DECEMBER 31, 2002

ASSETS		
Current Assets:		
Cash and Cash Equivalents on Hand	$	4,500
Cash and Cash Equivalents on Deposit with Financial Institutions		364,790
Prepaid Expenses		221,562
Restricted Assets:		
Cash and Cash Equivalents on Deposit with Financial Institutions		1,096,926
Total Current Assets		1,687,778
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents on Deposit with Financial Institutions		3,631,159
Interest Receivable		3,649
Accounts Receivable		37,400
Investments Held by Financial Institutions for Connector 2000 Association, Inc.		20,292,531
Total Restricted Assets		23,964,739
Capital Assets:		
Equipment		440,284
Interest in License Agreement with SCDOT		191,759,069
Accumulated Depreciation and Amortization		(9,148,158)
Total Capital Assets		183,051,195
Other Assets:		
Bond Issuance Costs (Net of Accumulated Amortization of $308,275)		2,049,855
Underwriters' Fees on Series 1998A, 1998B, 1998C Bonds (Net of Accumulated Amortization of $375,240)		2,495,360
Total Other Assets		4,545,215
TOTAL ASSETS		**213,248,927**
LIABILITIES		
Current Liabilities:		
Accounts Payable		41,857
Deferred Toll Revenue		55,717
Transponder Deposits		6,500
Amounts Payable from Restricted Assets:		
Accrued Interest Payable		1,765,750
Accrued Early Completion Bonus		1,850,000
Requisitions Payable		117,494
Total Current Liabilities		3,837,318
Noncurrent Liabilities:		
Revenue Bonds Payable		242,177,477
Total Noncurrent Liabilities		242,177,477
TOTAL LIABILITIES		**246,014,795**
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt		(16,589,326)
Restricted for:		
Capital Projects		1,792,208
Debt Service		(184,387)
Unrestricted		(17,784,363)
TOTAL NET ASSETS (DEFICIT)	**$**	**(32,765,868)**

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

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2002

OPERATING REVENUES	
Toll Revenues	$ 2,953,883
Other Toll Road Revenues	129,558
TOTAL OPERATING REVENUES	**3,083,441**
OPERATING EXPENSES	
Reimbursed Direct Toll Road Expenses:	
Automobile	18,543
Bank Fees and Charges	59,194
Contract Labor	105,703
Contract Services	50,129
Credit Card Discount Fees	13,485
Employee Benefits	148,453
Miscellaneous	10,657
Office Supplies	18,643
Payroll Taxes	84,257
Repairs and Maintenance	17,243
Salaries	965,357
Telephone	36,180
Utilities	73,886
Total Reimbursed Direct Toll Road Expenses	1,601,730
Other Toll Road Expenses:	
Advertising	130,142
Depreciation	88,057
Insurance	159,121
Marketing	36,769
Professional Fees	434,758
Toll Highway Management Fees	134,391
SC DOT Maintenance Expense	(96,945)
Total Other Toll Road Expenses	886,293
TOTAL OPERATING EXPENSES	**2,488,023**
OPERATING INCOME	**595,418**
NONOPERATING REVENUES (EXPENSES)	
Interest Earned on Cash Equivalents and Investments	1,190,655
Interest Expense	(13,731,258)
Amortization for:	
Interest in License Agreement with SCDOT	(5,141,635)
Bond Issuance Costs	(62,700)
Underwriters' Fees	(76,320)
TOTAL NONOPERATING REVENUES (EXPENSES)	(17,821,258)
DECREASE IN NET ASSETS	(17,225,840)
NET ASSETS (DEFICIT), Beginning of Year, restated	(15,540,028)
NET ASSETS (DEFICIT), End of Year	**$ (32,765,868)**

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

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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from:		
Toll Collections	$	2,976,408
Other Toll Road Operations		129,558
Payments for:		
Toll Road Employees and Contract Labor		(1,303,770)
Toll Highway Management Fee		(134,391)
Vendors and Service Providers		(1,605,107)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**62,698**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments for:		
Construction of Southern Connector		(2,147,214)
Interest on Bonds Payable		(3,531,500)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		(5,678,714)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments		(544,158)
Interest Received		1,197,049
NET CASH PROVIDED BY INVESTING ACTIVITIES		652,891
DECREASE IN CASH AND CASH EQUIVALENTS		**(4,963,125)**
CASH AND CASH EQUIVALENTS, Beginning of Year		10,060,500
CASH AND CASH EQUIVALENTS, End of Year	**$**	**5,097,375**

Reconciliation of Cash and Cash Equivalents to Amounts Shown on Statement of Net Assets		
Cash and Cash Equivalents - Current Assets:		
On Hand	$	4,500
On Deposit in Financial Institutions (Unrestricted and Restricted)		1,461,716
Cash and Cash Equivalents - Noncurrent Assets:		
On Deposit in Financial Institutions		3,631,159
Total Reconciliation of Cash and Cash Equivalents to Amounts Shown on Statement of Net Assets	**$**	**5,097,375**

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

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2002

(Continued from previous page)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	$	595,418
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		88,057
(Increase) Decrease in:		
Prepaid Expenses		(63,951)
Accounts Receivable		(30,000)
(Decrease) Increase in:		
Accounts Payable		(110,669)
Maintenance Fee Payable to SCDOT		(23,375)
Requisitions Payable		(415,307)
Deferred Toll Revenue		19,745
Transponder Deposits		2,780
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	62,698

NONCASH INVESTING, CAPITAL AND FINANCING ITEMS

Amortization of Interest in License Agreement with SCDOT	$	5,215,503
Amortization of Bond Issuance Costs		62,700
Amortization of Underwriters Fees on Bonds		76,320
Interest Accreted on Series 1998B and 1998C Bonds		10,199,758
Accrual of Interest Payable		1,765,750
TOTAL NONCASH INVESTING, CAPITAL AND FINANCING ITEMS	$	17,320,031

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Connector 2000 Association, Inc. (the Association) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. In these financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Association the option of electing to apply FASB pronouncements issued after November 30, 1989. The Association has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are described below.

A. Reporting Entity

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

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

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

The State of South Carolina Office of Comptroller General has determined that the Association is a component unit of the State of South Carolina and of the SCDOT because of its fiscal dependence upon the SCDOT, and the fact that the SCDOT also determines the toll rates that will be charged. The Association is governed by a Board of Directors approved by the SCDOT. For the year ending 12/31/02, the Association had no employees and relied on consultants for the performance of its responsibilities under its License Agreement with the SCDOT.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Pursuant to governmental GAAP, in evaluating the Association as a reporting entity, management must consider all potential component units. The decision to include any potential component unit in the Association's reporting entity was based on the following criteria:

The Association's financial accountability for a potential component unit was considered. The Association is financially accountable if it appoints a voting majority of the governing board of the potential component unit and (1) it is able to impose its will on the potential component unit or (2) a financial benefit/burden relationship exists between the Association and a potential component unit.

The potential component unit's fiscal dependence on the Association was also considered.

The nature and significance of the relationship between the Association and the potential component unit was considered to determine whether exclusion of a potential component unit would render the Association's financial statements misleading or incomplete.

Based on the above criteria, management has determined that there are no potential component units eligible for inclusion in the Association's financial statements.

B. Basis of Presentation and Accounting

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

The accrual basis of accounting is used in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation and amortization of assets is recognized, and all assets and liabilities associated with the operation of the Association are included in the Statement of Net Assets.

The Association generally follows the authoritative guidance in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That Use Proprietary Fund Accounting,* to distinguish operating from non-operating revenues and expenses. Thus, the principal operating revenues of the Association are toll revenues received from patrons. The Association also recognizes as operating revenues fees received from a sponsor of the Southern Connector who participates in, and shares costs of, advertising and promoting the toll road. Operating expenses of the Association consist of the costs of operating the Southern Connector, including administrative expenses, toll road management fees, contractual maintenance fees paid to SCDOT, and depreciation of equipment. All revenues and expenses not meeting this definition, are reported as non-operating revenues and expenses. Non-operating revenues include interest earned on cash equivalents and investments. The Association's amortization of its intangible interest in the License Agreement with SCDOT is reported as a non-operating expense. The Association has no plans to renew or extend the License Agreement upon its earliest expiration date.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation and Accounting (Continued)

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

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 expenses. Expenses are recognized in the period in which they are paid rather than the period in which they are incurred for budgetary control purposes. Depreciation and amortization are not recognized as expenses, but capital outlays are recognized as expenses for budgetary control purposes. The expenses are reclassified for the purpose of preparing financial statements in accordance with governmental GAAP. Since the Association's activities are accounted for in a proprietary fund, a budget-to-actual comparison is not presented in the accompanying financial statements.

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 financial statements as "cash and cash equivalents" of the Association represent cash on deposit in banks and funds invested in open-end money market mutual funds.

F. Investments

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

G. Receivables

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

H. Prepaid Expenses

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Interest in License Agreement with SCDOT

The Association's License Agreement with SCDOT grants to the Association various rights and obligations pertaining to the financing, acquisition, construction and operation of the Southern Connector and construction of the SC 153 Extension. The terms of the License Agreement provide that the Association finance and construct the Southern Connector and construct the SC 153 Extension with financing provided by the SCDOT. However, the SCDOT at all times retained fee simple title to the Southern Connector and to the SC 153 Extension, to all real property and improvements thereon, and to all rights-of-way acquired during construction. The Southern Connector was opened for traffic on February 27, 2001, and began collecting tolls on March 14, 2001. On July 22, 2001, the Southern Connector attained Substantial Completion. Beginning one year after the date of Final Completion of construction of the Southern Connector, the Association will be required to pay monthly license fees to SCDOT (Note *5).* As of December 31, 2002, Final Completion has not yet been attained.

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

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

J. Restricted Assets

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

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

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

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

2. There shall be transferred to the Rebate Fund amounts, which equal the amount required to be on deposit therein.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets (Continued)

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

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

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

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

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

The *Renewal and Replacement Fund* was established for the purpose of holding monies in reserve to pay the costs of reconstruction, renewal, repair, and replacement of the Southern Connector. At December 31, 2002, this account was inactive.

The *Program Fund,* consisting of the Retained Balance and the General Account*,* was established to hold monies in reserve to pay debt service if monies in other accounts are insufficient for such purpose and to pay other fees and costs as defined in the Trust Agreement. The *Program Fund General Account* was initially funded in 2002 from monies remaining in the *Revenue Fund* at December 31, 2001. The *Program Fund Retained Balance Account* was inactive at December 31, 2002.

The *Rebate Fund* was established for the purpose of holding and paying arbitrage investment earnings to the United States Treasury. As a result of investing tax exempt bond proceeds at rates of return exceeding the maximum amount that is permitted under the applicable tax code, at December 31, 2002, the *Rebate Fund* was inactive.

K. Compensated Absences

Though the Association has no employees, under its Operations Contract (Note 6), the Association is required to reimburse the toll road management contractor for actual operating costs incurred. Accordingly, any vested or accumulated vacation leave is recorded as benefits accrue to contractor employees. There are no accumulating sick-leave benefits therefore there is no liability that must be recognized. At December 31, 2002, the liability for accumulated absences was immaterial. No liability or expense was recorded in these basic financial statements.

L. Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

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

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 statement of net assets. Bond issuance costs, discounts and underwriters' fees on all bonds are deferred and amortized over the terms of the bonds. Bond discounts are amortized using the bonds outstanding method, which approximates the effective interest method. Bond issuance costs and underwriters' fees are amortized using the straight-line method. Bond discounts are presented as a reduction of the face amount of the related revenue bonds payable whereas bond issuance costs and underwriters' fees are recorded as other assets.

N. Rebatable Arbitrage

Arbitrage involves the investment of proceeds resulting from the sale of tax-exempt securities in a taxable investment that yields a higher rate, which produces income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. The Federal Government only requires arbitrage to be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes, and any arbitrage rebate liability incurred is recognized at that time. The liability is recorded using the revenue reduction method, whereby the rebate is recorded as a reduction of interest revenue. At December 31, 2002, no such liability had been incurred.

O. Fund Equity

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

Invested in capital assets, net of related debt — Consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Equity (Continued)

The Association's net deficit at December 31, 2002, has resulted from shortfalls since commencement of operations due to lower than expected traffic counts and toll revenue. The Association anticipates that future development along the Southern Connector corridor will encourage increased traffic, which in turn, will generate toll revenues that will reduce the deficit.

P. Interest Capitalization

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

NOTE 2 – DEPOSITS AND INVESTMENTS

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

Statement of Net Assets		Footnotes	
Unrestricted Current Assets:		Cash on Hand	$ 4,500
Cash and Cash Equivalents on Hand	$ 4,500	Deposits in Transit	7,555
Cash and Cash Equivalents on Deposit with Financial Institutions	364,790	Bank Deposits	66,480
		Investments	25,311,371
Restricted Current Assets:			
Cash and Cash Equivalents on Deposit with Financial Institutions	1,096,926		
Restricted Non-current Assets:			
Cash and Cash Equivalents on Deposit with Financial Institutions	3,631,159		
Investments Held by Financial Institutions for Connector 2000 Association, Inc.	20,292,531		
	$ 25,389,906		$ 25,389,906

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

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The Association's bank balances and carrying amounts at December 31, 2002, were as follows:

Risk Category 1	Risk Category 2	Risk Category 3	Bank Balance	Carrying Amount
$ 66,480	-	-	66,480	$ 66,480
-	-	-	-	-
$ 66,480	-	-	66,480	$ 66,480

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

See Note 1, item J and Note 10 for additional information about restrictions on deposits in and balances of the various Trust Funds at December 31, 2002.

Pursuant to requirements of GASB Statement No. 3, _Deposits with Financial Institutions, Investments (including Repurchase Agreements), and_ _Reverse Repurchase Agreements,_ at December 31, 2002, the Association's investments in repurchase agreements were categorized to give an indication of the level of risk assumed by the Association at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counter-party to the investment transaction fails. There are three categories of investment credit risk as follows:

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

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

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

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

The Association's investments at December 31, 2002, were as follows:

	Risk Category 1	Risk Category 2	Risk Category 3	Carrying Amount	Market Value
Repurchase Agreements	$ -	20,292,531	-	20,292,531	$ 20,292,531
Not Categorized:					
Open-end Money Market Mutual Funds	-	-	-	5,018,640	5,018,640
Total Deposits	$ -	20,292,531	-	25,311,171	$ 25,311,171

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The investment types listed above include all investment types in which monies were held during the year ended December 31, 2002. None of the investments above were with the South Carolina State Treasurer.

At December 31, 2002, the Association's restricted assets included $4,728,085 of cash and cash equivalents and $20,292,531 of investments. See Note 1, item J and Note 10 for additional information regarding restricted assets.

NOTE 3 – RECEIVABLES

At December 31, 2002, the Association's receivables were as follows:

Receivables:	
Interest	$ 3,649
Right-of-way Refunds	7,400
Due from Management Company	30,000
Gross Receivables	41,049
Less: Allowance for Uncollectible Receivables	-
Less: Discounts	-
Net Receivables	$ 41,049

NOTE 4 – CAPITAL ASSETS

The following schedule summarizes changes in capital assets of the Association during 2002 and their balances at December 31, 2002:

Description	Balance December 31, 2001	Additions	Balance December 31, 2002
Capital Assets:			
Interest in License Agreement with SCDOT	$ 188,286,854	3,472,215	$ 191,759,069
Equipment	440,284	-	440,284
Subtotal Capital Assets	188,727,138	3,472,215	192,199,353
Less: Accumulated Depreciation/Amortization:			
Interest in License Agreement with SCDOT	3,830,409	5,141,635	8,972,044
Equipment	88,057	88,057	176,114
Subtotal Accum. Depreciation/Amortization	3,918,466	5,229,692	9,148,158
Totals	$ 184,808,672	(1,757,477)	$ 183,051,195

At December 31, 2002, depreciation and amortization expense related to capital assets was $5,229,692. See Note 1, item L for additional information about the Association's capitalization policy, and its methods of calculating depreciation and amortization.

The Association had $776,947 of construction commitments outstanding at December 31, 2002, under its signed Development Agreement for construction of the Southern Connector.

NOTE 5 – INTEREST IN LICENSE AGREEMENT WITH SCDOT

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

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

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

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

On December 28, 2000, the Association entered into a contract (the Operations Contract) with Southern Interwest, LLC, (the Contractor) whereby the Contractor will operate the Southern Connector on behalf of the Association for a fee. This initial Operations Contract is for a period of four years. Under the Operations Contract, tolls for the use of the Southern Connector were collected by the contractor on behalf of the Association. Toll revenues are deposited into the Revenue Fund and applied as described in Note 1. J, herein. Ninth in priority, the Association will be required to pay a license fee to the SCDOT in the amount of $125,000 per month for a period of 25 years, commencing thirteen months after final completion of the Southern Connector and of $1 per month thereafter for the remainder of the term of the License Agreement. Payment of the monthly license fees will commence on the first day of the calendar month following the first anniversary of the final completion date of the Southern Connector.

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

So long as any project debt remains outstanding, any license fees not paid when due will be deferred and will accrue interest at a rate of 5% per annum compounded annually. The SCDOT is responsible for maintaining the Southern Connector (costs of maintenance are to be reimbursed by the Association in eighth priority in the flow of funds set forth in Note 1.J.) The SCDOT is responsible for setting the toll rates in accordance with the terms of the License Agreement. The **SC 153** Extension, the costs of which are not included in the accompanying financial statements, is operated, maintained, renewed and replaced by the SCDOT as part of the South Carolina Highway System. (See Note 6 for information regarding the Operations Contract.)

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

NOTE 6 – OPERATIONS CONTRACT

Under the terms of the Operations Contract, the Contractor is responsible for all work (as defined in the Operations Contract) relating to operations of the Southern Connector and all obligations of the Association under the License Agreement relating to the operation, repair, maintenance and insurance of the Southern Connector. (See Note 5.) The Operations Contract expires December 31, 2004, (effective to December 31, 2002 the Operations Contract was terminated –see Note 14) but provides renewal options of successive one-year terms, upon the mutual agreement of the parties.

As compensation for the Contractor's performance under the Operations Contract, the Association paid the Contractor for certain costs of work as defined in the Operations Contract plus an annual management fee. The Operations Contract provided that any subordinated fee not paid when due would be deferred and would accrue interest at a rate of 10% per annum compounded annually. Monthly payments commenced in February 2001. The total management fee incurred during the year ended December 31, 2002, was $100,000 regular fee and $16,667 subordinate fee. The Association considers the management fee incurred following the opening of the toll road to be an operating expense. (See Note 10 for additional information.)

Effective March 1, 2002, the Association renegotiated the amount of the annual management fee. The annual fee was reduced to $100,000 payable in monthly installments. The subordinated fee of $100,000 was eliminated. The subordinate fee amount paid through February 2002 was the $16,667. All employees who assist the Contractor in fulfilling its obligations and responsibilities under the Operations Contract were under the direction and control of the Contractor and were not considered employees of the Association. Accordingly, the Contractor was responsible for payment and reporting of all salaries and wages, payroll taxes, employee benefits and insurance.

NOTE 7 – ACCRUED INTEREST PAYABLE

At December 31, 2002, accrued interest payable was $1,765,750, which consisted of the Senior Current Interest Bond (Series 1998A) payment due January 1, 2003. Interest is paid January 1 and July 1 of each year to holders of the Senior Bonds at rates of 5.25% and 5.375% per annum.

NOTE 8 – REQUISITIONS PAYABLE

Requisitions payable consisted of requisitions for payment of construction costs and services that had been incurred as of December 31, 2002, but were not yet paid. The Association's Engineer approves all requisitions prior to payment from the Construction Fund. In addition to the requisitions payable amounts, $1,850,000 has been accrued as an early completion bonus due to the Developer. (See Note 15 for additional information pertaining to the early completion bonus.)

NOTE 9 – INTEREST COSTS INCURRED

Interest costs expensed during the year ended December 31, 2002, totaled $13,731,258.

NOTE 10 – BONDS PAYABLE

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

Bonds payable changes during 2002 and balances at December 31, 2002, were as follows:

	Balance 12/31/01	Increases	Decreases	Balance 12/31/02
Senior Bonds				
Series 1998A Senior Current Interest Toll Road Revenue Bonds - dtd. 2/1/98 - $66,200,000 original principal amount at issuance; interest payable semi-annually on January 1 And July 1 at rates of 5.25% and 5.375%; $21,400,000 of bonds mature January, 2023; $44,800,000 of bonds mature January, 2038	$ 66,200,000	-	-	$ 66,200,000
Original issue discount on Series 1998A bonds at issuance $2,693,952	(2,379,522)	80,280	-	(2,299,242)
Subtotal Series 1998A Bonds	63,820,478	80,280	-	63,900,758
Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds - dtd. 2/11/98 - $87,385,622 original pricipal amount at issuance; interest accretes at various rates ranging from 5.3% to 5.85%; $438,100,000 of bonds mature at serially from January 2008 to January 2038	108,988,741	6,370,140	-	115,358,881
Subordinate Bonds:				
Series 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds - dtd. 2/11/98 - $46,592,058 original principal amount at issuance; interest accretes at various rates ranging from 6.15% to 6.3%; $241,800,000 of bonds mature serially from January 2008 to January 2038	59,168,499	3,749,339	-	62,917,838
Totals	**$ 231,977,718**	**10,199,759**	**-**	**$ 242,177,477**

NOTE 10 – BONDS PAYABLE (CONTINUED)

Additions to bonds payable represents the amortization of original issue discount on the Series 1998A Senior Current Interest Toll Road Revenue Bonds, and accretions on the Series 1998B Senior Capital Appreciation Toll Road Revenue Bonds and 1998C Subordinate Capital Appreciation Toll Road Revenue Bonds. At December 31, 2002, no principal payments on bonds were due within one year.

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

Year Ending December 31	Principal	Interest	Totals
2003	$ -	3,531,500	$ 3,531,500
2004	-	3,531,500	3,531,500
2005	-	3,531,500	3,531,500
2006	-	3,531,500	3,531,500
2007	-	3,531,500	3,531,500
2008-2012	38,200,000	17,040,625	55,240,625
2013-2017	61,300,000	15,557,500	76,857,500
2018-2022	93,700,000	13,651,750	107,351,750
2023-2027	128,800,000	11,189,563	139,989,563
2028-2032	169,400,000	7,914,689	177,314,689
2033-2037	197,000,000	3,655,000	200,655,000
2038	57,700,000	112,875	57,812,875
Totals	$ 746,100,000	86,779,502	$ 832,879,502

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

NOTE 10 – BONDS PAYABLE (CONTINUED)

The accounts established by the Trust Agreement and the balances therein at December 31, 2002, were as follows:

Fund	Amount
Construction	$ 3,631,159
Revenue	271,758
Debt Service	1,037,205
Debt Service Reserve	20,292,531
Renewal and Replacement	-
Program	-
Rebate	-
Total	$ 25,232,653

During the year ended December 31, 2002, payments from the various accounts were made in accordance with the terms of the Trust Agreement.

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

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

- After the Southern Connector is completed and operational, the Association's Engineer must inspect the toll road annually and submit a report documenting the physical condition of the toll road, offering advice, recommendations and a cost estimate as to the proper operation of the toll road during the ensuing fiscal year, offering advice and recommendations regarding the insurance to be carried, and stating the amount to be deposited into the Renewal and Replacement Fund for the next fiscal year.

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

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

- The Association monitors the covenants for compliance throughout the year. The Association believes it was in compliance with its bond covenants throughout 2002.

NOTE 11 – RISK MANAGEMENT

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

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

No claim settlements have exceeded insurance coverage during the years ended December 31, 2002, 2001 or 2000. There were no significant reductions in insurance coverage during the year ended December 31, 2002.

NOTE 12 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2002, the Association paid $125,012 for advertising to an advertising agency controlled by a member of the Association's Board of Directors.

NOTE 13 – CONTINGENCIES

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

NOTE 14 – SUBSEQUENT EVENTS

In January of 2003, the attorneys representing the Connector 2000 Association, Inc., and the Developer reached an agreement on the amount of a completion bonus that had been in dispute. The total amount due the developer was settled to be $2,322,500. Of this amount $525,000 had been accrued as a liability in the prior year. The remaining $1,797,500 has been accrued and capitalized into the interest in License Agreement with SCDOT. $472,500 of the settlement amount had been paid as of December 31, 2002. The balance of such bonus was paid by the Trustee on January 27, 2003 reducing the balance remaining in the construction fund to $ 776,947.

NOTE 14 – SUBSEQUENT EVENTS (CONTINUED)

As explained in Note 6, Connector 2000 Association, Inc., contracted with Southern Interwest, LLC to provide management and administration services, as well as other services for the Association. This contract was terminated effective December 31, 2002, and the employees of Southern Interwest, LLC, responsible for operating the Southern Connector, became employees of the Connector 2000 Association, Inc., on January 1, 2003.

On January 8, 2003, Standard & Poor's downgraded its rating of the Senior Bonds (Series A and Series B) from BBB- to B-. with a stable outlook. The Association had not requested a bond rating for its Series 1998C bonds.

NOTE 15 – OTHER MATTERS

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

Since commencing operations, the Southern Connector has experienced significantly lower traffic counts than those projected during the Traffic and Revenue Study performed in 1997 during the planning phase of the Southern Connector Project. An average of 10,868 toll transactions per day occurred during the 12 months of operations in 2002 — less than half of the traffic volume projected in the Revenue Study.

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

Due to the factors discussed above, the Association's revenues for 2002, fell short of amounts anticipated, and the Association suffered a decrease in net assets (loss) of $17,225,840 for 2002.

APPENDIX B

RATINGS RELEASE OF JANUARY 8, 2003

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Standard & Poor's is pleased to provide ongoing service to the investment community.

Rating Lowered to 'B-' from 'BBB-' on Connector 2000 Association Inc, SC's Toll Road Bonds

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Standard & Poor's Ratings Services today lowered its rating to 'B-' from 'BBB-' on the Connector 2000 Association Inc. (association), S.C.'s outstanding $66 million series 1998 A senior current interest toll road revenue bonds and $87.4 million series 1998 B senior capital appreciation toll road revenue bonds. The outlook, which had been negative on the 'BBB-' rating, is now stable. Standard & Poor's does not rate the $46.6 million in Series 1998 C capital appreciation toll road revenue bonds that also financed the project. The ratings downgrade is due to the continued failure of traffic and revenue to reach projected levels, a tapping of the debt service reserve account on Jan. 2, 2003, a likely continued need to use the debt service reserve account through fiscal 2004, and skepticism regarding the project's long-term ability to pay timely interest and principal under the current back-ended amortization schedule.

The Southern Connector is a 16-mile, four-lane start-up toll road that opened in March 2001 and extends from the intersection of I-85/185 to the intersection of I-385 in Greenville, S.C. The toll road provides the major east-west traffic flow in the southern part of Greenville, which currently has no comparable roads. The association is a nonprofit organization that was formed in 1996 to construct and operate the Southern Connector. As the toll road has transitioned from the construction phase to operating phase, so has the management team--which is experienced in toll road operations.

The project has experienced substantially lower traffic demand than anticipated in the initial feasibility study completed in 1997 resulting in significantly lower revenue performance. Average daily traffic demand for 2002 was 10,900 transactions, which is 61% less than the originally forecasted level of 28,000 following ramp up. Traffic has steadily increased since operations began on March 14, 2001, with average daily transactions (ADT) growing on average 2% per month. While Greenville County is rated 'AAA', reflecting a diversified and well-performing economy, it was expected that the project would encourage development in the region. However, the Southern Connector has been negatively affected by a slowing economy, which slowed development in the area. Some of the issues with slower than expected development are compounded by the fact that the toll road opened 9-1/2 months ahead of schedule, prior to when some of the development activities in the region were forecast to occur. In addition, the national recession has also slowed development in an otherwise strong economic region. Other factors impacting the traffic demand are a longer introductory period or ramp-up (including some signage and promotional concerns, which were addressed) and a low electronic toll collection rate. Weekend use is almost as high as weekday use and lower truck traffic--suggested by average toll per transaction at 77 cents versus a previously forecasted 87 cents--also could mean that the facility has yet to be adopted by commuters and business users. Traffic and revenue performance has also been hampered by an above-average initial toll rate of 9.5 cents per mile in a region that has few tolled facilities. Mainline toll rates are 75 cents per Class 1 passenger vehicles (with a one-way toll of $1.50) and 50 cents per axle for trucks. The rates are anticipated to increase in 2005 to $1.00 for passenger vehicles and 65 cents per axle for trucks. These rates have already been approved by the South Carolina Department of Transportation.

The back-loaded debt service schedule combined with the low base of traffic from which the toll road is beginning operations compounds the need for high annual growth in traffic absent unscheduled toll increases. The senior debt service schedule grows at an average annual rate of 8%, placing continual pressure on toll road revenues throughout the bond term. Debt service in 2002-2006 is $3.5 million but increases to $7.1 million in 2007 when principal begins to amortize. Debt service continues to increase and averages $18.6 million from 2007 until final maturity.

Revised financial forecasts through 2007 were provided by management and are based on current average daily traffic increasing at a rate of 1.7%-2% per month through 2007. There is no adjustment to traffic levels in 2005 despite a planned toll increase. The debt is structured with senior and subordinate liens. Subordinate debt does not require any principal or interest payments until 2007, and the senior bonds do not begin to amortize until 2007. This provides the association some flexibility to allow for a longer ramp-up period. For fiscal year 2002, debt service coverage from operating cash flow was 0.54x. However, the association was able to meet its debt service requirement by relying on operating cash flow combined with money available in the program fund (money generated from the early opening of the toll road) as well as the $75,000 withdrawn from the debt service reserve fund. Management decided to use the debt service reserve fund rather than draw down operating cash. Based on revised financial forecasts (there is currently no plan to prepare another traffic forecast), the toll road is not expected to meet its debt service obligations from operating cash flow until 2005. Debt service coverage on the bonds in 2003 and 2004 are projected to be 0.59x and 0.81x, respectively. This would only result in a rate covenant violation in 2004 because, according to the indenture, senior debt service coverage of 1.25x must be achieved by after the second full year of final completion (in 2004). Debt service coverage in 2005 and 2006 is anticipated to improve to 1.56x and 1.98x as result of a planned toll increase in 2005. During this time period, management expects to replenish the debt service reserve fund. However, in 2007 senior debt service coverage levels are anticipated to decline to 1.19x and combined debt service coverage is anticipated to be below 1.0x. Sensitivity tests prepared assuming ADTs 10% lower than current forecasts. The results show that cash flow debt service coverage on the senior bonds would be below 1.0x in 2003 and 2004 (0.54x and 0.70x, respectively); and adequately meet debt service obligations in 2005 and 2006 (1.37x and 1.74x, respectively) and reach 1.04x in 2007.

While the current traffic and revenue forecast does not extend past 2007, it likely that absent a dramatic improvement in traffic, the association will default on its debt service obligations in the future given the back-loaded amortization schedule and the current low debt service coverage levels.

The bonds are secured by a pledge of net revenues. In addition, both the senior and subordinate debt service reserve are sized at the lesser of 10% of principal bonds issued, 125% of the average annual debt service requirements, or the maximum annual debt service. The association has the benefit of a fully funded senior-lien debt service reserve, which is funded at $15 million. The average debt service requirements through 2006 are only $3.5 million per year and then increase to $7.1 million in 2007 when principal begins to amortize. This gives the association some additional flexibility in the short term. The subordinate lien (unrated) benefits from a subordinate debt service reserve fund at approximately $4 million.<

Outlook

Absent substantial and continued improvement in traffic and revenue or debt restructuring, the rating is expected to remain at the current level until the ongoing revenue growth, combined with debt service reserves, fails to generate enough cash to cover principal and interest payments. This rating is intended to remain in place until it is apparent that nonpayment of debt service is likely to occur over the near term